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Cosmo Lady (China) Holdings Company Limited

都市麗人(中國)控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 2298)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED JUNE 30, 2014

FINANCIAL HIGHLIGHTS

	<i>Unit</i>	Six months ended June 30,		
		2014	2013	Change
Revenue	<i>RMB'000</i>	1,735,524	1,298,644	+33.6%
Operating profit	<i>RMB'000</i>	260,181	185,869	+40.0%
Operating profit (excluding listing expenses)	<i>RMB'000</i>	282,857	185,869	+52.2%
Income tax expenses	<i>RMB'000</i>	72,066	49,648	+45.2%
Profit attributable to equity holders of the Company	<i>RMB'000</i>	192,185	137,127	+40.2%
Gross profit margin	<i>%</i>	40.1%	36.2%	+10.8%
Operating profit margin	<i>%</i>	15.0%	14.3%	+4.9%
Operating profit margin (excluding listing expenses)	<i>%</i>	16.3%	14.3%	+14.0%
Profit margin attributable to equity holders of the Company	<i>%</i>	11.1%	10.6%	+4.7%
Earnings per share				
— basic	<i>RMB cents</i>	12.72	9.14	+39.2%
— diluted	<i>RMB cents</i>	12.72	9.14	+39.2%

INTERIM RESULTS

The board of directors (the “**Board**”) of Cosmo Lady (China) Holdings Company Limited (the “**Company**”) is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (the “**Group**”) for the six months ended June 30, 2014, together with comparative figures for the corresponding period of 2013 and selected explanatory notes, as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	<i>Note</i>	Six months ended June 30, 2014 Unaudited RMB'000	2013 Unaudited RMB'000
Revenue	4	1,735,524	1,298,644
Cost of sales	6	(1,038,891)	(829,013)
Gross profit		696,633	469,631
Selling and marketing expenses	6	(382,431)	(255,646)
General and administrative expenses	6	(87,723)	(52,135)
Other income	5	33,374	24,019
Other gains — net	5	328	—
Operating profit		260,181	185,869
Finance income		4,070	1,520
Finance costs		—	(614)
Finance income — net	7	4,070	906
Profit before income tax		264,251	186,775
Income tax expenses	8	(72,066)	(49,648)
Profit for the period		192,185	137,127
Other comprehensive loss			
Item that may be subsequently reclassified to profit or loss — Exchange difference		(32)	—
Total comprehensive income for the period		192,153	137,127
Profit attributable to: Equity holders of the Company		192,185	137,127
Total comprehensive income attributable to: Equity holders of the Company		192,153	137,127
Earnings per share attributable to equity holders of the Company during the period	9		
— basic		12.72	9.14
— diluted		12.72	9.14

CONDENSED CONSOLIDATED BALANCE SHEET

	<i>Note</i>	As at June 30, 2014 Unaudited RMB'000	As at December 31, 2013 Audited RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		213,016	198,723
Land use rights		80,174	72,289
Intangible assets		24,996	28,117
Deferred income tax assets		19,122	15,595
Deposits, prepayments and other receivables		15,904	19,949
Total non-current assets		353,212	334,673
Current assets			
Inventories		565,471	404,356
Trade receivables	11	241,476	170,609
Deposits, prepayments and other receivables		96,789	91,206
Restricted bank deposits		12,225	16,225
Cash and cash equivalents		1,365,413	290,027
Total current assets		2,281,374	972,423
Total assets		2,634,586	1,307,096
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital		117,320	–
Share premium		1,431,994	–
Other reserves		231,628	656,265
Retained earnings		223,477	31,292
Total equity		2,004,419	687,557
LIABILITIES			
Current liabilities			
Trade payables	12	364,902	219,300
Accruals and other payables		231,534	189,286
Dividends payable		–	200,000
Current income tax liabilities		33,731	10,953
Total current liabilities		630,167	619,539
Total liabilities		630,167	619,539
Total equity and liabilities		2,634,586	1,307,096
Net current assets		1,651,207	352,884
Total assets less current liabilities		2,004,419	687,557

NOTES

1 General information

Cosmo Lady (China) Holdings Company Limited (the “**Company**”) was incorporated in the Cayman Islands on January 28, 2014 as an exempted company with limited liability under the Companies Law (2010 Revision) of the Cayman Islands. The address of the Company’s registered office is Clifton House, 75 Fort Street, P.O. Box 1350, Grand Cayman, KY-1108, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries (the “**Group**”) are principally engaged in the designing, marketing and selling of intimate wear products in the People’s Republic of China (the “**PRC**”). The Company’s ordinary shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (“**Stock Exchange**”) on June 26, 2014.

The condensed consolidated interim financial information for the six months ended June 30, 2014 of the Company is presented in Renminbi (“**RMB**”), unless otherwise stated. The condensed consolidated interim financial information is unaudited but has been reviewed by the audit committee of the Company and approved for issue by the Board of the Company on August 5, 2014.

2 Basis of preparation

The condensed consolidated interim financial information for the six months ended June 30, 2014 has been prepared in accordance with International Accounting Standard (“**IAS**”) 34, “Interim financial reporting”. The condensed consolidated interim financial information should be read in conjunction with the financial statements of the Group for the year ended December 31, 2013 as set out in the prospectus of the Company dated June 16, 2014, which have been prepared in accordance with International Financial Reporting Standards (“**IFRS**”).

2.1 Accounting policies

Except as described below, the accounting policies applied are consistent with those adopted in the financial statements of the Group for the year ended December 31, 2013.

(a) New and amended standards and interpretations adopted by the Group

The following new and amended standards and interpretations are mandatory for accounting periods beginning on or after January 1, 2014.

IAS 32 (Amendment)	Financial instruments: presentation – offsetting financial assets and financial liabilities
Amendments to IFRS 10, 12 and IAS 27	Investment entities
IAS 36 (Amendment)	Recoverable amount disclosures for non-financial assets
IFRIC – Int 21	Levies
IAS 39 (Amendment)	Novation of derivatives

The adoption of these new and amended standards and interpretations does not have any material effect on the Group’s operating results or financial position.

(b) New standards and amendments to standards that have been issued but are not yet effective

The following new standards and amendments to standards have been issued but are not effective for the period and have not been early adopted by the Group:

IFRSs (amendment)	Annual improvements to IFRSs 2010-2012 cycle ⁽¹⁾
IFRSs (amendment)	Improvements to IFRSs 2011-2013 cycle ⁽¹⁾
IFRS 7 (amendment)	Mandatory effective date of IFRS 9 and transition disclosures ⁽⁴⁾
IFRS 9	Financial instruments ⁽⁴⁾
Additions to IFRS 9	Financial instruments – financial liabilities ⁽⁴⁾
IFRS 14	Regulatory deferral accounts ⁽²⁾
IFRS 15	Revenue from contracts with customers ⁽³⁾
IAS 19 (amendment)	Defined benefit plans: employee contribution ⁽¹⁾

⁽¹⁾ Effective for the Group for annual period beginning on January 1, 2015.

⁽²⁾ Effective for the Group for annual period beginning on January 1, 2016.

⁽³⁾ Effective for the Group for annual period beginning on January 1, 2017.

⁽⁴⁾ Effective date to be determined.

The Group is in the process of making an assessment on the impact of these standards, amendments and interpretations on the consolidated financial statements of the Group in the initial application.

(c) Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

(d) Other service income is recognised when the services are rendered.

2.2 Estimates

The preparation of interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing the condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial statements of the Group for the year ended December 31, 2013.

3 Segment information

The Group operates as a single operating segment. The single operating segment is reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segment, has been identified as the executive directors that makes strategic decisions.

The Group is principally engaged in the designing, marketing and selling of intimate wear products. All of its revenues are derived in the PRC for the six months ended June 30, 2014.

None of the revenue derived from any single external customer amounted to more than 10% of the Group's revenue for the six months ended June 30, 2014.

4 Revenue

	Six months ended June 30,	
	2014	2013
	RMB'000	RMB'000
Sales to franchisees	1,152,120	1,065,593
Retail sales	583,404	233,051
	<u>1,735,524</u>	<u>1,298,644</u>

5 Other income and other gains — net

	Six months ended June 30,	
	2014	2013
	RMB'000	RMB'000
Other income:		
Franchise fee income	1,797	1,606
Software usage fee income	2,011	3,068
Government grants	14,872	17,540
Other services income	11,813	15
Others	2,881	1,790
	<u>33,374</u>	<u>24,019</u>
Other gains — net:		
Net foreign exchange gain	457	—
Loss on disposal of property, plant and equipment — net	(129)	—
	<u>328</u>	<u>—</u>

6 Expenses by nature

	Six months ended June 30,	
	2014	2013
	RMB'000	RMB'000
Costs of inventories recognized in cost of sales	992,047	807,883
Employee benefit expenses (including directors' emoluments)	121,921	114,351
Operating lease rentals in respect of land and buildings	60,575	85,084
Concessionaire fee in respect of outlets under cooperative arrangement	187,190	—
Listing expenses	22,676	—
Depreciation and amortization	17,215	13,464
Write-down of inventories	23,660	6,478
Net (write-back of provision) / provision for impairment of trade receivables	(577)	1,440
Miscellaneous	84,338	108,094
	<u>1,509,045</u>	<u>1,136,794</u>
Total cost of sales, selling and marketing expenses and general and administrative expenses	1,509,045	1,136,794

7 Finance income — net

	Six months ended June 30,	
	2014	2013
	RMB'000	RMB'000
Finance income		
Interest income on short-term bank deposits	2,356	291
Interest income on available-for-sale financial assets	1,714	1,229
	4,070	1,520
Finance costs		
Interest expense on bank borrowings, wholly repayable within five years	—	(614)
Finance income — net	4,070	906

8 Income tax expenses

	Six months ended June 30,	
	2014	2013
	RMB'000	RMB'000
Current income tax — PRC corporate income tax	75,593	60,811
Deferred income tax	(3,527)	(11,163)
	72,066	49,648

(a) PRC corporate income tax

The income tax provision of the Group's subsidiaries in the PRC was calculated at the tax rate of 25% on the estimated assessable profits for the period, based on the existing legislation, interpretations and practices in respect thereof.

(b) Hong Kong profits tax

No provision for Hong Kong profits tax has been made in the condensed consolidated interim financial information, as the Group did not have assessable profit in Hong Kong for the period.

(c) Overseas income tax

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law, Cap 22 of the Cayman Islands and accordingly, is exempted from Cayman Islands income tax. The Company's direct subsidiary in the British Virgin Island (the "BVI") was incorporated under the International Business Companies Act of the BVI and, accordingly, is exempted from BVI income tax.

9 Earnings per share

Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the periods.

	Six months ended June 30,	
	2014	2013
Profit for the period attributable to equity holders of the Company (RMB'000)	192,185	137,127
Weighted average number of ordinary shares for the purposes of basic earnings per share (<i>thousands of share</i>)	1,511,228	1,500,000
Basic earnings per share (<i>RMB cents per share</i>)	12.72	9.14

Note:

The weighted average number of ordinary shares for the purposes of basic earnings per share for the six months ended June 30, 2014 and 2013 has been retrospectively adjusted for the effects of the capitalization of the ordinary shares which took place on June 26, 2014.

Diluted

Diluted earnings per share is the same as the basic earnings per share as there were no potential dilutive ordinary shares outstanding during the periods.

10 Dividends

The Board does not recommend the payment of interim dividend to shareholders of the Company for the six months ended June 30, 2014.

11 Trade receivables

	As at June 30, 2014 RMB'000	As at December 31, 2013 RMB'000
Trade receivables	243,564	173,275
Less: provision for impairment	(2,088)	(2,666)
	241,476	170,609

As at June 30, 2014 and December 31, 2013, the fair values of the trade receivables of the Group approximate their carrying amounts.

As at June 30, 2014 and December 31, 2013, the carrying amounts of the Group's trade receivables are all denominated in RMB.

The Group's trade receivables are primarily derived from sales to certain franchise customers with an appropriate credit history. The Group generally grants franchise customers with a credit period of 60 to 90 days from the invoice date for seasonal products. The Group also gives franchise customers a credit period of 180 to 360 days for their first order of products for new outlets. The ageing analysis of trade receivables based on invoice date, as at June 30, 2014, and December 31, 2013 is as follows:

	As at June 30, 2014 <i>RMB'000</i>	As at December 31, 2013 <i>RMB'000</i>
Trade receivables, gross		
— Within 30 days	121,319	123,513
— Over 30 days and within 60 days	53,365	32,751
— Over 60 days and within 90 days	31,749	7,483
— Over 90 days and within 180 days	35,227	8,457
— Over 180 days and within 360 days	1,163	636
— Over 360 days	741	435
	243,564	173,275

12 Trade payables

	As at June 30, 2014 <i>RMB'000</i>	As at December 31, 2013 <i>RMB'000</i>
Due to related parties	14,602	12,108
Due to third parties	350,300	207,192
	364,902	219,300

As at June 30, 2014 and December 31, 2013, trade payables of the Group were non-interest bearing, and their fair values approximate their carrying amounts due to their short maturities.

As at June 30, 2014 and December 31, 2013, trade payables are denominated in RMB.

The ageing analysis of the trade payables based on invoice date is as follows:

	As at June 30, 2014 <i>RMB'000</i>	As at December 31, 2013 <i>RMB'000</i>
Trade payables		
— Within 30 days	126,569	51,580
— Over 30 days and within 60 days	115,855	69,172
— Over 60 days and within 90 days	78,789	51,663
— Over 90 days and within 180 days	35,473	35,913
— Over 180 days and within 360 days	5,848	10,565
— Over 360 days	2,368	407
	364,902	219,300

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

During the first half of 2014, the economy of China achieved stable growth thanks to a series of macro stabilizing measures which provide support to economic reforms and structural adjustments. According to the preliminary accounting results of the gross domestic product for the first half of 2014 published by the National Bureau of Statistics of China, the nation's gross domestic product grew by 7.4% for the first half of 2014, indicating a moderate growth rate compared with 7.6% for the same period of 2013. With the subdued momentum of China's economy, the total retail sales of consumer goods reached RMB12.4 trillion for the six months ended June 30, 2014, with a moderate growth rate of 12.1%, representing a drop of 0.6% compared with the same period of 2013, which is largely due to the pressure of overall economic slowdown.

While the retail industry remained relatively stagnant, China's intimate wear market managed to sustain its stable growth rate. According to Frost & Sullivan, the intimate wear industry in China is at the growth period where consumer demand continues to grow steadily. The stable growth of the intimate wear market is mainly due to its relatively anti-cyclical nature and strong resilience of its products as a close necessity.

Thanks to the continual growth of China's intimate wear market, for the six months ended June 30, 2014, the Group's revenue grew by 33.6% over the same period of 2013 to RMB1,735,524,000, and the Group recorded a healthy single-digit same store sales growth. Profit attributable to equity holders of the Company increased by 40.2% to RMB192,185,000. Earnings per share reached RMB12.72 cents (2013: RMB9.14 cents), representing a year-on-year increase of 39.2%.

BUSINESS REVIEW

The Group, which had a market share of 2.8% in the intimate wear industry of China in 2013, is the largest branded intimate wear enterprise in China in terms of both total retail sales in 2013 and the number of retail outlets as of December 31, 2013, according to Frost & Sullivan. The Group seizes opportunities arising from the growing intimate wear industry in China and actively broadens its retail network in order to continue to reach growth prospects. With a strategic focus on the mass market of the intimate wear industry in China, which is the largest market sub-segment in the intimate wear industry, the Group believes it is able to capture high growth potential in the intimate wear industry in order to consolidate its leadership in the industry and hope to achieve a larger market share.

Retail Network

The Group is optimistic about the growth potential of the intimate wear industry and has continued to progressively expand and optimize its retail network to achieve steady business growth in China. The Group adopts a robust business model that directly controls its retail network, ensuring that all franchised outlets are managed in substantially the same way as its self-managed outlets, without distributors or multiple layers of franchisees. As of June 30, 2014, the Group's retail network encompassed 6,272 outlets in more than 330 prefecture-level cities in all provinces as well as municipalities and autonomous regions in China, among which 5,439 were franchised outlets and 833 were self-managed outlets.

The Group reported a net increase of 370 franchised outlets and 112 self-managed outlets nationwide for the six months ended June 30, 2014. The highest proportion of expansion took place in Northern China and Southwestern China, the regions where the market penetration levels of the Group are still relatively low compared to other regions in China. The Group will further strengthen its market-leading position in the intimate wear industry in China through expanding its retail network nationwide, especially in regions with lower market presence and market penetration (mainly third and fourth tier cities and counties).

As part of the newly implemented strategic initiatives, the Group launched its e-commerce platform (www.cosmolady-park.com*) in February 2014 to expand its customer network. Starting from the second quarter of 2014, the Group also utilized a variety of major online sales platforms, such as Tmall.com, JD.com, YHD.com and JUMEI.com to broaden its online sales network and enhance the integration of its online and offline sales channels. As of June 30, 2014, the Group has accumulated approximately 27 million members through its membership program. The Group will continue to make good use of its vast and loyal customer base to further develop its e-commerce business.

Brand and Product Portfolio

The Group believes that in recent years, consumers' fashion awareness has increased significantly and affordable mass market fashion brands have become more popular in the apparel industry in China. Therefore, consumers tend to be more brand conscious in choosing intimate wear products. The Group believes that its well-respected brand names, high value-for-money products and fashionable product design enable it to build up a strong brand loyalty among its consumers.

As brand recognition has continuously contributed significantly to the success of its business, the Group markets and sells its products through the existing brand portfolio, comprising the core brand Cosmo Lady (都市・儷人) and three sub-brands, namely Cosmo Elegance (都市・絲語), Cosmo Blossom (都市・繽紛派) and Cosmo Esquire (都市・鋒尚). The Group intends to broaden its brand portfolio and product offerings by introducing new brands in order to seize additional business opportunities in China's growing intimate wear market.

During the six months ended June 30, 2014, the Group diversified its brand portfolio by introducing new brands and sub-brands. In addition, the Group expanded product offerings by introducing new product categories. A new brand, Secret of Cosmo Lady (都市麗人的秘密) was launched, offering more unique features with premium materials at a price range of RMB150 to RMB350. Secret of Cosmo Lady (都市麗人的秘密) products are currently being sold in more than 500 outlets across China. In addition, the Group has expanded the product range and sales network of men's intimate wear products and doubled its sales of men's intimate wear products for the six months ended June 30, 2014 compared with the same period of 2013. The Group also plans to launch intimate wear products for juvenile and kids in the fourth quarter of 2014, which is now in the advanced stage of the research and development process.

* The content of this website does not form part of this announcement.

Brand Promotion and Marketing

The Group has promoted and invested in its brands and products to further increase brand awareness and acceptance. The Group's image spokespersons, Ms. Lin Chi-ling (林志玲小姐) and Mr. Huang Xiaoming (黃曉明先生), actively promoted the brands and products through a wide array of marketing campaigns to heighten brand awareness and elevate the corporate image of the Group. In addition, a grand 2014–2015 annual product launch and fashion show was held in April 2014 to showcase the quality products of the Group and the latest fashion trends in the intimate wear industry. The Group also launched a series of TV commercials, paper-prints and online media advertisements to increase brand awareness and enrich brand values.

Retail and Supply Chain Management

During the six months ended June 30, 2014, the Group has continued to focus on the major aspects of retail and supply chain management, including network and channel management, retail operations management, product design, production planning, inventory control and logistics management.

The Group has adopted a flattened distribution model without distributors or multiple layers of franchisees, and exercised direct control over its franchised outlets and self-managed outlets to monitor the inventory level and sales on a timely basis. Each outlet is equipped with the information technology system, including point of sales terminals and the real-time ordering system, which are directly connected to the centralized system at the headquarters of the Group. The data collected from the outlets are compiled and analyzed at the headquarters on a daily basis so that the Group can better understand the market, optimize production planning, exercise inventory control across the retail network and respond quickly to the rapidly changing market. The Group is currently in the process of implementing its upgraded inventory system software to enable automatic stock replenishment monitoring in the outlets; once completed, each of the outlets will be able to automatically calculate a safe inventory level based on current stock, sales and product life cycle data and provide alerts whenever stock volumes fall under the prescribed levels.

The Group exercises a high degree of control over all key aspects of its business operations to ensure that all products are directly delivered to franchised outlets and self-managed outlets from the regional logistics centers. During the six months ended June 30, 2014, the Group continued to enhance its supply chain and logistics management capabilities in order to maintain its competitive position. The Group is currently in the process of implementing a supply chain information system under which the system of the OEM suppliers of the Group will be linked with the centralized system of the Group to share production and procurement information. The Group also plans to further upgrade its supply chain information system to connect with the system of the designated raw material suppliers of the Group in order to optimize product replenishment, shipment coordination and inventory and quality control. It is expected that this can reduce total supply chain costs and enhance gross and operating profits of the Group.

Product Design, Research and Development

During the six months ended June 30, 2014, the Group has continued to elevate its product design and development capabilities and broaden its product portfolio. Supported by its dynamic product design and development capabilities, the Group has continuously delivered popular new products to the market. During the first half of 2014, the Group launched a new brand, Secret of Cosmo Lady (都市麗人的秘密) and a variety of well-received bra series with unique designs and special features, including “Beloved Series” (“摯愛臻選系列”), which features different types of cups that aim to solve a series of particular fitting; “Peach Series” (“大蜜桃系列”), which targets voluptuous ladies; “Origin of Smooth Skin Series” (“悅膚之源系列”), which uses environmentally friendly fabrics and focuses on skin comfort; “Premium Series” (“尚品系列”), which offers the feeling of lightness and carefree; and “Wisecool Series” (“Wisecool系列”), which creates a refreshing experience. The new sleepwear and loungewear series include “Comfy Series” (“悠客良品系列”), “Origin of Smooth Skin Series” (“悅膚之源系列”), “Skin Friendly Series” (“健康親膚系列”), “Wisecool Series” (“Wisecool系列”) and “Vogue Series” (“時尚系列”).

The Group employs a committed product design, research and development team for each of its major product categories. As of June 30, 2014, the in-house design, research and development team comprised approximately 65 designers and design assistants. Up to date, the Group had a total of 34 issued patents in China, including 8 exterior design patents and 26 utility model patents. In order to accurately grasp market trends and opportunities, the Group plans to continuously strengthen its existing research and development capabilities by establishing an additional design, research and development center, investing in a new computerized design system and other equipment, and recruiting talented industry-leading designers to reinforce the existing design team.

The quality control center of the Group devoted significant resources to quality management and strengthened quality control in all aspects of the Group’s business operations, from sourcing of raw materials, production, inventory management, packaging to product delivery. In addition, the principal operating subsidiary of the Group in China has obtained ISO9001 International Quality Management System, ISO14001 Environmental Management System and OHSAS18001 Occupational Health and Safety Management System certification in June 2014.

Corporate Social Responsibility and Awards

The Group placed special emphasis on its ‘corporate citizenship’ and steadfastly allocated time and financial support to various social welfare initiatives that benefited employees, customers, and the community at large. During the six months ended June 30, 2014, the Group has been consistently making donations to a number of charitable organizations and causes, including “Zhongshan Fraternity Fund” (“中山博愛基金”), “Guangdong Youth Development Foundation” (“廣東省青少年發展基金會”) and “Fujian Youth Entrepreneurship Support Fund in Shenzhen” (“深圳市新閩青年服務中心青年創業幫扶基金”).

The Group garnered a number of noteworthy awards for its achievements in business operations as well as its contributions to charities and social responsibility activities during the six months ended June 30, 2014. The Group was honored to receive the following accolades: “2013 Guangdong Outstanding Chain Brand” (“2013廣東傑出連鎖品牌”) from the Guangdong Honorable Business Promotion Society (“廣東省光彩事業促進會”) and “Honorary Plaque for the Charity Activity ‘Great Love Has Borders’” (“「大愛有疆」公益活動榮譽牌匾”) from the Xinjiang Supportive Executive Team in Guangdong (“廣東省對口支持新疆工作隊”).

FINANCIAL REVIEW

Revenue

The Group’s revenue is derived from sales of products, either to the franchisees or to consumers through self-managed outlets.

The total revenue increased by 33.6% from RMB1,298,644,000 for the six months ended June 30, 2013 to RMB1,735,524,000 for the six months ended June 30, 2014. The increase was mainly attributable to the increase in the volume of products sold as a result of the increased number of the franchised and self-managed outlets, as well as the improved performance of the franchised and self-managed outlets.

Revenue by sales channel

The products of the Group are sold to consumers through an extensive network of 6,272 outlets including 5,439 franchised outlets and 833 self-managed outlets in more than 330 prefecture-level cities across China as of June 30, 2014. The following table sets out a breakdown of the total revenue by sales channel, each expressed in the absolute amount and as a percentage of the total revenue, for the periods indicated.

	Six months ended June 30,			
	2014		2013	
	<i>RMB’000</i>	<i>%</i>	<i>RMB’000</i>	<i>%</i>
Sales to franchisees	1,152,120	66.4	1,065,593	82.1
Retail sales	583,404	33.6	233,051	17.9
Total revenue	<u>1,735,524</u>	<u>100.0</u>	<u>1,298,644</u>	<u>100.0</u>

Revenue by types of products

The Group's revenue is generated from five major lines of intimate wear products: bras, underpants, sleepwear and loungewear, thermal clothes and others. The following table sets out a breakdown of the total revenue by product category, each expressed in the absolute amount and as a percentage of the total revenue, for the periods indicated.

	Six months ended June 30,			
	2014		2013	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
Bras	882,617	50.9	726,071	55.9
Underpants	287,793	16.6	188,844	14.6
Sleepwear and loungewear	303,859	17.5	244,508	18.8
Thermal clothes	71,351	4.1	24,753	1.9
Others ⁽¹⁾	189,904	10.9	114,468	8.8
Total revenue	<u>1,735,524</u>	<u>100.0</u>	<u>1,298,644</u>	<u>100.0</u>

Note:

⁽¹⁾ Includes leggings and tights, vests, hosiery and accessories.

Revenue by geographic location

In order to facilitate sales and optimize decision-making, the Group manages its nationwide retail network across four sales regions, namely Southern China, Eastern China, South-Western China and Northern China, which report individually to the headquarters. The following table sets out a breakdown of the total revenue by geographic region, each expressed in the absolute amount and as a percentage of the total revenue, for the periods indicated.

	Six months ended June 30,			
	2014		2013	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
Southern China ⁽¹⁾	800,146	46.1	608,680	46.9
Eastern China ⁽²⁾	355,247	20.5	304,075	23.4
South-Western China ⁽³⁾	336,703	19.4	246,750	19.0
Northern China ⁽⁴⁾	243,428	14.0	139,139	10.7
Total revenue	<u>1,735,524</u>	<u>100.0</u>	<u>1,298,644</u>	<u>100.0</u>

Notes:

- (1) Southern China includes Guangdong, Fujian, Hubei, Hunan, Guangxi, Jiangxi and Hainan;
- (2) Eastern China includes Shanghai, Jiangsu, Zhejiang, Anhui, Shandong and Henan;
- (3) South-Western China includes Sichuan, Chongqing, Shanxi, Gansu, Qinghai, Yunnan, Guizhou, Tibet, Xinjiang and Ningxia; and
- (4) Northern China includes Heilongjiang, Jilin, Liaoning, Beijing, Inner Mongolia, Hebei, Tianjin and Shanxi.

Southern China and Eastern China have been the two largest regional markets, which in aggregate contributed approximately 66.6% and 70.3% of the total turnover for the six months ended June 30, 2014 and 2013, respectively. The aggregate revenue contributed by Southern China and Eastern China as a percentage of the total revenue decreased during the six months ended June 30, 2014 compared with the same period of 2013, because sales in Northern China and South-Western China increased significantly by 75.0% and 36.5%, respectively, over the same periods indicated.

Cost of Sales

Cost of sales primarily consists of costs of inventories recognized in cost of sales, employee benefit expenses, government charges and levies, write-down of inventories, and others.

Costs of sales in the absolute amount increased by 25.3% during the six months ended June 30, 2014 compared with the same period of 2013, because of business expansion. The table below sets forth a breakdown of cost of sales, each expressed in the absolute amount and as a percentage of the total cost of sales, for the periods indicated.

	Six months ended June 30,			
	2014		2013	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
Cost of inventories recognized				
in cost of sales	992,047	95.5	807,883	97.5
Employee benefit expenses	13,284	1.3	9,593	1.2
Taxes and levies	9,706	0.9	4,845	0.6
Write-down of inventories	23,660	2.3	6,478	0.7
Others	194	0.0	214	0.0
Total cost of sales	<u>1,038,891</u>	<u>100.0</u>	<u>829,013</u>	<u>100.0</u>

Gross Profit and Gross Profit Margin

During the six months ended June 30, 2014, the Group recorded a gross profit of RMB696,633,000, representing an increase of 48.3% over the same period of 2013.

The gross profit margin of the Group increased from 36.2% for the six months ended June 30, 2013 to 40.1% for the six months ended June 30, 2014. The increase in gross profit margin of the Group was primarily due to the continuous improvement of the channel and product mix, the further integration of the industry supply chain and the enhancement of economies of scale.

Selling and Marketing Expenses

Selling and marketing expenses primarily consist of employee benefit expenses, operating lease rentals in respect of land and buildings, concession fees, marketing and promotion expenses, consumables recognized in expenses, depreciation and amortization, and others. The equity-settled share-based compensation included in employee benefit expenses for the six months ended June 30, 2014 is RMB1,302,000 (2013: RMB881,000).

Selling and marketing expenses increased by 49.6% from RMB255,646,000 for the six months ended June 30, 2013 to RMB382,431,000 for the six months ended June 30, 2014. The increase was primarily attributable to the increase in the number of the self-managed outlets from 356 as of June 30, 2013 to 833 as of June 30, 2014 such that the aggregate of employee benefit expenses, operating lease rentals in respect of land and buildings, concession fees increased significantly during the periods indicated.

General and Administrative Expenses

General and administrative expenses primarily consist of employee benefit expenses, government charges and levies, consulting service fees, listing expenses, depreciation and amortization, and others. The equity-settled share-based compensation included in employee benefit expenses for the six months ended June 30, 2014 is RMB3,031,000 (2013: RMB1,087,000).

General and administrative expenses increased by 68.3% from RMB52,135,000 for the six months ended June 30, 2013 to RMB87,723,000 for the six months ended June 30, 2014. The increase was primarily attributable to the listing expenses of RMB22,676,000 incurred during the six months ended June 30, 2014 while there were no such expenses incurred for the six months ended June 30, 2013. If excluding the listing expenses, the general and administrative expenses of the Group only increased by 24.8% during the periods indicated.

Other Income

Other income consists of franchise fee income, software usage income, government grants and others.

Other Gains — Net

Other net gains consist of net loss on disposal of property, plant and equipment, and net foreign exchange gains.

Finance Income — Net

Net finance income represents interest income derived from available-for-sale financial assets and short-term bank deposits, offset by finance costs. We had net finance income of RMB4,070,000 and RMB906,000 for the six months ended June 30, 2014 and 2013, respectively.

Income Tax Expenses

Income tax expense primarily represents income tax payable by the Group under relevant PRC income tax rules and regulations. Income tax expense consists of current income tax and deferred income tax. Current income tax consists of PRC enterprise income tax at a rate of 25% that the PRC subsidiaries of the Group pay on their taxable income. Deferred income tax is recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. Income tax expenses increased from RMB49,648,000 for the six months ended June 30, 2013 to RMB72,066,000 for the six months ended June 30, 2014. The increase in income tax expenses was primarily due to an increase in taxable income. The effective tax rate of the Group for the six months ended June 30, 2013 and 2014 was 26.6% and 27.3%, respectively, all of which were higher than the PRC statutory income tax rate of 25% primarily attributable to the tax effect of expenses not deductible for tax purpose. As of June 30, 2014, the Group had fulfilled all its tax obligations and did not have any unresolved tax disputes.

WORKING CAPITAL MANAGEMENT

	As of	
	June 30, 2014	December 31, 2013
Inventory turnover days	85.2	72.3
Trade receivables turnover days	21.7	22.0
Trade payables turnover days	51.3	45.1

The increase in inventory turnover days by 12.9 days was primarily due to the 39.8% increase in inventory balance from RMB404,356,000 as of December 31, 2013 to RMB565,471,000 as of June 30, 2014, arising from the increased proportion of sales through the self-managed outlets.

Trade receivables turnover days were relatively stable for the periods indicated, which stood at around 22 days, mainly due to the policies that require franchisees to make payments prior to the product delivery.

Trade received turnover days increased from 45.1 days for the six months ended June 30, 2013 to 51.3 days for the six months ended June 30, 2014 primarily because of the increased bargaining power against the suppliers.

LIQUIDITY AND FINANCIAL RESOURCES

The Group maintains a strong and healthy balance sheet. As of June 30, 2014, net working capital was RMB1,651,207,000, representing an increase of 367.9% or RMB1,298,323,000 as compared with December 31, 2013. As of June 30, 2014, current ratio was 3.6 times (December 31, 2013: 1.6 times) (Current ratio is calculated by using the following formula: Current Assets/Current Liabilities).

Net cash generated from operations increased by RMB29,780,000 to RMB137,534,000 for the six months ended June 30, 2014 from RMB107,754,000 for the six months ended June 30, 2013.

Net cash used in investing activities for the six months ended June 30, 2014 was RMB29,723,000 (2013: RMB16,011,000). During the six months ended June 30, 2014, the Group invested RMB25,050,000, RMB7,719,000 and RMB1,028,000 on payments and deposits for purchases of property, plant and equipment (including retail outlets' decorations), land use rights, and intangible assets.

During the six months ended June 30, 2014, net cash generated from financing activities was RMB967,575,000 (2013: net cash used in financing activities RMB654,000), mainly attributable to the net proceeds from the initial public offering of RMB1,130,051,000, partly offset by the payment of dividends to the then equity holders of RMB163,538,000.

As of June 30, 2014, the Group was in a net cash position of RMB1,365,413,000 (December 31, 2013: RMB290,027,000).

CAPITAL EXPENDITURES

Capital expenditures increased from RMB16,656,000 for the six months ended June 30, 2013 to RMB36,405,000 for the six months ended June 30, 2014. Capital expenditures were used primarily for (i) construction expenditure of Dongguan Fumin Industrial Park to establish an additional regional logistics center as well as purchase of a warehouse in Dongguan, (ii) purchases of two parcels of land in Tianjin and Chongqing for the regional logistics centers, and (iii) additions to property, plant and equipment for the newly opened self-managed outlets.

PLEDGE OF ASSETS

As of June 30, 2014, no property, plant and equipment, and land use rights were pledged as security for banking facilities available to the Group.

CONTINGENT LIABILITIES

As of June 30, 2014, the Group did not have any significant contingent liabilities.

FINANCIAL RISK MANAGEMENT

Foreign Exchange Risk

The Group manages its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposures and may enter into certain forward foreign exchange contracts, when necessary, to manage its exposure against foreign currencies and to mitigate the impact on exchange rate fluctuations. During the six months ended June 30, 2014, no forward foreign exchange contracts had been entered into by the Group.

The Group operates in the PRC with most of the Group's transactions denominated and settled in RMB. The Group's assets and liabilities, and transactions arising from its operations do not expose the Group to material foreign exchange risk as the Group's assets and liabilities as at June 30, 2014 and December 31, 2013 were denominated in the respective group companies' functional currencies.

Cash Flow and Fair Value Interest Rate Risk

As the Group has no significant interest-bearing assets (other than restricted bank deposits and cash and cash equivalents), the Group's income and operating cash flows are substantially independent of changes in market interest rates.

Credit Risk

The Group has no significant concentrations of credit risk. The carrying amounts of trade receivables, deposits and other receivables, cash and cash equivalents and restricted cash with banks included in the consolidated balance sheets represent the maximum exposure to credit risk in relation to the Group's financial assets. The Group has policies in place to ensure credit terms are only granted to franchisees with an appropriate credit history, and credit evaluations on them were performed periodically, taking into account their financial position, past experience and other factors. For customers to whom no credit terms were offered, the Group generally require them to pay deposits and/or advances prior to delivery of products. The Group typically does not require collaterals from customers. Provisions are made for the balance that is past due when the management considers the loss from non-performance by the customers is likely. Sales to retail customers are settled in cash or using major credit cards. The Group also makes deposits to the relevant landlords for lease of certain of the self-managed outlets. The management does not expect to incur any loss from non-performance by these counterparties.

As of June 30, 2014 and December 31, 2013, all of the bank balances and restricted bank deposits were deposited with highly reputable and sizable banks and financial institutions without significant credit risk in the PRC and Hong Kong. The management does not expect to incur any loss from non-performance by these banks and financial institutions. As of June 30, 2014 and December 31, 2013, the Group held bank balances and restricted bank deposits totaling RMB1,377,638,000, and RMB306,252,000, respectively, with the four major state-owned banks of the PRC.

Liquidity Risk

The liquidity position is monitored closely by the management. The Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance its operations and mitigate the effects of fluctuations in cash flows.

USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING

The Company's ordinary shares were listed on the Main Board of the Stock Exchange on June 26, 2014. The total net proceeds from the initial public offering amounted to approximately HK\$1,463 million (equivalent to approximately RMB1,162 million). As of June 30, 2014, the Company did not use any of the proceeds from the initial public offering, and all the proceeds were deposited in a licensed bank in Hong Kong. The Group plans to allocate part of the net proceeds to strengthen its industry-leading position by expanding the retail network, establishing the regional logistics centers, selectively pursuing acquisitions of businesses, brands or products and further developing strategic alliances. Furthermore, the Group also plans to use part of the net proceeds to establish an additional design, research and development center and upgrade the information technology infrastructure.

HUMAN RESOURCES

The Group employed a total of approximately 4,400 full-time employees as of June 30, 2014.

The Group believes its human resources are its valuable assets and maintains its firm commitment to attracting, developing and retaining talented employees, in addition to providing dynamic career opportunities and cultivating a favorable working environment. The Group constantly invests in training across diverse operational functions and offer competitive remuneration packages and incentives to all employees. The Group regularly reviews its human resources policies for addressing corporate development needs.

INTERIM DIVIDEND

The Board does not recommend the payment of interim dividend to shareholders of the Company for the six months ended June 30, 2014.

OUTLOOK AND STRATEGY

While uncertainties remain, the global economy is expected to find its footing as 2014 progresses. It is also expected that China will achieve healthy economic development for the year resulting from the central government's macro stabilizing measures which aim to stimulate the market, increase public goods supplies and support economic development. It is expected that China's increasing urban population and urbanization, as well as ongoing improvements in household disposable income and living standards will boost consumer spending and also lead to gradual growth in the retail industry. The increasing popularity of the mass market fashion concept and the appreciation of product function and quality by customers are expected to further drive the retail sales growth of the intimate wear industry, especially the mass market. It is believed that these encouraging developments will drive the Group's future business expansion and revenue growth.

In the second half of 2014, the Group aims to reinforce its industry-leading position as the largest branded intimate wear enterprise in China and further enhance its brand awareness in order to increase its market share. While the Group continues to fortify the existing retail network, it will also increase its geographic coverage and deepen its market penetration by establishing additional outlets in regions with relatively lower market presence. In addition, the Group will continue to maintain a healthy same store sales growth and improve single store sales.

The Group will continue to enhance its product offerings as well as product design and development capabilities in order to keep pace with the latest market trends. Applying its branding strategy, the Group will continue to proactively expand product portfolio through launching more fashionable and well-designed intimate wear brands and more diversified product categories and offerings with more exciting features targeting both female and male consumers. The introduction of new brands will create brand synergy effects with the Group's existing brands which will further consolidate the leading position of the Group in the industry.

The Group intends to actively expand its current e-commerce network and further the integration of its online and offline sales channels through building a comprehensive online shopping platform, which will serve as a complementary sales channel to the physical outlets and give rise to coherent multi-channel customer experiences. The Group also plans to enhance the co-operation with other well-recognized e-commerce operators so as to showcase its products on business-to-customer platforms and participate in diversified online marketing campaigns and applications.

In addition, the Group will continue its efforts in heightening supply chain and logistics management capabilities, upgrading information technology platform and optimizing information and human resources management systems.

Although the business environment facing the Group is challenging, the Group will continue to strengthen its position as the industry-leading intimate wear enterprise in China by consolidating its core competencies and competitiveness, deploying marketing and branding strategies to strengthen its corporate image of offering high value-for-money and high quality products, and leveraging its extensive retail network to maintain sustainable growth.

GENERAL INFORMATION

Corporate Governance

The Company had complied with the code provisions as set out in the Corporate Governance Code and Corporate Governance Report (the “**CG Code**”) contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) during the six months ended June 30, 2014 with the exception of code provision A.2.1.

According to code provision A.2.1, the roles of chairman and chief executive should be separate and should not be performed by the same person. The Company deviates from this provision because Mr. Zheng Yaonan (“**Mr. Zheng**”) performs both the roles of the chairman

of the Board and the chief executive officer of the Company. Mr. Zheng with the established market reputation in the intimate wear industry in China is the founder of the Group and has extensive experience in its business operation and management in general. The Board believes that vesting the two roles in the same person provides the Company with strong and consistent leadership and facilitates the implementation and execution of the Group's business strategies which is in the best interests of the Company. Under the leadership of Mr. Zheng, the Board works effectively and performs its responsibilities with all key and appropriate issues discussed in a timely manner. In addition, as all major decisions are made in consultation with members of the Board and relevant Board committees, and there are three independent non-executive directors on the Board offering independent perspectives, the Board is of the view that there are adequate safeguards in place to ensure sufficient balance of powers within the Board. The Board shall nevertheless review the structure and composition of the Board from time to time in light of prevailing circumstances, to maintain a high standard of corporate governance practices of the Company.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) contained in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions of the directors of the Company. Following specific enquiry, each of the directors has confirmed compliance with the required standard set out in the Model Code throughout the six months ended June 30, 2014.

Audit Committee

The primary responsibilities of the audit committee include (but without limitation) assisting the Board to provide an independent review and supervision of the Group's financial and accounting policies, to oversee the financial control, internal control and risk management systems of the Group, to oversee the audit process, and to perform other duties and responsibilities as delegated by the Board.

The audit committee comprises three independent non-executive directors of the Company, namely, Mr. Yau Chi Ming, Dr. Dai Yiyi and Mr. Chen Zhigang. The chairman of the audit committee is Mr. Yau Chi Ming who has appropriate professional qualifications.

The audit committee has reviewed with the management of the Company the accounting principles and practices adopted by the Group, and discussed the internal controls and financial reporting matters, including a review of the interim financial information for the six months ended June 30, 2014.

Remuneration Committee

The primary responsibilities of the remuneration committee include (but without limitation) making recommendations to the Board on the remuneration policy and structure for directors and senior management's remuneration and on the establishment of a formal and transparent procedure for developing such policies.

The remuneration committee has three members comprising Dr. Dai Yiyi, Mr. Chen Zhigang and Mr. Zhang Shengfeng, two of whom are independent non-executive directors. The chairman of the remuneration committee is Dr. Dai Yiyi.

Nomination Committee

The primary responsibilities of the nomination committee include (but without limitation) recommending to the Board on the appointment and re-appointment of directors and succession planning for directors, and reviewing the structure, size and composition of the Board at least annually.

The nomination committee has three members comprising Mr. Zheng, Mr. Yau Chi Ming and Mr. Chen Zhigang, two of whom are independent non-executive directors. The chairman of the nomination committee is Mr. Zheng.

Purchase, Sale or Redemption of the Company's Listed Securities

During the six months ended June 30, 2014, neither the Company nor any of its subsidiaries have purchased, sold or redeemed any of the Company's listed securities.

By Order of the Board
Cosmo Lady (China) Holdings Company Limited
ZHENG Yaonan
Chairman

Hong Kong, August 5, 2014

As at the date of this announcement, the Board comprises Mr. Zheng Yaonan, Mr. Zhang Shengfeng, Mr. Lin Zonghong, Mr. Cheng Zuming and Ms. Wu Xiaoli as executive directors; Mr. Wen Baoma as non-executive director; and Mr. Yau Chi Ming, Dr. Dai Yiyi and Mr. Chen Zhigang as independent non-executive directors.

This interim results announcement is published on the websites of The Stock Exchange of Hong Kong Limited at www.hkexnews.hk and the Company at www.cosmo-lady.com.hk under the section of "Investor Relations/HKEx Filings" respectively. The interim report of the Company for the six months ended June 30, 2014 will be dispatched to the shareholders of the Company and will be available on the same websites in due course.