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MIKO INTERNATIONAL HOLDINGS LIMITED

米格國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1247)

ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2019

The board (the “**Board**”) of directors (the “**Directors**”) of Miko International Holdings Limited (the “**Company**”) announced the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the “**Group**”) for the six months ended 30 June 2019, together with the comparative figures for the corresponding period in 2018, as follows:

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

For the six months ended 30 June 2019 (Expressed in Renminbi)

		Six months ended 30 June	
		2019	2018
	<i>Notes</i>	RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Turnover	4	57,152	103,224
Cost of sales		(45,760)	(82,776)
Gross profit		11,392	20,448
Other revenue	6	935	1,967
Other net loss	6	(1)	(47)
Share of results from an associate		75	130
Provision on impairment loss recognised on trade receivables		(21,147)	(23,190)
Selling and distribution expenses		(54,358)	(43,371)
Administrative and other operating expenses		(24,422)	(18,410)
Loss on modification of convertible bonds		(1,217)	–
Loss from operations		(88,743)	(62,473)
Finance costs	7(a)	(4,668)	(3,448)
Loss before taxation	7	(93,411)	(65,921)
Income tax credit	8	139	3
Loss for the period attributable to shareholders of the Company		(93,272)	(65,918)
Other comprehensive loss for the period			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of overseas subsidiaries		(2,075)	(454)
Total comprehensive loss for the period attributable to shareholders of the Company		(95,347)	(66,372)
Loss per share (RMB cents)			
– Basic and diluted	9	(9.5)	(7.4)

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of 30 June 2019 (Expressed in Renminbi)

		At 30 June 2019 RMB'000 (Unaudited)	At 31 December 2018 RMB'000 (Audited)
	Notes		
Non-current assets			
Property, plant and equipment		97,984	96,394
Intangible assets		34,785	43,952
Lease prepayments		2,548	2,589
Deposits for purchase of property, plant and equipment		2,512	282
Goodwill		27,712	27,712
Deferred tax assets		2,042	1,904
Investment in an associate		46,512	46,437
		214,095	219,270
Current assets			
Inventories		70,797	69,414
Trade receivables	10	79,286	139,806
Prepayments, deposits and other receivables		74,783	118,228
Fixed deposits at bank with original maturity over three months		–	40,000
Cash and cash equivalents		51,104	3,555
		275,970	371,003
Current liabilities			
Bank loans		59,500	62,000
Trade and other payables	11	25,346	14,017
Convertible bonds		–	32,147
		84,846	108,164
Net current assets		191,124	262,839
Total assets less current liabilities		405,219	482,109
Non-current liabilities			
Deferred tax liabilities		1,300	1,300
Convertible bonds		12,867	–
		14,167	1,300
Net assets		391,052	480,809
Equity			
Share capital	12(a)	7,833	7,833
Reserves		383,219	472,976
Total equity		391,052	480,809

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

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. GENERAL INFORMATION

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

During the period, the Company and its subsidiaries (collectively the “**Group**”) was principally engaged in the business of design, manufacture and sales of children apparel products. There were no significant changes in the nature of the Group's principal activities during the period.

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

These condensed consolidated interim financial statements have not been audited.

2. BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements (the “**unaudited interim results**”) have been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard (“**IAS**”) 34, *Interim financial reporting*, issued by the International Accounting Standards Board (“**IASB**”). The Board approved the unaudited interim results for issue on 22 August 2019.

The unaudited interim results have been prepared in accordance with the same accounting policies adopted in the 2018 annual financial statements, except for the adoption of new standards and amendments to existing standards as set out in note 3.

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

The unaudited interim results contain unaudited condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to the understanding of the changes in financial position and performance of the Group since the 2018 annual financial statements. The unaudited condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards (“**IFRSs**”).

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

The financial information relating to the financial year ended 31 December 2018 that is included in the unaudited interim results as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2018 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 8 March 2019.

3. CHANGES IN ACCOUNTING POLICIES

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

4. TURNOVER AND SEGMENT INFORMATION

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

Segment revenue and results

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

	Wholesalers		Retail outlets		Total	
	Six months ended		Six months ended		Six months ended	
	30 June		30 June		30 June	
	2019	2018	2019	2018	2019	2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue from external customers	39,210	88,297	17,942	14,927	57,152	103,224
Inter-segment revenue	23,232	30,797	–	–	23,232	30,797
Reportable segment revenue	<u>62,442</u>	<u>119,094</u>	<u>17,942</u>	<u>14,927</u>	<u>80,384</u>	<u>134,021</u>
Segment results	<u>(53,166)</u>	<u>(29,923)</u>	<u>(9,241)</u>	<u>(9,489)</u>	<u>(62,407)</u>	<u>(39,412)</u>
Provision on impairment loss recognised on trade receivables	(21,179)	(23,190)	32	–	(21,147)	(23,190)
Other revenue					935	1,967
Share of results from an associate					75	130
Central administration costs					(4,982)	(1,968)
Loss on modification of convertible bonds					(1,217)	–
Finance costs					<u>(4,668)</u>	<u>(3,448)</u>
Loss before taxation					<u>(93,411)</u>	<u>(65,921)</u>

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, share of results from an associate, finance costs, loss on modification of convertible bonds 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

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

	Wholesalers		Retail outlets		Total	
	At	At	At	At	At	At
	30 June	31 December	30 June	31 December	30 June	31 December
	2019	2018	2019	2018	2019	2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)
Segment assets	<u>406,797</u>	<u>452,187</u>	<u>83,032</u>	<u>90,517</u>	<u>489,829</u>	<u>542,704</u>
Unallocated assets					<u>236</u>	<u>47,569</u>
Total assets					<u><u>490,065</u></u>	<u><u>590,273</u></u>
Segment liabilities	<u>79,707</u>	<u>73,891</u>	<u>1,498</u>	<u>1,037</u>	<u>81,205</u>	<u>74,928</u>
Unallocated liabilities					<u>17,808</u>	<u>34,536</u>
Total liabilities					<u><u>99,013</u></u>	<u><u>109,464</u></u>

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

- all assets are allocated to reportable segments other than assets held by entities of the Group which is an investment holding company. Goodwill and intangible assets are allocated to reportable segments; and
- all liabilities are allocated to reportable segments other than liabilities held by entities of the Group which is an investment holding company.

Geographical information

During the period ended 30 June 2019 and 2018, the Group only operated in Mainland China and all of the Group's revenue are derived from Mainland China.

Information about major customers

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

	Six months ended 30 June	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Customer A*	<u>–</u>	<u>20,157</u>

* No information on turnover for the current period is disclosed for this customer since it contributed less than 10% to the Group's turnover for the period ended 30 June 2019.

5. SEASONALITY OF OPERATION

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

6. OTHER REVENUE AND OTHER NET LOSS

	Six months ended 30 June	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Other revenue		
Interest income	454	1,686
Rental income	<u>481</u>	<u>281</u>
	<u>935</u>	<u>1,967</u>
Other net loss		
Net foreign exchange loss	<u>(1)</u>	<u>(47)</u>

7. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

		Six months ended 30 June	
		2019	2018
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
(a) Finance costs:			
Interest on bank loans		1,680	1,500
Imputed interest on convertible bonds		2,988	1,948
		<u>4,668</u>	<u>3,448</u>
(b) Staff costs (including directors remuneration):			
Contributions to defined contribution retirement plans		1,409	1,375
Salaries, wages and other benefits		13,880	16,859
Equity-settled share-based payment expenses		1,449	–
		<u>16,738</u>	<u>18,234</u>
(c) Other items:			
Amortisation			
– lease prepayments		41	41
– intangible assets		9,167	9,196
Depreciation		4,607	4,073
Loss on disposal on property, plant and equipment		85	840
Provision on impairment loss recognised on trade receivables		21,147	23,190
Operating lease charges in respect of properties		92	78
Research and development expenses		5,730	1,549
Cost of inventories sold [#]		45,760	82,776

[#] Cost of inventories for the six months ended 30 June 2019 includes RMB4,207,000 (six months ended 30 June 2018: RMB5,436,000) relating to staff costs, which amount is also included in note 7(b) above.

8. INCOME TAX

	Six months ended 30 June	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Current tax		
– PRC corporate income tax	–	–
Deferred tax		
– Origination of temporary differences	(139)	(3)
	<u>(139)</u>	<u>(3)</u>
	<u>(139)</u>	<u>(3)</u>

- (i) Pursuant to the rules and regulations of the Cayman Islands and British Virgin Islands (“BVI”), the Group is not subject to any income tax in the Cayman Islands or BVI;
- (ii) No provision was made for Hong Kong Profits Tax as the Group did not earn any assessable profit subject to Hong Kong Profits Tax for the six months ended 30 June 2018 and 2019; and
- (iii) The applicable income tax rate for all of the Group’s subsidiaries in Mainland China is 25%.

9. LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share is based on the loss for the period attributable to shareholders of the Company of RMB93,272,000 (six months ended 30 June 2018: loss of RMB65,918,000) and the weighted average of 984,000,000 ordinary shares (six months ended 30 June 2018: 887,646,000 ordinary shares).

(b) Diluted loss per share

The effect of the Company's share options and convertible bonds was anti-dilutive for six months ended 30 June 2019 and 2018, and therefore, diluted loss per share are the same as the basic loss per share.

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

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Loss attributable to ordinary equity shareholders	(93,272)	(65,918)
After tax effect of effective interest on the liability component of convertible bonds	2,495	1,626
Loss attributable to ordinary equity shareholders (diluted)	<u>(90,777)</u>	<u>(64,292)</u>

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

	Six months ended 30 June	
	2019	2018
	'000	'000
	(Unaudited)	(Unaudited)
Weighted average number of ordinary shares at 30 June	984,000	887,646
Effect of conversion of convertible bonds	164,800	164,800
Weighted average number of ordinary shares (diluted) at 30 June	<u>1,148,800</u>	<u>1,052,446</u>

10. TRADE RECEIVABLES

	At 30 June 2019 <i>RMB'000</i> (Unaudited)	At 31 December 2018 <i>RMB'000</i> (Audited)
Trade receivables	101,932	179,775
Less: Allowance for doubtful debts	(22,646)	(39,969)
	<u>79,286</u>	<u>139,806</u>

Normally, the Group does not obtain collateral from customers. Credit evaluations are performed by the senior management on all customers with credit sales. In general, the credit period granted to customers is 30 to 120 days (2018: 30 to 120 days).

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

	At 30 June 2019 <i>RMB'000</i> (Unaudited)	At 31 December 2018 <i>RMB'000</i> (Audited)
Within 90 days	28,210	55,649
90-120 days	7,342	20,330
After 120 days but within 180 days	7,425	23,615
After 180 days but within 1 year	36,307	17,321
Over 1 year	2	22,891
	<u>79,286</u>	<u>139,806</u>

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

	At 30 June 2019 <i>RMB'000</i> (Unaudited)	At 31 December 2018 <i>RMB'000</i> (Audited)
Neither past due nor impaired	35,553	75,979
Past due but not impaired		
Less than 1 month past due	2,973	10,156
Over 1 month but 3 months past due	4,452	19,264
Over 3 months past due	36,308	34,407
	<u>79,286</u>	<u>139,806</u>

11. TRADE AND OTHER PAYABLES

	At 30 June 2019 <i>RMB'000</i> (Unaudited)	At 31 December 2018 <i>RMB'000</i> (Audited)
Trade payables	9,333	1,215
Receipts in advance	304	619
Amount due to a related party	878	—
Other payables and accruals	14,831	12,183
	<u>25,346</u>	<u>14,017</u>

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

	At 30 June 2019 <i>RMB'000</i> (Unaudited)	At 31 December 2018 <i>RMB'000</i> (Audited)
Within 3 months	8,836	718
After 3 months but within 6 months	—	—
After 6 months but within 1 year	—	—
After 1 year	497	497
	<u>9,333</u>	<u>1,215</u>

12. CAPITAL, RESERVES AND DIVIDENDS

(a) Share capital

Authorised and issued share capital

	2019			2018		
	<i>No. of shares</i>	<i>HK\$'000</i>	<i>RMB'000</i>	<i>No. of shares</i>	<i>HK\$'000</i>	<i>RMB'000</i>
			(Unaudited)			(Audited)
Authorised:						
Ordinary shares of HK\$0.01 each	<u>10,000,000,000</u>	<u>100,000</u>	<u>79,380</u>	<u>10,000,000,000</u>	<u>100,000</u>	<u>79,380</u>
Ordinary shares, issued and fully paid:						
At 1 January, 30 June/31 December	984,000,000	9,840	7,833	824,000,000	8,240	6,483
Issue of share upon placing	<u>-</u>	<u>-</u>	<u>-</u>	<u>160,000,000</u>	<u>1,600</u>	<u>1,350</u>
At the end of the period/year	<u>984,000,000</u>	<u>9,840</u>	<u>7,833</u>	<u>984,000,000</u>	<u>9,840</u>	<u>7,833</u>

(b) Share premium

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

(c) Dividends

No dividend was paid or proposed during the six months ended 30 June 2019 and 2018, nor has any dividend been proposed since the end of the reporting period. The rates of dividend and the number of shares ranking for dividend are not presented, as such information is not considered meaningful for the purpose of the unaudited interim results.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

For the six months ended 30 June 2019 (“**1H 2019**”), revenue and net loss of our Group amounted to approximately RMB57.2 million and RMB93.3 million respectively, as compared to the revenue and net loss of approximately RMB103.2 million and RMB65.9 million respectively for the six months ended 30 June 2018 (“**1H 2018**”).

The Sino-United States trade war that broke out in 2018 continued in the first half of 2019 and devaluation of the Renminbi has created many uncertainties on Mainland China’s overall economic growth. Mainland China recorded the lowest growth in gross domestic product since March 1992 in the first half of 2019. The consumer sentiment and retail market were negatively affected continuously. This would be reflected by the deceleration of the country’s year-on-year retail sales growth to 8.4% in the first half of 2019 as compared with the 9.4% in the first half of 2018. All these data reflected a sign of downward pressure of the economy in Mainland China going forward.

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

In summary, the prospect of the retail sector in Mainland China is clouded by the macro-economic uncertainty brought by the Sino-United States trade war and micro-economic pressures of the Mainland China market. The Group continues to examine the development strategy carefully going forward to minimize the adverse impact from such environment. In the medium to long-term, the Group remains cautiously optimistic about its business and believes that it will bring satisfactory and sustainable returns to the shareholders. The Group continuously remains open to the opportunities for investment that can lead to sustainable growth going forward.

FINANCIAL REVIEW

Revenue

Our Group's products are primarily marketed through wholesaling to distributors, and self-operated stores who operate "redkids" branded retail stores in various provinces and municipalities in Mainland China. As of 30 June 2019, there were 62 redkids branded self-operated store (1H 2018: 88) and distributors located in the second to fourth tier cities in China.

The retail industry experienced a declining retail climate, uncertainties of consumer sentiment, and fierce competition in Mainland China with the impact from Sino-United States trade war the first six months of 2019. Our Group's revenue was unavoidably affected by the challenging business and operating environment despite a progressive relaxation of the one-child policy in Mainland China. Coupled with a decrease in sales volume, net outlets closures and a slow-down of orders received from our distributors and self-operated stores, our Group's revenue recorded a decrease of about 44.6%, from approximately RMB103.2 million for 1H 2018 to approximately RMB57.2 million for 1H 2019.

Sales to distributors continued to account for the majority of our Group's revenue during 1H 2019. Sales to distributors was approximately RMB39.2 million for 1H 2019, representing approximately 68.6% of our Group's revenue, as compared to that of approximately RMB85.4 million and 82.7% for 1H 2018.

Sales from self-operated stores were approximately RMB17.9 million for 1H 2019, representing 31.4% of our Group revenue, as compared to that of approximately RMB14.9 million or 14.5% for 1H 2018.

Our Group did not generate sales revenue in the 1H 2019 from our online distributor as compared to that of RMB2.9 million for 1H 2018.

For the apparel products segment, sales volume was approximately 1.2 million units for 1H 2019, representing about a 57.1% decrease as compared to that of approximately 2.8 million units for 1H 2018. The average wholesale selling price for 1H 2019 recorded an increase as compared to that for 1H 2018, partially reflecting our change in product mix in 1H 2019.

For the footwear and accessories segment, sales decreased from approximately RMB23.1 million for 1H 2018 to approximately RMB1.2 million for 1H 2019. The decrease in sales from this segment is mainly due to the adjustment in the products sales category strategy in 1H 2019.

The tables below set forth our revenue by (i) products segment and (ii) sales channels for the period indicated:

	1H 2019		1H 2018		% change
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>	
Apparel	55,977	97.9	80,154	77.7	(30.2)
Footwear and Accessories	1,175	2.1	23,070	22.3	(94.9)
	<u>57,152</u>	<u>100.0</u>	<u>103,224</u>	<u>100.0</u>	(44.6)
	1H 2019		1H 2018		% change
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>	
Sales to distributors	39,210	68.6	85,356	82.7	(54.1)
Sales from self-operated stores	17,942	31.4	14,927	14.5	20.2
Sales to on-line distributor	–	–	2,941	2.8	(100.0)
	<u>57,152</u>	<u>100.0</u>	<u>103,224</u>	<u>100.0</u>	(44.6)

Cost of Sales

Our cost of sales recorded a decrease from approximately RMB82.8 million for 1H 2018 to approximately RMB45.8 million for 1H 2019, which was broadly in line with the decrease in sales volume. We devoted our focus on brand and retail stores management, and engaged other OEM factories to handle most of the manufacturing tasks. As a percentage of cost of sales, purchases from OEM factories accounted for approximately 54.1% for 1H 2019, which was comparable to that of approximately 71.2% for 1H 2018.

Gross Profit and Gross Profit Margin

As a result of the foregoing, our gross profit decreased from approximately RMB20.4 million for 1H 2018 to approximately RMB11.4 million for 1H 2019. Gross profit margin was approximately 19.9% for 1H 2019, representing an increase of approximately 0.1 percentage points as compared to that of 19.8% for 1H 2018.

Other Revenue and Other Net Loss

During 1H 2019, other revenue of our Group mainly included the interest income from bank deposits of approximately RMB0.5 million for 1H 2019 (1H 2018: approximately RMB1.7 million) and rental income of approximately RMB0.5 million (1H 2018: approximately RMB0.3 million).

Other net loss represented the net foreign exchange loss of approximately RMB0.001 million (1H 2018: approximately RMB0.05 million).

Share of Results from an Associate

In 1H 2019, share of profit from an associate of the Group was approximately RMB0.08 million (1H 2018: approximately RMB0.1 million).

Provision on Impairment Loss Recognised on Trade Receivables

Provision on impairment losses in respect of trade receivables of approximately RMB21.1 million (1H2018: approximately RMB23.2 million) are recorded due to decisions made by 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 debts within the credit period.

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 was approximately RMB54.4 million for 1H 2019, representing an increase of approximately RMB11.0 million or about 25.3%, as compared to that of approximately RMB43.4 million for 1H 2018. The increase in selling and distribution expenses was mainly due to increase in the advertisement and marketing related expenses recorded in 1H 2019. As a percentage of revenue, selling and distribution expenses was 95.1% for 1H 2019 (1H 2018: 42.0%).

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 was approximately RMB24.4 million for 1H 2019, representing an increase of approximately RMB6.0 million or about 32.6% as compared to that of approximately RMB18.4 million for 1H 2018. The increase in the administrative and other operating expenses mainly reflected the increase in R&D expenses. As for the percentage of revenue, it increased from 17.8% for 1H 2018 to 42.7% for 1H 2019.

Finance Costs

Finance costs comprised of interest on bank loans and imputed interest on convertible bonds. Finance costs increased by approximately RMB1.2 million, from approximately RMB3.4 million for 1H 2018 to approximately RMB4.7 million for 1H 2019. The increase in finance costs was mainly due to the increase in imputed interest on convertible bonds for 1H 2019.

Income Tax

Income tax credit was approximately RMB139,000 for 1H 2019, as compared to credit of approximately RMB3,000 for 1H 2018. Currently, our principal subsidiaries in Mainland China are subject to an enterprise income tax rate of 25%.

Loss for the Period after Taxation

As a result of the foregoing, loss for the period after taxation approximately RMB93.3 million was recorded as compared to the loss for 1H 2018 approximately RMB65.9 million.

WORKING CAPITAL MANAGEMENT

Our Group recorded net current assets of approximately RMB191.1 million with a current ratio of 3.3 times as of 30 June 2019, compared to that of approximately RMB262.8 million and 3.4 times as of 31 December 2018. The table below sets forth the turnover days of trade receivables, inventories and trade payables at the end of the period indicated.

	Turnover days	
	As of 30 June 2019	As of 30 June 2018
Trade receivables	349	377
Inventories	279	267
Trade payables	21	13

LIQUIDITY AND CAPITAL RESOURCES

Our Group mainly relies on cash flows from operations to finance working capital requirements and capital expenditures. Our Group's cash and cash equivalents, and fixed deposits totalled approximately RMB51.1 million as of 30 June 2019 (31 December 2018: approximately RMB43.6 million). Bank borrowings of our Group was approximately RMB59.5 million as of 30 June 2019, as compared to that of approximately RMB62.0 million as of 31 December 2018. Gearing ratio was only 18.5% and 19.4%, respectively, as of 30 June 2019 and 31 December 2018.

Our Group recorded a decrease in net cash used in operating activities of approximately RMB141.2 million, from net cash used in operating activities approximately RMB100.4 million for 1H 2018 to net cash generated from operating activities approximately RMB40.8 million for 1H 2019 which mainly represented the decreases in trade receivables and prepayments deposits and other receivables.

Net cash generated from investing activities was approximately RMB33.5 million for 1H 2019, as compared to the net cash used of approximately RMB98.5 million for 1H 2018 which mainly represented the net changes from fixed deposits. Net cash used in financing activities was approximately RMB24.7 million for 1H 2019, as compared to net cash generated from financing activities of approximately RMB29.7 million for 1H 2018 which mainly represented changes in bank loan and convertible bonds.

As a result of the foregoing, there was a net increase in cash and cash equivalents of approximately RMB49.6 million for 1H 2019 (1H 2018: net increase approximately RMB27.3 million).

Notes to financial ratios:

- (1) Trade receivables turnover days equal the average of the opening and closing balances of trade receivables of the relevant period divided by revenue of the relevant period and multiplied by 182 days.
- (2) Inventory turnover days equal the average of the opening and closing balances of inventories of the relevant period divided by cost of sales of the relevant period and multiplied by 182 days.
- (3) Trade payables turnover days equal the average of the opening and closing balances of trade payables of the relevant period divided by cost of sales of the relevant period and multiplied by 182 days.
- (4) Current ratio equals current assets divided by current liabilities as of the end of the period.
- (5) Gearing ratio equals the total of bank and other borrowings divided by total equity as of the end of the period.

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

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

According to the Deed of Amendment, the Company, the Purchaser and the Subscriber have agreed that (i) the Company shall repay to the Subscriber a partial principal amount of Convertible Bonds of RMB18,629,566, (ii) the Convertible Bonds in the aggregate principal amount of not more than RMB34,393,044 representing 164,800,000 conversion Shares at the conversion price of HK\$0.24 per Share shall be adjusted to an aggregate outstanding principal amount of RMB15,763,478 representing 164,800,000 conversion

Shares at the conversion price of HK\$0.11 per Share; (iii) the maturity date of the Convertible Bonds shall be extended from 23 June 2019 to 23 June 2021; and (iv) the interest rate of the Convertible Bonds shall be adjusted from 4.0% per annum to 8.0% per annum on the principal amount of the Convertible Bonds outstanding.

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

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 COMMITMENTS AND CONTINGENT LIABILITIES

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

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Contracted for	—	7,528

Our Group had no material contingent liabilities as of 30 June 2019.

PLEDGE OF ASSETS

Pledged bank deposits, certain properties and lease prepayments with net book value of approximately RMB55.4 million as at 30 June 2019 (31 December 2018: approximately RMB66.6 million) were pledged for certain bank loans.

SIGNIFICANT INVESTMENTS AND MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

Our Group made no other significant investments, material acquisitions or disposal for the six months ended 30 June 2019.

INVESTMENTS HELD IN FOREIGN CURRENCY AND HEDGING

For the six months ended 30 June 2019, 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 30 June 2019, we employed around 360 full-time employees. The total staff costs for 1H 2019 was approximately RMB16.7 million (1H 2018: approximately RMB18.2 million).

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

Neither our Company nor any of its subsidiary has purchased, sold or redeemed any of the Company's listed securities during 1H 2019.

CORPORATE GOVERNANCE CODE

The Company is committed to maintain 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 1H 2019, the Board comprised of three executive Directors and three independent non-executive Directors. The Board has adopted the code provisions of the Corporate Governance Code ("**CG Code**") set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange ("**Listing Rules**"). During 1H 2019, the Company has complied with the CG Code, except for the deviations 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 deviates 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 the current Board composition and structure and taking into account the background and experience of our Directors.

Code provision C.1.2 provides that management should provide all members of the board with monthly updates giving a balanced and understandable assessment of the issuer's performance, position and prospects in sufficient detail to enable the board as a whole and each director to discharge their duties under Rule 3.08 and Chapter 13 of the Listing Rules. Although the management of the Company did not provide a regular monthly update to the members of the Board, the management provides 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 1H 2019.

AUDIT COMMITTEE AND REVIEW OF UNAUDITED INTERIM RESULTS

The Company has an Audit Committee (the “**Audit Committee**”) which was established in compliance with Rule 3.21 of the Listing Rules for the purposes of reviewing and providing supervision over the Group's financial reporting process, internal controls and risk management. The Audit Committee, comprising of Mr. Wu Shiming, chairman of Audit Committee, Mr. Hung Cho Sing and Mr. Chan Wai Wong, has reviewed the accounting principles and practices adopted by the Group and discussed with the management with respect to financial reporting matters, including review of the unaudited interim results of the Group for the six months ended 30 June 2019, and is of the opinion that such statements comply with the applicable accounting standards and the Listing Rules and that adequate disclosures have been made.

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for 1H 2019 (1H 2018: Nil).

SUFFICIENCY OF PUBLIC FLOAT

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

PUBLICATION OF RESULTS

This unaudited interim results announcement has been published on our website at www.redkids.com and the website of the Stock Exchange at www.hkexnews.hk. The interim report of our Company for 1H 2019 containing all the information required by Appendix 16 to the Listing Rules and the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) will be dispatched to the shareholders of our Company and published on our website at www.redkids.com and the website of the Stock Exchange at www.hkexnews.hk in due course on or before 30 September 2019.

APPRECIATION

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

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

Hong Kong
22 August 2019

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