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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 2021

HIGHLIGHTS

After adopting various transformation measures, the Group's operating performance has continued to improve:

- In the first half of 2021, sales increased by approximately 37.1% year-on-year;
- In the first half of 2021, same-store-sales of self-managed stores and franchised stores increased by approximately 23.8% and 10.7%, respectively;
- The cumulative sold-out rate of the 2021 spring-summer products increased by approximately 9.9% year-on-year;
- The value of orders placed by franchisees during the 2021 autumn-winter product trade fair increased by approximately 36.0% year-on-year;
- As at 30 June 2021, the ageing of inventories has improved, with the aged inventories purchased in 2019 or before accounted for only about 27.0% of the overall inventories (in term of cost), and the inventory balance has gradually returned to a healthy level; and
- The operating performance of the Group is gradually recovering. The Group started to turn losses into profits in the second half of 2020, and continued to be profitable in the first half of 2021.

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 2021, together with the comparative figures for the corresponding period of 2020 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

	Note	Six months ended 30 June	
		2021 Unaudited RMB'000	2020 Unaudited RMB'000
Revenue	4	1,827,227	1,332,575
Cost of sales		(937,049)	(683,191)
Gross profit		890,178	649,384
Selling and marketing expenses		(738,689)	(609,442)
General and administrative expenses		(126,558)	(148,999)
Net impairment losses on financial assets		(9,843)	(5,592)
Other income	5	18,521	18,452
Other gains/(losses) – net		1,093	(12,439)
Operating profit/(loss)		34,702	(108,636)
Finance income		2,486	2,256
Finance expenses		(22,377)	(26,207)
Finance expenses – net		(19,891)	(23,951)
Share of profit of equity investments		2,440	1,184
Profit/(loss) before income tax	6	17,251	(131,403)
Income tax (expense)/credit	7	(3,155)	2,577
Profit/(loss) for the period		14,096	(128,826)
Other comprehensive income/(loss) for the period			
<i>Item that may be reclassified subsequently to profit or loss</i>			
Exchange differences		(4,860)	7,966
<i>Item that will not be reclassified to profit or loss</i>			
Changes in the fair value of equity investments at fair value through other comprehensive income		(3,189)	(12,157)
Total comprehensive income/(loss) for the period		6,047	(133,017)
Profit/(loss) attributable to:			
Owners of the Company		15,113	(131,349)
Non-controlling interests		(1,017)	2,523
		14,096	(128,826)
Total comprehensive income/(loss) attributable to:			
Owners of the Company		7,064	(135,540)
Non-controlling interests		(1,017)	2,523
		6,047	(133,017)
Earnings/(loss) per share attributable to owners of the Company during the period	8	RMB cents	RMB cents
– Basic and diluted earnings/(loss) per share		0.68	(5.89)

CONDENSED CONSOLIDATED BALANCE SHEET

		As at 30 June 2021 Unaudited RMB'000	As at 31 December 2020 Audited RMB'000
	<i>Note</i>		
ASSETS			
Non-current assets			
Property, plant and equipment		666,805	695,368
Right-of-use assets		450,384	522,894
Intangible assets		33,611	33,975
Investment in joint ventures		299,067	295,107
Investment in an associate		—	—
Financial assets at fair value through other comprehensive income		64,704	67,893
Deposits, prepayments and other receivables		11,237	13,396
Deferred income tax assets		217,037	211,226
		<u>1,742,845</u>	<u>1,839,859</u>
Current assets			
Inventories		792,609	793,730
Trade and notes receivables	10	524,890	302,157
Deposits, prepayments and other receivables		547,917	574,129
Financial assets at fair value through profit or loss		4,393	4,623
Term deposits and restricted bank deposits		177,138	266,344
Cash and cash equivalents		752,274	714,569
		<u>2,799,221</u>	<u>2,655,552</u>
Total assets		<u>4,542,066</u>	<u>4,495,411</u>
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital	11	140,312	140,312
Share premium	11	1,656,669	1,656,669
Other reserves		393,204	401,310
Retained earnings		202,402	187,289
		<u>2,392,587</u>	<u>2,385,580</u>
Non-controlling interests		20,238	22,067
Total equity		<u>2,412,825</u>	<u>2,407,647</u>
LIABILITIES			
Current liabilities			
Trade and notes payables	12	812,765	719,562
Accruals and other payables		394,498	321,107
Contract liabilities		76,008	61,261
Current income tax liabilities		19,214	15,805
Borrowings	13	412,040	198,674
Lease liabilities		173,142	214,434
Deferred income		255	267
		<u>1,887,922</u>	<u>1,531,110</u>
Non-current liabilities			
Borrowings	13	65,437	339,077
Lease liabilities		174,371	215,855
Deferred income tax liabilities		804	893
Deferred income		707	829
		<u>241,319</u>	<u>556,654</u>
Total liabilities		<u>2,129,241</u>	<u>2,087,764</u>
Total equity and liabilities		<u>4,542,066</u>	<u>4,495,411</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited						
	Attributable to owners of the Company						
	Share capital <i>RMB'000</i>	Share premium <i>RMB'000</i>	Other reserves <i>RMB'000</i>	Retained earnings <i>RMB'000</i>	Total <i>RMB'000</i>	Non- controlling interests <i>RMB'000</i>	Total equity <i>RMB'000</i>
As at 1 January 2021	140,312	1,656,669	401,310	187,289	2,385,580	22,067	2,407,647
Comprehensive income							
Profit for the period	-	-	-	15,113	15,113	(1,017)	14,096
Other comprehensive income/(loss)							
Exchange differences	-	-	(4,860)	-	(4,860)	-	(4,860)
Changes in the fair value of equity investments at fair value through other comprehensive income	-	-	(3,189)	-	(3,189)	-	(3,189)
Total comprehensive income/(loss) for the period	-	-	(8,049)	15,113	7,064	(1,017)	6,047
Transactions with owners							
Equity-settled share-based compensation	-	-	6,483	-	6,483	-	6,483
Shares purchased for share award scheme	-	-	(6,540)	-	(6,540)	-	(6,540)
Disposal of a subsidiary	-	-	-	-	-	(533)	(533)
Dividends provided for	-	-	-	-	-	(279)	(279)
Total transactions with owners	-	-	(57)	-	(57)	(812)	(869)
As at 30 June 2021	140,312	1,656,669	393,204	202,402	2,392,587	20,238	2,412,825
As at 1 January 2020	140,312	1,656,669	418,807	320,835	2,536,623	15,989	2,552,612
Comprehensive income							
Loss for the period	-	-	-	(131,349)	(131,349)	2,523	(128,826)
Other comprehensive (loss)/income							
Exchange differences	-	-	7,966	-	7,966	-	7,966
Changes in the fair value of equity investments at fair value through other comprehensive income	-	-	(12,157)	-	(12,157)	-	(12,157)
Total comprehensive (loss)/income for the period	-	-	(4,191)	(131,349)	(135,540)	2,523	(133,017)
Transactions with owners							
Equity-settled share-based compensation	-	-	4,010	-	4,010	-	4,010
Shares purchased for share award scheme	-	-	(10,743)	-	(10,743)	-	(10,743)
Contribution from non-controlling interests	-	-	-	-	-	3,338	3,338
Total transactions with owners	-	-	(6,733)	-	(6,733)	3,338	(3,395)
As at 30 June 2020	140,312	1,656,669	407,883	189,486	2,394,350	21,850	2,416,200

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30 June	
	2021	2020
	Unaudited RMB'000	Unaudited RMB'000
Cash flows from operating activities		
Cash generated from operations	229,711	312,171
Income tax paid	(5,646)	(18,199)
	224,065	293,972
Cash flows from investing activities		
Proceeds from disposal of property, plant and equipment	3,220	2,036
Interest received	2,486	2,256
Purchases of property, plant and equipment	(53,757)	(108,503)
Purchases of intangible assets	(4,904)	(95)
Investment income from financial assets at fair value through profit or loss (“FVTPL”)	1,990	20
Proceeds from disposal of financial assets at fair value through other comprehensive income (“FVOCI”)	200	–
Dividends received from FVOCI	10,378	–
Capital contribution to joint ventures	(1,520)	–
(Advanced to)/repayment from a joint venture	(591)	1,480
	(42,498)	(102,806)
Cash flows from financing activities		
Capital injections from non-controlling interests	–	3,338
Proceeds from borrowings	120,000	260,909
Repayments of borrowings	(180,274)	(167,317)
Interest paid for borrowings	(13,444)	(15,285)
Purchase of the Company’s shares for share award scheme	(6,540)	(10,743)
Release/(pledge) of restricted bank deposits	89,206	(116,315)
Principal elements of lease payments	(148,699)	(200,490)
	(139,751)	(245,903)
Net increase/(decrease) in cash and cash equivalents	41,816	(54,737)
Cash and cash equivalents at beginning of the period	714,569	854,164
Effect of foreign exchange rate changes	(4,111)	1,336
	752,274	800,763
Cash and cash equivalents at end of the period	752,274	800,763

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 Windward 3, Regatta Office Park, PO Box 1350, 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 directors of the Company regarded Yao Li Investment Holdings Limited, a company incorporated in the British Virgin Islands (the "BVI") with limited liability and controlled by Mr. Zheng Yaonan, as being the ultimate holding company of the Company.

The interim condensed consolidated financial information for the six months ended 30 June 2021 ("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 26 August 2021.

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 2020, 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 2020.

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 2020, except for the adoption of new and amended standards as set out below.

(a) New and amended standards adopted by the Group

The following standards and amendments have been adopted by the Group for the first time for the financial year beginning on 1 January 2021:

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform – Phase 2
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The adoption of these new and amended standards does not have significant impact on the Interim Financial Information of the Group.

(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 2021 and 30 June 2020.

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 2021 (2020: none).

4 REVENUE

	Six months ended 30 June	
	2021 RMB'000	2020 RMB'000
Retail sales	877,952	421,774
Wholesales	528,868	512,055
E-commerce	357,628	382,318
Revenue from product sales	1,764,448	1,316,147
Others (<i>Note</i>)	62,779	16,428
	1,827,227	1,332,575
	As at 30 June 2021 RMB'000	As at 31 December 2020 RMB'000
Contract liabilities related to sales to franchisees	68,782	52,730
Contract liabilities related to trading of raw materials	7,226	8,531
	76,008	61,261

Note: These mainly represented sales for logistics and warehousing services and sales of raw materials.

5 OTHER INCOME

	Six months ended 30 June	
	2021 RMB'000	2020 RMB'000
Dividends from financial assets at FVOCI	5,961	–
Government grants (<i>Note</i>)	2,286	6,138
Investment income from financial assets at FVTPL	1,990	20
Logistics warehousing and delivery income	–	8,155
Others	8,284	4,139
	18,521	18,452

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/(LOSS) BEFORE INCOME TAX

	Six months ended 30 June	
	2021 RMB'000	2020 RMB'000
Employee benefit expenses (including directors' emoluments)	184,284	157,940
Operating expenses in respect of stores under cooperative arrangements	103,696	93,130
Commission expenses in respect of consignment sales in franchised stores	141,033	–
Other operating rental expenses	12,061	11,198
Marketing and promotion expenses	86,157	91,773
E-commerce platforms commission expenses	41,793	47,812
Depreciation and amortisation		
– Right-of-use-assets	134,431	165,900
– Property, plant and equipment	53,055	41,483
– Intangible assets	4,018	3,834
Impairment of right-of-use assets	13,181	41,266
Provision for inventories	7,833	15,615
	7,833	15,615

7 INCOME TAX EXPENSE/(CREDIT)

	Six months ended 30 June	
	2021 RMB'000	2020 RMB'000
Current income tax		
– Hong Kong profits tax (<i>Note (a)</i>)	–	–
– PRC corporate income tax (<i>Note (b)</i>)	9,055	12,754
	9,055	12,754
Deferred income tax	(5,900)	(15,331)
Income tax expense/(credit)	3,155	(2,577)

Notes:

(a) Hong Kong profits tax

The applicable Hong Kong profits tax rate is 16.5% for the period (2020: 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 High and New Technology Enterprises ("HNTE") in April 2019, which is effective for 3 years from 2018 to 2020. On 15 July 2021, Cosmo Lady Guangdong has submitted application materials to relevant government departments to renew the qualification as a HNTE. The management considers that Cosmo Lady Guangdong is able to fulfill all criteria as a HNTE and accordingly, uses 15% as the applicable tax rate for the six months ended 30 June 2021. 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 2021 (2020: 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 BVI was incorporated under the International Business Companies Act of the BVI and, accordingly, is exempted from BVI income tax.

8 EARNINGS/(LOSS) PER SHARE

Basic

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

	Six months ended 30 June	
	2021	2020
Profit/(loss) for the period attributable to owners of the Company (<i>RMB'000</i>)	<u>15,113</u>	<u>(131,349)</u>
Weighted average number of ordinary shares for purposes of basic earnings/(loss) per share (<i>thousands of shares</i>)	<u>2,207,054</u>	<u>2,229,672</u>
Basic earnings/(loss) per share (<i>RMB cents per share</i>)	<u>0.68</u>	<u>(5.89)</u>

Note: The weighted average numbers of ordinary shares for the purpose of basic earnings/(loss) per share for the six months ended 30 June 2021 and 30 June 2020 have been adjusted for the ordinary shares of the Company held under the share award scheme during the six months ended 30 June 2021 and 2020, respectively.

Diluted

For the six months ended 30 June 2021 and 30 June 2020, diluted earnings/(loss) per share is the same as the basic earnings/(loss) per share as there are no diluted potential shares.

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 2021 (for the six months ended 30 June 2020: nil).

10 TRADE AND NOTES RECEIVABLES

	As at 30 June 2021 <i>RMB'000</i>	As at 31 December 2020 <i>RMB'000</i>
Due from third parties	607,178	383,745
Notes receivables	3,741	2,872
Less: provision for impairment	<u>(86,029)</u>	<u>(84,460)</u>
Trade and notes receivables – net	<u>524,890</u>	<u>302,157</u>

- (a) As at 30 June 2021, the carrying amounts of the trade and notes receivables of the Group approximate their fair values and are all denominated in RMB.
- (b) The Group's trade and notes receivables are primarily derived from sales to certain wholesales customers with an appropriate credit history. The Group generally grants wholesales customers with a credit period of 60 to 90 days from the invoice date for seasonal products. For large wholesales customers, the Group would grant longer credit periods, up to 360 days, under certain circumstances.

- (c) The ageing analysis of trade receivables based on invoice date, as at 30 June 2021 and 31 December 2020, is as follows:

	As at 30 June 2021 RMB'000	As at 31 December 2020 RMB'000
Trade receivables, gross		
– Within 30 days	321,554	143,215
– Over 30 days and within 60 days	99,991	41,710
– Over 60 days and within 90 days	42,331	42,608
– Over 90 days and within 180 days	47,414	60,935
– Over 180 days and within 360 days	48,069	38,498
– Over 360 days	47,819	56,779
	<u>607,178</u>	<u>383,745</u>

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 2021	<u>2,249,457,213</u>	<u>140,312</u>	<u>1,656,669</u>	<u>1,796,981</u>
As at 30 June 2021	<u>2,249,457,213</u>	<u>140,312</u>	<u>1,656,669</u>	<u>1,796,981</u>
As at 1 January 2020	<u>2,249,457,213</u>	<u>140,312</u>	<u>1,656,669</u>	<u>1,796,981</u>
As at 31 December 2020	<u>2,249,457,213</u>	<u>140,312</u>	<u>1,656,669</u>	<u>1,796,981</u>

12 TRADE AND NOTES PAYABLES

	As at 30 June 2021 RMB'000	As at 31 December 2020 RMB'000
Trade payables (Note (a))		
Due to third parties	535,277	469,754
Due to related parties	7,947	143
	<u>543,224</u>	<u>469,897</u>
Notes payables (Note (b))		
Due to third parties	257,136	249,665
Due to related parties	12,405	–
	<u>269,541</u>	<u>249,665</u>
	<u>812,765</u>	<u>719,562</u>

Notes:

- (a) Trade payables of the Group are denominated in RMB, non-interest bearing, and the carrying amounts approximate their fair values.

At 30 June 2021, the ageing analysis of trade payables (including amounts due to related parties of trading in nature) based on invoice date is as follows:

	As at 30 June 2021 RMB'000	As at 31 December 2020 RMB'000
Trade payables		
– Within 30 days	159,251	187,983
– Over 30 days and within 60 days	94,695	69,689
– Over 60 days and within 90 days	121,399	97,634
– Over 90 days and within 180 days	128,724	111,152
– Over 180 days and within 360 days	22,662	3,191
– Over 360 days	16,493	248
	<u>543,224</u>	<u>469,897</u>

- (b) The amount represents the bank's acceptance bills with credit terms of 3-4 months.

13 BORROWINGS

	As at 30 June 2021 RMB'000	As at 31 December 2020 RMB'000
Non-current		
Secured bank borrowing (Note)	<u>65,437</u>	339,077
	65,437	339,077
Current		
Secured bank borrowing (Note)	412,040	190,300
Unsecured bank borrowing	–	8,374
	<u>412,040</u>	198,674
	<u>477,477</u>	<u>537,751</u>

Movements in borrowings is analysed as follows:

	Six months ended 30 June	
	2021 RMB'000	2020 RMB'000
Opening amount	537,751	455,190
Repayments of borrowings	(180,274)	(167,317)
Proceeds from borrowings	<u>120,000</u>	<u>260,909</u>
Closing amount	<u>477,477</u>	<u>548,782</u>

Note: The amount represents the bank borrowings that are secured by the Group's certain buildings and land use rights with a carrying amount as at 30 June 2021 of RMB468,767,000.

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 5.24% (2020: 5.11%) per annum and are within level 2 of the fair value hierarchy.

BUSINESS REVIEW

Mainland China's economy has gradually regained its resilience and dynamic in the first half of 2021, more than a year after the spread of the coronavirus disease 2019 ("COVID-19"). Rising raw material costs and fresh COVID-19 cases, however, weighed on the recovery momentum.

The mainland China's gross domestic product expanded 7.9% year-on-year in the second quarter of 2021, yet lower than the market expectation, and the growth has slowed significantly from a record 18.3% expansion in the first quarter of 2021.

Despite the economic growth, the average rate of real increase in mainland China people's consumption is lower than the target set in the mainland China's 14th five-year plan period.

Clothing expenditure remained the second smallest part of people's consumption, accounting for only about 6.5% of the per capita consumption expenditure in mainland China. Meanwhile, the vacancy rate of shopping malls in first-and second-tier cities is still high as impacted by both the pandemic and the change of consumption patterns from offline to online.

The mainland China intimate wear market is very fragmented, and competition is fierce as characterized by the high discount offered by some players. In addition, the emergence of internet intimate wear brands in recent years has further intensified the competition in this industry.

The measures taken and to be taken by the Board in 2021 are mainly based on the four strategic directions of "rebuilding products", "restructuring distribution channels", "rebranding" and "re-establishing organizations".

1. Rebuilding products

- (a) Shifting from fast-moving-fashionable-sexy products to healthy, comfortable, high technology, good-looking and value-for-money products;
- (b) Launching hero products (dust-free cotton loungewear products, soft cup bra products, one-size underwear and one-size panty) and raising quality and selling prices of products in the first half of 2021, and launching the second generation of the hero products and other new hero products in the second half of 2021;
- (c) Reducing numbers of stock keeping unit ("SKU") to enjoy economies of scale (taking underwear as an example, the numbers of patterns and SKUs of 2021 autumn-winter products dropped by 15.9% and 21.5%, respectively when compared with those of 2020 autumn-winter);
- (d) The cumulative sold-out rate of 2021 spring-summer products is higher than the cumulative sold-out rate of 2020 spring-summer products by approximately 9.9%; and
- (e) The value of orders placed by franchisees during the 2021 autumn-winter product trade fair increased by approximately 36.0% year-on-year.

2. Restructuring distribution channels

(a) Offline stores

- (i) Expanding business territories proactively in untapped markets in low-tier regions, and continuing to seek opportunities to open stores;
- (ii) In the first half of 2021, 373 seventh-generation image stores were opened, and there were 1,441 seventh-generation image stores at the end of June 2021. The average monthly sales of the self-managed seventh-generation image stores of the Group in the first half of 2021 were over 20% higher than those of the old stores; and
- (iii) In the first half of 2021, one shopping mall store with the theme of "family life concept" was opened, and there were 16 such stores at the end of June 2021. In the first half of 2021, the same-store-sales of such stores increased by approximately 63.7% year-on-year.

(b) E-commerce channel

- (i) Continuing to improve product capabilities for ensuring the long-term healthy development of the brand, with the average unit price and gross profit margin increased year-on-year by about 39.0% and 6.5%, respectively;
- (ii) Apart from the 3 major e-commerce channels (Alibaba, JD and VIP), the Group started cooperation with other e-commerce channels (e.g. TikTok, Kwai and Pinduoduo) in the first quarter of 2021; and
- (iii) Arranging hundreds of live-streams with celebrities in various e-commerce platforms, realizing gross merchandise volume of over RMB38 million in the first half of 2021.

3. Rebranding

- (a) Launching new brand stories, holding 2021 autumn-winter product fashion show and the 2021 spring-summer product press conference, with the number of viewers on the whole internet over a million;
- (b) Using creative videos to promote the hero products in the first half of 2021 in various channels (online and offline stores, official Weibo, WeChat, Xiaohongshu, TikTok, WeChat Moments, etc.); and
- (c) Continuing to enhance membership system, refining membership management and introducing appropriate products and promotion activities.

4. Re-establishing organization

- (a) Re-establishing the supply chain organization with a view to enhancing sales and production coordination, responding to the market changes swiftly, delivering products on a timely basis, lowering procurement costs, assuring quality and improving creativity; and
- (b) Optimizing information technology operation system, establishing high efficient information technology team, improving core systems and structure, building safe and stable platforms and optimization for decision making.

FINANCIAL REVIEW

Revenue

The Group's revenue is mainly derived from sales of intimate products in mainland China. The breakdown of the revenue is as follows:

	Six months ended 30 June			
	2021		2020	
	RMB'000	%	RMB'000	%
Retail sales	877,952	48.1	421,774	31.7
Wholesales	528,868	28.9	512,055	38.4
E-commerce	357,628	19.6	382,318	28.7
Others	62,779	3.4	16,428	1.2
	1,827,227	100.0	1,332,575	100.0

Revenue for the first half of 2021 increased by about 37.1% year-on-year. The retail sales increased by about 108.2% when compared with the same period of 2020, mainly because the impact of transformation gradually manifested and the Group mainly focused on direct-to-consumers sales model during the period.

Gross profit margin

During the period under review, the gross profit margin of the Group remained stable at around 48.7% (the first half of 2020: 48.7%) amid surge in raw material prices. This was primarily due to:

- Continued implementation of transformation plan for improvement of supply chain management, product operating and product merchandising capabilities to lower cost and improve gross profit margin; and
- The product capabilities, competitiveness and sold-out rate have improved in the first half of 2021 so that the products could be sold at better prices.

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 increase in selling and marketing expenses by about 21.2% for the six months ended 30 June 2021 to approximately RMB738,689,000 (the first half of 2020: RMB609,442,000) was mainly driven by the increase in the commission expenses in respect of consignment sales in franchised stores as a result of stepping up effort on promoting the direct-to-consumers sales model during the period.

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 decline in general and administrative expenses by about 15.1% for the six months ended 30 June 2021 to approximately RMB126,558,000 (the first half of 2020: RMB148,999,000) was mainly due to the fact that there was a larger impairment for right-of-use assets in the same period of 2020.

Other income

Other income consists of dividends from financial assets at FVOCI, investment income from financial assets at FVTPL, government grants and others. During the period, other income remained fairly stable at approximately RMB18,521,000 (the first half of 2020: RMB18,452,000).

Finance expenses – net

Finance expenses – net represents financial expenses on bank borrowings and lease liabilities less interest income on short-term bank deposits and advance to suppliers.

The finance income of approximately RMB2,486,000 (the first half of 2020: RMB2,256,000) increased mainly resulted from the increase in interest income on short-term bank deposits.

The decrease in finance expenses to approximately RMB22,377,000 (the first half of 2020: RMB26,207,000) was in line with the decrease in bank borrowings and lease liabilities.

Income tax expense/(credit)

As of 30 June 2021, the Group had fulfilled all its tax obligations and did not have any unresolved tax disputes.

For the six months ended 30 June 2021, the Group recognized appropriate deferred tax assets in the financial statements resulting in income tax credit.

WORKING CAPITAL MANAGEMENT

	Six months ended 30 June 2021	Year ended 31 December 2020
Average inventories turnover days	152 days	172 days
Average trade and notes receivables turnover days	41 days	35 days
Average trade and notes payables turnover days	147 days	137 days

The improvement in average inventories turnover days was mainly due to the continuous clearance of aged inventories during the period.

There were no significant changes for the average trade and notes receivables turnover days and average trade and notes payables turnover days.

LIQUIDITY AND FINANCIAL RESOURCES

The Group maintained a solid balance sheet. As at 30 June 2021, the Group's term deposits, restricted bank deposits and cash and cash equivalents amounted to approximately RMB929,412,000 (31 December 2020: RMB980,913,000) and bank borrowings amounted to approximately RMB477,477,000 (31 December 2020: RMB537,751,000). As at 30 June 2021, the current ratio was about 1.5 times (31 December 2020: 1.7 times).

As at 30 June 2021, 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 19.8% (31 December 2020: 22.3%). The gross gearing ratio decreased as part of the bank borrowings has been repaid. 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 18.7% (31 December 2020: negative 18.4%) as the Group maintained a good 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.

USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING

The Company's ordinary shares were listed on the Main Board of the Stock Exchange on 26 June 2014. The gross proceeds from the Company's initial public offering amounted to approximately HK\$1,463,245,000 while the net proceeds amounted to approximately HK\$1,386,405,000. The said net proceeds were fully utilized as of 31 August 2020.

USE OF PROCEEDS FOR FUNDS RAISED

Fosun Subscription

Reference is made to the announcements 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 2021, the use of net proceeds was as follows:

Use of net proceeds	Intended use of net proceeds HK\$	Amount utilized as at 30 June 2021 HK\$	Expected timeline of full utilization of said unutilized balance (Note)
Financing the reforms in sales and distributions channels of the Group	39,000,000	39,000,000	N/A
Potential mergers, acquisitions and cooperation opportunities	30,000,000	–	Before the end of 2023
General working capital	530,000,000	530,000,000	N/A

Note: The expected timeline of full utilization of said unutilized balance is based on the best estimation of the future market conditions made by the Group. It may be subject to changes due to future development of market conditions.

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 announcements 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\$510,061,000 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 2021, the use of the net proceeds was as follows:

Use of net proceeds	Intended use of net proceeds HK\$	Amount utilized as at 30 June 2021 HK\$	Expected timeline of full utilization of said unutilized balance (Note)
Financing the reforms in sales and distributions channels of the Group	239,000,000	74,301,663	Before the end of 2023
Potential mergers, acquisitions and cooperation opportunities	70,000,000	–	Before the end of 2023
General working capital	200,000,000	19,000,000	Before the end of 2023

Note: The expected timeline of full utilization of said unutilized balance is based on the best estimation of the future market conditions made by the Group. It may be subject to changes due to future development of market conditions.

The net proceeds from the Windcreek Subscription have 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 intangible assets amounted to approximately RMB29,105,000 (the first half of 2020: RMB201,178,000), which was mainly used for decoration and renewal of stores.

PLEDGE OF ASSETS

At 30 June 2021, certain property, plant and equipment, and land use rights were pledged as securities for obtaining banking borrowings of approximately RMB477,477,000 (31 December 2020: RMB529,377,000).

CONTINGENT LIABILITIES

At 30 June 2021, the Group did not have any significant contingent liabilities.

HUMAN RESOURCES AND MANAGEMENT

The Group had approximately 2,900 full-time employees as at 30 June 2021 (31 December 2020: 3,200). 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 PRC" 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 2020 annual report. A similar report will be included in the 2021 annual report which will be issued in next year.

OUTLOOK AND STRATEGY

After taking the aforementioned transformation measures, the Group's operating results have gradually improved, and the management believes that the Group will achieve better performance in the future.

However, since mid-June 2021, the pandemic appeared to have rebounded in mainland China. The management will pay close attention and will take appropriate measures swiftly to respond to the changing market conditions.

INTERIM DIVIDEND

The Board does not recommend the payment of interim dividend to shareholders of the Company for the six months ended 30 June 2021 (six months ended 30 June 2020: nil).

CORPORATE GOVERNANCE PRACTICES

The Board considers that the Company has complied with all the code provisions set out in the Corporate Governance 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 2021.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2021.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") as the code of conduct for Directors' securities transactions. 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 2021.

AUDIT COMMITTEE

The audit committee comprises four independent non-executive Directors, 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 audit committee holds regular meetings to review the financial information, financial reporting system and internal control procedures of the Group, including a review of the interim financial information for the six months ended 30 June 2021.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2021

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 2021 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, 26 August 2021

As at the date of this announcement, the Board comprises Mr. Zheng Yaonan, Mr. Zhang Shengfeng, Ms. Wu Xiaoli and Mr. Siu Ka Lok as executive Directors; Mr. Lin Zonghong, Mr. Wen Baoma, Mr. Jiang Bo 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.