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)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

FINANCIAL HIGHLIGHTS

		Six months ended 30 June		
		Unaudited 2018	Unaudited 2017	Change
Revenue	*RMB'000*	**2,338,682**	2,079,229	12.5%
Operating profit	*RMB'000*	**233,201**	197,343	18.2%
Profit attributable to equity holders of the Company	*RMB'000*	**175,121**	144,887	20.9%
Gross profit margin	%	**43.7%**	45.1%	
Operating profit margin	%	**10.0%**	9.5%	
Margin of profit attributable to equity holders of the Company	%	**7.5%**	7.0%	
Earnings per share				
– Basic	*RMB cents*	**8.11**	7.40	
– Diluted	*RMB cents*	**8.07**	7.40	
Interim dividend per share	*HK cents*	**2.73**	2.58	
	(RMB cents)	**(2.40)**	(2.20)	

INTERIM FINANCIAL INFORMATION

The board of directors (the "Board") of Cosmo Lady (China) Holdings Company Limited (the "Company") is pleased to announce the unaudited consolidated interim financial information of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2018, together with the comparative figures for the corresponding period of 2017 and selected explanatory notes. The interim financial information has been reviewed by the Company's audit committee and the Company's auditor, PricewaterhouseCoopers, in accordance with the Hong Kong standard on Review Engagement 2410 "Review of Interim Financial Information performed by the independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Six months ended 30 June	
	Note	**2018**	2017
		Unaudited	Unaudited
		RMB'000	*RMB'000*
Revenue	*4*	**2,338,682**	2,079,229
Cost of sales		**(1,316,840)**	(1,142,034)
Gross profit		**1,021,842**	937,195
Selling and marketing expenses		**(695,404)**	(644,757)
General and administrative expenses		**(133,365)**	(120,620)
Other income	*5*	**35,315**	23,968
Other gains – net		**4,813**	1,557
Operating profit		**233,201**	197,343
Finance income		**11,995**	6,376
Finance expenses		**(5,517)**	(6,039)
Finance income – net		**6,478**	337
Share of loss of an associate and joint ventures		**(1,623)**	(515)
Profit before income tax	*6*	**238,056**	197,165
Income tax expense	*7*	**(63,227)**	(52,278)
Profit for the period		**174,829**	144,887
Other comprehensive income for the period			
(Item that may be reclassified subsequently to profit or loss)			
Exchange differences		**15,657**	(8,608)
Total comprehensive income for the period		**190,486**	136,279
Profit attributable to：			
Owners of the Company		**175,121**	144,887
Non-controlling interests		**(292)**	–
		174,829	144,887
Total comprehensive income attributable to:			
Owners of the Company		**190,778**	136,279
Non-controlling interests		**(292)**	–
		190,486	136,279
Earnings per share attributable to equity holders of the Company during the period	*8*	***RMB cents***	*RMB cents*
– Basic		**8.11**	7.40
– Diluted		**8.07**	7.40

CONDENSED CONSOLIDATED BALANCE SHEET

	Note	As at 30 June 2018 Unaudited *RMB'000*	As at 31 December 2017 Audited *RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**551,521**	565,009
Land use rights		**86,271**	87,311
Intangible assets		**45,630**	45,390
Investment in joint ventures		**22,353**	19,900
Investment in an associate		**1,431**	2,507
Financial assets at fair value through profit or loss		**53,000**	–
Financial assets at fair value through other comprehensive income		**23,100**	–
Available-for-sale financial assets		**–**	23,100
Deposits, prepayments and other receivables		**10,025**	8,637
Deferred income tax assets		**64,580**	55,230
		857,911	807,084
Current assets			
Inventories		**1,096,485**	1,111,959
Trade receivables	*10*	**676,891**	554,279
Deposits, prepayments and other receivables		**608,702**	539,624
Financial assets at fair value through profit or loss		**13,872**	8,408
Term deposits and restricted bank deposits		**9,645**	109,855
Cash and cash equivalents		**1,814,638**	1,405,285
		4,220,233	3,729,410
Total assets		**5,078,144**	4,536,494
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	*11*	**141,194**	133,792
Share premium	*11*	**1,937,029**	1,603,035
Other reserves		**301,329**	275,445
Retained earnings		**1,518,962**	1,343,841
Non-controlling interests		**8,708**	–
Total equity		**3,907,222**	3,356,113
LIABILITIES			
Current liabilities			
Trade payables	*12*	**635,103**	583,568
Accruals and other payables		**231,487**	305,257
Contract liabilities		**41,557**	–
Current income tax liabilities		**55,546**	48,649
Borrowings	*13*	**10,020**	11,820
Deferred income		**2,958**	2,958
		976,671	952,252
Non-current liabilities			
Borrowings	*13*	**178,950**	211,260
Deferred income tax liabilities		**1,335**	1,424
Deferred income		**13,966**	15,445
		194,251	228,129
Total liabilities		**1,170,922**	1,180,381
Total equity and liabilities		**5,078,144**	4,536,494

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited					
	Attributable to equity holders of the Company					
	Share capital *RMB'000*	**Share premium** *RMB'000*	**Other reserves** *RMB'000*	**Retained earnings** *RMB'000*	**Non-controlling interests** *RMB'000*	**Total equity** *RMB'000*
As at 1 January 2018	**133,792**	**1,603,035**	**275,445**	**1,343,841**	**–**	**3,356,113**
Comprehensive income						
Profit for the period	**–**	**–**	**–**	**175,121**	**(292)**	**174,829**
Other comprehensive income						
Exchange differences	**–**	**–**	**15,657**	**–**	**–**	**15,657**
Total comprehensive income for the period	**–**	**–**	**15,657**	**175,121**	**(292)**	**190,486**
Transactions with equity holders						
Proceeds from shares issued *(Note 11)*	**7,756**	**407,363**	**–**	**–**	**–**	**415,119**
Dividends relating to 2017 paid in June 2018	**–**	**(61,783)**	**–**	**–**	**–**	**(61,783)**
Shares repurchased and cancelled	**(354)**	**(11,586)**	**–**	**–**	**–**	**(11,940)**
Equity-settled share-based compensation	**–**	**–**	**11,348**	**–**	**–**	**11,348**
Shares purchased for share award scheme	**–**	**–**	**(1,121)**	**–**	**–**	**(1,121)**
Non-controlling interests on setting up of subsidiaries	**–**	**–**	**–**	**–**	**9,000**	**9,000**
Total transactions with equity holders	**7,402**	**333,994**	**10,227**	**–**	**9,000**	**360,623**
As at 30 June 2018	**141,194**	**1,937,029**	**301,329**	**1,518,962**	**8,708**	**3,907,222**
As at 1 January 2017	117,320	1,254,574	260,929	1,061,006	–	2,693,829
Comprehensive income						
Profit for the period	–	–	–	144,887	–	144,887
Other comprehensive income						
Exchange differences	–	–	(8,608)	–	–	(8,608)
Total comprehensive income for the period	–	–	(8,608)	144,887	–	136,279
Transactions with equity holders						
Proceeds from shares issued *(Note 11)*	16,472	511,978	–	–	–	528,450
Dividends relating to 2016 paid in June 2017	–	(115,388)	–	–	–	(115,388)
Equity-settled share-based compensation	–	–	(1,592)	–	–	(1,592)
Total transactions with equity holders	16,472	396,590	(1,592)	–	–	411,470
As at 30 June 2017	133,792	1,651,164	250,729	1,205,893	–	3,241,578

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30 June	
	2018	2017
	Unaudited	Unaudited
	RMB'000	*RMB'000*
Cash flows from operating activities		
Cash generated from operations	**80,868**	133,133
Income tax paid	**(65,770)**	(38,465)
Net cash generated from operating activities	**15,098**	94,668
Cash flows from investing activities		
Proceeds from disposal of property, plant and equipment	**352**	198
Interest received	**13,880**	14,903
Purchases of property, plant and equipment	**(42,498)**	(49,271)
Purchases of intangible assets	**(2,871)**	(2,278)
Term deposits with initial term of over three months	**100,210**	(360,376)
Repayment of loan to a third party	**–**	105,000
Capital contribution to an associate	**–**	(4,000)
Capital contribution to a joint venture	**(3,000)**	–
Advance to a related party	**–**	(3,200)
Advance to a joint venture	**–**	(9,055)
Repayment from a related party	**2,700**	–
Net cash generated from/(used in) investing activities	**68,773**	(308,079)
Cash flows from financing activities		
Proceeds from shares issued	**415,119**	528,450
Capital injections from non-controlling interests	**9,000**	–
Proceeds from borrowings	**–**	30,000
Repayments of borrowings	**(34,110)**	(3,010)
Dividends paid	**(61,783)**	(115,388)
Interest paid for borrowings	**(5,517)**	(6,039)
Purchase of the Company's shares for share award scheme	**(1,121)**	–
Payment for repurchase of the Company's shares	**(11,940)**	–
Net cash generated from financing activities	**309,648**	434,013
Net increase in cash and cash equivalents	**393,519**	220,602
Cash and cash equivalents at beginning of the period	**1,405,285**	799,533
Effect of foreign exchange rate changes	**15,834**	(8,133)
Cash and cash equivalents at end of the period	**1,814,638**	1,012,002

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 have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 26 June 2014.

The interim condensed consolidated financial information for the six months ended 30 June 2018 ("Interim Financial Information") is presented in Renminbi ("RMB"), unless otherwise stated. The Interim Financial Information is unaudited but has been reviewed by the audit committee of the Company and approved for issue by the Company's board of directors on 20 August 2018.

2 BASIS OF PREPARATION

The Interim Financial Information has been prepared in accordance with International Accounting Standard ("IAS") 34, "Interim financial reporting" and should be read in conjunction with the financial statements of the Group for the year ended 31 December 2017, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The preparation of the Interim Financial Information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. In preparing the Interim Financial Information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements of the Group for the year ended 31 December 2017.

The accounting policies used in the preparation of the Interim Financial Information are consistent with those adopted in the consolidated financial statements of the Group for the year ended 31 December 2017, except as mentioned below.

(a) New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period and the Group had to change its accounting policies as a result of adopting the following standards:

IFRS 9	Financial instruments, and
IFRS 15	Revenue from contracts with customers

The Group has certain equity investments and these investments were classified as available-for-sale at fair value under previous standard IAS 39. With the adoption of IFRS 9, these assets were currently classified as fair value and the Group elected to present any changes in the fair value through other comprehensive income, because the investment is held as long-term strategic investments that are not expected to be sold in the short to medium term.

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

New standards and amendments to standards relevant to the Group that have been issued but are not yet effective

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. There is no significant change for the accounting for lessors.

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 RMB509,280,000. 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.

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

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 make strategic decisions.

The Group is principally engaged in the designing, marketing and selling of intimate wear products. Substantially all of its revenue are derived in the PRC for the six months ended 30 June 2018 and 30 June 2017.

None of the revenue derived from any single external customer amounted to more than 10% of the Group's revenue for the six months ended 30 June 2018 (2017: None).

4 REVENUE

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
Sales to franchisees	**1,261,661**	1,037,369
Retail sales	**774,354**	803,451
E-commerce	**302,667**	238,409
	2,338,682	2,079,229

5 OTHER INCOME

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
Other income:		
Government grants *(Note (a))*	**21,827**	19,790
Logistic warehousing and delivery income	**5,663**	–
Software usage fee income	**1,419**	732
Franchisee fee income	**773**	406
Others	**5,633**	3,040
	35,315	23,968

Note:

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

6 PROFIT BEFORE INCOME TAX

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
Employee benefit expenses (including directors' emoluments)	**283,687**	256,201
Operating lease rentals in respect of retail stores	**232,845**	250,151
Other operating rental expenses	**13,858**	16,829
Depreciation and amortization	**41,015**	42,518
Marketing and promotion expenses	**57,486**	39,162
E-commerce platforms commission expenses	**41,534**	32,584
Write-down of inventories	**22,331**	4,160
Provision for impairment of trade receivables	**315**	916
Provision for impairment of other receivables	**–**	630

7 INCOME TAX EXPENSE

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
Current income tax		
– Hong Kong profits tax *(Note (a))*	**–**	–
– PRC corporate income tax *(Note (b))*	**72,666**	51,100
	72,666	51,100
Deferred income tax	**(9,439)**	1,178
	63,227	52,278

Notes:

(a) Hong Kong profits tax

The applicable Hong Kong profits tax rate is 16.5% for the period (2017: 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 six months ended 30 June 2018 (2017: 25%) on the estimated assessable profits for the period, 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 the 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 period.

	Six months ended 30 June	
	2018	2017
Profit for the period attributable to equity holders of the Company *(RMB'000)*	**175,121**	144,887
Weighted average number of ordinary shares for purposes of basic earnings per share *(thousands of shares)*	**2,158,304**	1,959,223
Basic earnings per share *(RMB cents per share)*	**8.11**	7.40

Note: The weighted average number of ordinary shares for the purpose of basic earnings per share for the six months ended 30 June 2018 has been adjusted for the effects of the issuance of new shares on 25 May 2018, purchase and withholding of the ordinary shares of the Company for the share award scheme and the repurchase and cancellation of ordinary shares of the Company during the six months ended 30 June 2018.

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding on an assumption of conversion of all dilutive potential ordinary shares. The dilutive potential ordinary shares of the Company are share options.

	Six months ended 30 June	
	2018	2017
Profit for the period attributable to equity holders of the Company *(RMB'000)*	**175,121**	144,887
Weighted average number of ordinary shares for purposes of basic earnings per share *(thousands of shares)*	**2,158,304**	1,959,223
Adjustment for share options *(thousands of shares)*	**10,400**	-
Weighted average number of ordinary shares for purposes of diluted earnings per share *(thousands of shares)*	**2,168,704**	1,959,223
Diluted earnings per share *(RMB cents per share)*	**8.07**	7.40

9 INTERIM DIVIDEND

The Board has recommended the payment of an interim dividend of HK2.73 cents (equivalent to approximately RMB2.40 cents) per ordinary share of the Company, totalling approximately HK$61,763,000 (equivalent to approximately RMB54,297,000) for the six months ended 30 June 2018 (2017: HK$55,378,000 (equivalent to approximately RMB47,246,000)). The dividend is not reflected as a dividend payable in the consolidated financial statements for the six months ended 30 June 2018, but will be reflected as an appropriation for the year ending 31 December 2018.

10 TRADE RECEIVABLES

	As at 30 June 2018 *RMB'000*	As at 31 December 2017 *RMB'000*
Due from third parties	**679,609**	556,723
Less: provision for impairment	**(2,718)**	(2,444)
Trade receivables – net	**676,891**	554,279

(a) As at 30 June 2018, the carrying amounts of the trade receivables of the Group approximate their fair values and are all denominated in RMB.

(b) 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 and 180 to 360 days from the invoice date for seasonal products and first order of products for new retail stores, respectively. In addition, the Group also gives an additional credit period of 180 to 360 days to certain franchise customers. The aging analysis of trade receivables based on invoice date, as at 30 June 2018 and 31 December 2017 is as follows:

	As at 30 June 2018 *RMB'000*	As at 31 December 2017 *RMB'000*
Trade receivables, gross		
– Within 30 days	**370,972**	291,628
– Over 30 days and within 60 days	**86,341**	59,296
– Over 60 days and within 90 days	**24,100**	73,527
– Over 90 days and within 180 days	**117,778**	39,409
– Over 180 days and within 360 days	**62,170**	71,730
– Over 360 days	**18,248**	21,133
	679,609	556,723

11 SHARE CAPITAL AND SHARE PREMIUM

	Number of ordinary shares	Share capital *RMB'000*	Share premium *RMB'000*	Total *RMB'000*
As at 1 January 2018	**2,146,457,000**	**133,792**	**1,603,035**	**1,736,827**
Proceeds from shares issued *(Note(a))*	**121,443,213**	**7,756**	**407,363**	**415,119**
Shares repurchased and cancelled	**(5,505,000)**	**(354)**	**(11,586)**	**(11,940)**
Dividends	**–**	**–**	**(61,783)**	**(61,783)**
As at 30 June 2018	**2,262,395,213**	**141,194**	**1,937,029**	**2,078,223**
As at 1 January 2017	1,906,457,000	117,320	1,254,574	1,371,894
Proceeds from shares issued *(Note(b))*	240,000,000	16,472	511,978	528,450
Dividends	–	–	(115,388)	(115,388)
As at 30 June 2017	2,146,457,000	133,792	1,651,164	1,784,956

Notes:

(a) Pursuant to an agreement dated 26 April 2018 entered into among the Company, Windcreek Limited, Image Frame Investment (HK) Limited, Vipshop International Holdings Limited and Quick Returns Global Limited, the Company allotted and issued 121,443,213 shares at the price of HK$4.2 per share on 25 May 2018.

(b) 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.

12 TRADE PAYABLES

	As at 30 June 2018 *RMB'000*	As at 31 December 2017 *RMB'000*
Due to third parties	**629,521**	577,900
Due to related parties	**5,582**	5,668
	635,103	583,568

As at 30 June 2018, trade payables of the Group are denominated in RMB, non-interest bearing, and the carrying amounts approximate their fair values.

At 30 June 2018, the aging analysis of trade payables (including the amounts due to related parties of trading in nature) based on invoice date was as follows:

	As at 30 June 2018 *RMB'000*	As at 31 December 2017 *RMB'000*
Trade payables		
– Within 30 days	**210,060**	158,783
– Over 30 days and within 60 days	**155,054**	125,781
– Over 60 days and within 90 days	**112,192**	107,847
– Over 90 days and within 180 days	**141,680**	170,253
– Over 180 days and within 360 days	**10,194**	14,633
– Over 360 days	**5,923**	6,271
	635,103	583,568

13 BORROWINGS

	As at 30 June 2018	As at 31 December 2017
	RMB'000	*RMB'000*
Non-current	**178,950**	211,260
Current	**10,020**	11,820
	188,970	223,080

Movements in borrowings is analysed as follows:

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
Opening amount	**223,080**	200,000
Repayments of borrowings	**(34,110)**	(3,010)
Proceeds from borrowings	**-**	30,000
Closing amount	**188,970**	226,990

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

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 weighted average borrowing rate of 5.30% (2017: 5.20%) and are within level 2 of the fair value hierarchy.

BUSINESS REVIEW

In the first half of 2018, the global economy continued to strengthen following the recovery in 2017. China's economy, mainly driven by increase in consumption expenditure, extended its steady growth and expanded by about 6.8%, with average per capita disposable income grew by around 6.6% in real terms in the first half of 2018.

However, the external uncertainties, including the trade conflicts between major economies and the normalization of global monetary policies, are putting downward pressure on global economic activities. Coupled with the highly fragmented market structure and the continuous structural adjustments in respect of sales channel diversification, product quality and mix of products, the intimate wear industry of China continues to face formidable internal and external challenges.

To address the above challenges, the Company and its subsidiaries ("the Group") has formulated various measures and initiatives in 2017 and first half of 2018, including but not limited to the following:

(a) Optimizing and further diversifying sales and distribution channels;

(b) Tightening expenses control and cutting costs;

(c) Establishing a new product management department and reforming supply chain management;

(d) Enhancing efforts on market research and development of new products and technological innovation; and

(e) Broadening the product range of the Group with other renowned players.

The above measures have gradually achieved encouraging effect, with the operations of the Group showed further improvement in the first half of 2018. The revenue of the Group for the six months ended 30 June 2018 grew by approximately 12.5% to approximately RMB2,338,682,000 (first half of 2017: RMB2,079,229,000) while the Group's profit also saw an increase of approximately 20.9% to approximately RMB175,121,000 (first half of 2017: RMB144,887,000), indicating the continuous revival of the Group's operation.

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.

The increase in the revenue of the Group for the period under review by approximately 12.5% was mainly due to the satisfactory performance of the sales to franchisees and e-commerce channel sales.

Revenue by sales channel

The products of the Group were 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:

	Six months ended 30 June			
	2018		2017	
	RMB'000	**%**	*RMB'000*	%
Sales to franchisees	**1,261,661**	**54.0**	1,037,369	49.9
Retail sales	**774,354**	**33.1**	803,451	38.6
E-commerce	**302,667**	**12.9**	238,409	11.5
Total revenue	**2,338,682**	**100.0**	2,079,229	100.0

The increase in sales to franchisees by approximately 21.6% was mainly attributable to the renovation of retail stores with upgraded image by franchisees as urged by the Group and the improvement in quality of products.

The retail sales declined by around 3.6% mainly because the Group adjusted sales and distribution channels proactively in 2017 by closing loss-making retail stores and hence the average number of self-managed stores in the first half of this year was lower than that of the same period of 2017.

E-commerce sales increased by about 27.0% mainly because the Group continued to invest resources in the development of e-commerce channels.

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:

	Six months ended 30 June			
	2018		2017	
	RMB'000	**%**	*RMB'000*	%
Bras	**1,284,842**	**54.9**	1,144,001	55.0
Underpants	**407,865**	**17.4**	378,830	18.2
Sleepwear and loungewear	**302,276**	**12.9**	251,478	12.1
Thermal clothes	**108,529**	**4.7**	97,396	4.7
Others*(Note (a))*	**235,170**	**10.1**	207,524	10.0
Total revenue	**2,338,682**	**100.0**	2,079,229	100.0

Note:

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

During the period under review, the revenue for all types of product have increased. The growth in revenue for sleepwear and loungewear products by approximately 20.2% was mainly due to the step up of promotion activities and improvement of product design and variety.

Gross profit margin

During the period under review, the gross profit margin of the Group dropped to around 43.7% (first half of 2017: 45.1%). This was primarily due to the keen competition in the e-commerce channel and the Group's step up of promotion efforts to sell aged inventories.

Selling and marketing 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 rise of selling and marketing expenses by about 7.9% for the six months ended 30 June 2018 to approximately RMB 695,404,000 (first half of 2017: RMB 644,757,000) was primarily driven by (a) the increase in employee benefit expenses for the salespersons of self-managed retail stores; and (b) the increase in advertising and promotion activities.

General and administrative expenses

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

The rise of general and administrative expenses by about 10.6% for the six months ended 30 June 2018 to approximately RMB133,365,000 (first half of 2017: RMB120,620,000) was mainly attributable to (a) the increase in number of senior management staff of the Group; and (b) the engagement of a professional consultant for making recommendations on the supply chain management and product merchandising of the Group.

Other income

Other income consists of government grants, logistic warehousing and delivery income, software usage fee income, franchise fee income and others. During the period, other income increased by approximately 47.3% to approximately RMB35,315,000 (first half of 2017: RMB23,968,000), mainly due to the increase in logistic warehousing and delivery income and government grants awarded for meeting the requirements set by local government.

Finance income – net

Net finance income represents interest income on short-term bank deposits and financial assets at fair value through other comprehensive income, less financial expenses on bank borrowings.

The finance income of approximately RMB11,995,000 (first half of 2017: RMB6,376,000) increased mainly as a result of the increase in short-term bank deposits during the period.

The finance expense of approximately RMB5,517,000 (first half of 2017: RMB6,039,000) decreased in line with the decline in bank borrowings.

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 six months ended 30 June 2018 was approximately 26.6% (first half of 2017: 26.5%) which remained fairly stable. As at 30 June 2018, the Group had fulfilled all its tax obligations and did not have any unresolved tax disputes.

WORKING CAPITAL MANAGEMENT

	Six months ended 30 June 2018	Year ended 31 December 2017
Average inventory turnover days	**150.9 days**	160.2 days
Average trade receivables turnover days	**47.4 days**	40.4 days
Average trade payables turnover days	**83.3 days**	80.5 days

The mild decline in inventory balance to approximately RMB1,096,485,000 (31 December 2017: RMB1,111,959,000), and the decrease in the average inventory turnover days to 150.9 days (31 December 2017: 160.2 days) were mainly attributable to various reforms taken by management in 2017 and the first half of 2018, the effect of which was partly offset by the new products purchased in the first half of 2018. Management expects that the inventory level at the end of 2018 and average inventory turnover days for the year ended 31 December 2018 will likely further improve.

The increase in average trade receivables turnover days to about 47.4 days (31 December 2017: 40.4 days) was mainly due to the increase in proportion of sales made to franchisees.

Average trade payables turnover days increased from about 80.5 days for the year ended 31 December 2017 to about 83.3 days for the six months ended 30 June 2018 because of increased bargaining power against the OEM suppliers.

PROPOSED ESTABLISHMENT OF FUND

On 7 February 2018, a wholly-owned subsidiary of the Company, a wholly-owned subsidiary of JD.Com, Inc, Beijing Jingdong Century Trading Co., Ltd. (“JD Century”) and Li Guo Cheng (as representative of the fund management team) entered into cooperation agreement main terms, pursuant to which a cooperation fund will be established and used primarily for industry mergers, acquisitions and consolidation of resources which are suitable to the business of the Group. The investment targets of the corporation fund are primarily companies involved in the business of intimate wear brands, its upstream and downstream businesses and relevant industries.

It is expected that the target size of the cooperation fund is RMB1,000,000,000, with the size to be expanded later based on actual needs. Initial capital contribution is expected to be no less than RMB350,000,000, among which the Group is expected to contribute RMB250,000,000, while JD Century is expected to contribute RMB100,000,000.

The cooperation fund is expected to be established in the fourth quarter of 2018. For more details, please refer to the announcement dated 7 February 2018.

FORMATION OF JOINT VENTURE

On 21 March 2018, a wholly-owned subsidiary of the Company entered into a shareholders' agreement with Shanghai Kappa Sportings Goods Co., Ltd. ("Shanghai Kappa"), a wholly-owned subsidiary of China Dongxiang Group Co., Ltd., for the establishment of a joint venture company ("JV Company"). The Group has invested RMB15,000,000, and holds 75% equity interest in the JV Company. The JV Company is principally engaged in the on-line sales of men's intimate wear and ladies' sport underwear products in the PRC, and has been granted the right to use the trademark "Kappa" on its products for a term of 5 years, to be extended automatically for another 3 years. The JV Company started operation in July 2018.

For details of the above agreement, please refer to the announcement dated 21 March 2018.

ISSUANCE OF NEW SHARES TO STRATEGIC INVESTORS

On 25 May 2018, the Company issued 56,050,714, 18,683,571, 18,683,571 and 28,025,357 new shares at a price of HK$4.20 per share to Windcreek Limited (an indirect wholly-owned subsidiary of JD.com, Inc.), Image Frame Investment (HK) Limited (a wholly-owned subsidiary of Tencent Holdings Limited), Vipshop International Holdings Limited (a wholly-owned subsidiary of Vipshop Holdings Limited) and Quick Returns Global Limited respectively, raising total gross proceeds of approximately HK$510,061,495.

On 30 June 2018, the above proceeds were deposited in certain licensed banks in Hong Kong.

The net proceeds of approximately HK$509,000,000 are intended to be used for financing the reforms in sales and distribution channels of the Group, potential mergers, acquisitions and cooperation opportunities, and general working capital.

The Directors consider that the above transaction represents a valuable opportunity for the Group to raise additional funds for the above-mentioned purposes and strengthen the capital base and the financial position of the Group. In addition, introducing the above subscribers as important strategic shareholders can help the Group to develop its business on internet platforms and promote its brand equity.

For details of the above transaction, please refer to the announcements dated 26 April 2018 and 25 May 2018.

LIQUIDITY AND FINANCIAL RESOURCES

The Group maintained a solid balance sheet. As at 30 June 2018, the Group's term deposits, restricted bank deposits and cash and cash equivalents amounted to approximately RMB 1,824,283,000 (31 December 2017: RMB 1,515,140,000) and bank borrowings amounted to approximately RMB 188,970,000 (31 December 2017: RMB 223,080,000). As at 30 June 2018, the current ratio was about 4.3 times (31 December 2017: 3.9 times). The increase in cash and cash equivalents and improvement in current ratio was mainly due to the issuance of new shares as mentioned above.

As at 30 June 2018, 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 4.8% (31 December 2017: 6.6%). 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 41.9% (31 December 2017: negative 38.5%) 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 mainland China to the overseas holding companies.

APPOINTMENT OF PROFESSIONAL CONSULTANT

Further to the 5-year development plan exercise, management has again engaged Rowland Berger Strategy Consultants (Shanghai) Limited ("Rowland Berger"), a global leading consulting firm, to assist the Group to undergo reforms on our supply chain departments and product merchandising.

In June 2018, Rowland Berger has issued a report making recommendations on the management, systems and procedures of our supply chains department and product merchandising, which will be implemented in second half of this year to improve our Group's efficiency in these areas.

USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING

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 total net proceeds from the Company's initial public offering amounted to approximately HK$1,463 million (equivalent to approximately RMB1,162 million). The Group has, up to 30 June 2018, utilized approximately RMB 513,435,000 (equivalent to approximately HK$ 630,206,000) to expand and maintain its retail network of its self-managed retail stores, approximately RMB 180,007,000 (equivalent to approximately HK$ 220,946,000) and RMB 119,624,000 (equivalent to approximately HK$ 146,830,000) to construct and operate the logistics centers in Tianjin and Dongguan respectively and approximately RMB 28,786,000 (equivalent to approximately HK$ 35,332,000) to upgrade information technology infrastructure. As at 30 June 2018, net proceeds not yet utilized were deposited with certain licensed banks in Hong Kong and China.

ISSUANCE OF NEW SHARES TO A WHOLLY-OWNED SUBSIDIARY OF FOSUN INTERNATIONAL LIMITED

On 17 May 2017, the Company issued 240,000,000 shares at a price of HK$2.50 per share to a wholly-owned subsidiary of Fosun International Limited, raising gross proceeds of HK$600,000,000.

Reference is made to the announcement by the Company dated 5 May 2017 and 17 May 2017 regarding the issuance of new shares under general mandate (the "Share Subscription"). It was set out at the time that the net proceeds from the Share Subscription were intended to be used by the Company for financing the reforms in sales and distribution channels of the Group, potential mergers, acquisitions and cooperation opportunities, and general working capitals. As at 30 June 2018, the intended use of proceeds of the Share Subscription has not been changed, and the Company has not yet commenced the utilisation of such proceeds as no suitable opportunities have been identified. As a result, such proceeds have been deposited with certain licensed banks in Hong Kong. The Company has been and will continue to actively seek to identify opportunities suitable but has no definitive timetable nor expectation for when such opportunities will be found.

CAPITAL EXPENDITURE ON PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

During the period, capital expenditure on property, plant and equipment and intangibles assets amounted to approximately RMB 27,907,000 (first half of 2017: RMB 58,407,000). The amount declined as the construction work for the first stage of the Tianjin logistics centre had been completed in 2017.

PLEDGE OF ASSETS

At 30 June 2018, no property, plant and equipment, and land use rights were pledged as security for banking facilities available to the Group.

CONTINGENT LIABILITIES

At 30 June 2018, 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. During the period under review, the number of retail stores of the Group increased as a result of the gradual recovery of the Group's business. As at 30 June 2018, the Group's distribution network comprised 7,368 retail stores (31 December 2017: 7,181), out of which 1,332 (31 December 2017: 1,290) were self-managed retail stores and 6,036 (31 December 2017: 5,891) were franchised retail stores. During the period, the Group has rennovated 98 self-managed retail stores and 634 franchised retail stores.

HUMAN RESOURCES AND MANAGEMENT

The Group had approximately 7,100 full-time employees as at 30 June 2018 (31 December 2017: 7,252). 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 "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 has been issued in accordance with the Environmental, Social and Governance reporting guide of the Stock Exchange and included in the 2017 annual report. A similar report will be included in the 2018 annual report which will be issued in next year.

OUTLOOK AND STRATEGY

Looking ahead to the second half of 2018, the Group has many new development projects, including but not limited to, the following:

(a) Working with first-class interior design companies, reputable international advertising companies and smart retail store technology companies to set up new shopping mall retail stores based on the guidance of Ms. Sharen Turney, our chief strategic officer (shopping mall 2.0 development plan);

(b) Cooperation with Tencent on smart retail store arrangement. For details, please refer to the announcement dated 17 August 2018;

(c) Development of young brand "O+" derived from the original Ordifen brand;

(d) Development of household retail stores (GIPO stores);

(e) Entering into strategic investment agreements with eleven intimate wear product and material suppliers in order to strengthen our supply chain management, shorten the development and manufacturing cycle of new materials and products, and raise self-sufficiency of premium products. For details, please refer to the announcement dated 17 August 2018; and

(f) Seeking suitable target companies for mergers, acquisitions, share subscriptions and/or cooperation proactively, apart from those mentioned in (e) above, with a view to possibly further develop the Group's existing business and new businesses with synergy effect in the foreseeable future.

The above plans prepare the Group for better future development. The Group will increase input on designing, research and development, brand building, image updating, supply chain reforming, human resources construction etc, and some expenses are one-off in nature. Therefore, the amount of operating expenses and the operating expenses as a percentage of sales will increase in the second half of this year. Management will maintain a proper balance between increase in expenditure and development of new plans.

The Board is cautiously optimistic that the operating result of the Group will continue to improve in the future amid the challenging operating conditions.

INTERIM DIVIDEND

The Board of the Company has recommended the payment of interim dividend of HK2.73 cents per share (equivalent to approximately RMB2.40 cents per share, using the exchange rate quoted by the People's Bank of China on 17 August 2018) for the six months ended 30 June 2018 (six months ended 30 June 2017: HK2.58 cents per share). The interim dividend would be payable to shareholders whose names appear on the register of members of the Company on Thursday, 6 September 2018. Dividend warrants are expected to be despatched on Monday, 17 September 2018.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 4 September 2018 to Thursday, 6 September 2018, both days inclusive. In order to qualify for the interim 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 Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queens's Road East, Wanchai, Hong Kong, no later than 4:30p.m. on Monday, 3 September 2018 for registration.

CORPORATE GOVERNANCE PRACTICES

The Board of the Company has complied with all 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") throughout the period of six months ended 30 June 2018, with the exception of Code Provision A.2.1.

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.

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

During the six months ended 30 June 2018, the Company repurchased a total of 5,505,000 shares on the Stock Exchange at an aggregate consideration (excluding related expenses) of approximately HK$14,520,000 and all the shares repurchased have been duly cancelled. Particulars of the shares repurchased are as follow:

Month	Number of shares repurchased	Highest price per share *(HK$)*	Lowest price per share *(HK$)*	Aggregate consideration *(HK$'000)*
January 2018	5,505,000	2.65	2.61	14,520

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2018.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code contained in Appendix 10 to the Listing Rules (the "Model Code") as the code of conduct regarding securities transactions by the Directors. Specific enquiry was made with all the Directors and all confirmed that they have complied with the requirements set out in the Model Code throughout the six months ended 30 June 2018.

AUDIT COMMITTEE

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

The committee holds regular meetings to review the Group's financial information, financial reporting system, internal control procedures and risk management system, including a review of the interim financial information for the six months ended 30 June 2018.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2018

This interim 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 interim 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, 20 August 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 of the Company; Mr. Wen Baoma, Mr. Yang Weiqiang and Mr. Hu Shengli as non-executive directors of the Company; and Mr. Yau Chi Ming, Dr. Dai Yiyi, Mr. Chen Zhigang and Dr. Lu Hong Te as independent non-executive directors of the Company.