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中國服飾控股有限公司

CHINA OUTFITTERS HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1146)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2014

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

	Six months ended 30 June		Changes
	2014	2013	
	<i>RMB million</i>	<i>RMB million</i>	
REVENUE	542.0	621.3	(12.8%)
Gross profit	389.7	453.4	(14.0%)
<i>Gross profit margin</i>	71.9%	73.0%	<i>(1.1 p.p.t.)</i>
Operating profit	150.9	246.1	(38.7%)
<i>Operating profit margin</i>	27.8%	39.6%	<i>(11.8 p.p.t.)</i>
Profit attributable to owners of the parent	101.6	200.9	(49.4%)
Earnings per share — <i>RMB cents</i>	2.95	5.83	(49.4%)
Special dividend per share — <i>HK cents</i>	12.0	—	n.a.

FINANCIAL RESULTS

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

For the six months ended 30 June 2014

		Six months ended 30 June	
		2014	2013
	Notes	RMB'000	RMB'000
		(Unaudited)	(Unaudited)
REVENUE	4	541,996	621,326
Cost of sales		<u>(152,294)</u>	<u>(167,936)</u>
Gross profit		389,702	453,390
Other income and gains, net	4	14,873	33,794
Selling and distribution costs		(210,452)	(211,848)
Administrative expenses		(28,935)	(29,242)
Other expenses		<u>(14,316)</u>	<u>—</u>
Operating profit		150,872	246,094
Finance income	5	28,190	23,785
Finance costs		(1,042)	—
Share of loss of a joint venture		<u>(1,000)</u>	<u>—</u>
PROFIT BEFORE TAX	6	177,020	269,879
Income tax expense	7	<u>(75,499)</u>	<u>(69,037)</u>
PROFIT FOR THE PERIOD		<u>101,521</u>	<u>200,842</u>
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		<u>167</u>	<u>(1,628)</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX		<u>101,688</u>	<u>199,214</u>
Profit attributable to:			
Owners of the parent		101,560	200,850
Non-controlling interests		<u>(39)</u>	<u>(8)</u>
		<u>101,521</u>	<u>200,842</u>
Total comprehensive income attributable to:			
Owners of the parent		101,719	199,238
Non-controlling interests		<u>(31)</u>	<u>(24)</u>
		<u>101,688</u>	<u>199,214</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	9	<u>RMB2.95 cents</u>	<u>RMB5.83 cents</u>

Details of the dividend for the period are disclosed in note 8 to the interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2014

		30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
	Notes		
NON-CURRENT ASSETS			
Property, plant and equipment		181,722	128,243
Prepaid land lease payments		88,969	76,096
Investment properties		5,025	5,222
Goodwill		70,697	70,697
Other intangible assets		114,187	125,418
Investment in a joint venture		89,838	89,541
Prepayment for land and buildings		—	29,567
Deferred tax assets		78,577	63,149
Total non-current assets		629,015	587,933
CURRENT ASSETS			
Inventories	10	380,087	376,503
Trade and bills receivables	11	116,709	120,022
Prepayments, deposits and other receivables		89,180	56,981
Structured bank deposits	12	1,125,100	928,000
Pledged bank deposits		10,928	4,263
Cash and cash equivalents		115,616	346,561
Total current assets		1,837,620	1,832,330
CURRENT LIABILITIES			
Short-term bank loans		269,828	—
Trade and bills payables	13	31,683	31,899
Derivative financial liabilities		1,132	—
Deposits received, other payables and accruals		112,733	128,040
Tax payable		148,461	165,194
Total current liabilities		563,837	325,133
NET CURRENT ASSETS		1,273,783	1,507,197
TOTAL ASSETS LESS CURRENT LIABILITIES		1,902,798	2,095,130
NON-CURRENT LIABILITIES			
Deferred tax liabilities		32,970	8,060
Net assets		1,869,828	2,087,070
EQUITY			
Equity attributable to owners of the parent			
Issued capital	14	280,661	280,661
Reserves		1,584,627	1,477,703
Dividends	8	—	326,318
Non-controlling interests		1,865,288	2,084,682
		4,540	2,388
Total equity		1,869,828	2,087,070

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2014

1. CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands on 7 March 2011 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The registered office of the Company is 190 Elgin Avenue, George Town, Grand Cayman KY1-9005, Cayman Islands. The address of its principal place of business is Room 1303, 13/F, New East Ocean Centre, 9 Science Museum Road, Tsim Sha Tsui East, Kowloon, Hong Kong. The shares of the Company were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 9 December 2011 (the “Listing Date”).

The principal activity of the Company is investment holding. The Group is principally engaged in the business of design, manufacturing, marketing and sale of apparel products and accessories in the People’s Republic of China (the “PRC”, or China which excludes, for the purpose of this announcement, the Hong Kong Special Administrative Region of the PRC or Hong Kong, the Macau Special Administrative Region of the PRC or Macau, and Taiwan), with a focus on menswear. There has been no significant change in the Group’s principal activities during the six months ended 30 June 2014 (the “Relevant Period”).

In the opinion of the directors of the Company (the “Directors”), as at the date of this announcement, the immediate holding company and the ultimate holding company of the Company are CEC Outfitters Limited and China Enterprise Capital Limited, respectively, which were incorporated in the British Virgin Islands (the “BVI”).

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

Basis of preparation

These interim condensed consolidated financial statements of the Group for the Relevant Period have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”) and International Accounting Standard (“IAS”) 34 Interim Financial Reporting issued by the International Accounting Standards Board.

These interim condensed consolidated financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated. These interim condensed consolidated financial statements do not include all information and disclosures required in the Group’s annual consolidated financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2013.

Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2013, except for the adoption of the new amendments and revised standards as of 1 July 2013 and 1 January 2014, as noted below:

IFRS 10, IFRS 12 and IAS 27 (Revised) Amendments	Amendments to IFRS 10, IFRS 12 and IAS 27 (Revised) — <i>Investment Entities</i>
IAS 32 Amendments	Amendments to IAS 32 Financial Instruments: Presentation — <i>Offsetting Financial Assets And Financial Liabilities</i>
IAS 39 Amendments	Amendments to IAS 39 Financial instruments: <i>Recognition and Measurement</i> — <i>Novation of Derivatives and Continuation of Hedge Accounting</i>
IFRIC 21	<i>Levies</i>

The adoption of these new and revised IFRSs has had no significant financial effect on these interim condensed consolidated financial statements.

3. OPERATING SEGMENT INFORMATION

The Group is principally engaged in the business of design, manufacturing, marketing and sale of apparel products and accessories in the PRC, with a focus on menswear.

IFRS 8 *Operating Segments* requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision makers in order to allocate resources to segments and to assess their performance. The information reported to the Directors, who are the chief operating decision makers for the purpose of resource allocation and assessment of performance, does not contain profit or loss information of each product line and the Directors reviewed the financial results of the Group as a whole reported under IFRSs. Therefore, the operation of the Group constitutes one single reportable segment. Accordingly, no operating segment is presented.

All of the external revenues of the Group during the Relevant Period presented are attributable to customers established in the PRC, the place of domicile of the Group's operating entities. Since the principal non-current assets held by the Group are located in the PRC, no geographical information is presented in accordance with IFRS 8.

No revenue from a single external customer amounted to 10% or more of the Group's revenue during the Relevant Period presented.

4. REVENUE AND OTHER INCOME AND GAINS, NET

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold after trade discounts.

An analysis of revenue, other income and gains is as follows:

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Revenue		
Sale of goods	541,996	621,326
Other income and gains, net		
Government subsidies*	14,112	25,757
Foreign exchange gain, net	—	6,108
Arrangement fees [#]	139	1,468
Rental income, net	433	101
Sale of consumables, net	50	296
Others	139	64
	14,873	33,794

* These represent incentive subsidies provided by local governments as a measure to attract investment in these localities. The amounts of these subsidies are generally determined by reference to the value-added tax, corporate income tax, city maintenance and construction tax and other taxes paid by the Group's operating entities in these localities, but are subject to the government's further discretion.

[#] These represent the one-off fees paid by third-party retailers when they enter into initial retail agreements with the Group.

5. FINANCE INCOME

	Six months ended 30 June	
	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Interest income on bank deposits	445	3,226
Interest income from structured bank deposits	27,745	20,559
	<u>28,190</u>	<u>23,785</u>

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Six months ended 30 June	
	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Cost of inventories sold	102,062	112,771
Depreciation		
Property, plant and equipment	4,504	4,638
Investment properties	197	80
	<u>4,701</u>	<u>4,718</u>
Employee benefit expenses (including Directors' remuneration):		
Wages and salaries	42,704	37,148
Equity-settled share option expenses	5,205	8,450
Pension scheme contributions	5,842	4,950
	<u>53,751</u>	<u>50,548</u>
Amortisation of prepaid land lease payments*	858	729
Amortisation of other intangible assets*	786	346
Reversal of impairment of trade receivables	—	(1,409)
Impairment of other intangible assets^	11,500	—
Write-down of inventories to net realisable value#	50,232	55,165
Foreign exchange differences, net	<u>1,684</u>	<u>(6,108)</u>

* The amortisation of prepaid land lease payments and the amortisation of other intangible assets for the period are included in "Administrative expenses" in the interim condensed consolidated statement of profit or loss and other comprehensive income.

^ The impairment of other intangible assets is included in "Other expenses" in the interim condensed consolidated statement of profit or loss and other comprehensive income.

The write-down of inventories to net realisable value is included in "Cost of sales" in the interim condensed consolidated statement of profit or loss and other comprehensive income.

7. INCOME TAX EXPENSE

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

The Company and its subsidiary incorporated in the BVI are exempted from taxation in the Cayman Islands and BVI.

No provision for Hong Kong profits tax has been made as the Group had no assessable profits derived from or earned in Hong Kong during the Relevant Period.

In accordance with the relevant PRC income tax rules and regulations, the Group's subsidiaries incorporated/registered in the PRC are subject to Corporate Income Tax ("CIT") at a statutory rate of 25% on their respective taxable income for the periods ended 30 June 2014 and 2013.

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current — PRC		
Charge for the period	66,018	83,024
Deferred	9,481	(13,987)
Total tax charge for the period	75,499	69,037

8. DIVIDEND

On 25 August 2014, the Board declared a special dividend of 12.0 HK cents per share, representing a total amount of HK\$413,454,000 (equivalent to RMB328,179,000) for the Relevant Period.

The final and special final dividends for the year ended 31 December 2013 on ordinary shares of RMB326,318,000 were approved by shareholders of the Company at the annual general meeting on 12 May 2014 and were subsequently paid on 30 May 2014.

9. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share is based on the profit for the Relevant Period attributable to ordinary equity holders of the parent of RMB101,560,000 (six months ended 30 June 2013: RMB200,850,000) and the weighted average number of ordinary shares of 3,445,450,000 (six months ended 30 June 2013: 3,445,450,000) in issue during the Relevant Period.

No adjustment has been made to the basic earnings per share amounts presented for the Relevant Period in respect of a dilution as the share options under the Pre-IPO Share Option Scheme (defined below) outstanding had an anti-dilutive effect on the basic earnings per share amounts presented.

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	101,560	200,850

Number of shares
Six months ended 30 June

2014 2013

Shares

Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation

3,445,450,000 3,445,450,000

10. INVENTORIES

30 June 31 December
2014 2013
RMB'000 *RMB'000*
(Unaudited) **(Audited)**

Raw materials	21,655	18,378
Work in progress	9,292	8,488
Finished goods	<u>349,140</u>	<u>349,637</u>
	<u>380,087</u>	<u>376,503</u>

11. TRADE AND BILLS RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for third-party retailers, where payment in advance is normally required. The credit period normally ranges from 30 to 90 days. The Group grants a longer credit period to those long-standing customers with good payment history.

Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management.

In view of the fact that the Group's trade and bills receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over these balances.

Trade receivables are unsecured, non-interest-bearing and the carrying amounts of the trade and bills receivables approximate to their fair values.

An aged analysis of the trade receivables as at 30 June 2014 and 31 December 2013, based on the invoice date and net of provision and the balances of bills receivable, is as follows:

30 June 31 December
2014 2013
RMB'000 *RMB'000*
(Unaudited) **(Audited)**

Trade receivables		
Within 60 days	102,629	111,037
61 to 90 days	1,913	992
91 to 180 days	3,009	1,794
181 to 360 days	2,205	3,351
Over 360 days	<u>1,278</u>	<u>1,243</u>
	111,034	118,417
 Bills receivable	 <u>5,675</u>	 <u>1,605</u>
	<u>116,709</u>	<u>120,022</u>

12. STRUCTURED BANK DEPOSITS

	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
Structured bank deposits, in licensed banks in China, at amortised cost	<u>1,125,100</u>	<u>928,000</u>

The structured bank deposits have terms of less than one year.

The structured bank deposits of RMB275,200,000 are pledged to secure the short-term bank loans of RMB269,828,000 at 30 June 2014.

13. TRADE AND BILLS PAYABLES

An aged analysis of the trade payables as at 30 June 2014 and 31 December 2013, based on the invoice date, and the balances of bills payable, is as follows:

	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
Trade payables		
Within 30 days	21,829	22,132
31 to 90 days	3,944	5,019
91 to 180 days	334	129
181 to 360 days	61	356
	<u>26,168</u>	<u>27,636</u>
Bills payable	<u>5,515</u>	<u>4,263</u>
	<u>31,683</u>	<u>31,899</u>

The trade payables are non-interest-bearing and are normally settled on terms of 30 to 45 days. The bills payable are all due within 60 days.

14. ISSUED CAPITAL

	30 June 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000 (Audited)
Authorised:		
1,000,000,000,000 (31 December 2013: 1,000,000,000,000) ordinary shares of HK\$0.1 each	<u>100,000,000</u>	<u>100,000,000</u>
Issued and fully paid:		
3,445,450,000 (31 December 2013: 3,445,450,000) ordinary shares of HK\$0.1 each	<u>344,545</u>	<u>344,545</u>
Equivalent to RMB'000	<u>280,661</u>	<u>280,661</u>

There was no movement of issued share capital during the Relevant Period.

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET OVERVIEW

The Relevant Period has been a challenging period for most retailers in China. Amid the continuous slowdown of China's macro-economy, the austerity advocated by the new leadership of the central government as well as the structural reforms of economic development model from manufacturing exports and government investments in large infrastructure projects to domestic consumption, China reported a moderate economic growth of 7.4% in the first half of 2014. The Chinese government's official growth target for 2014 is 7.5%, which remains impressive as compared to that of most other major economies, but is nonetheless the slowest growth rate over the past 24 years since 1990. The complicated and ever-changing economic environment has impacted consumer sentiment and posed a huge challenge to the retail industry in which the Group operates. According to the National Bureau of Statistics of China, the total retail sales of consumer products rose 12.1% to RMB12.4 trillion in the Relevant Period, representing a fall by 0.6 percentage points from 12.7% for the corresponding period last year. However, the statistics of the China National Commercial Information Centre showed that retail sales achieved by the top 100 key and large-scale retailers had recorded a historical decline by 0.2% in the Relevant Period. In particular, retail sales of apparel products by the top 50 key and large-scale retailers also reported historical decline by 0.5%.

In addition to the weak market sentiment, the apparel market in China has been evolving very quickly and entering into a transformative phase. New technologies are revolutionizing the consumption behavior of the Chinese consumers and the way retailers run their businesses. The competition amongst the retailers has been intensifying, whilst the Chinese consumers has become increasingly sophisticated, hence demanding better quality yet value for money products and services. The retailers thus are searching for ways to better adapt to the changing landscape.

Confronted with the complicated and volatile economic environment and the increasing competitive market place, the Group adjusted its operation strategy timely with a focus on enriching brand portfolio, optimizing of retail and distribution network, launching e-commerce strategy, increasing spending on marketing and promotions and increasing investments in supply chains improvements. Despite the responsive measures taken, it's unlikely that the Group can eliminate all adverse impact from the harsh environment. The Group reported decline in revenue by 12.8% from RMB621.3 million in the first half of 2013 to RMB542.0 million in the Relevant Period and decline in net profit by 49.5% from RMB200.8 million in the first half of 2013 to RMB101.5 million in the Relevant Period.

FINANCIAL REVIEW

Revenue

The Group recorded revenue of RMB542.0 million in the Relevant Period representing a decrease of RMB79.3 million, or approximately 12.8% as compared to RMB621.3 million the corresponding period last year.

By sales channel

Revenue from self-operated retail sales decreased by RMB26.4 million, or 6.7%, from RMB393.4 million in the first half of 2013 to RMB367.0 million in the Relevant Period and accounted for approximately 67.7% (1H2013: 63.3%) of total revenue. The decrease in revenue was primarily due to the decrease in customer traffic flows in mainstream department stores in the first to second tier cities where a majority of our self-operated retail points are located, which led to a decrease in same store sales of 12.0%. Despite the decrease in retail sales through self-operated retail points, we

remained committed to our multi-channel strategy in response to the evolving consumption behavior and we saw higher growth in sales from outlet stores. Revenue from outlet stores increased by RMB7.7 million, or 12.0%, from RMB64.4 million in the first half of 2013 to RMB72.1 million in the Relevant Period.

Revenue from sales to third-party retailers decreased by RMB63.5 million, or 28.6%, from RMB222.0 in the first half of 2013 to RMB158.5 million in the Relevant Period and accounted for approximately 29.2% (1H2013: 35.7%) of total revenue. The decrease in revenue was primarily attributable to (i) the decrease in retail points operated by third-party retailers as they became more conservative under the current sluggish retail market; (ii) the austerity measures advocated by the new leadership of the central government led to decrease in gift card purchasing, especially in North China and third to fourth tier cities where a majority of our third-party retailers operate; and (iii) e-commerce presenting more choices to consumers in the third and fourth tier cities in China, thus impacting conventional retailers.

We launch our e-commerce business for selling off-season products online in 2013, and our progress in this regard has been encouraging. Revenue from e-commerce business increased by RMB10.6 million, or 179.7%, from RMB5.9 in the first half of 2013 to RMB16.5 million in the Relevant Period and accounted for approximately 3.0% (1H2013: 0.9%) of total revenue. The increase in revenue from e-commerce business was primarily attributable to (i) the increase in revenue from online discount platform such as VIP shop, from RMB1.4 in the first half of 2013 to RMB5.9 million in the Relevant Period; and (ii) increase in revenue from online third-party retailers, from RMB3.1 in the first half of 2013 to RMB8.1 million in the Relevant Period, as more online retailers are developed.

The table below sets forth the breakdown of the Group revenue contributed by revenue made through our self-operated retail points, revenue from third-party retailers and revenue from e-commerce business:

	Six months ended 30 June			
	2014		2013	
	Revenue RMB million	% of total revenue	Revenue RMB million (restated)	% of total revenue (restated)
Revenue from self-operated retail points	367.0	68%	393.4	63%
Revenue from third-party retailers	158.5	29%	222.0	36%
Revenue from e-commerce business	16.5	3%	5.9	1%
Total	542.0	100%	621.3	100%

By Brand

Revenue contributed from self-owned brands accounted for approximately 4%–5% of the total revenue for the both periods indicated. Revenue from our new brands such as London Fog, Jeep Spirit, MCS, etc., which were introduced into the PRC menswear market after 2009, of total revenue has been increased from 8.8% in the first half of 2013 to 10.1% in the Relevant Period.

The table below sets forth our revenue by licensed brands and self-owned brands:

	Six months ended 30 June			
	2014		2013	
	Revenue RMB million	% of total revenue	Revenue RMB million	% of total revenue
Licensed brands	515.8	95%	593.4	96%
Self-owned brands	26.2	5%	27.9	4%
Total	542.0	100%	621.3	100%

Cost of sales

Cost of sales decreased by RMB15.6 million, or approximately 9.3%, from RMB167.9 million in the first half of 2013 to RMB152.3 million in the Relevant Period. The decrease in cost of sales was primarily due to: (i) a corresponding decrease in cost of inventories sold from RMB112.7 million in the first half of 2013 to RMB102.1 million in the Relevant Period as a result of the decrease in revenue; and (ii) a decrease in inventory provision of RMB5.0 million from RMB55.2 million in the first half of 2013 to RMB50.2 million in the Relevant Period.

Gross profit and gross profit margin

Gross profit decreased by RMB63.7 million, or approximately 14.0%, from RMB453.4 million in the first half of 2013 to RMB389.7 million in the Relevant Period as a result of the decrease in total revenue. Our overall gross profit margin remained consistent for the both periods indicated.

Other income and gains, net

Other income and gains decreased by RMB18.9 million, or approximately 55.9%, from RMB33.8 million in the first half of 2013 to RMB14.9 million in the Relevant Period, primarily due to (i) the receipt of subsidy income decreased by RMB11.7 million from RMB25.8 million in the first half of 2013 to RMB14.1 million in the Relevant Period; and (ii) the appreciation of RMB against HK\$ resulted in an exchange gain of RMB6.1 million in the first half of 2013 (Nil amounts for the Relevant Period).

Selling and distribution costs

Selling and distribution costs decreased by RMB1.3 million, or approximately 0.6%, from RMB211.8 million in the first half of 2013 to RMB210.5 million in the Relevant Period.

Concession fees for occupying concession counters within department stores and department store charges decreased by RMB8.7 million, or approximately 7.5%, from RMB116.3 million in the first half of 2013 to RMB107.6 million in the Relevant Period, which were in line with the decrease in sales from self-operated retail points.

Labour costs related to sales and marketing staff increased from RMB30.9 million in the first half of 2013 to RMB37.3 million in the Relevant Period primarily attributable to the increase in sales and marketing staff and increase in basic salary.

Advertising and promotion expenses increased from RMB3.6 million in the first half of 2013 to RMB6.3 million in the Relevant Period primarily because more promotion activities were organised and we increased marketing spending on advertising on fashion magazines and expressway billboards.

Other selling and distribution costs, including royalty fees, consumable and decoration expenses and other operating expenses remained consisted during the both periods indicated.

Administrative expenses

Administrative expenses slightly decreased by RMB0.3 million, or approximately 1.0%, from RMB29.2 million in the first half of 2013 to RMB28.9 million in the Relevant Period, primarily due to the decrease in amortization of share option expense under the Pre-IPO Share Option Scheme of RMB3.3 million; partially offset by the increase in depreciation and amortization, professional service fees and other operating expenses by RMB2.4 million primarily due to the expansion in operations.

Other expenses

Other expenses represented an exchange loss of RMB1.7 million due to the depreciation of RMB against Hong Kong Dollars; change in fair value of RMB1.1 million in respect of the forward contract to hedge the foreign exchange risk arising from the short-term bank loans denominated in United States Dollars; and an impairment on trademarks — London Fog of RMB11.5 million.

Finance income

Finance income increased to RMB28.2 million in the Relevant Period as compared to that of RMB23.8 million in the corresponding period in 2013, representing an increase of 18.5%, primarily due to higher proportion of structured bank deposits in the structure of our cash and cash equivalents which contributed higher return than that of short-term bank deposits.

Finance costs

The Group obtained short-term bank loans from financial institutions in Hong Kong and China. Finance costs of RMB1.0 million represented bank interest expenses incurred in relation to the above bank loans during the Relevant Period.

Share of losses from a joint venture

The Group acquired 50% equity interest in MCS Apparel Hong Kong Limited (“MCS HK”, together with its subsidiaries hereinafter referred to as the “MCS JV”) in November 2013. MCS JV owns the intellectual property rights of “MCS” trademarks in China, Hong Kong, Macau and Taiwan. The Group accounted for its investment in MCS HK as an investment in a joint venture and used equity method accounting to pick up the profit or loss generated by the joint venture. MCS JV is primarily engaged in the retail sales of “MCS” apparel and accessories in Hong Kong and Macau through its self-operated retail points and wholesale sales of “MCS” apparel and accessories to the Group and third-party retailers for their onward sales to ultimate consumers in China. In the Relevant Period, the Group recorded share of losses from the joint venture of RMB1.0 million which included pickup of losses of RMB1.7 million in retail business in Hong Kong and Macau and pickup of profits of RMB0.7 million in wholesale business in China.

Profit before tax

As a result of the foregoing factors, profit before tax decreased by RMB92.9 million, or approximately 34.4%, from RMB269.9 million in the first half of 2013 to RMB177.0 million in the Relevant Period.

Income tax expense

Income tax expense increased by RMB6.5 million, or approximately 9.4%, from RMB69.0 million in the first half of 2013 to RMB75.5 million in the Relevant Period primarily due to (i) the increase in deferred withholding tax on distributable profits of the subsidiaries in China by RMB25.0 million with respect to the special dividend declared by the Board; and (ii) decrease in current income tax by RMB17 million, or approximately 20.5%, from RMB83.0 million in the first half of 2013 to RMB66.0 million in the Relevant Period due to the decrease in profit before tax. The effective income tax rate in the Relevant Period was 42.7% (1H2013: 25.6%).

Profit for the period

Profit for the period decreased by RMB99.3 million, or approximately 49.5%, from RMB200.8 million in the first half of 2013 to RMB101.5 million in the Relevant Period. In addition, the net profit margin decreased from 32.3% to 18.7% due to:

- (i) decrease in percentage of other income and gains over total revenue from 5.4% to 2.7% due to the decrease in government subsidies and foreign exchange differences;
- (ii) increase in percentage of selling and distribution costs and administrative expenses over total revenue from 38.8% to 44.2% because the percentage of sales from self-operated retail points increased from 63.3% to 67.7% while percentage of sales from third-party retailers decreased from 35.7% to 29.2%. The self-operated retail business incurred higher expenses than those of wholesale business to third-party retailers. Percentage of finance costs, other expenses and income tax over total revenue also increased from 11.1% to 16.8%.

Profit attributable to ordinary equity holders of the parent

As a result of the foregoing, profit attributable to ordinary equity holders of the parent decreased by RMB99.3 million, or approximately 49.4%, from RMB200.9 million in the first half of 2013 to RMB101.6 million in the Relevant Period.

Working Capital Management

	30 June 2014	31 December 2013
Inventory turnover days	447	428
Trade and bills receivables turnover days	39	35
Trade and bills payables turnover days	38	39

The increase in inventory turnover by 19 days was primarily because the continuous sluggishness of the retail market resulted in a decrease in our Group's revenue, which in turn led to a slower turnover of the Group's inventories and an increase in inventory turnover days.

Turnover days of trade and bills receivables and payables were comparable for the both periods indicated.

Liquidity, financial position and cash flows

As at 30 June 2014, the Group had net current assets of approximately RMB1,273.8 million, as compared to RMB1,507.2 million as at 31 December 2013. The current ratio, being current assets divided by current liabilities, of the Group was 3.3 as at 30 June 2014, compared to that of 5.6 as at 31 December 2013.

The Group has secured banking facilities of RMB269.8 million and there was no undrawn banking facilities as at 30 June 2014.

As at 30 June 2014, the Group had an aggregate cash and cash equivalents, pledged bank deposits and structured bank deposits of approximately RMB1,251.6 million. The table below sets forth selected cash flow data from the consolidated statement of cash flows:

	Six months ended 30 June	
	2014	2013
	<i>RMB million</i>	<i>RMB million</i>
Net cash flows from operating activities	72.7	198.1
Net cash flows from/(used) in investing activities	(180.4)	313.6
Net cash flows used in financing activities	(56.5)	(279.4)
Net increase/(decrease) in cash and cash equivalents	(164.2)	232.3
Effect of foreign exchange rate changes, net	(1.1)	0.4
Cash and cash equivalents at the beginning of the period	287.8	104.8
Cash and cash equivalents at the end of the period	<u>122.5</u>	<u>337.5</u>

Operating activities

Net cash flows from operating activities decreased by RMB125.4 million from RMB198.1 million in the first half of 2013 to RMB72.7 million in the Relevant Period which was primarily attributable to (i) the operating cash inflows before changes in working capital of RMB225.3 million (1H2013: RMB314.1 million); and (ii) changes in working capital represented cash outflow of RMB152.6 million (1H2013: RMB116.0 million). The increase in cash outflow from changes in working capital was primarily due to cash outflow from change in inventories increased from RMB21.4 million in the first half of 2013 to RMB55.0 million in the Relevant Period and cash inflow from change in trade and bills receivables decreased from RMB27.1 million in the first half of 2013 to RMB3.3 million in the Relevant Period.

Investing activities

Net cash flows used in investing activities of RMB180.4 million in the Relevant Period mainly represented investments in structured bank deposits of RMB197.1 million, which was in line with the Group's treasury management strategy to earn a higher return on cash; purchase of the new office in Hong Kong and investments in logistic centers in Shanghai and Dezhou, Shandong Province of RMB61.8 million; and partially offset by withdrawal of short-term deposits with original maturity of over three months of RMB59.1 million and receipt of finance income of RMB19.3 million.

Financing activities

Net cash flows used in financing activities represented payment of 2013 final and special final dividends of RMB326.3 million (1H2013: RMB279.4 million) and partially offset by the proceeds of RMB269.8 million from new short-term bank loans.

Pledge of group assets

As at 30 June 2014, structured bank deposits of RMB275.2 million have been pledged for obtaining banking facilities of the Group and short-term bank deposits of RMB10.9 million have been pledged for forward contract and issuance of bank acceptance notes.

Capital commitments and contingent liabilities

Capital commitments for the construction of the logistic center of the Group in Shanghai were RMB52.7 million as at 30 June 2014.

The Group did not have any significant contingent liabilities as at 30 June 2014.

Foreign exchange management

We conduct business primarily in Hong Kong and the PRC with most of our transactions denominated and settled in Hong Kong dollars (“HK\$”) and RMB. To minimise foreign-exchange risks, the Group has a hedging policy in place.

Use of proceeds from the IPO

The shares of the Company were listed on 9 December 2011 on the Stock Exchange. The total net proceeds from the IPO amounted to approximately HK\$803.9 million (equivalent to approximately RMB654.8 million), including the net proceeds from the partial exercise of the over-allotment option on 30 December 2011.

In the Relevant Period, an aggregate of HK\$51.6 million (equivalent to RMB41.1 million) was used for construction of the logistic centers in Shanghai and Dezhou, Shandong Province.

The table below sets forth the utilisation of the net proceeds from the IPO and the unused amount as at 30 June 2014. All the unused proceeds were deposited into licensed banks in the PRC and Hong Kong:

Use of fund raised

	Percentage to total amount	Net proceeds (HK\$ million)	Utilised amount as at 30 June 2014 (HK\$ million)	Unutilised amount as at 30 June 2014 (HK\$ million)
Licensing or acquisition of additional recognised international brands	47%	380.7	188.0	192.7
Expansion and enhancement of existing logistical system	24%	193.1	158.2	34.9
Settlement of shareholder’s loan	19%	152.8	147.1	5.7
General working capital	10%	77.3	—	77.3
	100%	803.9	493.3	310.6

OPERATION REVIEW

Retail and distribution network

As at 30 June 2014, our sales network comprised a total of 587 self-operated retail points, comprising concession counters, consignment stores and self-operated stores, and 705 retail points operated by third-party retailers.

The following table sets forth the number of our self-operated retail points and retail points operated by third-party retailers in the PRC by brand as at 30 June 2014 and 31 December 2013:

Brand	As at 30 June 2014			As at 31 December 2013		
	Self-operated retail points	Retail points operated by third-party retailers	Total retail points	Self-operated retail points	Retail points operated by third-party retailers	Total retail points
Jeep						
—Menswear	206	530	736	219	524	743
—Spirit*	68	22	90	56	32	88
SBPRC	194	140	334	193	141	334
London Fog	61	13	74	69	18	87
MCS	15	—	15	—	—	—
Others	43	—	43	52	—	52
Total	<u>587</u>	<u>705</u>	<u>1,292</u>	<u>589</u>	<u>715</u>	<u>1,304</u>

* including 56 and 56 retail points of Jeep lady as at 30 June 2014 and 31 December 2013, respectively

Self-operated retail points

As at 30 June 2014, we had a network of 571 self-operated concession counters (31 December 2013: 575 self-operated concession counters). A majority of the concession counters are located within mainstream department stores in the first and second tier cities in China, including Parkson (百盛), Golden Eagle (金鷹), MOI (茂業), Intime (銀泰), Wangfujing (王府井), etc., among which a total of 96 were outlet stores as at 30 June 2014 (31 December 2013: 87 outlet stores);

As at 30 June 2014, we had a network of 16 stores which were located in shopping malls within major cities in the PRC to ensure a steady flow of consumers as well as to enhance our sales and brand awareness.

Faced with challenging market conditions and evolving consumer behavior, the Group has made the following adjustments to its strategy for self-operated retail points:

- optimisation of store network for existing mature brands such as Jeep menswear and Santa Barbara Polo & Racquet Club (“SBPRC”) with a focus on store profitability and closing retail points that were loss-marking or with low performance in the Relevant Period;
- opening 9 outlet stores in response to the changes in consumer behavior and rapid sales growth in outlet store channel;

- opening 4 retail points for the development of our new brand, Maxim's, in the Relevant Period; and
- transferring 14 retail points from the previous retailer, which was engaged in the sales and distribution of "MCS" branded apparel and accessories in China, to the Group and opened 1 new retail point of "MCS" in the Relevant Period.

Retail points operated by third-party retailers

Under the current uncertain and ever-changing market conditions, our third-party retailers became more restrained and conservative in placing orders and opening new stores. As at 30 June 2014, we had a total of 705 retail points that were operated by third-party retailers, representing a decrease by 1.4% as compared to that of 715 retail points as at 31 December 2013.

E-commerce

The Group launched e-commerce business in 2013 to sell off-season products through online sales channel. In the Relevant Period, the Group has actively organized sales fairs on online discount platform such as VIP shop, developed new online third-party retailers for online retailing of the Group's products and increased sales from the Group's self-operated e-shop on Tmall.com.

Branding

The Group continued to use its multi-brand strategy as the key to its development. In the Relevant Period, the Group's spending on marketing and promotion which comprised advertising, public relations, events, online and digital marketing, visual merchandising, and celebrity endorsement increased to 1.2% of total revenue:

MCS

The priority for the MCS brand is to increase its brand awareness and enhance its brand image amongst target customers. In addition to regular in-store promotions organised by department stores, our marketing initiatives on MCS includes sponsorship of a cuisine program on Channel Young TV in Shanghai, advertising on mainstream fashion magazines such as GQ and Bazaar, as well as placing billboards at the Jingshen (京沈) and Huhang (滬杭) expressways, etc.

In-store shopping experience has also played an important role in enhancement of the brand. In line with MCS global branding strategy, we are working closely with the MCS Italian team for launching a new store concept in China that accentuates the brand heritage of "rugged and refined" and "real man" of MCS.

In the Relevant Period, we have also launched a nationwide VIP card programme for the MCS brand. The VIP card holders enjoy a discount for each purchase of MCS products and special discounts on selected holidays.

LINCS

The Group entered into a shareholders' agreement with Mr. David Chu and Century China Holdings Limited on 28 January 2014, pursuant to which the Group would engage in the design, manufacturing and sales of apparel and accessories under the "LINCS" brand in the Greater China Region starting from 2014. Mr. David Chu, founder of the well-known casual wear brand "Nautica", would personally serve as the design director of "LINCS" and would be in charge of the design of the products.

On 13 February 2014, “LINCS” participated in the New York Fashion Week, and held its fashion show at Mr. David Chu’s studio at Flariton in Manhattan to present the new line. The fashion show was widely covered by leading fashion media in China and the United States.

Barbour

On 14 February 2014, the Group entered into a licensing agreement with J. Barbour & Sons Limited, which grants the right to design, manufacture and sell products under the “Barbour” brand in Mainland China starting from 2014.

The year of 2014 is the 120 anniversary of Barbour. The Group is in the process of launching a new campaign to bring the brand with rich British heritage and continuing service to the British Monarchy to the China market.

Zoo York

We completed a shareholders’ agreement with Mr. Nicholas Tse on 14 March 2014, pursuant to which the Group, through a subsidiary, would engage in the design, manufacturing and sales of apparel products and accessories under the “Zoo York” brand in the Greater China Region. Mr. Nicholas Tse is one of the shareholders in the subsidiary and a creative collaborator of the Zoo York brand.

Design and product development

In addition to typical ways of developing design concepts that include review of fashion periodicals, participating fashion shows and data analyses on consumer behavior, our design team also kept abreast of the latest trends and developments in new designs through our collaboration with the global top designers Mr. David Chu, Barbour’s experienced designers who have a long history of serving the British Monarch, MCS talented design team in Italy as well as fashion icons including Mr. Nicholas Tse.

Production and supply chain

In the Relevant Period, we continued to increase investments in warehouses and logistic centres, and optimizing the existing logistic resources to further improve the supply chain efficiency. We completed the acquisition of the additional warehousing and logistic premise in Dezhou, Shandong province and the construction of the logistic center in Shanghai is well under way and will be operational in the second half of the year.

Employee information

As at 30 June 2014, the Group had approximately 2,903 full-time employees. Staff costs, including Directors’ remuneration, totalled RMB53.8 million in the Relevant Period (1H13: RMB50.5 million).

The Company also operated a share option scheme (the “Share Option Scheme”) and a pre-IPO share option scheme (the “Pre-IPO Share Option Scheme”) for the purpose of providing incentives and rewards to eligible participants for their contribution to, and continuing efforts to promote the interests of our Group. A total of 199,224,000 options under the Pre-IPO Share Option Scheme that granted to 19 participants (including 7 Directors), were outstanding as at 30 June 2014.

Corporate Social Responsibility

Being a responsible corporate citizen is core fundamentals of our culture. The Group participated in the sponsorship of the “I Fly” rural teachers training sessions organized by the Chinese Red Cross Foundation and Cui Yongyuan Commonwealth Foundation (崔永元公益基金) for the purpose of supporting China’s rural education. In the Relevant Period, the Group also participated the sponsorship of an animal protection program organized by the Beijing Loving Animals Foundation (北京愛它動物保護公益基金). A total donation of approximately RMB0.1 million was made by the Group to the above programs in the Relevant Period.

Prospects

Management will continue to focus on the following key objectives for the second half of 2014:

- In line with our multi-brand strategy, the Group will seek opportunities to further diversify its brand portfolio and increase the portion of revenue from self-owned brands. We plan to introduce the first fall/winter products of our new brands such as Barbour, LINCS and Zoo York in the third quarter of 2014;
- The Group will increase spending on marketing and promotion that comprises consumer studies, advertising, public relations, events, online and digital marketing, visual merchandising, and celebrity endorsement to enhance interaction with the customers and to raise brand awareness among our target customers;
- The Group will continue to commit to its multi-channel strategy and place great emphasis on expanding our outlet store network. E-commerce is also a priority of our sales channel strategy and in the second half of 2014, the Group will seek to develop more online third-party retailers for online retailing of the Group’s products and will actively participated in sales fairs organised by online discount platform;
- The Group’s self-developed O2O system will be deployed by all self-operated retail points and retail points operated by major third-party retailers within the year for the purpose of fast response to the ultimate consumers’ demands;
- We will continue to leverage of experience from the operation of our own production facilities in Dezhou, Shandong Province and increase bargaining power on negotiation of favorable trading terms with our third-party manufacturers;
- The construction of the Group’s logistic centre in Shanghai will be completed in the second half of the year. With the new logistics centre being put into use, product distribution between logistic centre and retail points nationwide will be more accurate, thus improving supply chain efficiency. The construction of the Group’s research and development and product display center in Shanghai will also be commenced in the second half of the year.

SPECIAL DIVIDEND

The Board has resolved to declare a special dividend of 12.0 HK cents per share (1H2013: Nil) for the Relevant Period to the shareholders whose names appear on the Register of Members of the Company on 10 September 2014.

RECORD DATE

The record date for the entitlement to the special dividend is Wednesday, 10 September 2014. In order to be qualified for the special dividend as stated in this announcement, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrars in Hong Kong, Tricor Investor Services Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration no later than 4:30 p.m. on Wednesday, 10 September 2014.

PURCHASE, REDEMPTION OR SALE OF SHARES OF THE COMPANY

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

CORPORATE GOVERNANCE

Corporate governance practices

The Company is committed to maintaining and upholding guidelines and procedures for stringent corporate governance. In respect of the Relevant Period, all the provisions set out in the Corporate Governance Code contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "CG Code") were met by the Company. The Company will periodically review its corporate governance practices to ensure its continuous compliance with the CG Code.

Compliance with model code by the Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as its code of conduct regarding securities transactions by the Directors. Having made specific enquiry with all Directors, the Company has confirmed with all Directors that they have complied with the required standard set out in the Model Code and its code of conduct regarding any Directors' securities transactions for the period from 1 January 2014 to 25 August 2014 (date of publication of the Company's interim results).

AUDIT COMMITTEE AND REVIEW OF INTERIM RESULTS

The Audit Committee has discussed with the management internal controls and financial reporting matters related to the preparation of the interim condensed financial statements for the Relevant Period. It has also reviewed the said financial statements in conjunction with the Company's external auditors.

Ernst & Young, the external auditors of the Group have reviewed but not audited the Group's interim results for the Relevant Period.

PUBLICATION OF THE INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the website of the Company at www.cohl.hk and Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk. The interim report for the Relevant Period containing all the information required by Appendix 16 to the Listing Rules will be dispatched to shareholders of the Company and published on the above websites in due course.

APPRECIATION

I would like to take this opportunity to thank our colleagues on behalf of the Board for their contribution and support throughout the Relevant Period, and our management and staff members of the Group for their hard work and loyal service. I would also like to express our sincere appreciation to our shareholders, customers and suppliers as well as our business partners for their continuing support.

By Order of the Board
China Outfitters Holdings Limited
Lo Peter
Chairman

Hong Kong, 25 August 2014

As at the date of this announcement, the executive Directors are Mr. Lo Peter, Mr. Zhang Yongli, Mr. Sun David Lee and Ms. Huang Xiaoyun; the non-executive Directors are Mr. Wang Wei and Mr. Lin Yang; and the independent non-executive Directors are Mr. Kwong Wilson Wai Sun, Mr. Cui Yi and Mr. Yeung Chi Wai.