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 2017

FINANCIAL HIGHLIGHTS

		Year ended 31 December		
		2017	2016	Change
Revenue	*RMB'000*	**4,542,483**	4,512,385	0.7%
Operating profit	*RMB'000*	**419,565**	305,449	37.4%
Profit attributable to equity holders of the Company	*RMB'000*	**317,002**	241,961	31.0%
Gross profit margin	%	**43.2%**	44.4%	
Operating profit margin	%	**9.2%**	6.8%	
Margin of profit attributable to equity holders of the Company	%	**7.0%**	5.4%	
Earnings per share – basic and diluted	*RMB cents*	**15.45**	12.70	
Final dividend per share	*HK$ cents*	**3.34**	6.21	
	(RMB cents)	**(2.70)**	(5.50)	

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 2017, together with comparative figures for the corresponding period of 2016 and selected explanatory notes, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended 31 December	
	Note	**2017**	2016
		RMB'000	*RMB'000*
Revenue	*4*	**4,542,483**	4,512,385
Cost of sales		**(2,577,960)**	(2,510,348)
Gross profit		**1,964,523**	2,002,037
Selling and marketing expenses		**(1,337,868)**	(1,434,758)
General and administrative expenses		**(261,525)**	(312,619)
Other income	*5*	**55,354**	50,087
Other (losses)/gains – net		**(919)**	702
Operating profit		**419,565**	305,449
Finance income		**18,763**	22,707
Finance expense		**(11,564)**	(4,412)
Finance income – net		**7,199**	18,295
Share of loss of an associate		**(1,493)**	–
Profit before income tax	*6*	**425,271**	323,744
Income tax expense	*7*	**(108,269)**	(81,783)
Profit for the year		**317,002**	241,961
Other comprehensive income for the year			
(Items that may be reclassified subsequently to profit or loss)			
Exchange differences		**(18,035)**	1,925
Total comprehensive income for the year		**298,967**	243,886
Profit attributable to equity holders of the Company		**317,002**	241,961
Total comprehensive income attributable to equity holders of the Company		**298,967**	243,886
Earnings per share	*8*	***RMB cents***	*RMB cents*
Basic and diluted		**15.45**	12.70

CONSOLIDATED BALANCE SHEET

	Note	As at 31 December **2017** *RMB'000*	2016 *RMB'000*
Assets			
Non-current assets			
Property, plant and equipment		**565,009**	545,646
Land use rights		**87,311**	89,391
Intangible assets		**45,390**	39,449
Investment in a joint venture		**19,900**	1,990
Investment in an associate		**2,507**	–
Available-for-sale financial assets		**23,100**	18,600
Deposits, prepayments and other receivables		**8,637**	25,815
Deferred income tax assets		**55,230**	39,209
		807,084	760,100
Current assets			
Inventories		**1,111,959**	1,150,679
Trade receivables	*11*	**554,279**	451,230
Loan to a third party	*10*	**–**	105,000
Deposits, prepayments and other receivables		**539,624**	503,199
Financial asset at fair value through profit or loss		**8,408**	–
Term deposits and restricted bank deposits		**109,855**	9,645
Cash and cash equivalents		**1,405,285**	799,533
		3,729,410	3,019,286
Total assets		**4,536,494**	3,779,386
Equity			
Capital and reserves attributable to equity holders of the Company			
Share capital	*12*	**133,792**	117,320
Share premium	*12*	**1,603,035**	1,254,574
Other reserves		**275,445**	260,929
Retained earnings		**1,343,841**	1,061,006
Total equity		**3,356,113**	2,693,829
Liabilities			
Current liabilities			
Trade payables	*13*	**583,568**	554,254
Accruals and other payables		**305,257**	305,614
Current income tax liabilities		**48,649**	24,088
Borrowings	*14*	**11,820**	–
Deferred income		**2,958**	–
		952,252	883,956
Non-current liabilities			
Borrowings	*14*	**211,260**	200,000
Deferred income tax liabilities		**1,424**	1,601
Deferred income		**15,445**	–
		228,129	201,601
Total liabilities		**1,180,381**	1,085,557
Total equity and liabilities		**4,536,494**	3,779,386

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 2017	**117,320**	**1,254,574**	**260,929**	**1,061,006**	**2,693,829**
Comprehensive income					
Profit for the year	**–**	**–**	**–**	**317,002**	**317,002**
Other comprehensive income					
Exchange differences	**–**	**–**	**(18,035)**	**–**	**(18,035)**
Total comprehensive income for the year	**–**	**–**	**(18,035)**	**317,002**	**298,967**
Transactions with equity holders					
Proceeds from shares issued *(Note 12)*	**16,472**	**511,978**	**–**	**–**	**528,450**
Equity-settled share-based compensation	**–**	**–**	**3,049**	**–**	**3,049**
Shares purchased for share award scheme	**–**	**–**	**(4,665)**	**–**	**(4,665)**
Dividends paid	**–**	**(163,517)**	**–**	**–**	**(163,517)**
Total transaction with equity holders	**16,472**	**348,461**	**(1,616)**	**–**	**363,317**
Appropriation to statutory reserves	**–**	**–**	**34,167**	**(34,167)**	**–**
As at 31 December 2017	**133,792**	**1,603,035**	**275,445**	**1,343,841**	**3,356,113**
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
Shares purchased for share award scheme	–	–	(14,872)	–	(14,872)
Dividends paid	–	(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

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Cash flows from operating activities		
Cash generated from operations	**446,733**	122,993
Income tax paid	**(99,906)**	(129,923)
Net cash generated from/(used in) operating activities	**346,827**	(6,930)
Cash flows from investing activities		
Proceeds from disposal of property, plant and equipment	**561**	4,564
Interest received	**25,971**	18,044
Payment for an available-for-sale financial asset	**(4,000)**	–
Purchases of property, plant and equipment	**(98,436)**	(162,379)
Purchases of intangible assets	**(6,323)**	(5,518)
Capital contribution to a joint venture	**(9,055)**	–
Capital contribution to an associate	**(4,000)**	–
Term deposits with initial term of over three months	**(100,210)**	(210)
Repayment of loan by a third party	**105,000**	–
Payments to a business combination	**–**	(5,000)
Net cash used in investing activities	**(90,492)**	(150,499)
Cash flows from financing activities		
Payments for purchase of the Company's shares for share award scheme	**(4,665)**	(14,872)
Proceeds from shares issued	**528,450**	–
Proceeds from borrowings	**30,000**	200,000
Repayments of borrowings	**(6,920)**	–
Interest paid for borrowings	**(11,564)**	(4,412)
Dividends paid	**(163,517)**	(177,420)
Net cash generated from financing activities	**371,784**	3,296
Net increase/(decrease) in cash and cash equivalents	**628,119**	(154,133)
Cash and cash equivalents at beginning of the year	**799,533**	950,639
Effect of foreign exchange rate changes	**(22,367)**	3,027
Cash and cash equivalents at end of the year	**1,405,285**	799,533

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 22 March 2018.

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 and financial assets at fair value through profit or loss, 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 2017. The adoption of these amendments to standards does not have any significant impact to the results or financial position of the Group.

IAS 7	Statement of Cash Flows
IAS 12	Income Taxes
IFRS 12	Disclosure of Interest in Other Entities

(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 2017, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on these consolidated financial statements of the Group, except the following set out below:

IFRS 9, 'Financial instruments' will be applied prospectively for financial years commencing on or after 1 January 2018 and comparatives for 2017 will not be restated. The new standard requires the investments currently classified as available-for-sale financial assets of RMB23,100,000 as at 31 December 2017 would continue to classify as fair value through other comprehensive income and not recycling to profit or loss. 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.

IFRS 16, 'Leases' will be applied for the financial years commencing on or after 1 January 2018 and will result in almost all leases being recognised on the consolidated balance sheet, as the distinction between operating and finance leases is removed. Under this 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. There is no significant change for the accounting for lessors. As at 31 December 2017, the Group has non-cancellable operating lease commitments of RMB498,733,000. 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.

(c) ***Investment in a joint venture and an associate are accounted for using equity method of accounting.***

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. Substantially all of its revenue for the years ended 31 December 2017 and 31 December 2016 were derived in the PRC.

For the year ended 31 December 2017, none of the revenue derived from any single external customer amounted to more than 10% of the Group's revenue (2016: None).

4. Revenue

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Sales to franchisees	**2,433,468**	2,520,238
Retail sales	**1,566,039**	1,679,518
E-commerce	**542,976**	312,629
	4,542,483	4,512,385

5. Other income

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Government grants *(Note(a))*	**40,349**	31,083
Logistic warehousing and delivery income	**3,100**	–
Software usage fee income	**1,833**	2,248
Franchise fee income	**922**	984
Service fee income *(Note(b))*	**–**	2,011
Others	**9,150**	13,761
	55,354	50,087

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	
	2017	2016
	RMB'000	*RMB'000*
Employee benefit expenses (including directors' emoluments)	**506,845**	557,974
Operating lease rentals in respect of land and buildings	**479,934**	527,687
Other operating rental expenses	**30,664**	45,883
Marketing and promotion expenses	**133,255**	117,459
Depreciation and amortization	**81,654**	88,220
E-commerce platforms commission expenses	**74,003**	53,376
Write-down of inventories	**19,574**	46,877

7. Income tax expense

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Current income tax		
– Hong Kong profits tax *(Note (a))*	**–**	–
– PRC corporate income tax *(Note (b))*	**124,467**	90,851
	124,467	90,851
Deferred income tax	**(16,198)**	(9,068)
Income tax expense	**108,269**	81,783

Notes:

(a) Hong Kong profits tax

The applicable Hong Kong profits tax rate is 16.5% for the year ended 31 December 2017 (2016: 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 2017 (2016: 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 during the year.

	Year ended 31 December	
	2017	2016
Profit for the year attributable to equity holders of the Company *(RMB'000)*	**317,002**	241,961
Weighted average number of ordinary shares for purposes of the basic earnings per share *(thousands of shares)*	**2,051,303**	1,904,482
Basic earnings per share *(RMB cents per share)*	**15.45**	12.70

Note: The weighted average number of ordinary shares for the purpose of basic earnings per share for the year ended 31 December 2017 has been adjusted for the effects of the issuance of new shares on 17 May 2017 and the effects of purchase and withholding of the ordinary shares of the Company for the share award scheme which took place on 30 November 2017 and 7 December 2017.

Diluted

For the year ended 31 December 2017, diluted earnings per share is the same as the basic earnings per share as the share options granted by the Company have anti-dilutive effect to the Group (2016: Nil).

9. Dividends

At a meeting held on 22 March 2018, the directors recommended a final dividend of HK$3.34 cents (equivalent to approximately RMB2.70 cents) per ordinary share of the Company, totalling approximately HK$71,692,000 (equivalent to approximately RMB57,954,000) for the year ended 31 December 2017. This proposed dividend is not reflected as a dividend payable in the consolidated financial statements for the year ended 31 December 2017, but will be reflected as an appropriation for the year ending 31 December 2018.

At a meeting held on 21 August 2017, the Board has recommended an interim dividend of HK$2.58 cents (equivalent to approximately RMB2.20 cents) per ordinary share of the Company, totalling approximately HK$55,379,000 (equivalent to approximately RMB47,246,000) for the six months ended 30 June 2017 (2016: Nil), which was paid during the year and has been reflected as an appropriation for the year ended 31 December 2017.

At the annual general meeting held on 19 May 2017, the shareholders approved a final dividend of HK$6.21 cents (equivalent to approximately RMB5.49 cents) per ordinary share of the Company, totalling approximately HK$133,294,000 (equivalent to approximately RMB117,827,000) for the year ended 31 December 2016, which was paid during the year and has been reflected as an appropriation for the year ended 31 December 2017 and has been reflected as an appropriation for the year ended 31 December 2017.

10. Loan to a third party

Loan to a third party of RMB105,000,000 was repaid in March 2017. It represented 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.

11. Trade receivables

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Due from third parties	**556,723**	454,323
Less: provision for impairment	**(2,444)**	(3,093)
Trade receivables – net	**554,279**	451,230

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 Group would also extend the credit period for certain franchise customers under certain circumstances. The ageing analysis of trade receivables based on invoice date, as at 31 December 2017 is as follows:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Trade receivables, gross		
– Within 30 days	**291,628**	234,559
– Over 30 days and within 60 days	**59,296**	54,784
– Over 60 days and within 90 days	**73,527**	37,223
– Over 90 days and within 180 days	**39,409**	46,224
– Over 180 days and within 360 days	**71,730**	75,670
– Over 360 days	**21,133**	5,863
	556,723	454,323

12. Share capital and share premium

	Number of ordinary shares	Share capital *RMB'000*	Share premium *RMB'000*	Total *RMB'000*
As at 1 January 2017	**1,906,457,000**	**117,320**	**1,254,574**	**1,371,894**
Proceeds from shares issued *(Note (a))*	**240,000,000**	**16,472**	**511,978**	**528,450**
Dividends paid	**–**	**–**	**(163,517)**	**(163,517)**
As at 31 December 2017	**2,146,457,000**	**133,792**	**1,603,035**	**1,736,827**
As at 1 January 2016	1,906,457,000	117,320	1,431,994	1,549,314
Dividends paid	–	–	(177,420)	(177,420)
As at 31 December 2016	1,906,457,000	117,320	1,254,574	1,371,894

Note:

(a) Pursuant to an agreement dated 5 May 2017 entered into between the Company and Fosun Ruizhe Grace Investments Limited, the Company allotted and issued 240,000,000 shares at the price of HK$2.5 per share on 17 May 2017.

13. Trade payables

	As at 31 December **2017** *RMB'000*	2016 *RMB'000*
Due to third parties	**577,900**	552,305
Due to related parties	**5,668**	1,949
	583,568	554,254

The ageing analysis of trade payables based on invoice date, as at 31 December 2017 is as follows:

	As at 31 December **2017** *RMB'000*	2016 *RMB'000*
Trade payables		
– Within 30 days	**158,783**	42,492
– Over 30 days and within 60 days	**125,781**	113,089
– Over 60 days and within 90 days	**107,847**	159,195
– Over 90 days and within 180 days	**170,253**	187,537
– Over 180 days and within 360 days	**14,633**	41,169
– Over 360 days	**6,271**	10,772
	583,568	554,254

14. Borrowings

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Non-current	**211,260**	200,000
Current	**11,820**	–
	223,080	200,000

Movements in borrowings are analysed as follows:

	RMB'000
Opening amount as at 1 January 2017	**200,000**
Repayments of bank borrowings	**(6,920)**
Proceeds from bank borrowings	**30,000**
Closing amount as at 31 December 2017	**223,080**

The carrying amounts of the Group's borrowings are denominated in RMB.

The Group's bank borrowings are unsecured and repayable until 2019 and 2020, and bearing interest at 5.20% per annum (2016: 4.75%). The fair values of the non-current borrowings approximate their carrying amounts, as the impact of discounting is not significant. The fair values are based on cash flows discounted using a rate based on the borrowing rate of 5.20% (2016: 4.75%) and are within level 2 of the fair value hierarchy.

BUSINESS REVIEW

During the year under review, the global economy showed booming growth trend, and major economies in the world continued to recover at a steady pace. China's economy has also shifted from a phase of rapid growth to a period of high-quality development. In 2017, the GDP of China grew by approximately 6.9% year-on-year, picking up pace for the first time in seven years. The total retail sales of China's consumer goods increased by approximately 10.2% year-on-year, and the overall domestic retail atmosphere gradually recovered from weakness. China's intimate wear market is huge in size, but there are a large number of players and the market is very fragmented, and it continues to undergo structural adjustments in respect of sales channel diversification, product quality and mix of products. The market remained competitive and posed great challenges to the industry.

To address the above challenges, the Group has formulated various measures to improve the Group's business performance during the year, including but not limited to the following:

1) Optimization and further diversification of sales and distribution channels

   a) Adjusting sales and distribution channels proactively by closing loss-making retail stores (mainly those located in department stores and street), and enhancing efforts in opening of retail stores with larger size in suitable locations and renovation of the existing retail stores;

   b) Opening large discount retail stores in the third – and – fourth-tier areas in mainland China;

   c) Stepping up effort in the development of e-commerce channels; and

   d) Developing Southeast Asian market with business partners.

2) Tightening expenses control and cutting costs

   In addition to adjusting sales and distribution channels proactively by closing loss-making retail stores, the Group implemented further initiatives to tighten cost controls by negotiating for lower retail store rentals and reducing unnecessary human resources expenses.

3) Reforming supply chain management

   a) Establishing a new product management department for strengthening the coordination and communication between sales department and supply chain department, improving the efficiency of research and development, design and logistics, and making rapid responses to market changes;

   b) Enhancing procurement flexibility to optimize inventory control; and

   c) Procuring some raw materials for use by OEM suppliers for enhancing quality of final products and enjoying benefits from bulk purchases.

4) Enhancing efforts on market research and development of new products and technological innovation.

   New products, such as seamless and soft wire bras, upright cotton mold cups, tai chi stone cups, sleepwear products using cationic antiseptic fabric, were launched in the year to improve competitiveness of the Group in the market.

5) Broadening the product range of the Group with other renowned players

   Entering into a cooperation agreement with Fanani (Shanghai) Garments Co., Ltd., a domestic enterprise, and Kimuratan Corporation, a Japan listed company, for distributing its infant and children apparels online in China, and broadening the product range of the Group in order to capture a footing in the kids' segment of the intimate wear market.

The above measures have gradually achieved moderate success, with which the operations of the Group showed significant improvement in the second half of 2017. As such, revenue improved by approximately 7.1% in the second half of the year as compared with that of the same period in 2016, from a decrease of approximately 6.0% in the first half of the year as compared with that of the same period in 2016, resulting in a slight increase in the revenue for the year of approximately by 0.7% to approximately RMB4,542,483,000 (2016: RMB4,512,385,000). Profit also improved by approximately 153.3% in the second half of the year as compared with that of the same period in 2016, from a decrease of approximately 16.7% in the first half of the year as compared with that of the same period in 2016, resulting in an increase in the profit for the year of approximately 31.0% to approximately RMB317,002,000 (2016: RMB241,961,000).

In the coming year, we will continue to revitalize the Group's business as our top priority and proactively seek suitable mergers, acquisitions, share subscription and/or cooperation opportunities, amid industry adjustments, with a view to further develop the Group's existing business and new businesses having synergy with existing business, and to create higher value for shareholders by developing the business in a healthy and stable manner and seeking new breakthroughs and changes.

FINANCIAL REVIEW

Revenue

The Group's revenue is derived from sales of products, either to the franchisees or to the consumers through self-managed retail stores and online sales platforms.

Revenue by sales channel

The products of the Group are sold to consumers through an extensive network of retail stores 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			
	2017		2016	
	RMB'000	*%*	*RMB'000*	*%*
Sales to franchisees	**2,433,468**	**53.6**	2,520,238	55.9
Retail sales	**1,566,039**	**34.5**	1,679,518	37.2
E-commerce	**542,976**	**11.9**	312,629	6.9
Total revenue	**4,542,483**	**100.0**	4,512,385	100.0

Revenue from the sales to franchisees and retail sales decreased as a result of the closure of certain loss-making retail stores. Management has stepped up effort in the development of e-commerce channel so that the sales through e-commerce channel continued its high growth momentum in 2017, achieving an increase of approximately 73.7%.

Revenue by type of product

The Group's revenue is 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 type of product is as follows:

	Year ended 31 December			
	2017		2016	
	RMB'000	*%*	*RMB'000*	*%*
Bras(1)	**2,285,950**	**50.3**	2,041,221	45.2
Underpants(1)	**818,429**	**18.0**	712,260	15.8
Sleepwear and loungewear(2)	**532,756**	**11.7**	652,748	14.5
Thermal clothes(2)	**457,639**	**10.1**	582,943	12.9
Others(3)	**447,709**	**9.9**	523,213	11.6
Total revenue	**4,542,483**	**100.0**	4,512,385	100.0

Note:

(1) Sales of the Group's principal business (bras and underpants) have restored a good growth.

(2) Apart from the closure of retail stores affecting the sales revenue:

 (a) The drop in sales of sleepwear and loungewear was mainly attributable to the insufficient investment in the research and development and technology innovation in this business; and

 (b) The decrease in sales of thermal clothes was mainly due to the relatively warm weather during the year.

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

Gross profit margin

During the year under review, the gross profit margin of the Group slightly decreased to around 43.2% (2016: 44.4%). This was primarily due to the increase in purchase prices for raw materials during the year and the Group's step up of promotion efforts for clearing the aged inventories brought down from previous years.

Selling and marketing expenses

Selling and marketing expenses primarily consist of employee benefit expenses, operating lease rentals in respect of lands and buildings, marketing and promotion expenses, e-commerce platforms commission expenses, depreciation and amortization and others.

During the year under review, the decline of selling and marketing expenses by about 6.8% to approximately RMB1,337,868,000 (2016: RMB1,434,758,000) was primarily attributable to (a) the decrease of operating lease rentals and employee benefit expenses in respect of self-managed retail stores as a result of closure of certain loss-making retail stores in 2017; and (b) the adoption of more stringent measures to control various expenses.

General and administrative expenses

General and administrative expenses primarily consist of employee benefit expenses, depreciation and amortization, travelling expenses and others.

During the year, the drop of general and administrative expenses by about 16.3% to approximately RMB261,525,000 (2016: RMB312,619,000) was mainly attributable to (a) the reduction in number of administrative staff of the Group; and (b) the adoption of more stringent measures to control various expenses.

Other income

Other income consists of government grants, logistic warehousing and delivery income, software usage fee income, franchise fee income, service fee income and others. During the year, other income increased by approximately 10.5% to approximately RMB55,354,000 (2016: RMB50,087,000), mainly due to the increase in grants awarded for the compliance with the local governments' industrial technological reforms.

Finance income – net

Net finance income mainly 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 financial income of approximately RMB18,763,000 (2016: RMB22,707,000) decreased, mainly as a result of the decline in the interest on the loan to a third party which has been fully settled in the first half of 2017.

The finance expense of approximately RMB11,564,000 (2016: RMB4,412,000) increased, mainly arising from the annual interest expenses in 2017 on the bank borrowings obtained in the second half of 2016 and the first half of 2017.

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 ended 31 December 2017 was approximately 25.5% (2016: 25.3%) which remained fairly stable. As at 31 December 2017, the Group had fulfilled all its tax obligations and did not have any unresolved tax disputes.

WORKING CAPITAL MANAGEMENT

	Year ended 31 December	
	2017	2016
Average inventory turnover days	**160.2**	141.8
Average trade receivables turnover days	**40.4**	39.2
Average trade payables turnover days	**80.5**	76.3

The inventory balance of approximately RMB1,111,959,000 (31 December 2016: RMB1,150,679,000) remained fairly stable. The effort for clearing aged inventories and reducing inventory balance has been offset by the inventories for new products purchased in 2017. The increase in the average inventory turnover days from 141.8 days for 2016 to 160.2 days for 2017 was primarily due to the lower inventory balance of approximately RMB800,377,000 as at 31 December 2015, which was used in the calculation of the average inventory turnover days for 2016. The management expects that by taking the measures mentioned in the business review section, the inventory level and hence the average inventory turnover days at 31 December 2018 will become lower than those at 31 December 2017.

Average trade receivables turnover days of about 40.4 days remained fairly stable (31 December 2016: 39.2 days).

Average trade payables turnover days increased from about 76.3 days for 2016 to about 80.5 days for 2017 because of increased bargaining power against the OEM suppliers.

ISSUANCE OF NEW SHARES TO A STRATEGIC INVESTOR

On 17 May 2017, the Company issued 240,000,000 new shares at a price of HK$2.50 per share to a wholly-owned subsidiary of Fosun International Limited ("**Fosun**") raising a gross proceed of HK$600,000,000. The above proceed was deposited in certain licensed banks in Hong Kong.

The Company and Fosun have entered into a strategic cooperation agreement pursuant to which the parties agreed to utilize their respective resources, expertise and experience to explore various possible in-depth cooperations with a view to further promote the brands and development of the Group in the intimate wear industry in China.

For details of the above transaction, please refer to the announcements dated 5 May 2017 and 17 May 2017.

LIQUIDITY AND FINANCIAL RESOURCES

The Group maintained a solid balance sheet. As at 31 December 2017, the Group's term deposits, restricted bank deposits and cash and cash equivalents, amounted to approximately RMB1,515,140,000 (31 December 2016: RMB809,178,000) and bank borrowings amounted to approximately RMB223,080,000 (31 December 2016: RMB200,000,000). As at 31 December 2017, the current ratio was about 3.9 times (31 December 2016: 3.4 times). The increase in term deposits, restricted bank deposits and cash and cash equivalents, and improvement in current ratio were mainly due to the issuance of new shares as mentioned above and improvement in the cash flows generated from operating activities.

As at 31 December 2017, 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 6.6% (31 December 2016: 7.4%). The net gearing ratio, which was calculated on the basis of the amount of bank borrowings less term deposits, restricted bank deposits and cash and cash equivalents as a percentage of the total shareholders' equity, was approximately negative 38.5% (31 December 2016: negative 22.6%) as the Group was at a net cash position.

FOREIGN CURRENCY RISK

Most of the Group's income, expenses and purchases of raw materials are denominated in Renminbi. The Group has never had any significant difficulties in obtaining sufficient foreign currencies for repatriation of profits declared by the subsidiaries in the mainland China to the overseas holding companies.

APPOINTMENT OF PROFESSIONAL CONSULTANT

During the year, management has engaged Rowland Berger Strategy Consultants (Shanghai) Limited ("**Rowland Berger**"), a global leading consulting firm, to assist the Group to prepare and implement its 5-year development plan for the future. Rowland Berger will make recommendations to management on strategies for income and development in the next 5 years, strategies and layout for brand building, development and layout for distribution channels, reforms and innovation on retail sales, as well as reforms on supply chain management and products of the Group.

In addition, the management has further engaged Rowland Berger to provide consulting services on the management, systems and operation of the supply chains department in March 2018.

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, as at 31 December 2017, utilized approximately RMB416,985,000 (equivalent to approximately HK$481,947,000) to invest in the self-managed retail stores to expand its retail network, approximately RMB163,425,000 (equivalent to approximately HK$188,885,000) and RMB118,301,000 (equivalent to approximately HK$136,731,000) to construct and operate the logistics centres in Tianjin and Dongguan respectively and approximately RMB25,603,000 (equivalent to approximately HK$29,592,000) to upgrade information technology infrastructure. As 31 December 2017, net proceeds not yet utilized were deposited with certain licensed banks in Hong Kong and China.

CAPITAL EXPENDITURE

During the year, capital expenditure of approximately RMB128,420,000 (31 December 2016: RMB190,081,000) was used mainly for the construction of the first stage of logistics centre in Tianjin and decoration of retail stores. The amount of capital expenditure declined as the construction work for the first stage of the Tianjin logistics centre had been completed in 2017.

DISPOSAL OF EQUITY INTEREST IN A SUBSIDIARY

Pursuant to an agreement dated 23 June 2017 entered into between a wholly-owned subsidiary of the Company and Guangdong Zhengji Innovative Industrial Park Development Company Limited ("**Guangdong Zhengji**"), a company owned as to 90% by Mr. Zheng Yaonan, the chairman, chief executive officer, an executive Director and a controlling shareholder of the Company, the Group disposed 95% of the equity interest of Cosmo Lady Guangdong Intelligent Industry Investment Company Limited, which owns the land use right of a parcel of land located in the PRC, to Guangdong Zhengji at the appraised value of RMB10,809,100, and the Group has recorded a gain of approximately RMB1,583,000. For details of the transaction, please refer to the announcement dated 23 June 2017.

PLEDGE OF ASSETS

At 31 December 2017, no property, plant and equipment, and land use rights were pledged as security for banking facilities available to the Group.

CONTINGENT LIABILITIES

At 31 December 2017, the Group did not have any significant contingent liabilities.

DISTRIBUTION NETWORK ACROSS CHINA

As the leader of the China's intimate wear industry, the Group has an extensive distribution network across China. Nevertheless, in response to the structural adjustments in the mainland China intimate wear industry and the challenges faced by the Group as described in the business review section, a lot of loss-making retail stores have been closed and hence the total net number of retail stores has declined by 362 during the year. In addition, upon the disposal of the low-end "Freeday" retail operation, which represented only about 1% of the Group's sales in 2016, the number of retail stores declined by 108. As at 31 December 2017, the Group's distribution network comprised 7,181 retail stores, out of which 1,290 were self-managed retail stores and 5,891 were franchised retail stores.

HUMAN RESOURCES AND MANAGEMENT

The Group had approximately 7,250 full-time employees as at 31 December 2017 (31 December 2016: 7,800). 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 operating result as well as individual performance.

ENVIRONMENTAL MANAGEMENT

Being a socially and environmentally responsible enterprise, the Group is dedicated to achieving 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 issued by the Group in accordance with the Environmental, Social and Governance Reporting Guide of the Stock Exchange has been included in the 2017 annual report.

SUBSEQUENT EVENT

On 7 February 2018, a wholly-owned subsidiary of the Company has entered into main terms for a non-legally binding cooperation agreement with a wholly-owned subsidiary of JD. Com. Inc. and Mr. Li Guo Cheng to establish a cooperation fund, which is primarily used for industry mergers and acquisitions and consolidation of resources which are suitable to the business of the Group. The main investment target of the cooperation fund is domestic and foreign companies engaged in intimate wear brands, upstream and downstream and related peripheral industry. The size of the cooperation fund is estimated to be RMB1 billion and will be expanded based on the actual need in the future. The establishment of the cooperation fund is in progress and is expected to be completed in the second quarter of 2018.

On 21 March 2018, Cosmo Lady (Tianjin) E-commerce Company Limited ("**Cosmo Lady (Tianjin)**"), a wholly-owned subsidiary of the Company, entered into an agreement with Shanghai Kappa Sporting Goods Co., Ltd., a wholly-owned subsidiary of China Dongxiang (Group) Co., Ltd., in relation to the establishment of a joint venture ("**JV**") company, held as to 75% by Cosmo Lady (Tianjin). The principal business of the JV company will be online sales of men's intimate wear and women's sports underwear, and the JV company is authorized to use the "Kappa" trademarks on its bras, underpants, loungewear and socks for a contract term of 5 years, to be extended automatically for another 3 years.

OUTLOOK AND STRATEGY

Looking forward to 2018, although the future remains uncertain, the Group will adopt or continue to adopt the measures and initiatives mentioned in the business review section with an aim to enhance our core competitiveness, further improving and expanding the business of the Group. Amid the challenging operating conditions, we strive to strengthen the sustainability of the Group.

In terms of internal management, the Group will introduce the "Amoeba management business model (阿米巴管理經營模式)", a management system that involves all employees in operations, and "partnership system (合伙人制度)", in order to effectively enhance the employees' efficiency, improve the sales and distribution channels and reduce expenses. In addition, the Group will actively seek for suitable opportunities for mergers, acquisitions, share subscription and/or cooperation opportunities, amid industry adjustments, with a view to further develop the Group's existing business and new businesses having synergy effect with our existing business. The management is cautiously optimistic about the future business development and expects that the results for 2018 will be gradually improved after implementing various measures, which will help increase the Group's market penetration in the intimate wear industry in China and further strengthen the Group's position as the industry-leading intimate wear enterprise in China to achieve a sustainable growth and create maximum value for the interests of shareholders of the Company.

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 2017.

CORPORATE GOVERNANCE PRACTICES

The Board 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 2017, except the following:

(a) According to Code Provision A.2.1 of the Code, 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 are 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 four 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; and

(b) according to Code Provision A.6.7 of the Code, independent non-executive directors and other non-executive directors should attend general meetings and develop a balance understanding of the views of shareholders. Owing to other business engagements, Dr. Dai Yiyi and Mr. Chen Zhigang, both being independent non-executive Directors, were not available to attend the annual general meeting of the Company held on 19 May 2017. However, Mr. Zheng Yaonan, the chairman of the Board and the chief executive officer of the Company, Mr. Lin Zonghong and Ms. Wu Xiaoli, both being executive Directors, Mr. Wen Baoma, a non-executive Director, and Mr. Yau Chi Ming being an independent non-executive Director, were present at the annual general meeting to ensure an effective communication with the shareholders at that meeting.

AUDIT COMMITTEE REVIEW

The audit committee comprises four independent non-executive directors of the Company, namely, Mr. Yau Chi Ming, Dr. Dai Yiyi, Mr. Chen Zhigang and Mr. Lu Hong Te. Mr. Yau Chi Ming who has appropriate professional qualifications as required by the Listing Rules is the chairman of the audit committee.

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 2017. The audit committee has also reviewed the annual results of the Group for the year ended 31 December 2017.

The figures contained in the financial information set out in page 2 to 12 of this announcement of the Group's results for the year ended 31 December 2017 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 2017.

FINAL DIVIDEND

The Board has recommended the payment of final dividend of HK$3.34 cents per share (equivalent to approximately RMB2.70 cents per share, using the exchange rate quoted by the People's Bank of China on 21 March 2018) for the year ended 31 December 2017 (2016: HK$6.21 cents per share). The final dividend would be payable to shareholders whose names appear on the register of members of the Company on Wednesday, 30 May 2018, subject to the approval of shareholders at the annual general meeting to be held on Monday, 21 May 2018 (the "**2018 AGM**"). Dividend warrants are expected to be despatched on Thursday, 7 June 2018.

CLOSURE OF REGISTER OF MEMBERS

For determining shareholders' entitlement to attend and vote at the 2018 AGM, the register of members of the Company will be closed from Wednesday, 16 May 2018 to Monday, 21 May 2018, 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 2018 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 Tuesday, 15 May 2018 for registration.

The record date and time for entitlement to the proposed finial dividend for 2017 is Wednesday, 30 May 2018 at 4:30 p.m.. The register of members of the Company will be closed from Monday, 28 May 2018 to Wednesday, 30 May 2018, 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 4:30p.m. on Friday, 25 May 2018 for registration.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

This annual results announcement is published on the HKExnews website of Hong Kong Exchanges and Clearing Limited at http://www.hkexnews.hk and on the Company's website at http://www.cosmo-lady.com.hk. The 2017 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, 22 March 2018

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 and Mr. Yang Weiqiang as non-executive directors; and Mr. Yau Chi Ming, Dr. Dai Yiyi, Mr. Chen Zhigang and Lu Hong Te as independent non-executive directors.