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 2019

FINANCIAL HIGHLIGHTS

		Six months ended 30 June		
		Unaudited 2019	Unaudited 2018	Change
Revenue	*RMB'000*	**2,210,207**	2,338,682	–5.5%
Operating profit	*RMB'000*	**43,005**	233,201	–81.6%
Profit attributable to owners of the Company	*RMB'000*	**35,466**	175,121	–79.7%
Gross profit margin	%	**41.1%**	43.7%	
Operating profit margin	%	**1.9%**	10.0%	
Margin of profit attributable to owners of the Company	%	**1.6%**	7.5%	
Earnings per share				
– Basic	*RMB cents*	**1.57**	8.11	
– Diluted	*RMB cents*	**1.57**	8.07	
Interim dividend per share	*HK cents*	**–**	2.73	
	(RMB cents)	**–**	(2.40)	

INTERIM FINANCIAL INFORMATION

The board of directors (the "Board") of Cosmo Lady (China) Holdings Company Limited (the "Company") announces the unaudited consolidated interim financial information of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2019, together with the comparative figures for the corresponding period of 2018 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	
		2019	2018
		Unaudited	Unaudited
	Note	***RMB'000***	*RMB'000*
Revenue	*4*	**2,210,207**	2,338,682
Cost of sales		**(1,302,689)**	(1,316,840)
Gross profit		**907,518**	1,021,842
Selling and marketing expenses		**(733,311)**	(695,404)
General and administrative expenses		**(144,134)**	(133,050)
Net impairment losses on financial assets		**(7,011)**	(315)
Other income	*5*	**30,758**	35,315
Other (losses)/gains – net		**(10,815)**	4,813
Operating profit		**43,005**	233,201
Finance income		**6,737**	11,995
Finance expenses		**(12,269)**	(5,517)
Finance (expenses)/income – net		**(5,532)**	6,478
Share of losses of equity investments		**(5,443)**	(1,623)
Profit before income tax	*6*	**32,030**	238,056
Income tax credit/(expense)	*7*	**7,680**	(63,227)
Profit for the period		**39,710**	174,829
Other comprehensive income for the period			
(Item that may be reclassified subsequently to profit or loss)			
Exchange differences		**(776)**	15,657
Total comprehensive income for the period		**38,934**	190,486
Profit attributable to:			
Owners of the Company		**35,466**	175,121
Non-controlling interests		**4,244**	(292)
		39,710	174,829
Total comprehensive income attributable to:			
Owners of the Company		**34,690**	190,778
Non-controlling interests		**4,244**	(292)
		38,934	190,486
Earnings per share attributable to owners of the Company during the period	*8*	***RMB cents***	*RMB cents*
– Basic earnings per share		**1.57**	8.11
– Diluted earnings per share		**1.57**	8.07

CONDENSED CONSOLIDATED BALANCE SHEET

	Note	As at 30 June 2019 Unaudited *RMB'000*	As at 31 December 2018 Audited *RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**556,974**	564,357
Land use rights		**–**	85,231
Right-of-use assets		**200,127**	–
Intangible assets		**44,017**	44,972
Investment in joint ventures		**275,347**	165,405
Investment in an associate		**–**	385
Financial assets at fair value through profit or loss		**95,996**	106,000
Financial assets at fair value through other comprehensive income		**63,860**	60,494
Deposits, prepayments and other receivables		**65,247**	14,417
Deferred income tax assets		**87,259**	79,983
		1,388,827	1,121,244
Current assets			
Inventories		**1,294,720**	1,164,933
Trade receivables	*10*	**783,653**	825,627
Deposits, prepayments and other receivables		**931,462**	790,493
Financial assets at fair value through profit or loss		**6,887**	7,885
Term deposits and restricted bank deposits		**420**	9,855
Cash and cash equivalents		**895,796**	1,496,163
		3,912,938	4,294,956
Total assets		**5,301,765**	5,416,200
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital	*11*	**140,312**	140,755
Share premium	*11*	**1,656,669**	1,866,386
Other reserves		**415,695**	416,471
Retained earnings		**1,659,403**	1,623,937
		3,872,079	4,047,549
Non-controlling interests		**20,585**	15,056
Total equity		**3,892,664**	4,062,605
LIABILITIES			
Current liabilities			
Trade payables	*12*	**642,709**	711,105
Accruals and other payables		**225,333**	283,790
Contract liabilities		**77,597**	85,763
Current income tax liabilities		**22,230**	72,285
Borrowings	*13*	**55,632**	183,960
Lease liabilities		**68,069**	–
Deferred income		**2,598**	2,958
		1,094,168	1,339,861
Non-current liabilities			
Borrowings	*13*	**251,780**	–
Lease liabilities		**50,628**	–
Deferred income tax liabilities		**1,156**	1,247
Deferred income		**11,369**	12,487
		314,933	13,734
Total liabilities		**1,409,101**	1,353,595
Total equity and liabilities		**5,301,765**	5,416,200

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited						
	Attributable to owners of the Company						
	Share capital *RMB'000*	**Share premium** *RMB'000*	**Other reserves** *RMB'000*	**Retained earnings** *RMB'000*	**Total** *RMB'000*	**Non-controlling interests** *RMB'000*	**Total equity** *RMB'000*
As at 1 January 2019	**140,755**	**1,866,386**	**416,471**	**1,623,937**	**4,047,549**	**15,056**	**4,062,605**
Comprehensive income							
Profit for the period	**–**	**–**	**–**	**35,466**	**35,466**	**4,244**	**39,710**
Other comprehensive income							
Exchange differences	**–**	**–**	**(776)**	**–**	**(776)**	**–**	**(776)**
Total comprehensive income for the period	**–**	**–**	**(776)**	**35,466**	**34,690**	**4,244**	**38,934**
Transactions with owners							
Dividends relating to 2018 paid in June 2019	**–**	**(196,706)**	**–**	**–**	**(196,706)**	**–**	**(196,706)**
Shares bought back on-market and cancelled	**(443)**	**(13,011)**	**–**	**–**	**(13,454)**	**–**	**(13,454)**
Contribution from non-controlling interests	**–**	**–**	**–**	**–**	**–**	**1,285**	**1,285**
Total transactions with owners	**(443)**	**(209,717)**	**–**	**–**	**(210,160)**	**1,285**	**(208,875)**
As at 30 June 2019	**140,312**	**1,656,669**	**415,695**	**1,659,403**	**3,872,079**	**20,585**	**3,892,664**
As at 1 January 2018	133,792	1,603,035	275,445	1,343,841	3,356,113	–	3,356,113
Comprehensive income							
Profit for the period	–	–	–	175,121	175,121	(292)	174,829
Other comprehensive income							
Exchange differences	–	–	15,657	–	15,657	–	15,657
Total comprehensive income for the period	–	–	15,657	175,121	190,778	(292)	190,486
Transactions with owners							
Proceeds from shares issued *(Note 11)*	7,756	407,363	–	–	415,119	–	415,119
Dividends relating to 2017 paid in June 2018	–	(61,783)	–	–	(61,783)	–	(61,783)
Shares bought back on-market and cancelled	(354)	(11,586)	–	–	(11,940)	–	(11,940)
Equity-settled share-based compensation	–	–	11,348	–	11,348	–	11,348
Shares purchased for share award scheme	–	–	(1,121)	–	(1,121)	–	(1,121)
Non-controlling interests on setting up of subsidiaries	–	–	–	–	–	9,000	9,000
Total transactions with owners	7,402	333,994	10,227	–	351,623	9,000	360,623
As at 30 June 2018	141,194	1,937,029	301,329	1,518,962	3,898,514	8,708	3,907,222

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30 June	
	2019	2018
	Unaudited	Unaudited
	RMB'000	*RMB'000*
Cash flows from operating activities		
Cash (used in)/generated from operations	**(211,828)**	80,868
Income tax paid	**(49,742)**	(65,770)
Net cash (used in)/generated from operating activities	**(261,570)**	15,098
Cash flows from investing activities		
Proceeds from disposal of property, plant and equipment	**271**	352
Interest received	**6,844**	13,880
Purchases of property, plant and equipment	**(101,168)**	(42,498)
Purchases of intangible assets	**(3,535)**	(2,871)
Term deposits with initial term of over three months	**210**	100,210
Capital contribution to joint ventures	**(115,000)**	(3,000)
Repayment from a related party	**–**	2,700
Net cash (used in)/generated from investing activities	**(212,378)**	68,773
Cash flows from financing activities		
Proceeds from shares issued	**–**	415,119
Capital injections from non-controlling interests	**1,285**	9,000
Proceeds from borrowings	**309,812**	–
Repayments of borrowings	**(186,360)**	(34,110)
Dividends paid	**(196,706)**	(61,783)
Interest paid for borrowings	**(8,953)**	(5,517)
Purchase of the Company's shares for share award scheme	**–**	(1,121)
Release of restricted bank deposits	**9,225**	–
Principal elements of lease payments	**(36,752)**	–
Payment for repurchase of the Company's shares	**(13,454)**	(11,940)
Net cash (used in)/generated from financing activities	**(121,903)**	309,648
Net (decrease)/increase in cash and cash equivalents	**(595,851)**	393,519
Cash and cash equivalents at beginning of the period	**1,496,163**	1,405,285
Effect of foreign exchange rate changes	**(4,516)**	15,834
Cash and cash equivalents at end of the period	**895,796**	1,814,638

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 2019 ("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 29 August 2019.

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 2018, 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 2018.

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 2018, 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 standard:

IFRS 16	Leases

The Group has adopted IFRS 16 from its mandatory adoption date of 1 January 2019. The Group has applied the simplied transition approach and has not restated comparative amounts for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

The land use rights are reclassified to right-of-use assets as of 30 June 2019.

The recognised right-of-use assets relate to the following types of assets:

	30 June 2019	1 January 2019
	RMB'000	*RMB'000*
Properties	**115,936**	154,606
Land use rights	**84,191**	85,231
Total right-of-use assets	**200,127**	239,837

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

	31 December 2018 As originally presented	**IFRS 16**	**1 January 2019 Restated**
	RMB'000	*RMB'000*	*RMB'000*
Right-of-use assets	–	239,837	239,837
Prepayments	2,474	(2,474)	–
Lease liabilities	–	152,132	152,132
Land use right	85,231	(85,231)	–

(b) 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 2019 and 30 June 2018.

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 2019 (2018: None).

4 REVENUE

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Sales to franchisees	**1,081,587**	1,261,661
Retail sales	**711,623**	774,354
E-commerce	**323,629**	302,667
Trading of raw materials	**93,368**	–
	2,210,207	2,338,682

	As at 30 June 2019	As at 31 December 2018
	RMB'000	*RMB'000*
Contract liabilities related to sales to franchisees	**66,801**	77,621
Contract liabilities related to trading of raw materials	**10,796**	8,142
	77,597	85,763

5 OTHER INCOME

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Other income:		
Government grants *(Note)*	**13,461**	21,827
Logistic warehousing and delivery income	**9,672**	5,663
Software usage fee income	**549**	1,419
Franchisee fee income	**469**	773
Others	**6,607**	5,633
	30,758	35,315

Note: 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	
	2019	2018
	RMB'000	*RMB'000*
Employee benefit expenses (including directors' emoluments) *(Note)*	**183,386**	283,687
Operating expenses in respect of stores under cooperative arrangement *(Note)*	**313,798**	232,845
Other operating rental expenses	**22,812**	13,858
Marketing and promotion expenses	**74,669**	57,486
E-commerce platforms commission expenses	**41,411**	41,534
Depreciation and amortisation	**88,342**	41,015
Write-down of inventories	**11,066**	22,331
Net impairment losses on financial assets	**7,011**	315

Note: For certain self-managed stores, the Group has entered into new cooperative arrangements with third party business partners since September 2018, such that these business partners bear the operating lease rentals and the staff costs of the stores (for the six months ended 30 June 2018: only bore lease rentals) while the Group pays each of them an amount of money based on the revenue of the respective store.

7 INCOME TAX (CREDIT)/EXPENSE

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Current income tax		
– Hong Kong profits tax *(Note (a))*	**–**	–
– PRC corporate income tax *(Note (b))*	**24,885**	72,666
– Over provision in prior year *(Note (d))*	**(25,198)**	–
	(313)	72,666
Deferred income tax		
– Deferred income tax current period	**(9,978)**	(9,439)
– Over provision in prior year *(Note (d))*	**2,611**	–
	(7,367)	(9,439)
Income tax (credit)/expense	**(7,680)**	63,227

Notes:

(a) Hong Kong profits tax

The applicable Hong Kong profits tax rate is 16.5% for the period (2018: 16.5%).

(b) PRC corporate income tax

The Company's subsidiary, Cosmo Lady Guangdong Holdings Limited ("Cosmo Lady Guangdong"), was given the preferential corporate income tax at 15% under the New High Technology Enterprises in April 2019, which is effective for 3 years from 2018 to 2020. The Group's other subsidiaries in the PRC are subject to PRC corporate income tax at the rate of 25% for the six months ended 30 June 2019 (2018: 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.

(d) Over provision in prior year

Pursuant to the PRC Corporate Income Tax Law (the "CIT Law"), the CIT rate is 25%. In addition, the CIT Law provides, among others, a preferential tax rate of 15% for enterprises qualified as High and New Technology Enterprises ("HNTE"). During the year ended 31 December 2018, Cosmo Lady Guangdong submitted an application to relevant government authorities for being designated as a HNTE for financial years from 2018 to 2020. In April 2019, Cosmo Lady Guangdong obtained the approval from the relevant government authorities as HNTE and was given the preferential CIT rate at 15% for financial years from 2018 to 2020. The over-provision represents the difference between 15% and 25% which was the then corporate tax rate used in 2018.

8 EARNINGS PER SHARE

Basic

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

	Six months ended 30 June	
	2019	2018
Profit for the period attributable to owners of the Company *(RMB'000)*	**35,466**	175,121
Weighted average number of ordinary shares for purposes of basic earnings per share *(thousands of shares)*	**2,252,467**	2,158,304
Basic earnings per share *(RMB cents per share)*	**1.57**	8.11

Note: The weighted average number of ordinary shares for the purpose of basic earnings per share for the six months ended 30 June 2019 has been adjusted for the repurchase and cancellation of ordinary shares of the Company during the period ended 30 June 2019.

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. As the share price was lower than the exercise price of share option, there is no diluted earnings per share during the period ended 30 June 2019.

	Six months ended 30 June	
	2019	2018
Profit for the period attributable to owners of the Company *(RMB'000)*	**35,466**	175,121
Weighted average number of ordinary shares for purposes of basic earnings per share *(thousands of shares)*	**2,252,467**	2,158,304
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)*	**2,252,467**	2,168,704
Diluted earnings per share *(RMB cents per share)*	**1.57**	8.07

9 INTERIM DIVIDEND

The Board does not recommend the payment of interim dividend to shareholders of the Company for the six month ended 30 June 2019 (2018: HK$61,763,000 (equivalent to approximately RMB54,297,000)).

10 TRADE RECEIVABLES

	As at 30 June 2019 ***RMB'000***	As at 31 December 2018 *RMB'000*
Due from third parties	**795,438**	830,401
Less: provision for impairment	**(11,785)**	(4,774)
Trade receivables – net	**783,653**	825,627

(a) As at 30 June 2019, 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 outlets, respectively. In addition, the Group also gives an additional credit period of 180 to 360 days to certain franchise customers.

(c) The aging analysis of trade receivables based on invoice date, as at 30 June 2019, and 31 December 2018 is as follow:

	As at 30 June 2019 *RMB'000*	As at 31 December 2018 *RMB'000*
Trade receivables, gross		
– Within 30 days	**289,070**	401,470
– Over 30 days and within 60 days	**74,823**	113,493
– Over 60 days and within 90 days	**96,393**	155,705
– Over 90 days and within 180 days	**115,963**	107,243
– Over 180 days and within 360 days	**189,827**	33,291
– Over 360 days	**29,362**	19,199
	795,438	830,401

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 2019	**2,256,234,213**	**140,755**	**1,866,386**	**2,007,141**
Shares bought back on-market and cancelled *(Note(a))*	**(6,777,000)**	**(443)**	**(13,011)**	**(13,454)**
Dividends	**–**	**–**	**(196,706)**	**(196,706)**
As at 30 June 2019	**2,249,457,213**	**140,312**	**1,656,669**	**1,796,981**
As at 1 January 2018	2,146,457,000	133,792	1,603,035	1,736,827
Proceeds from shares issued *(Note(b))*	121,443,213	7,756	407,363	415,119
Shares bought back on-market 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

Notes:

(a) 210,000 shares were purchased in late 2018 and cancelled in early 2019.

(b) 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.

12 TRADE PAYABLES

	As at 30 June 2019 *RMB'000*	As at 31 December 2018 *RMB'000*
Due to third parties	**640,694**	703,688
Due to related parties	**2,015**	7,417
	642,709	711,105

As at 30 June 2019, trade payables of the Group are denominated in RMB, non-interest bearing, and the carrying amounts approximate their fair values.

At 30 June 2019, the aging analysis of trade payables (including amounts due to related parties of trading in nature) based on invoice date were as follows:

	As at 30 June 2019	As at 31 December 2018
	RMB'000	*RMB'000*
Trade payables		
– Within 30 days	**92,813**	128,260
– Over 30 days and within 60 days	**121,328**	185,045
– Over 60 days and within 90 days	**102,134**	229,615
– Over 90 days and within 180 days	**235,504**	82,371
– Over 180 days and within 360 days	**43,379**	39,235
– Over 360 days	**47,551**	46,579
	642,709	711,105

13 BORROWINGS

	As at 30 June 2019	As at 31 December 2018
	RMB'000	*RMB'000*
Non-current	**251,780**	–
Current	**55,632**	183,960
	307,412	183,960

Movements in borrowings is analysed as follows:

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Opening amount	**183,960**	223,080
Repayments of borrowings	**(186,360)**	(34,110)
Proceeds from borrowings	**309,812**	–
Closing amount	**307,412**	188,970

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 4.99% (2018: 5.30%) and are within level 2 of the fair value hierarchy.

BUSINESS REVIEW

Due to economic, trade frictions and other factors, the stability of the world economy has been significantly weakened since the second half of 2018. In the first half of 2019, various economic indicators were losing momentum. The Purchasing Managers' index ("PMI") of the manufacturing sector in both the developed and developing economies were disappointing. In U.S., the Manufacturing PMI number dropped to 50.1 in June 2019, the worst reading since September 2009. In China, the Manufacturing PMI dipped to 49.4 in June 2019. China's exports fell by 1.3% in June from a year earlier, according to data released by the General Administration of Customs while imports fell by 7.3% in June. The softened external demand added to the headwinds facing the Chinese economy.

Against this backdrop of a weakening economy, China's domestic demand was also under downward pressure. According to the National Bureau of Statistics of China, the growth rate of the industrial value added in the apparel industry for the first half of 2019 was 3.0%, a drop of 1.5% when compared with same period of last year while the cumulative finished cloth volume of apparel enterprises above designated size for the period fell by 1.09%.

The intimate wear industry of mainland China remains highly fragmented. The structural adjustments in respect of sales channel diversification, product quality and mix of products continue to add to the formidable challenges the industry is facing both internally and externally.

FINANCIAL REVIEW

Revenue

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

During the period, apart from the impact of weak retail industry and the sluggish performance of apparel industry in mainland China, some of the strategies adopted by the Group were found not suitable during the implementation stage, and the execution capabilities of management were also not satisfactory. As such, the revenue of the Group declined accordingly.

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			
	2019		2018	
	RMB'000	*%*	*RMB'000*	*%*
Sales to franchisees	**1,081,587**	**48.9**	1,261,661	54.0
Retail sales	**711,623**	**32.2**	774,354	33.1
E-commerce	**323,629**	**14.7**	302,667	12.9
Trading of raw materials	**93,368**	**4.2**	–	–
Total revenue	**2,210,207**	**100.0**	2,338,682	100.0

E-commerce sales increased by about 6.9% mainly because the Group continued to invest resources in the development of e-commerce channels.

The Group held equity interests in some raw materials suppliers and understood the cost structure of this industry. From the second half of 2018 onwards, the Group enjoyed economies of scale by making bulk purchase of raw materials, and then sold partly to third parties.

Revenue by type of product

The Group's revenue is mainly 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			
	2019		2018	
	RMB'000	*%*	*RMB'000*	*%*
Bras	**1,105,182**	**50.0**	1,284,842	54.9
Underpants	**383,861**	**17.4**	407,865	17.4
Sleepwear and loungewear	**302,435**	**13.7**	302,276	12.9
Thermal clothes	**93,235**	**4.2**	108,529	4.7
Trading of raw materials	**93,368**	**4.2**	–	–
Others *(Note)*	**232,126**	**10.5**	235,170	10.1
Total revenue	**2,210,207**	**100.0**	2,338,682	100.0

Note: Includes leggings and tights, vests, hosiery and accessories.

Gross profit margin

During the period under review, the gross profit margin of the Group dropped to around 41.1% (first half of 2018: 43.7%). This was primarily due to the (a) higher raw material costs; and (b) decline in revenue of higher gross-profit-margin bra and thermal cloth products as a percentage of total revenue, and higher discount being offered to customers as a result of keen competition during the period.

Selling and marketing expenses

Selling and marketing expenses primarily consist of employee benefit expenses, operating expenses in respect of stores under cooperative arrangements, marketing and promotion expenses, e-commerce platforms commission expenses, depreciation and amortisation and others.

The rise of selling and marketing expenses by about 5.5% for the six months ended 30 June 2019 to approximately RMB733,311,000 (first half of 2018: RMB695,404,000) was primarily driven by (a) the increase in expenses as a result of the opening of larger self-managed retail stores in shopping malls; 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 amortisation and others.

The rise of general and administrative expenses by about 8.3% for the six months ended 30 June 2019 to approximately RMB144,134,000 (first half of 2018: RMB133,050,000) was mainly attributable to the increase in number of senior management officers who were mainly recruited in second half of 2018.

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 decreased by approximately 12.9% to approximately RMB30,758,000 (first half of 2018: RMB35,315,000), mainly due to the decline in government grants awarded by local governments.

Finance (expenses)/income – net

Finance (expenses)/income – net represents financial expenses on bank borrowings less interest income on short-term bank deposits and financial assets at fair value through other comprehensive income.

The finance income of approximately RMB6,737,000 (first half of 2018: RMB11,995,000) decreased mainly resulted from the drop in interest income on financial assets at fair value through other comprehensive income.

The increase in finance expense to approximately RMB12,269,000 (first half of 2018: RMB5,517,000) was in line with the increase in bank borrowings.

Income tax credit/(expenses)

Income tax credit/(expenses) primarily represents income tax payable by the Group under relevant income tax rules and regulations of the People's Republic of China (the "PRC").

A PRC subsidiary of the Company submitted an application to relevant government authorities for being designated as a High and New Technology Enterprises ("HNTE") for the year ended 31 December 2018, and the years ending 31 December 2019 and 2020. This subsidiary obtained approval from relevant government authorities as HNTE in April 2019 and is entitled to a preferential income tax rate of 15% instead of the normal standard tax rate of 25%. Therefore, overprovision made in the year ended 31 December 2018 was written back in the period resulting in an income tax credit.

As at 30 June 2019, the Group had fulfilled all its tax obligations and did not have any unresolved tax disputes.

WORKING CAPITAL MANAGEMENT

	Six months ended 30 June 2019	Year ended 31 December 2018
Average inventory turnover days	**169.9 days**	139.8 days
Average trade receivables turnover days	**65.5 days**	49.4 days
Average trade payables turnover days	**93.5 days**	79.5 days

The increase in inventory balance to approximately RMB1,294,720,000 (31 December 2018: RMB1,164,933,000), and the increase in the average inventory turnover days to 169.9 days (31 December 2018: 139.8 days) were mainly attributable to the unsatisfactory sales performance during the period and the purchase of more new products designed by new designers before the end of June 2019.

The average trade receivables turnover days increased to about 65.5 days (31 December 2018: 49.4 days) as a result of granting one-off credit periods to selected large franchisees for encouraging them to open large size stores and shopping mall stores. Up to 15 August 2019, around 44% of the trade receivables balance has been received.

Average trade payables turnover days increased from about 79.5 days for the year ended 31 December 2018 to about 93.5 days for the six months ended 30 June 2019 because of increased bargaining power against the OEM suppliers.

LIQUIDITY AND FINANCIAL RESOURCES

The Group maintained a solid balance sheet. As at 30 June 2019, the Group's term deposits, restricted bank deposits and cash and cash equivalents amounted to approximately RMB896,216,000 (31 December 2018: RMB1,506,018,000) and bank borrowings amounted to approximately RMB307,412,000 (31 December 2018: RMB183,960,000). As at 30 June 2019, the current ratio was about 3.6 times (31 December 2018: 3.2 times).

As at 30 June 2019, the Group's gross gearing ratio, which was calculated on the basis of the amount of bank borrowings as a percentage of the total shareholders' equity, was approximately 7.9% (31 December 2018: 4.5%). The gross gearing ratio increased as a result of increase in bank borrowings. 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 15.1% (31 December 2018: negative 32.5%) as the Group was at a net cash position.

On 15 August 2019, the amount of bank balances was over RMB1 billion upon settlement of certain trade receivables and other receivables.

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 CONSULTANTS

There were shortcomings when implementing the strategies adopted by the Group in the last two years. As such, the Group has:

(a) Engaged Boston Consulting Group, a global leading consulting firm, in August 2019 on a long-term basis to assist the Group to fix the issues on overall operation strategies, major brand operation models, implementation of strategies and prioritization of various measures, inventory management, optimization of management hierarchy and determining short, medium and long-term strategies; and

(b) Engaged Shanghai oIBP SCM Co., Ltd., a reputable China consulting firm, in July 2019 to make scientific, systematic and data-based reforms in product merchandising management, including establishing a blueprint for the product merchandising management system, establishing a platform to collect, process and analyse data, designing product merchandising business plan, and predicting and monitoring performance for quick response.

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 2019, utilized approximately RMB682,972,000 (equivalent to approximately HK$777,935,000) to expand and maintain retail network of its self-managed retail stores, approximately RMB198,199,000 (equivalent to approximately HK$225,757,000) and RMB120,308,000 (equivalent to approximately HK$137,037,000) to construct and operate the logistics centres in Tianjin and Dongguan respectively and approximately RMB38,411,000 (equivalent to approximately HK$43,752,000) to upgrade information technology infrastructure. As at 30 June 2019, net proceeds not yet utilized were deposited with certain licensed banks.

USE OF PROCEEDS FOR FUNDS RAISED

Fosun Subscription

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 "Fosun Subscription"). 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 and net proceeds of approximately HK$599,000,000.

It was set out at the time that the net proceeds from the Fosun 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 capital.

Up to 30 June 2019, no suitable mergers, acquisitions or cooperation opportunities have been identified. The Company has utilized part of the net proceeds in the following manner: (a) as to approximately RMB308,692,000 (equivalent to approximately HK$360,351,000) for the payment of dividends; (b) as to approximately RMB42,625,000 (equivalent to approximately HK$49,681,000) for financing on-market share repurchases by the Company; (c) as to approximately RMB24,683,000 (equivalent to approximately HK$28,875,000) for business development in Hong Kong and overseas business; and (d) as to approximately RMB12,723,000 (equivalent to approximately HK$15,020,000) for administrative costs incurred in Hong Kong. The Company considers that the intended and actual uses of proceeds from the Fosun Subscription are in line with each other, given that the actual uses of proceeds are all in the nature of working capital expenditure.

The net proceeds not yet utilized from the Fosun Subscription has been deposited with certain licensed banks. The Company will continue to actively seek to identify opportunities suitable but has no definitive timetable nor expectation for when such opportunities will be found.

Windcreek Subscription

Reference is made to the announcement by the Company dated 26 April 2018 and 25 May 2018 regarding the issuance of new shares under general mandate (the "Windcreek Subscription"). On 25 May 2018, the Company issued an aggregate of 121,443,213 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, raising gross proceeds of approximately HK$510,061,495 and net proceeds of approximately HK$509,000,000.

It was set out at the time that the net proceeds from the Windcreek 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 capital.

Up to 30 June 2019, no suitable mergers, acquisitions or cooperation opportunities have been identified. The net proceeds from the Windcreek Subscription of approximately RMB415,119,000 (equivalent to approximately HK$509,000,000) has been deposited with certain licensed banks. The Company 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 RMB40,677,000 (first half of 2018: RMB27,907,000), which was mainly used for construction of the new office of the Group.

PLEDGE OF ASSETS

At 30 June 2019, certain property, plant and equipment, and land use rights were pledged as securities for obtaining banking borrowings of approximately RMB157,100,000 (31 December 2018: nil).

CONTINGENT LIABILITIES

At 30 June 2019, 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. As at 30 June 2019, the Group's distribution network comprised 6,562 retail stores (31 December 2018: 7,305), out of which 1,269 (31 December 2018: 1,406) were self-managed retail stores and 5,293 (31 December 2018: 5,899) were franchised retail stores. During the period, the Group has renovated 113 self-managed retail stores and 246 franchised retail stores.

HUMAN RESOURCES AND MANAGEMENT

The Group had approximately 4,760 full-time employees as at 30 June 2019 (31 December 2018: 4,540). 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 governments. 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 2018 annual report. A similar report will be included in the 2019 annual report which will be issued in next year.

OUTLOOK AND STRATEGY

Looking ahead to the second half of 2019, in the face of the challenging business environment, the Group has taken or will take the following actions:

1. Optimizing management team

   (a) Appointment of a new chief executive officer with extensive experience in apparel retail industry, leading the Group to reform, improve operation and internal management; and

   (b) Appointment of a new sales head and going to appoint a new marketing head and a new brand management head in the near future helping the Group to promote its brands and new products.

2. Engaging Boston Consulting Group and Shanghai oIBP SCM Co., Ltd. to assist in the reforms and transformation of the Group.

3. Enhancing product design and quality of products, and reforming supply chain management

   (a) Increasing input on research and development of new raw materials and products;

   (b) Entering into strategic investment agreements with 16 quality intimate wear product and material suppliers to strengthen supply chain management, shorten development and manufacturing cycle of new products and improve the Group's quick response capability. Together with the strategic agreements entered into in 2018, the Group has strategic corporation with 27 suppliers;

   (c) Launching the new products designed by French designers, Nathalie Sokierka and Emeline Duval, and reputable China designer Fan Yan Yan to the market in the second half of this year;

   (d) Apart from the new designers' products, rolling out 4F style products ("Flirt", "Free", "Function" and "Fun") in order to enhance product competitiveness and speed up product iteration; and

   (e) Investing fund in enhancing product quality controls, with the standards of certain testings (e.g. poisonous chemicals and cancer-causing materials) even higher than those set by China government.

4. Promoting brand image

   (a) Engaging Ms. Guan Xiatong as new celebrity encloser in view of her young, energetic, sexy and positive image which matches the style of the Group's new products; and

   (b) Stepping up investments in advertising and promotion activities.

5. Improving retail and distribution channels

   (a) Entering into shopping malls by using new image proactively;

   (b) Developing business in 4th and 5th tier areas;

   (c) Using the Tencent mini App for breaking down the boundaries between online and offline marketing, strengthening interaction with members and realizing omni-channel marketing; and

   (d) Investing in e-commerce channel continuously.

The Group still needs time to undergo reforms and transformation. Management believes that on adoption of the above measures and changing our strategies appropriately, the operating results of the Group will be improved in the future.

INTERIM DIVIDEND

The Board does not recommend the payment of interim dividend to shareholders of the Company for the six months ended 30 June 2019 (six months ended 30 June 2018: HK2.73 cents per share).

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 2019, 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 deviated from this provision during the six months ended 30 June 2019 because Mr. Zheng Yaonan ("Mr. Zheng") performed both the roles of the chairman of the Board and the chief executive officer (the "CEO") 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. Under the leadership of Mr. Zheng, the Board worked effectively and performed its responsibilities with all key and appropriate issues discussed in a timely manner. In addition, as all major decisions were 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 was therefore of the view that there were adequate safeguards in place to ensure sufficient balance of powers within the Board.

Reference is made to the announcement by the Company dated 19 August 2019 in which Mr. Siu Ka Lok has been appointed as the CEO of the Company. Mr. Zheng remains as the Chairman and an executive director of the Company. The change of the CEO will enable the Company to comply with the Code Provision A.2.1, and enable the Chainman and the CEO to devote more time and energy to focus on their respective roles.

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

During the six months ended 30 June 2019, the Company repurchased a total of 6,567,000 shares on the Stock Exchange at an aggregate consideration (excluding related expenses) of approximately HK$15,653,000 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 2019	931,000	2.70	2.57	2,447
March 2019	2,900,000	2.31	2.25	6,663
April 2019	2,286,000	2.61	2.30	5,546
May 2019	450,000	2.25	2.18	997
Total	6,567,000			15,653

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 2019.

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 2019.

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 2019.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2019

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, 29 August 2019

As at the date of this announcement, the Board comprises Mr. Zheng Yaonan, Mr. Zhang Shengfeng and Ms. Wu Xiaoli as executive directors of the Company; Mr. Lin Zonghong, Mr. Cheng Zuming, Mr. Wen Baoma, Mr. Yang Weiqiang and Mr. Zhao Yingming 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.