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 ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020

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 2020 (the "**FY2020**") together with the comparative figures for the year ended 31 December 2019 (the "**FY2019**"), which have been prepared in accordance with the International Financial Reporting Standards ("**IFRSs**") and reviewed by the audit committee of the Company as below.

AUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020 (Expressed in Renminbi)

	Note	**2020** *RMB'000*	2019 *RMB'000*
Turnover	3	**115,785**	166,031
Cost of sales		**(107,151)**	(136,558)
Gross profit		**8,634**	29,473
Other revenue	4	**993**	1,089
Share of results from an associate		**(817)**	239
Written down on inventories		**(7,856)**	(29,458)
Bad debts written off on trade receivables		**–**	(31,018)
(Allowance for)/reversal of allowance for expected credit losses on trade receivables, net		**(9,652)**	9,296
Impairment loss recognised on goodwill		**–**	(27,712)
Impairment loss recognised on intangible assets		**–**	(22,815)
Loss on the remeasurement of asset classified as held for sale		**–**	(4,725)
Loss on derecognition of convertible bonds		**–**	(1,217)
Selling and distribution expenses		**(34,046)**	(138,028)
Administrative and other operating expenses		**(30,471)**	(33,996)
Loss from operations		**(73,215)**	(248,872)
Finance costs	5(a)	**(5,003)**	(7,517)
Loss before taxation	5	**(78,218)**	(256,389)
Income tax expenses	6(a)	**–**	(1,904)
Loss for the year attributable to shareholders of the Company		**(78,218)**	(258,293)
Other comprehensive income for the year			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of overseas subsidiaries		**373**	2,014
Total comprehensive loss for the year attributable to shareholders of the Company		**(77,845)**	(256,279)
Loss per share ***(RMB cents)***			
– Basic and diluted	7	**(8)**	(26)

AUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020 (Expressed in Renminbi)

	Note	**2020** *RMB'000*	2019 *RMB'000*
Non-current assets			
Property, plant and equipment		**55,550**	61,963
Intangible assets		**824**	2,811
Right-of-use assets		**2,413**	2,501
Deposits for purchase of property, plant and equipment		**–**	1,005
Investment in an associate		**45,859**	46,676
		104,646	114,956
Current assets			
Inventories		**23,128**	49,897
Trade receivables	8	**59,020**	67,781
Prepayments, deposits and other receivables		**12,139**	39,117
Cash and cash equivalents		**39,169**	32,102
		133,456	188,897
Asset classified as held for sale		**–**	26,300
		133,456	215,197

	Note	2020 RMB'000	2019 RMB'000
Current liabilities			
Trade and other payables	9	**22,805**	38,781
Bank loans		**44,150**	45,000
Convertible bonds		**14,963**	–
		81,918	83,781
Net current assets		**51,538**	131,416
Total assets less current liabilities		**156,184**	246,372
Non-current liabilities			
Deferred tax liabilities		**1,300**	1,300
Convertible bonds		**–**	13,503
		1,300	14,803
Net assets		**154,884**	231,569
Equity			
Share capital		**7,833**	7,833
Reserves		**147,051**	223,736
Total equity		**154,884**	231,569

NOTES TO THE AUDITED 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.

As at 31 December 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.

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

Statement of compliance

These consolidated financial statements have been prepared in accordance with all applicable IFRSs, which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("**IASs**") and Interpretations issued by International Accounting Standards Board ("**IASB**"). These consolidated financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The IASB has issued certain new and amendments to IFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Explained on below provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in the consolidated financial statements.

Application of amendments to IFRSs

Amendments to IFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the Amendments to Reference to the Conceptual Framework in IFRS Standards and the following amendments to IFRS issued by IASB for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the consolidated financial statements:

Amendments to IAS 1 and IAS 8	Definition of Material
Amendments to IFRS 3	Definition of a Business
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform

Application of amendments to IFRSs *(continued)*

Amendments to IFRSs that are mandatorily effective for the current year *(continued)*

The application of the Amendments to Reference to the Conceptual Framework in IFRS Standards and the amendments to IFRSs in the current year has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these consolidated financial statements.

New and amendments to IFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to IFRS Standards that have been issued but are not yet effective:

IFRS 17	Insurance Contracts and the related amendments[1]
Amendment to IFRS 16	Covid-19-Related Rent Concessions[4]
Amendments to IFRS3	Reference to the Conceptual Framework[2]
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform – Phase 2[5]
Amendments to IFRS 10 and IAS 28	Sales on Contribution of Assets between an Investor and its Associate or Joint Venture [3]
Amendments to IAS 1	Classification of Liabilities as Current or Non-current [1]
Amendments to IAS16	Property, Plant and Equipment – Proceeds before Intended Use [2]
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract [2]
Amendments to IFRS Standards	Annual Improvements to IFRSs Standard 2018 – 2020 [2]

1 Effective for annual periods beginning on or after 1 January 2023.

2 Effective for annual periods beginning on or after 1 January 2022.

3 Effective for annual periods beginning on or after to be determined.

4 Effective for annual periods beginning on or after 1 June 2020.

5 Effective for annual periods beginning on or after 1 January 2021.

The directors of the Company anticipate that the application of all the new and amendments to IFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

3 TURNOVER AND SEGMENT INFORMATION

The principal activities of the Group are 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	
	2020	2019	**2020**	2019	**2020**	2019
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Revenue from external customers	**102,182**	107,460	**13,603**	58,571	**115,785**	166,031
Inter-segment revenue	**619**	53,304	**–**	–	**619**	53,304
Reportable segment revenue	**102,801**	160,764	**13,603**	58,571	**116,404**	219,335
Segment results	**(32,571)**	(113,289)	**(19,582)**	(18,353)	**(51,853)**	(131,642)
Written down on inventories	**(7,856)**	(29,458)	**–**	–	**(7,856)**	(29,458)
Bad debts written off on trade receivables	**–**	(31,018)	**–**	–	**–**	(31,018)
(Allowance for)/reversal of allowance for expected credit loss on trade receivable, net	**(8,801)**	10,171	**(851)**	(875)	**(9,652)**	9,296
Impairment loss recognised on goodwill	**–**	–	**–**	(27,712)	**–**	(27,712)
Impairment loss on intangible assets	**–**	(14,855)	**–**	(7,960)	**–**	(22,815)
Loss on the remeasurement of asset classified as held for sale	**–**	(4,725)	**–**	–	**–**	(4,725)
Other revenue					**993**	1,089
Share of results from an associate					**(817)**	239
Central administration costs					**(4,030)**	(10,909)
Loss on derecognition of convertible bonds					**–**	(1,217)
Finance costs					**(5,003)**	(7,517)
Loss before taxation					**(78,218)**	(256,389)

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, share of results from an associate, loss on derecognition of convertible bonds, 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	
	2020	2019	**2020**	2019	**2020**	2019
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Segment assets	**166,391**	217,442	**25,529**	39,544	**191,920**	256,986
Unallocated assets					**46,182**	46,867
Asset classified as held for sale					**–**	26,300
Total assets					**238,102**	330,153
Segment liabilities	**58,807**	78,507	**19**	684	**58,826**	79,191
Unallocated liabilities					**24,392**	19,393
Total liabilities					**83,218**	98,584

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

– all assets are allocated to reportable segments other than investment in an associate, other receivables and certain cash and cash equivalents; and

– all liabilities are allocated to reportable segments other than deferred tax liabilities, convertible bonds and certain accrued changes and other payables.

Other segment information:

	Wholesalers		Retail outlets		Total	
	2020	2019	**2020**	2019	**2020**	2019
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Capital expenditure*	**2,921**	6,944	**–**	–	**2,921**	6,944
Depreciation of property, plant and equipment	**7,734**	8,857	**212**	980	**7,946**	9,837
Depreciation of right-of-use assets	**88**	88	**–**	–	**88**	88
Written off of property, plant and equipment	**716**	85	**672**	428	**1,388**	513
Amortisation of intangible assets	**717**	2,828	**1,270**	15,498	**1,987**	18,326
Written down on inventories	**7,856**	29,458	**–**	–	**7,856**	29,458
Bad debts written off on trade receivables	**–**	31,018	**–**	–	**–**	31,018
Allowance for/(reversal of allowance for) expected credit loss on trade receivable, net	**8,801**	(10,171)	**851**	875	**9,652**	(9,296)
Loss on the remeasurement of asset classified as held for sale	**–**	4,725	**–**	–	**–**	4,725

* Capital expenditure consists of additions to property, plant and equipment.

Geographical information

All the Group's revenue from external customers and non-current assets are based in Mainland China.

Information about major customers:

No information about major customers is presented as no single customer contributed over 10% of the total revenue of the Group during the year ended 31 December 2020 and 2019.

4 OTHER REVENUE AND OTHER NET LOSS

	2020	2019
	RMB'000	*RMB'000*
Other revenue		
Interest income	**160**	143
Rental income	**683**	683
Government grants*	**95**	–
Samples income	**55**	263
	993	1,089

* During the year, the Group recognised Government grants of RMB95,000 in respect of COVID-19 related subsidies of which RMB95,000 related to Employment Support Scheme provided by the Hong Kong Government.

5 LOSS BEFORE TAXATION

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

		2020	2019
		RMB'000	*RMB'000*
(a)	**Finance costs:**		
	Interest on bank loans	**2,285**	3,292
	Interest on convertible bonds	**2,718**	4,225
		5,003	7,517
(b)	**Staff costs:**		
	Contributions to defined contribution retirement plans	**1,780**	2,929
	Salaries, wages and other benefits	**23,160**	31,732
	Equity-settled share-based payment expenses	**1,160**	2,898
		26,100	37,559
(c)	**Other items:**		
	Amortisation of intangible assets	**1,987**	18,326
	Depreciation of property, plant and equipment	**7,946**	9,837
	Depreciation of right-of-use assets	**88**	88
	Auditors' remuneration		
	– Audit services	**800**	1,200
	– Non-audit services	**–**	–
	Written off of property, plant and equipment	**1,388**	513
	Written down on inventories	**7,856**	29,458
	Bad debts written off on trade receivables	**–**	31,018
	Allowance for/(reversal of allowance for) expected credit loss on trade receivables, net	**9,652**	(9,296)
	Loss on the remeasurement of asset classified as held for sale	**–**	4,725
	Research and development expenses	**7,353**	11,774
	Expenses related to short-term lease payment	**107**	626
	Cost of inventories sold#	**107,151**	136,558
	Impairment loss recognised on goodwill	**–**	27,712
	Impairment loss recognised intangible assets	**–**	22,815
	Loss on derecognition of convertible bonds	**–**	1,217

Cost of inventories for the year ended 31 December 2020 includes RMB9,789,000 (2019: RMB10,565,000) 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 TAXATION

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

	2020	2019
	RMB'000	*RMB'000*
Current tax		
– PRC corporate income tax	**–**	–
Deferred tax		
– Origination of temporary differences	**–**	1,904
	–	1,904

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 approximately RMB78,218,000 (2019: loss of approximately RMB258,293,000) and the weighted average of 984,000,000 ordinary shares (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 the year ended 31 December 2020 and 2019, and therefore, diluted loss per share is the same as the basic loss per share.

8 TRADE RECEIVABLES

In general, the credit period granted to customers is 30 to 120 days. (2019: 30 to 120 days)

As of the end of the reporting year, the ageing analysis of trade receivables based on invoice date and net of allowance for expected credit losses, is as below:

	2020	2019
	RMB'000	*RMB'000*
Within 90 days	**38,662**	44,251
90-120 days	**9,874**	7,755
After 120 days but within 180 days	**6,162**	6,977
After 180 days but within 1 year	**4,322**	315
Over 1 year	**–**	8,483
	59,020	67,781

9 TRADE AND OTHER PAYABLES

Included in the trade and other payables, as of the end of the reporting year the trade payables were RMB3,735,000 (2019: RMB3,906,000).

In general, the credit period granted by suppliers is 30 days.

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

	2020	2019
	RMB'000	*RMB'000*
Within 3 months	**3,238**	3,409
After 3 months but within 6 months	**–**	–
After 6 months but within 1 year	**–**	–
After 1 year	**497**	497
	3,735	3,906

10 DIVIDEND

No dividend was paid or proposed during the year ended 31 December 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 these consolidated financial statements.

11. EVENTS AFTER THE REPORTING PERIOD

Proposed share consolidation, change in board lot size

The Company proposed a share consolidation of every ten issued existing shares be consolidated into one consolidated share ("**Share Consolidation**"), as at the date of this announcement, 984,000,000 existing shares have been allotted and issued. Upon the Share Consolidation becoming effective and assuming that no existing shares are issued or bought back from the date of this announcement until the effective date of the Share Consolidation, not more than 98,400,000 consolidated shares will be in issue. The board lot size for trading on the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") is proposed to be changed from 2,000 existing shares to 6,000 consolidated shares conditional upon the Share Consolidation becoming effective. Details of the Share Consolidation and change in board lot size were set out in the announcement of the Company dated 10 February 2021 and the circular of the Company dated 25 February 2021.

Amendment of the terms of the convertible bonds

On 1 February 2021, the Company, the purchaser and the subscriber entered into the supplemental deed of amendment to further amend and restate the terms of the Convertible Bonds (the "**CB**") Subscription Agreement and the Convertible Bonds. Under the supplemental deed of amendment, the parties thereto agreed that upon the fulfilment of conditions precedent, the maturity date of the CB shall be extended from 23 June 2021 to 23 June 2023. Details of the amendment were set out in the announcement of the Company dated 1 February 2021.

Placing of new shares under specific mandate

On 23 February 2021 (after trading hours), the Company entered into the placing agreement with the placing agent pursuant to which the Company has conditionally agreed to place, through the placing agent on a best efforts basis, up to 19,680,000 placing shares at the placing price of HK$0.48 per placing share to not less than six placees who are professional, institutional or other investors that are third parties independent of the Company and its connected persons. The placing shares will be allotted and issued pursuant to the specific mandate, which is subject to the shareholders' approval at the extraordinary general meeting of the Company. Details of the placing of new shares were set out in the announcement of the Company dated 23 February 2021.

BUSINESS REVIEW AND OUTLOOK

For the full year of 2020, revenue and net loss before taxation of the Group amounted to approximately RMB115.8 million and RMB78.2 million respectively, as compared to revenue and net loss before taxation of approximately RMB166.0 million and RMB256.4 million respectively for the full year of 2019.

The extraordinary outbreak of the COVID-19 pandemic and the globally lockdown of the cities severely hit the world economy in the year of 2020. The major economies of the world had been facing a struggling situation and had turned into a sharp decline with a fragile recovery. The outbreak of COVID-19 pandemic caused business disruptions in Mainland China especially in the first half of 2020 but the economy had resumed normal gradually second 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 had resumed operations starting from March 2020 and all of the distributors and suppliers had resumed operations by early April of 2020.

As a result, COVID-19 pandemic had affected wholly the Group's sales revenue, supply chain and production and the Group's financial results in the first half of 2020 and the Group picked up slowly in the second half of 2020. Considering the unprecedented challenges and market uncertainty posed by the global health and economic crisis, the Group had taken immediate actions to preserve cash and strengthen its liquidity. The Group had closed down all self-operated stores in view of the tough business environment in the year of 2020.

The Group has been managing operating expenses and reducing its marketing and promotion cost sharply under the current tough economy and business environment. In addition, the Group has remained focused on further strengthening resilience of the business and ensuring the sustainability in the market during the year and going forward.

The Group will keep cautious to the ever changing situation in Mainland China going forward. Nevertheless, the outlook of the industry and business in the upcoming year is highly uncertain given the outbreak of the COVID-19 pandemic.

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.

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue

The 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.

The retail industry experienced a declining retail climate affected by the outbreak of COVID-19 pandemic in China and the world for the year of 2020. The Group's revenue was unavoidably affected by this challenging business environment despite a progressive relaxation of the one-child policy in Mainland China few years ago. Coupled with a slow-down of orders received from the distributors and self-operated stores, the Group's revenue recorded a decrease of about 30.3%, from approximately RMB166.0 million for FY2019 to approximately RMB115.8 million for FY2020.

Sales to distributors continued to account for the majority of the Group's revenue during FY2020. Sales to distributors were approximately RMB102.2 million for FY2020, representing approximately 88.3% of the Group's revenue, as compared to that of approximately RMB107.5 million or 64.7% for FY2019.

Sales from self-operated stores were approximately RMB13.6 million for FY2020, representing 11.7% of the Group's revenue, as compared to that of approximately RMB58.6 million or 35.3% for FY2019.

Sales from the apparel products segment continued to account for the majority of the Group's revenue during FY2020. Sales were approximately RMB115.2 million for FY2020, representing 99.5% of the Group's revenue, as compared to that of approximately RMB163.4 million or 98.4% for FY2019.

For the footwear and accessories segment, sales decreased from approximately RMB2.6 million for FY2019 to approximately RMB0.6 million for FY2020.

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

	FY2020	FY2019	**% change**
Sales volume *(million units)*	**3.6**	2.8	28.6
Average wholesale price *(RMB)*	**32**	59	(45.8)

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

	FY2020		FY2019		**% change**
	RMB'000	**%**	*RMB'000*	%	
Apparel	**115,234**	**99.5**	163,442	98.4	(29.5)
Footwear and Accessories	**551**	**0.5**	2,589	1.6	(78.7)
	115,785	**100.0**	166,031	100.0	(30.3)

The Company primarily market products through the extensive retail network in Mainland China.

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

	FY2020		FY2019		**% change**
	RMB'000	*%*	*RMB'000*	*%*	
Sales to distributors	**102,182**	**88.3**	107,460	64.7	(4.9)
Sales from self-operated stores	**13,603**	**11.7**	58,571	35.3	(76.8)
	115,785	**100.0**	166,031	100.0	(30.3)

Cost of Sales

The cost of sales decreased by approximately RMB29.4 million or approximately 21.5%, from approximately RMB136.6 million for FY2019 to approximately RMB107.2 million for FY2020. The decrease was generally in line with the decrease in turnover. During FY2020, the Company 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 65.0% for FY2020 as compared to that of approximately 60.0% for FY2019.

Gross Profit and Gross Profit Margin

As a result of the foregoing, the gross profit decreased by approximately RMB20.9 million or approximately 70.7%, from approximately RMB29.5 million for FY2019 to approximately RMB8.6 million for FY2020. Gross profit margin decreased by 10.3%, from 17.8% for FY2019 to 7.5% for FY2020.

Other Revenue

Other revenue primarily consisted of interest income from bank deposits of approximately RMB0.1 million (FY2019: approximately RMB0.1 million), rental and samples income of approximately RMB0.7 million (FY2019: approximately RMB0.9 million) and government grants approximately RMB0.1 million (FY2019: Nil).

Share of Results from an Associate

In FY2020, share of loss from an associate of the Group was approximately RMB0.8 million (FY2019: profit approximately RMB0.2 million).

Bad Debt Written off and Allowance for/(Reversal of allowance for) Expected Credit Loss on Trade Receivables

No bad debts written off in respect of trade receivables (FY2019: RMB31.0 million) was recorded.

Allowance for expected credit loss on trade receivables of approximately RMB9.7 million (FY2019: reversal of allowance for expected credit loss on trade receivable of approximately RMB9.3 million) are recorded resulting from the management of the Company taking into consideration of the current credit worthiness, the past collection history, the aged status and the prevailing market conditions. The Company will continue to conduct comprehensive review of the 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 and Intangible Assets

Due to the recession of consumable market in Mainland China, the retail outlets business had suffered an operating loss in FY 2019. The Directors believed that the recoverable amount of the CGU as at 31 December 2019 is lower than the carrying amount of the CGU. As such, impairment loss on goodwill of approximately RMB27.7 million and impairment loss on intangible assets of approximately RMB8.0 million were recognised in FY 2019. In FY 2020, no impairment loss are recognised for goodwill and intangible asset which allocated in retail outlets segment, as the goodwill and intangible asset of distribution channels were fully impaired and amortised. As the recoverable amounts of the computer software is higher than the carrying amount, no impairment loss on the computer software are recognised in the consolidated statement of profit or loss and other comprehensive income in FY 2020.

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 a decrease of approximately 75.3%, from approximately RMB138.0 million for FY2019 to approximately RMB34.0 million for FY2020. The decrease was resulted from a more stringent control on advertisement and marketing expenses under the current tight business environment.

As a percentage of turnover, selling and distribution expenses were 83.1% and 29.4% for FY2019 and FY2020 respectively.

Administrative and Other Operating Expenses

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

Administrative and other operating expenses were approximately RMB30.5 million for FY2020, representing a decrease of approximately RMB3.5 million or a decrease of approximately 10.3% as compared to approximately RMB34.0 million for FY2019.

As a percentage of turnover, administrative and other operating expenses were 20.5% and 26.3% for FY2019 and FY2020 respectively.

Finance Costs

Finance costs decreased by approximately RMB2.5 million, from approximately RMB7.5 million for FY2019 to approximately RMB5.0 million for FY2020.

Income Tax Expenses

No income tax expenses was recognised for FY2020 (FY2019: approximately RMB1.9 million). Currently, the principal subsidiaries of the Group in 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 FY2020 of approximately RMB78.2 million was recorded as compared to approximately RMB256.4 million for FY2019.

Working Capital Management

The Group possesses sufficient cash to meet liquidity requirements and for strategic alliances and acquisitions, if any. As of 31 December 2020, the cash and cash equivalents, and bank deposits totaled approximately RMB39.2 million (31 December 2019: approximately RMB32.1 million), representing more than 29.4% (31 December 2019: 16.0%) of the total amount of the current assets.

Current ratio and quick ratio were 1.6 times and 1.3 times, respectively, as at 31 December 2020, as compared to 2.6 times and 2.0 times, respectively, as at 31 December 2019.

Inventories

The inventories decreased by approximately RMB26.8 million, from approximately RMB49.9 million as of 31 December 2019 to approximately RMB23.1 million as at 31 December 2020. Inventories mainly comprised raw materials of approximately RMB1.4 million (31 December 2019: approximately RMB1.5 million), work in progress of approximately RMB2.1 million (31 December 2019: approximately RMB2.4 million) and finished goods of approximately RMB19.6 million (31 December 2019: approximately RMB46.0 million). The inventory turnover was 124 days for FY2020 (FY2019: 160 days).

Written down on inventories of RMB7.9 million (2019: RMB29.5 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 RMB8.8 million, from approximately RMB67.8 million as of 31 December 2019 to approximately RMB59.0 million as of 31 December 2020.

Trade receivables turnover was 200 days for FY2020 (FY2019: 228 days).

Allowance for expected credit loss on trade receivable, net of RMB9.7 million (2019: reversal of allowance for expected credit loss on trade receivable, net of RMB9.3 million) is recorded resulting from the management of the Company taking into consideration of the current credit worthiness, the past collection history, the aged status and the prevailing market conditions. The Group continue to conduct comprehensive review of the distributors' repayment histories, resources and financial capabilities to ensure that they are able to repay the debt within the credit period.

Trade Payables

Trade payables increased from approximately RMB3.9 million as of 31 December 2019 to approximately RMB3.7 million as of 31 December 2020. Trade payables turnover was 13 days for FY2020 (FY2019: 8 days).

LIQUIDITY AND FINANCIAL RESOURCES

The following table sets forth the cash flows for FY2020 and FY2019:

	FY2020	FY2019
	RMB'000	*RMB'000*
Net cash generated from operating activities	**2,289**	18,181
Net cash generated from investing activities	**5,079**	51,499
Net cash used in financing activities	**(464)**	(43,147)
Net increase in cash and cash equivalents	**6,904**	26,533
Cash and cash equivalents at 1 January	**32,102**	3,555
Effect of foreign exchange rate changes	**163**	2,014
Cash and cash equivalents at 31 December	**39,169**	32,102

The Group were in net cash position as of 31 December 2020, and the gearing ratio was 28.5% as of 31 December 2020 (31 December 2019: 19.4%).

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

The Group has a treasury policy that aims to better control its treasury operations and lower borrowing cost. The treasury policy requires the Group to maintain an adequate level of cash and cash equivalents, and sufficient available banking facilities to finance its daily operations and to address short-term funding needs. The Group reviews and evaluates the treasury policy from time to time to ensure its adequacy and effectiveness.

Except for operations of the Company and other investment holding companies outside Mainland China, the 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 the Group's exposure to currency risk insignificant.

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

CAPITAL STRUCTURE AND FUND RAISING ACTIVITIES

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

On 1 February 2021, 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**").

According to the Deed of Amendment, the Company, the Purchaser and the Subscriber have agreed that the maturity date of the Convertible Bonds shall be extended from 23 June 2021 to 23 June 2023.

For further details, please refer to the announcement of the Company dated 1 February 2021.

CAPITAL COMMITMENTS

As of 31 December 2020, no capital expenditure contracted but not provided for was recorded (31 December 2019: approximately RMB7.5 million).

CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as of 31 December 2020 and 2019.

PLEDGE OF ASSETS

As of 31 December 2020, pledged bank deposits, certain properties and lease prepayments totalled approximately RMB30.9 million (31 December 2019: approximately RMB57.4 million) were pledged for certain bank loans.

SIGNIFICANT INVESTMENTS AND MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

The Group made no significant investments, material acquisitions or disposal during the year ended 31 December 2020.

INVESTMENTS HELD IN FOREIGN CURRENCY AND HEDGING

For FY2020, 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 the 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. The emolument policy of the Group will be adjusted depending on a number of factors, including changes to the market practice and stages of the business development, so as to achieve the operational targets of the Group. As at 31 December 2020, the Company employed around 330 full-time employees. The total staff costs for FY2020 was approximately RMB26.1 million (FY2019: approximately RMB37.6 million).

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during FY2020.

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 FY2020, 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 (the "**CG Code**") set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"). During FY2020, 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. The Company consider that vesting the roles of both chairman and chief executive officer in Mr. Ding has the benefit of ensuring consistent leadership within the Group and enabling more effective and efficient overall strategic planning for the 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 the 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 FY2020, 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 FY2020.

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 the audited consolidated financial statements for FY2020 and the accounting principles and practices adopted, and discussed auditing, internal controls, and financial reporting matters with the management and the Company's auditors.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2020 (2019: Nil).

PUBLICATION OF ANNUAL RESULTS

This announcement of audited annual results is published on the website of the Company (www.redkids.com) and the website of the Stock Exchange (www.hkexnews.hk). The 2020 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 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
9 March 2021

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