**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 ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2016

## FINANCIAL HIGHLIGHTS

| | | Year ended 31 December | | |
|---|---|---|---|---|
| | | **2016** | 2015 | Change |
| Revenue | *RMB'000* | **4,512,385** | 4,953,415 | -8.9% |
| Operating profit | *RMB'000* | **305,449** | 688,803 | -55.7% |
| Profit attributable to equity holders of the Company | *RMB'000* | **241,961** | 540,008 | -55.2% |
| Gross profit margin | % | **44.4%** | 42.7% | |
| Operating profit margin | % | **6.8%** | 13.9% | |
| Margin of profit attributable to equity holders of the Company | % | **5.4%** | 10.9% | |
| Earnings per share – basic and diluted | *RMB cents* | **12.70** | 28.33 | |
| Final dividend per share | *HK$ cents* | **6.21** | 11.00 | |
| | *(RMB cents)* | **(5.50)** | **(9.31)** | |

## ANNUAL RESULTS

The board of directors (the "**Board**") of Cosmo Lady (China) Holdings Company Limited (the "**Company**") is pleased to announce the annual results of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2016, together with comparative figures for the corresponding period of 2015 and selected explanatory notes, as follows:

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

| | *Note* | **Year ended 31 December 2016** *RMB'000* | 2015 *RMB'000* |
|---|---|---|---|
| **Revenue** | *4* | **4,512,385** | 4,953,415 |
| Cost of sales | | **(2,510,348)** | (2,838,621) |
| **Gross profit** | | **2,002,037** | 2,114,794 |
| Selling and marketing expenses | | **(1,434,758)** | (1,306,751) |
| General and administrative expenses | | **(312,619)** | (197,495) |
| Other income | *5* | **50,087** | 76,735 |
| Other gains – net | | **702** | 1,520 |
| **Operating profit** | | **305,449** | 688,803 |
| Finance income | | **22,707** | 21,766 |
| Finance expenses | | **(4,412)** | – |
| **Finance income – net** | | **18,295** | 21,766 |
| **Profit before income tax** | *6* | **323,744** | 710,569 |
| Income tax expense | *7* | **(81,783)** | (170,561) |
| **Profit for the year** | | **241,961** | 540,008 |
| Other comprehensive income for the year *(Items that may be reclassified subsequently to profit or loss)* | | | |
| Exchange differences | | **1,925** | 5,478 |
| **Total comprehensive income for the year** | | **243,886** | 545,486 |
| **Profit attributable to equity holders of the Company** | | **241,961** | 540,008 |
| **Total comprehensive income attributable to equity holders of the Company** | | **243,886** | 545,486 |
| **Earnings per share** | *8* | **RMB cents** | RMB cents |
| Basic and diluted | | **12.70** | 28.33 |

## CONSOLIDATED BALANCE SHEET

| | Note | As at 31 December<br>**2016**<br>***RMB'000*** | <br>2015<br>*RMB'000* |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | **545,646** | 448,999 |
| Land use rights | | **89,391** | 91,471 |
| Intangible assets | | **39,449** | 40,110 |
| Investment in a joint venture | | **1,990** | 1,990 |
| Available-for-sale financial assets | | **18,600** | 15,600 |
| Loan to a third party | *10* | **–** | 105,000 |
| Deposits, prepayments and other receivables | | **25,815** | 32,780 |
| Deferred income tax assets | | **39,209** | 30,318 |
| | | **760,100** | 766,268 |
| **Current assets** | | | |
| Inventories | | **1,150,679** | 800,377 |
| Trade receivables | *11* | **451,230** | 517,705 |
| Loan to a third party | *10* | **105,000** | – |
| Deposits, prepayments and other receivables | | **503,199** | 438,343 |
| Bank balances and cash | | **809,178** | 960,074 |
| | | **3,019,286** | 2,716,499 |
| **Total assets** | | **3,779,386** | 3,482,767 |
| **Equity** | | | |
| **Capital and reserves attributable to equity holders of the Company** | | | |
| Share capital | | **117,320** | 117,320 |
| Share premium | | **1,254,574** | 1,431,994 |
| Other reserves | | **260,929** | 244,196 |
| Retained earnings | | **1,061,006** | 845,352 |
| **Total equity** | | **2,693,829** | 2,638,862 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Trade payables | *12* | **554,254** | 495,411 |
| Accruals and other payables | | **305,614** | 283,556 |
| Current income tax liabilities | | **24,088** | 63,160 |
| | | **883,956** | 842,127 |
| **Non-current liabilities** | | | |
| Borrowings | *13* | **200,000** | – |
| Deferred income tax liabilities | | **1,601** | 1,778 |
| | | **201,601** | 1,778 |
| **Total liabilities** | | **1,085,557** | 843,905 |
| **Total equity and liabilities** | | **3,779,386** | 3,482,767 |

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Attributable to equity holders of the Company | | | | |
|---|---|---|---|---|---|
| | Share capital *RMB'000* | Share premium *RMB'000* | Other reserves *RMB'000* | Retained earnings *RMB'000* | Total equity *RMB'000* |
| **As at 1 January 2016** | **117,320** | **1,431,994** | **244,196** | **845,352** | **2,638,862** |
| **Comprehensive income** | | | | | |
| Profit for the year | **–** | **–** | **–** | **241,961** | **241,961** |
| **Other comprehensive income** | | | | | |
| Exchange differences | **–** | **–** | **1,925** | **–** | **1,925** |
| **Total comprehensive income for the year** | **–** | **–** | **1,925** | **241,961** | **243,886** |
| **Transactions with equity holders** | | | | | |
| Equity-settled share-based compensation | **–** | **–** | **3,373** | **–** | **3,373** |
| Share purchased for share award scheme | **–** | **–** | **(14,872)** | **–** | **(14,872)** |
| Dividends | **–** | **(177,420)** | **–** | **–** | **(177,420)** |
| **Total transaction with equity holders** | **–** | **(177,420)** | **(11,499)** | **–** | **(188,919)** |
| **Appropriation to statutory reserves** | **–** | **–** | **26,307** | **(26,307)** | **–** |
| **As at 31 December 2016** | **117,320** | **1,254,574** | **260,929** | **1,061,006** | **2,693,829** |
| **As at 1 January 2015** | 117,320 | 1,431,994 | 231,699 | 456,519 | 2,237,532 |
| **Comprehensive income** | | | | | |
| Profit for the year | – | – | – | 540,008 | 540,008 |
| **Other comprehensive income** | | | | | |
| Exchange differences | – | – | 5,478 | – | 5,478 |
| **Total comprehensive income for the year** | – | – | 5,478 | 540,008 | 545,486 |
| **Transactions with equity holders** | | | | | |
| Equity-settled share-based compensation | – | – | 7,019 | – | 7,019 |
| Dividends | – | – | – | (151,175) | (151,175) |
| **Total transaction with equity holders** | – | – | 7,019 | (151,175) | (144,156) |
| **As at 31 December 2015** | 117,320 | 1,431,994 | 244,196 | 845,352 | 2,638,862 |

## CONSOLIDATED STATEMENT OF CASH FLOWS

| | Year ended 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | ***RMB'000*** | *RMB'000* |
| **Cash flows from operating activities** | | |
| Cash generated from operations | **122,993** | 568,442 |
| Income tax paid | **(129,923)** | (165,738) |
| **Net cash (used in)/generated from operating activities** | **(6,930)** | 402,704 |
| **Cash flows from investing activities** | | |
| Proceeds from disposal of property, plant and equipment | **4,564** | 4,681 |
| Interest received | **18,044** | 18,711 |
| Purchases of property, plant and equipment | **(162,379)** | (192,945) |
| Purchases of intangible assets | **(5,518)** | (12,166) |
| Purchases of available-for-sale financial assets | **–** | (15,600) |
| Capital contribution to a joint venture | **–** | (1,990) |
| Term deposits with initial term of over three months | **(210)** | 149,790 |
| Loan to a third party | **–** | (105,000) |
| Payments of business combination | **(5,000)** | (74,800) |
| **Net cash used in investing activities** | **(150,499)** | (229,319) |
| **Cash flows from financing activities** | | |
| Payments for purchase of the Company's shares for share award scheme | **(14,872)** | – |
| Proceeds from borrowings | **200,000** | – |
| Interest paid for borrowings | **(4,412)** | – |
| Dividends paid | **(177,420)** | (151,175) |
| **Net cash generated from/(used in) financing activities** | **3,296** | (151,175) |
| Net (decrease)/increase in cash and cash equivalents | **(154,133)** | 22,210 |
| Cash and cash equivalents at beginning of the year | **950,639** | 921,337 |
| Effect of foreign exchange rate changes | **3,027** | 7,092 |
| **Cash and cash equivalents at end of the year** | **799,533** | 950,639 |

## NOTES

### 1. General information

The Company was incorporated in the Cayman Islands on 28 January 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 P.O. Box 1350, Clifton House, 75 Fort Street, Grand Cayman, KY1-1108, Cayman Islands.

The Company is an investment holding company. The Group is 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 (the "**Stock Exchange**") on 26 June 2014.

The consolidated financial statements of the Group are presented in Renminbi ("**RMB**"), unless otherwise stated, and have been approved for issue by the Board on 27 March 2017.

### 2. Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with all applicable International Financial Reporting Standards ("**IFRSs**") and under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, which are carried at fair value.

The preparation of the financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

#### *(a) Effect of adopting amendments to standards*

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning, 1 January 2016. The adoption of these amendments to standards does not have any significant impact to the results or financial position of the Group.

| | |
|---|---|
| IFRS 14 | Regulatory Deferral Accounts |
| IFRS 10, IFRS 12 and IAS 28 (Amendment) | Investment Entities: Applying the Consolidation Exception |
| IFRS 11 (Amendment) | Accounting for Acquisitions of Interests in Joint Operation |
| IAS 1 (Amendment) | Disclosure Initiative |
| IAS 16 and IAS 38 (Amendments) | Clarification of Acceptable Methods of Depreciation and Amortisation |
| IAS 16 and IAS 41 (Amendments) | Agriculture: Bearer Plants |
| IAS 27 (Amendment) | Equity Method in Separate Financial Statements |
| Annual improvements 2014 | 2012-2014 Cycle of the Annual Improvements |

***(b) New standards and interpretations that have been issued but are not effective***

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016 and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

*IFRS 9, 'Financial instruments'*

The new standard addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

While the Group has yet to undertake a detailed assessment of the classification and measurement of financial assets, equity instruments currently classified as available-for-sale financial assets would appear to satisfy the conditions for classification as fair value through other comprehensive income and hence there will be no change to the accounting for these assets. There is no other financial assets held by the Group that measured at fair value.

Accordingly, the Group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from IAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

There is a change in hedge accounting rules that more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach. While the Group does not have any such hedging instruments.

The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at fair value through other comprehensive income, contract assets under IFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. While the Group has not yet undertaken a detailed assessment of how its impairment provisions would be affected by the new model, it may result in an earlier recognition of credit losses.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

IFRS 9 must be applied for financial years commencing on or after 1 January 2018. The Group does not intend to adopt IFRS 9 before its mandatory date.

*IFRS 15, 'Revenue from contracts with customers'*

IFRS 15 will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The new standard permits either a full retrospective or a modified retrospective approach for the adoption.

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. In 2016, this is a clarifications to IFRS 15 issued in relation to the identification of performance obligations, principal versus agent consideration, as well as licensing application guidance.

Management is currently assessing the effects of applying the new standard on the Group's financial statements and currently do not anticipate that the application of IFRS 15 in the future will have a material effect on the Group's consolidated financial statements.

IFRS 15 is mandatory for financial years commencing on or after 1 January 2018. The Group does not intend to adopt the standard before its effective date.

*IFRS 16, 'Leases'*

IFRS 16 will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. While the accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of RMB612,671,000. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows. Some of the commitments may be covered by the exception for short-term and low value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16.

The new standard is mandatory for financial years commencing on or after 1 January 2019. The Group does not intend to adopt the standard before its effective date.

There are no other IFRSs or interpretations that are not yet effective that would be expected to have a material impact on the Group.

**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 designing, marketing and selling of intimate wear products. All of its revenue is derived in the PRC.

None of the revenue derived from any single external customer amounted to more than 10% of the Group's revenue (2015: None).

## 4. Revenue

| | Year ended 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | ***RMB'000*** | *RMB'000* |
| Sales to franchisees | **2,520,238** | 3,155,892 |
| Retail sales | **1,679,518** | 1,622,952 |
| E-commerce | **312,629** | 174,571 |
| | **4,512,385** | 4,953,415 |

## 5. Other income

| | Year ended 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | ***RMB'000*** | *RMB'000* |
| Franchise fee income | **984** | 2,440 |
| Software usage fee income | **2,248** | 4,283 |
| Government grants *(note a)* | **31,083** | 50,909 |
| Service fee income *(note b)* | **2,011** | 7,149 |
| Others | **13,761** | 11,954 |
| | **50,087** | 76,735 |

*Notes:*

(a) These mainly represented grants received from various local governments in the PRC. There are no unfulfilled conditions or contingencies relating to these grants.

(b) Service fee income mainly comprised store interior design services provided for franchised outlets.

## 6. Profit before income tax

Profit before income tax is stated after charging the following:

| | Year ended 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | ***RMB'000*** | *RMB'000* |
| Employee benefit expenses (including directors' emoluments) | **557,974** | 476,242 |
| Operating lease rentals in respect of land and buildings | **527,687** | 404,657 |
| Other operating rental expenses | **45,883** | 39,976 |
| Concessionaire fee in respect of outlets under cooperative arrangements | **–** | 106,496 |
| Marketing and promotion expenses | **117,459** | 108,740 |
| Depreciation and amortization | **88,220** | 70,358 |
| E-commerce platforms commission expenses | **53,376** | 34,283 |
| Write-down of inventories | **46,877** | 20,699 |

## 7. Income tax expense

| | Year ended 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | ***RMB'000*** | *RMB'000* |
| Current income tax | | |
| – Hong Kong profits tax *(note (a))* | **–** | – |
| – PRC corporate income tax *(note (b))* | **90,851** | 177,269 |
| | **90,851** | 177,269 |
| Deferred income tax | **(9,068)** | (6,708) |
| Income tax expense | **81,783** | 170,561 |

***(a) Hong Kong profits tax***

The applicable Hong Kong profits tax rate is 16.5% for the year ended 31 December 2016 (2015: 16.5%).

***(b) PRC corporate income tax***

The Group's subsidiaries in the PRC are subject to PRC corporate income tax at the rate of 25% for the year ended 31 December 2016 (2015: 25%), based on the existing legislation, interpretations and practices in respect thereof.

***(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 Cayman Islands and accordingly, is exempted from Cayman Islands income tax. The Company's direct subsidiary in the British Virgin Islands (the "**BVI**") was incorporated under the International Business Companies Act of the BVI and, accordingly, is exempted from BVI income tax.

## 8. 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 *(note)* during the year.

| | Year ended 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Profit for the year attributable to equity holders of the Company *(RMB'000)* | **241,961** | 540,008 |
| Weighted average number of ordinary shares for purposes of the basic earnings per share *(thousands of shares)* | **1,904,482** | 1,906,457 |
| Basic earnings per share *(RMB cents per share)* | **12.70** | 28.33 |

*Note:* The weighted average number of ordinary shares for the purpose of basic earnings per share for the year ended 31 December 2016 has been adjusted for the effects of purchase and withholding of the ordinary shares of the Company for the share award scheme which took place on 17 August 2016.

***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 year (2015: Nil).

## 9. Dividends

At a meeting held on 27 March 2017, the directors recommended a final dividend of RMB5.50 cents (equivalent to approximately HK6.21 cents) per ordinary share of the Company, totalling approximately RMB104,855,000 (equivalent to approximately HK$118,391,000) for the year ended 31 December 2016. This proposed dividend is not reflected as a dividend payable in the consolidated financial statements for the year ended 31 December 2016, but will be reflected as an appropriation for the year ending 31 December 2017.

At a meeting held on 29 March 2016, the directors recommended a final dividend of HK$11.0 cents (equivalent to approximately RMB9.31 cents) per ordinary share of the Company, totalling approximately HK$209,710,000 (equivalent to approximately RMB177,420,000) for the year ended 31 December 2015, which was paid during the year and has been reflected as an appropriation for the year ended 31 December 2016.

## 10. Loan to a third party

Loan to a third party of RMB105,000,000 represents an entrusted loan advanced to Shanghai Ordifen Company Limited ("**Shanghai Ordifen**"), a third party, through Shenzhen branch of China Merchants Bank Co., Ltd. ("**CMB**"), as lending agent, pursuant to an entrusted loan entrustment agreement, entered into between a subsidiary of the Group and CMB, and an entrusted loan agreement, entered into between CMB and Shanghai Ordifen, as part of the acquisition of the business of Shanghai Ordifen in year 2015.

The loan is interest bearing at 9% per annum, repayable in 2017 and secured by a joint guarantee provided by two shareholders of Shanghai Ordifen and a charge over a parcel of land and the building thereon situated in Shanghai owned by Shanghai Ordifen.

The loan has been settled in March 2017.

## 11. Trade receivables

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | ***RMB'000*** | *RMB'000* |
| Due from third parties | **454,323** | 519,170 |
| Less: provision for impairment | **(3,093)** | (1,465) |
| Trade receivables – net | **451,230** | 517,705 |

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 31 December 2016 is as follows:

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | ***RMB'000*** | *RMB'000* |
| Trade receivables, gross | | |
| – Within 30 days | **234,559** | 324,271 |
| – Over 30 days and within 60 days | **54,784** | 76,202 |
| – Over 60 days and within 90 days | **37,223** | 46,968 |
| – Over 90 days and within 180 days | **46,224** | 41,165 |
| – Over 180 days and within 360 days | **75,670** | 21,475 |
| – Over 360 days | **5,863** | 9,089 |
| | **454,323** | 519,170 |

## 12. Trade payables

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | ***RMB'000*** | *RMB'000* |
| Due to third parties | **552,305** | 489,652 |
| Due to related parties | **1,949** | 5,759 |
| | **554,254** | 495,411 |

The ageing analysis of trade payables based on invoice date, as at 31 December 2016 is as follows:

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | ***RMB'000*** | *RMB'000* |
| Trade payables | | |
| – Within 30 days | **42,492** | 69,468 |
| – Over 30 days and within 60 days | **113,089** | 125,427 |
| – Over 60 days and within 90 days | **159,195** | 154,705 |
| – Over 90 days and within 180 days | **187,537** | 94,683 |
| – Over 180 days and within 360 days | **41,169** | 30,864 |
| – Over 360 days | **10,772** | 20,264 |
| | **554,254** | 495,411 |

## 13. Borrowings

The carrying amounts of the Group's borrowings are denominated in RMB. The Group's bank borrowings are unsecured, repayable in 2019 and bearing interest at 4.75% per annum (2015: Nil).

## BUSINESS REVIEW

In 2016, economic recovery in the US remained slow and Britain's vote to leave the European Union increased uncertainties over the Eurozone economy. Meanwhile, China's economic growth continued to decelerate. According to the National Bureau of Statistics of China, the country's gross domestic product growth decreased from 6.9% in 2015 to 6.7% in 2016. Nevertheless, consumers' wealth available for spending is still observing an increasing trend even under the current economic situation. The national per capita disposable income of China increased by 6.3% in 2016.

In view of the more cautious consuming sentiment as a result of the slowdown in mainland China's economic development, retail business was in general adversely affected.

More importantly, the commencement of the structural adjustments in the mainland China intimate wear industry also negatively impacted the operating result of the Group. The key structural adjustments included, but not limited to, the following:

**1. Further diversification of sales and distribution channels**

(a) Weaker sales performance for outlets located in the department stores and street outlets, some of which were even loss-making;

(b) Generally better sales performance for outlets located in shopping malls; and

(c) Strong sales growth momentum for e-commerce channel.

**2. Changes in the mix of products sold in the market**

In view of the structural and cyclical adjustments in the mainland China intimate wear industry, some customers have higher requirements for quality products and opt for more comfortable products (such as seamless and wireless products) and also products with health concepts and serving specific purposes (such as sport bras).

Facing the above challenges, the revenue of the Group decreased by about 8.9% to approximately RMB4,512,385,000 (2015: RMB4,953,415,000).

On the other hand, more operating expenses, such as employee benefit expenses, operating lease rentals and marketing and promotion expenses, have been incurred in 2016 for business development. When we noticed the adverse factors mentioned above and the fact that our sales performance was not satisfactory, we have adopted a series of measures in the second half of 2016 to control the operating expenses of the Group. Nevertheless, it took time for these measures to implement and operate effectively, hence the operating expenses still increased substantially in 2016, affecting the profitability of the Group. As such, profit attributable to equity holders of the Company decreased by about 55.2% during the year to approximately RMB241,961,000 (2015: RMB540,008,000). Earnings per share amounted to about RMB12.70 cents in 2016 (2015:RMB28.33 cents), representing a year-on-year decrease of approximately 55.2%.

With a view to improving the operating results of the Group in the future, the Group has formulated various measures and initiatives to revitalize the Group's business, including but not limited to the following:

**1 Changes in the top management**

Several capable senior officers have been recruited during the year and in the first quarter of 2017 to enhance the management of the Group.

**2 Reforms in the sales and distribution channels**

(a) Closure of loss making outlets (mainly those located in department stores and street), and opening of new outlets in selected shopping malls, social communities and third-and fourth-tier markets;

(b) Stepping up effort in the development of e-commerce channels;

(c) Accelerating the upgrade of outlets image to the 5th generation and renovation of existing outlets to stimulate consumers' demand;

(d) Negotiation to form strategic alliances with potential business partners to develop Southeast Asian markets; and

(e) Opening of discount outlets in third- and fourth-tier areas in mainland China for grasping market opportunities in these areas and clearing aged stocks.

**3 Product innovations**

The Group will enhance efforts on market research and development so that the Group is able to launch new products, such as new seamless and soft wire bras, upright cotton mold cups, tai chi stone cups, baby skin cups, 360° high elastic cups, etc., to promptly react to market changes and consumers' new requirements.

**4 Tightening cost controls**

The Group will implement further initiatives to tighten cost controls and improve profit by closing loss marking outlets, negotiating for lower outlet rentals, reducing expenditure on less-effective marketing and promotion activities and reducing unnecessary expenses.

**5 Reforms in supply chain management**

(a) Strengthening the coordination and communication between sales department and supply chain department, enhancing procurement flexibility and increasing procurement frequency to timely respond to sales demand and optimize inventory control.

(b) Integration and consolidation of procurement, monitoring of product supply, inventory usage, raw material specification, quality control and resources allocation to optimize efficiency and reduce wastage of resources; and

(c) Procurement of some raw materials for use by OEM suppliers for further monitoring of raw materials, enhancing quality of final products and enjoying benefits from bulk purchases.

## FINANCIAL REVIEW

### Revenue

The Group's revenue is derived from sales of products, either to the franchisees or to the consumers through self-managed outlets and online sales platforms. The reasons for the decline in revenue and the measures taken by management have been mentioned in the business review section. Management expects that the revenue in 2017 will be at least comparable with that for 2016.

### *Revenue by sales channel*

The products of the Group were sold to consumers through an extensive network of outlets in more than 330 prefecture-level cities across China and via online sales platforms. The breakdown of the total revenue by sales channel is as follows:

| | **Year ended 31 December** | | | |
|---|---|---|---|---|
| | **2016** | | 2015 | |
| | ***RMB'000*** | ***%*** | *RMB'000* | % |
| Sales to franchisees | **2,520,238** | **55.9** | 3,155,892 | 63.7 |
| Retail sales | **1,679,518** | **37.2** | 1,622,952 | 32.8 |
| E-commerce | **312,629** | **6.9** | 174,571 | 3.5 |
| Total revenue | **4,512,385** | **100.0** | 4,953,415 | 100.0 |

Although the sales performance of the Group was not satisfactory, the sales through e-commerce channel continued its high growth momentum in 2016.

### *Revenue by type of product*

The Group's revenue was generated from five major lines of intimate wear products: bras, underpants, sleepwear and loungewear, thermal clothes and others. The breakdown of the total revenue by product is as follows:

| | **Year ended 31 December** | | | |
|---|---|---|---|---|
| | **2016** | | 2015 | |
| | ***RMB'000*** | ***%*** | *RMB'000* | % |
| Bras | **2,041,221** | **45.2** | 2,269,562 | 45.8 |
| Underpants | **712,260** | **15.8** | 795,833 | 16.1 |
| Sleepwear and loungewear | **652,748** | **14.5** | 715,422 | 14.4 |
| Thermal clothes | **582,943** | **12.9** | 600,198 | 12.1 |
| Others*(Note1)* | **523,213** | **11.6** | 572,400 | 11.6 |
| Total revenue | **4,512,385** | **100.0** | 4,953,415 | 100.0 |

*Note:*

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

## Gross profit and gross profit margin

The improvement in gross profit margin of the Group to around 44.4% (2015: 42.7%) was mainly due to the continuous changes in sales channels and product portfolio, and the further integration of the supply chain. Nevertheless, the gross profit figure still declined to approximately RMB2,002,037,000 (2015: RMB2,114,794,000) as a result of drop in sales during the year.

## Operating expenses

Selling and marketing expenses primarily consist of employee benefit expenses, operating lease rentals in respect of land and buildings, marketing and promotion expenses, e-commerce platforms commission expenses, depreciation and amortization, and others. The increase in selling and marketing expenses by around 9.8% to approximately RMB1,434,758,000 (2015: RMB1,306,751,000) was mainly attributable to the net increase in the number of the self-managed outlets during the year leading to the significant increase in employee benefit expenses and operating lease rentals, the significant increase in commission as a result of the surge in e-commerce business, and the full year impact on the selling and marketing expenses arising from the acquisition of Ordifen brand and its sub-brands in June 2015.

General and administrative expenses primarily consist of employee benefit expenses, depreciation and amortization, other operating rental expenses, travelling expenses and others. The increase in general and administrative expenses by about 58.3% to approximately RMB312,619,000 (2015:RMB197,495,000) was primarily attributable to an increase in employee benefit expenses, other operating rental expenses, depreciation and amortization, and the full year impact on the general and administrative expenses arising from the acquisition of Ordifen brand and its sub-brands in June 2015.

Management expects that after taking the tightening cost control measures mentioned in the business review section, the operating expenses of the Group in 2017 will drop when compared with that for 2016.

## Other income

Other income consists of government grants, software usage fee income, franchise fee income, service fee income and others. The decline of other income by 34.7% to approximately RMB50,087,000 (2015: RMB76,735,000) during the year was mainly attributable to the decrease in government grants and service fee income by about RMB19,826,000 and RMB5,138,000, respectively.

## Finance income – net

Net finance income represents interest income on available-for-sale financial assets, loan to a third party and short-term bank deposits, less finance expenses on bank borrowings. The net finance income of approximately RMB18,295,000 (2015: RMB21,766,000) declined as a result of the increase in interest expenses on bank borrowings during the year.

## Income tax expense

Income tax expense primarily represents income tax payable by the Group under relevant income tax rules and regulations of the PRC. The effective tax rate of the Group for the year was around 25.3% (2015: 24.0%) which remained fairly stable and was comparable with the prevailing standard tax rate of 25% in mainland China. As of 31 December 2016, the Group had fulfilled all its tax obligations and did not have any unresolved tax disputes.

## WORKING CAPITAL MANAGEMENT

| | **2016** | 2015 |
|---|---|---|
| Average inventory turnover days | **141.8 days** | 92.5 days |
| Average trade receivables turnover days | **39.2 days** | 29.4 days |
| Average trade payables turnover days | **76.3 days** | 49.2 days |

The increase in average inventory turnover days was primarily due to the increase in inventory balance from approximately RMB800,377,000 as of 31 December 2015 to approximately RMB1,150,679,000 as of 31 December 2016, as the sales performance in 2016 was lower than expectation. Management expects that after taking the measures mentioned in the business review section, the inventory level and hence the average inventory turnover days at the end of 2017 will become lower than those at the end of 2016.

Average trade receivables turnover days increased from about 29.4 days for 2015 to about 39.2 days for 2016 because of the increased credit sales made to franchisees during the year. Nevertheless, management gradually tightened controls over this area in the second half of 2016 and hence the accounts receivable balance of approximately RMB451,230,000 as at 31 December 2016 was lower than the balances as at 30 June 2016 (RMB586,811,000) and 31 December 2015 (RMB517,705,000).

Average trade payables turnover days increased from around 49.2 days for 2015 to around 76.3 days for the 2016 because of increased bargaining power against the OEM suppliers.

## LIQUIDITY AND FINANCIAL RESOURCES

The Group maintained a solid financial position. As at 31 December 2016, the Group's bank balances and cash amounted to approximately RMB809,178,000 (31 December 2015: RMB960,074,000) and bank borrowings amounted to RMB200,000,000 (31 December 2015: Nil).

As at 31 December 2016, the Group's gross gearing ratio, which was calculated on the basis of the amount of bank borrowings as a percentage of the total shareholders' equity, was approximately 7.4% (2015: Nil). The net gearing ratio, which was calculated on the basis of the amount of bank borrowings less bank balances and cash as a percentage of the total shareholders' equity, was approximately negative 22.6% (2015: Nil) as the Group was at a net cash position.

There was a negative cash flow of about RMB6,930,000 (2015: positive cash flow RMB402,704,000) generated from operating activities. It was mainly because part of the cash has been tied up as inventories which were not sold during the year. Management expects that after taking the measures mentioned in the business review section, the net cash position and operating cash flow of the Group will be improved in 2017.

## CAPITAL EXPENDITURE

During the year, capital expenditure of approximately RMB190,081,000 (2015: RMB346,954,000) was mainly incurred for the construction of the Tianjin logistics centre. The amount of capital expenditure declined as the construction work for the Dongguan logistics centre had been completed in 2015.

## PLEDGE OF ASSETS

At 31 December 2016, no assets were pledged as securities for banking facilities available to the Group.

## CONTINGENT LIABILITIES

At 31 December 2016, the Group did not have any material contingent liabilities.

## DISTRIBUTION NETWORK ACROSS CHINA AND MARKET SHARE

The Group has an extensive distribution network across China. Nevertheless, in response to the structural adjustments in the mainland China intimate wear industry, a lot of loss making outlets have been closed and the total net number of outlets has declined by 958 during the year. As at 31 December 2016, the Group's distribution network comprised 7,651 outlets, out of which 1,523 were self-managed outlets and 6,128 were franchised outlets. With the support of this extensive distribution network, the Group, according to Frost & Sullivan, continued to have the highest market share of around 3.2% in this industry.

## HUMAN RESOURCES AND MANAGEMENT

As at 31 December 2016, the Group employed approximately 7,800 (2015: 8,800) staff members. The Group's remuneration package is determined with reference to the experience and qualifications of the individual employees and general market conditions. Bonus is linked to the Group's financial results as well as individual performance. The Group also ensures that all employees are provided with adequate training and career opportunities according to their needs.

## ENVIRONMENTAL MANAGEMENT

Being a socially and environmentally responsible enterprise, the Group is dedicated to achieve environmental sustainability through its daily operations and is in compliance with regulations including the newly revised "Environmental Protection Law of the People's Republic of China" and regulations set by the Environmental Protection Bureau of Local Government. The Group has also attained ISO14001 Environment Management Systems.

A corporate social responsibility report for the Group issued in accordance with the Environmental, Social and Governance reporting guide of the Stock Exchange has been included in our 2016 annual report which will be published in due course.

## SUBSEQUENT EVENTS

There were no significant events affecting the Group that took place subsequent to 31 December 2016 till the date of this announcement.

## USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING

The Company's ordinary shares were listed on the Main Board of the Stock Exchange on 26 June 2014. The total net proceeds from the Company's initial public offering amounted to approximately HK$1,463 million (equivalent to approximately RMB1,162 million). The Group has, up to 31 December 2016, utilized approximately RMB234,138,000 (equivalent to approximately HK$270,319,000) to expand its retail network by increasing the number of its self-managed outlets, approximately RMB134,213,000 (equivalent to approximately HK$154,953,000) to establish the regional logistics centre in Tianjin and approximately RMB24,894,000 (equivalent to approximately HK$28,741,000) to upgrade information technology infrastructure. As at 31 December 2016, the net proceeds not yet utilized were deposited with licensed banks in Hong Kong and China.

## OUTLOOK AND STRATEGY

Looking ahead to 2017, the Group will continue to face various challenges. Nonetheless, we will adopt various measures and initiatives to revitalize the Group's business. Apart from the measures mentioned in the business review section, the Group will proactively seek suitable merger, acquisition, share subscription and/or cooperation opportunities, amid industry adjustments, with a view to further develop the Group's existing business and new businesses with synergy effect. The Group will also strengthen our relationship with selected suppliers by forming strategic alliance with them with a view to further improve our supply chain and research and development management in the future.

After the implementation of the measures mentioned in the business review section, the Board is cautiously optimistic that the operating result of the Group will gradually improve.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2016.

## CORPORATE GOVERNANCE PRACTICES

The Board of the Company has reviewed the Company's corporate governance practices and considers that the Company was in compliance with the code provisions set out in the Corporate Governance Code (the "**Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") during the year ended 31 December 2016, 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 operations 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 advice in 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.

## AUDIT COMMITTEE REVIEW

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 the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters for the year ended 31 December 2016. The audit committee has also reviewed the annual results of the Group for the year ended 31 December 2016.

The figures contained in the financial information set out in page 2 to 13 of this announcement of the Group's results for the year ended 31 December 2016 have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's consolidated financial statements for the year as approved by the Board. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

## MODEL CODE FOR SECURITIES TRANSACTIONS

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, all Directors of the Company have confirmed that they have complied with the required standard as set out in the Model Code for the year ended 31 December 2016.

## FINAL DIVIDEND

The Board of the Company has recommended the payment of final dividend of RMB5.50 cents (payable in Hong Kong dollars, equivalent to approximately HK$6.21 cents per share, using the exchange rate quoted by the People's Bank of China on 24 March 2017) for the year ended 31 December 2016 (2015: HK$11.00 cents per share). The final dividend would be payable to shareholders whose names appear on the register of members of the Company on Monday, 29 May 2017 at 4:30 p.m., subject to the approval of shareholders at the annual general meeting to be held on Friday, 19 May 2017 (the "**2017 AGM**"). Dividend warrants are expected to be despatched on Thursday, 8 June 2017.

## CLOSURE OF REGISTER OF MEMBERS

For determining shareholders' entitlement to attend and vote at the 2017 AGM, the register of members of the Company will be closed from Tuesday, 16 May 2017 to Friday, 19 May 2017, both days inclusive, during which period no transfer of shares of the company will be effected.

In order to be eligible to attend and vote at the 2017 AGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queens's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on Monday, 15 May 2017 for registration.

The record date and time for entitlement to the proposed finial dividend for 2016 is Monday, 29 May 2017 at 4:30 p.m.. The register of members of the Company will be closed from Thursday, 25 May 2017 to Monday, 29 May 2017, both days inclusive. In order to qualify for the final dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited at the above address, no later than 4:30 p.m. on Wednesday, 24 May 2017 for registration.

## PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement is published on the website of the Stock Exchange at http://www.hkexnews.hk and on the Company's website at http://www.cosmo-lady.com.hk. The 2016 annual report of the Company will be available on both websites and dispatched to the shareholders of the Company in due course.

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

Hong Kong, 27 March 2017

*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.*