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)

PROFIT WARNING AND TRANSFORMATION PLAN

This announcement is made pursuant to Rule 13.09(2)(a) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Inside Information Provisions (as defined under the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

TRANSFORMATION PLAN

Business review

During the year ending 31 December 2019, Cosmo Lady (China) Holdings Company Limited (the "Company", together with its subsidiaries, the "Group") has faced headwinds in its business activities as a result of the slowing China economy and domestic demand. These in turn impact adversely upon the consumer-facing apparel industry and hence the operating performance of the Group.

The board of directors (the "Board") of the Company considers that the Group's existing business practice, which previously enabled the Group to capture market share and become a leading player in the Chinese intimate wear industry through aggressive network expansion, is no longer able to respond quickly to the structural adjustments in respect of sales channel diversification, product quality and mix of products in this industry.

The Board also notes that previous rapid expansion has resulted in the build-up of inventory in our own stores and the stores of our franchisees. In addition, certain business strategies previously adopted by the Group, such as its focus on fast-moving, fashionable and sexy intimate wear products, did not meet the diverse needs of our customers. As such, store productivity and profitability are adversely affected leading to weakened financial positions of the Group and our franchisees. The Board understands that it will be difficult for many franchisees to make improvement with their own resources.

New managing team and launch of transformation plan

In recent months, with a view to improving its business performance, the Group took various initiatives, including but not limited to:

(a) Appointing a new chief executive officer, Mr. Siu Ka Lok, in August 2019 with extensive experience in apparel industry in China for years and other new senior officers to lead and drive the strategic initiatives of the Group, and also enhance the Group's execution capabilities and efficiency; and

(b) Engaging Boston Consulting Group in August 2019 to review, among others, the business strategies, brand operation models and inventory management of the Group and assist in formulation and implementation of the business strategies of the Group.

Boston Consulting Group has submitted a report on its findings to the Group at the end of October 2019, detailing areas of financial and operational improvements for the Group's consideration and further actions.

In November and December 2019, the Board, Mr. Siu, together with the Group's other senior management members held meetings to discuss on the Group's transformation plan, and the following actions, among others, have been or will be taken for investing in branding and product development; enhancing product pricing and merchandising; optimizing cost structure; and building better distribution channel for the Group:

(a) Launch of new commercial advertisements in December 2019 under the theme of "Be your own idol" with our new celebrity endorser, Ms. Guan Xiaotong, promoting new design quality products;

(b) Opening shopping mall stores in the 4th quarter of 2019 with "family concept" and opening 7th generation intimate wear stores in December 2019 with completely new image to attract consumers;

(c) Increasing investments in e-commerce channel and developing business presence in the lower-tier cities in mainland China for filling market gap; and

(d) Tightening cost controls and cutting unnecessary expenses.

The new advertisements and the new image stores are well received by consumers and hence more new advertisements will be launched and more new image stores will be opened in the foreseeable future.

The Board believes that the measures mentioned above will gradually restore the healthy profitability of the Group and its franchisees.

Transformation plan: one-time-large-scale provisions

In addition, having considered the transformation plan measures, actual financial performance of the Group and the applicable accounting standards, the Board and Mr. Siu have decided in December 2019 to make the following accounting provisions in the financial statements of the Group:

(a) One-off write down of inventories by an amount of approximately RMB 650 million to RMB 700 million, in anticipation of the practical difficulties faced by the Group in selling out-of-date inventories to franchisees and retail customers in the foreseeable future;

(b) One-off waiving amounts of approximately RMB 310 million to RMB 350 million owed by major customers of the Group for the transformation plan; and

(c) Closing a number of loss-making retail stores of the Group, incurring various costs such as forfeiture of deposits, writing down leasehold improvements, and various staff redundancy costs, for an aggregate amount of approximately RMB 20 million to RMB 30 million.

The Board appreciates the grand scale of the above accounting provisions and the grave financial impact they will have on the results for the year ending 31 December 2019. The Board stresses that the contemplated accounting provisions are one-off in nature and are necessary steps to put the Group's finances at a footing from which notable improvements in the future would be possible.

PROFIT WARNING — ESTIMATED LOSS AFTER TAX FOR THE YEAR ENDING 31 DECEMBER 2019

The Board wishes to inform the shareholders of the Company and potential investors that, based on its preliminary review of the unaudited consolidated management accounts of the Group (the "Accounts") for the eleven months ended 30 November 2019 (the "Period"), and the contemplated one-off accounting provisions highlighted above, it expects to record a loss after tax of not less than RMB 980 million for the year ending 31 December 2019, as compared to the profit after tax of approximately RMB 378 million recorded for the year ended 31 December 2018. For the avoidance of doubt, the said accounting provisions were not made in the management accounts for the Period, and are to be made during the preparation of the financial statements for the year ending 31 December 2019.

As the results for the year ending 31 December 2019 have not been finalised, the information contained in this announcement is only a preliminary assessment by the Board based on the information currently available including the Accounts as at the date of this announcement, which have not been confirmed, reviewed or audited by the auditors of the Company.

The Group will closely monitor the manner and progress of implementation of the above measures and will review and if appropriate, adjust its strategy from time to time.

Shareholders of the Company and potential investors are advised to read carefully the annual results announcement of the Company for the year ending 31 December 2019 which is expected to be published in March 2020.

Shareholders of the Company and potential investors are advised to exercise caution when dealing in the shares of the Company.

By Order of the Board
Cosmo Lady (China) Holdings Company Limited
Zheng Yaonan
Chairman

Hong Kong, 23 December 2019

As at the date of this announcement, the Board comprises Mr. Zheng Yaonan, Mr. Zhang Shengfeng and Ms. Wu Xiaoli as executive Directors; Mr. Lin Zonghong, Mr. Cheng Zuming, Mr. Wen Baoma, Mr. Yang Weiqiang and Mr. Zhao Yingming as non-executive Directors; and Mr. Yau Chi Ming, Dr. Dai Yiyi, Mr. Chen Zhigang and Dr. Lu Hong Te as independent non-executive Directors.