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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 INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2020

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 2020, together with the comparative figures for the corresponding period in 2019, as follows:

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

For the six months ended 30 June 2020 (Expressed in Renminbi)

		Six months ended 30 June	
		2020	2019
	<i>Notes</i>	RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Turnover	4	42,981	57,152
Cost of sales		(37,963)	(45,760)
Gross profit		5,018	11,392
Other revenue	5	369	935
Other net loss	5	–	(1)
Share of results from an associate		(799)	75
Bad debts written off on trade receivables		–	(22,282)
(Allowance for)/reversal of expected credit loss on trade receivables, net		(1,415)	1,135
Selling and distribution expenses		(20,052)	(54,358)
Administrative and other operating expenses		(11,211)	(24,422)
Loss on derecognition of convertible bonds		–	(1,217)
Loss from operations		(28,090)	(88,743)
Finance costs	6(a)	(2,335)	(4,668)
Loss before taxation	6	(30,425)	(93,411)
Income tax (expenses)/credit	7	(375)	139
Loss for the period attributable to shareholders of the Company		(30,800)	(93,272)
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		(2,177)	(2,075)
Total comprehensive loss for the period attributable to shareholders of the Company		(32,977)	(95,347)
Loss per share (RMB cents)			
– Basic and diluted	8	(3.1)	(9.5)

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

As of 30 June 2020 (Expressed in Renminbi)

		At 30 June 2020 RMB'000 (Unaudited)	At 31 December 2019 RMB'000 (Audited)
	Notes		
Non-current assets			
Property, plant and equipment		55,672	61,963
Intangible assets		1,421	2,811
Right-of-use assets		2,457	2,501
Deposits for purchase of property, plant and equipment		–	1,005
Investment in an associate		45,877	46,676
		<u>105,427</u>	<u>114,956</u>
Current assets			
Inventories		49,061	49,897
Trade receivables	9	57,689	67,781
Prepayments, deposits and other receivables		29,673	39,117
Cash and cash equivalents		38,788	32,102
		<u>175,211</u>	<u>188,897</u>
Assets classified as held for sale		–	26,300
		<u>175,211</u>	<u>215,197</u>
Current liabilities			
Trade and other payables	10	22,843	38,781
Bank loans		44,400	45,000
		<u>67,243</u>	<u>83,781</u>
Net current assets		<u>107,968</u>	<u>131,416</u>
Total assets less current liabilities		<u>213,395</u>	<u>246,372</u>
Non-current liabilities			
Deferred tax liabilities		1,300	1,300
Convertible bonds		13,503	13,503
		<u>14,803</u>	<u>14,803</u>
Net assets		<u>198,592</u>	<u>231,569</u>
Equity			
Share capital	11(a)	7,833	7,833
Reserves		190,759	223,736
Total equity		<u>198,592</u>	<u>231,569</u>

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

As at 30 June 2020, the directors of the Company consider the immediate and ultimate controlling parties to be Think Wise Holdings Investment Limited and Mr. Ding Peiji respectively.

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 28 August 2020.

The unaudited interim results have been prepared in accordance with the same accounting policies adopted in the 2019 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 2019 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 2019 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 2019 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 7 May 2020.

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	
	2020	2019	2020	2019	2020	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue from external customers	41,746	39,210	1,235	17,942	42,981	57,152
Inter-segment revenue	548	23,232	–	–	548	23,232
Reportable segment revenue	<u>42,294</u>	<u>62,442</u>	<u>1,235</u>	<u>17,942</u>	<u>43,529</u>	<u>80,384</u>
Segment results	<u>(20,334)</u>	<u>(53,166)</u>	<u>(4,865)</u>	<u>(9,241)</u>	<u>(25,199)</u>	<u>(62,407)</u>
Bad debts written off on trade receivables	–	(22,282)	–	–	–	(22,282)
(Allowance for)/reversal of expected credit loss on trade receivables, net	(1,221)	1,103	(194)	32	(1,415)	1,135
Other revenue					369	935
Share of results from an associate					(799)	75
Central administration costs					(1,046)	(4,982)
Loss on derecognition of convertible bonds					–	(1,217)
Finance costs					<u>(2,335)</u>	<u>(4,668)</u>
Loss before taxation					<u>(30,425)</u>	<u>(93,411)</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 loss recorded by each segment without allocation of other revenue, other net loss, share of results from an associate, finance costs, loss on derecognition 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
	2020	2019	2020	2019	2020	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)
Segment assets	<u>206,817</u>	<u>217,442</u>	<u>27,696</u>	<u>39,544</u>	<u>234,513</u>	256,986
Unallocated assets					46,125	46,867
Assets classified as held for sale					<u>—</u>	<u>26,300</u>
Total assets					<u><u>280,638</u></u>	<u><u>330,153</u></u>
Segment liabilities	<u>59,226</u>	<u>78,507</u>	<u>167</u>	<u>684</u>	<u>59,393</u>	79,191
Unallocated liabilities					<u>22,653</u>	<u>19,393</u>
Total liabilities					<u><u>82,046</u></u>	<u><u>98,584</u></u>

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

- all assets are allocated to reportable segments other than investment in associate and certain cash and cash equivalents; and
- all liabilities are allocated to reportable segments other than deferred tax liabilities, convertible bonds and certain accrued charges and other payables

Geographical information

During the period ended 30 June 2020 and 2019, 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	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Customer A*	10,177	—
Customer B*	10,161	—
Customer C*	8,990	—
Customer D*	6,917	—
	<u> </u>	<u> </u>

For the period ended 30 June 2019, no other single customer contributed 10% or more to the Group's revenue.

* No information on turnover for the comparative period is disclosed for these customers since they contributed less than 10% to the Group's turnover for the period ended 30 June 2019.

5. OTHER REVENUE AND OTHER NET LOSS

	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i> (Unaudited)	<i>RMB'000</i> (Unaudited)
Other revenue		
Interest income	—	454
Rental income	369	481
	<u> </u>	<u> </u>
	369	935
	<u> </u>	<u> </u>
Other net loss		
Net foreign exchange loss	—	(1)
	<u> </u>	<u> </u>

6. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

		Six months ended 30 June	
		2020	2019
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
(a) Finance costs:			
Interest on bank loans		1,074	1,680
Imputed interest on convertible bonds		1,261	2,988
		2,335	4,668
(b) Staff costs (including directors' remuneration):			
Contributions to defined contribution retirement plans		860	1,409
Salaries, wages and other benefits		11,291	13,880
Equity-settled share-based payment expenses		–	1,449
		12,151	16,738
(c) Other items:			
Amortisation			
– lease prepayments		–	41
– intangible assets		1,390	9,167
Depreciation of property, plant and equipment		6,034	4,607
Depreciation of right-of-use assets		44	–
Loss on disposal on property, plant and equipment		–	85
Bad debts written off on trade receivables		–	22,282
Allowance for/(reversal of) expected credit loss on trade receivables, net		1,415	(1,135)
Short-term lease payment		–	92
Research and development expenses		1,601	5,730
Cost of inventories sold [#]		37,963	45,760

[#] Cost of inventories for the six months ended 30 June 2020 includes RMB4,864,000 (six months ended 30 June 2019: RMB4,207,000) relating to staff costs, which amount is also included in note 6(b) above.

7. TAXATION

	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Current tax		
– PRC corporate income tax	–	–
Deferred tax		
– Origination of temporary differences	375	(139)
	<u>375</u>	<u>(139)</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 2019 and 2020; and
- (iii) The applicable income tax rate for all of the Group’s subsidiaries in Mainland China is 25%.

8. 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 RMB30,800,000 (six months ended 30 June 2019: loss of RMB93,272,000) and the weighted average of 984,000,000 ordinary shares (six months ended 30 June 2019: 984,000,000 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 2020 and 2019, and therefore, diluted loss per share are the same as the basic loss per share.

9. TRADE RECEIVABLES

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 2020 <i>RMB'000</i> (Unaudited)	At 31 December 2019 <i>RMB'000</i> (Audited)
Within 90 days	32,744	44,251
90-120 days	2,475	7,755
After 120 days but within 180 days	1,719	6,977
After 180 days but within 1 year	15,289	315
Over 1 year	5,462	8,483
	<u>57,689</u>	<u>67,781</u>

10. TRADE PAYABLES

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 2020 <i>RMB'000</i> (Unaudited)	At 31 December 2019 <i>RMB'000</i> (Audited)
Within 3 months	3,569	3,409
After 3 months but within 6 months	–	–
After 6 months but within 1 year	–	–
After 1 year	497	497
	<u>4,066</u>	<u>3,906</u>

11. CAPITAL, RESERVES AND DIVIDENDS

(a) Share capital

Authorised and issued share capital

	2020			2019		
	<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	10,000,000,000	100,000	79,380	10,000,000,000	100,000	79,380
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Ordinary shares, issued and fully paid:						
At 1 January, 30 June/31 December	984,000,000	9,840	7,833	984,000,000	9,840	7,833
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </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 2020 and 2019, 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 2020 (“**1H 2020**”), revenue and net loss of our Group amounted to approximately RMB43.0 million and RMB30.8 million respectively, as compared to the revenue and net loss of approximately RMB57.2 million and RMB93.3 million respectively for the six months ended 30 June 2019 (“**1H 2019**”).

The extraordinary outbreak of the COVID-19 pandemic and the globally lockdown of the cities severely hit the world economy in the first half of 2020. The major economies of the world faced a struggling situation and fragile recovery turned into a sharp decline.

The outbreak of COVID-19 pandemic caused the business disruptions in Mainland China in the first half of 2020. The Group’s office, production facilities, distributors and suppliers were instructed to close temporarily from January to March of 2020. The Group’s office and production facilities resumed operations starting from March 2020 and all of the distributors and suppliers had resumed operations by the early of April of 2020. Such business activities disruptions affected the Group’s sales revenue, supply chain and production that inevitably impacted on the Group’s financial results in the first half of 2020.

Considering the unprecedented challenges and market uncertainty posed by the global health and economic crisis, the Group took immediate actions to preserve cash and strengthen its liquidity. The Group has closed down self-operated stores in view of the current tough business environment. The Group has been managing operating expenses and reducing its marketing and promotion cost sharply under such tough economy and business environment. In addition, the Group remained focused on further strengthening resilience of the business and ensure the sustainability in the market.

Owing to the effective and efficient COVID-19 pandemic containment measures and economic stimulus in the first half of 2020, Mainland China has become the first economy to return to growth in the world.

Even though the Group has made improvement in sales starting from May 2020, the management expects that the consumer sentiment would not be returned immediately given that unstoppable of COVID-19 pandemic cases around the world stalled re-opening of economy. The Group would keep cautious to the ever changing situation in Mainland China.

In addition, the Group would pay more focus to the e-commerce business partners as more customers have switched their consumption preferences to on-line platforms.

The outlook of the industry and business in the second half of 2020 is highly uncertain from the outbreak of the COVID-19 pandemic. The Group will continuously maintain clean and comfortable environment and provide all the necessary safety supports to protect the employees, customers and suppliers from COVID-19 pandemic.

FINANCIAL REVIEW

Revenue

Our Group's products are primarily marketed through wholesaling to the distributors and self-operated stores who operate with "redkids" brand in various provinces and municipalities in Mainland China.

Sales performance for the first half of 2020 was adversely affected by the outbreak of the COVID-19 pandemic in Mainland China since 2020 and weak consumption market.

For the apparel products segment, sales volume was approximately 1.7 million units for 1H 2020, representing about a 41.7% increase as compared to that of approximately 1.2 million units for 1H 2019. The average wholesale selling price for 1H 2020 recorded a reduction as compared to that for 1H 2019, partially reflecting our change in product mix in 1H 2020.

For the footwear and accessories segment, sales decreased from approximately RMB1.2 million for 1H 2019 to approximately RMB0.015 million for 1H 2020. The decrease in sales from this segment is mainly due to the adjustment in the products sales category strategy in 1H 2020.

Sales to distributors continued to account for the majority of our Group's revenue during 1H 2020. Sales to distributors were approximately RMB41.7 million for 1H 2020, representing approximately 97.1% of our Group's revenue, as compared to that of approximately RMB39.2 million and 68.6% for 1H 2019.

Sales from self-operated stores were approximately RMB1.2 million for 1H 2020, representing 2.9% of our Group revenue, as compared to that of approximately RMB17.9 million or 31.4% for 1H 2019.

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

	1H 2020		1H 2019		% change
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>	
Apparel	42,966	100.0	55,977	97.9	(23.2)
Footwear and Accessories	15	0.0	1,175	2.1	(98.7)
	42,981	100.0	57,152	100.0	(24.8)
	42,981	100.0	57,152	100.0	(24.8)
	1H 2020		1H 2019		% change
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>	
Sales to distributors	41,745	97.1	39,210	68.6	6.5
Sales from self-operated stores	1,236	2.9	17,942	31.4	(93.1)
	42,981	100.0	57,152	100.0	(24.8)
	42,981	100.0	57,152	100.0	(24.8)

Cost of Sales

Our cost of sales recorded a decrease from approximately RMB45.8 million for 1H 2019 to approximately RMB38.0 million for 1H 2020, which was broadly in line with the decrease in sales volume. We devoted our focus on brand and wholesale 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 50.0% for 1H 2020, which was comparable to that of approximately 54.1% for 1H 2019.

Gross Profit and Gross Profit Margin

As a result of the foregoing, our gross profit decreased from approximately RMB11.4 million for 1H 2019 to approximately RMB5.0 million for 1H 2020. Gross profit margin was approximately 11.7% for 1H 2020, representing a decrease of approximately 8.2 percentage points as compared to that of 19.9% for 1H 2019.

Other Revenue and Other Net Loss

Other revenue of our Group mainly included the interest income from bank deposits of approximately RMB0.5 million during 1H 2019 and rental income of approximately RMB0.4 million during 1H 2020 (1H 2019: approximately RMB0.5 million).

Other net loss represented the net foreign exchange loss of approximately RMB0.001 million for 1H 2019.

Share of Results from an Associate

In 1H 2020, share of loss from an associate of the Group was approximately RMB0.8 million (1H 2019: share of profit approximately RMB0.08 million).

Bad Debts Written Off and Allowance for/Reversal of Expected Credit Loss on Trade Receivables

Bad debts written off in respect of trade receivables of approximately RMB22.3 million in 1H 2019 was recorded.

Allowance for expected credit loss of approximately RMB1.4 million in respect of trade receivables was made (1H 2019: Reversal of expected credit loss of approximately RMB1.1 million) 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 RMB20.1 million for 1H 2020, representing an decrease of approximately RMB34.3 million or about 63.1%, as compared to that of approximately RMB54.4 million for 1H 2019. The decrease in selling and distribution expenses was mainly due to decrease in the advertisement and marketing related expenses in view of current tough business environment recorded in 1H 2020. As a percentage of revenue, selling and distribution expenses was 46.7% for 1H 2020 (1H 2019: 95.1%).

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 RMB11.2 million for 1H 2020, representing an decrease of approximately RMB13.2 million or about 54.1% as compared to that of approximately RMB24.4 million for 1H 2019. The decrease in the administrative and other operating expenses mainly reflected the decrease in R&D expenses. As for the percentage of revenue, it decreased from 42.7% for 1H 2019 to 26.1% for 1H 2020.

Loss on Derecognition of Convertible Bonds

Loss on derecognition of convertible bonds of approximately RMB1.2 million was made for 1H 2019.

Finance Costs

Finance costs comprised of interest on bank loans and imputed interest on convertible bonds. Finance costs decreased by approximately RMB2.4 million, from approximately RMB4.7 million for 1H 2019 to approximately RMB2.3 million for 1H 2020. The decrease in finance costs was mainly due to the decrease in interest on bank loans and imputed interest on convertible bonds for 1H 2020.

Taxation

Income tax expenses were approximately RMB0.4 million for 1H 2020, as compared to credit of approximately RMB0.1 million for 1H 2019. 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 RMB30.8 million was recorded as compared to the loss for 1H 2019 approximately RMB93.3 million.

WORKING CAPITAL MANAGEMENT

Our Group recorded net current assets of approximately RMB108.0 million with a current ratio of 2.6 times as of 30 June 2020, compared to that of approximately RMB131.4 million and 2.6 times as of 31 December 2019. 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 2020	As of 30 June 2019
Trade receivables	266	349
Inventories	284	279
Trade payables	19	21

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 totalled approximately RMB38.8 million as of 30 June 2020 (31 December 2019: approximately RMB32.1 million). Bank borrowings of our Group was approximately RMB44.4 million as of 30 June 2020, as compared to that of approximately RMB45.0 million as of 31 December 2019. Gearing ratio was only 22.4% and 25.3%, respectively, as of 30 June 2020 and 31 December 2019.

Our Group recorded a decrease in net cash used in operating activities of approximately RMB20.9 million, from net cash generated from operating activities approximately RMB40.8 million for 1H 2019 to net cash generated from operating activities approximately RMB11.8 million for 1H 2020 which mainly represented the decreases in trade receivables and prepayments, deposits and other receivables.

No cash generated from investing activities was made for 1H 2020, as compared to the net cash generated of approximately RMB33.5 million for 1H 2019 which mainly represented the net changes from fixed deposits. Net cash used in financing activities was approximately RMB2.9 million for 1H 2020, as compared to net cash used in financing activities of approximately RMB24.7 million for 1H 2019 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 RMB8.9 million for 1H 2020 (1H 2019: net increase approximately RMB49.6 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.

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 2020 <i>RMB'000</i>	At 31 December 2019 <i>RMB'000</i>
Contracted for	—	7,528

Our Group had no material contingent liabilities as of 30 June 2020.

PLEDGE OF ASSETS

Pledged bank deposits, certain properties and lease prepayments with net book value of approximately RMB34.3 million as at 30 June 2020 (31 December 2019: approximately RMB32.7 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 2020.

INVESTMENTS HELD IN FOREIGN CURRENCY AND HEDGING

For the six months ended 30 June 2020, 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 2020, we employed around 330 full-time employees. The total staff costs for 1H 2020 was approximately RMB12.2 million (1H 2019: approximately RMB16.7 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 2020.

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 2020, 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 2020, 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 2020.

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 2020, 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 2020 (1H 2019: 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 2020 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 2020.

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
28 August 2020

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.