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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 2022

		FINANCIAL HIGHLIGHTS	
		For the six months ended 30 June	
		2022	2021
Revenue	RMB'000	1,618,373	1,827,227
Operating profit	RMB'000	46,803	34,702
Profit attributable to owners of the Company	RMB'000	10,123	15,113
Gross profit margin	%	46.6%	48.7%
Earnings per share			
– Basic	RMB cents	0.46	0.68
– Diluted	RMB cents	0.46	0.68

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 2022, together with the comparative figures for the corresponding period of 2021 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	
		2022 Unaudited RMB'000	2021 Unaudited RMB'000
Revenue	4	1,618,373	1,827,227
Cost of sales		(864,139)	(937,049)
Gross profit		754,234	890,178
Selling and marketing expenses		(644,351)	(738,689)
General and administrative expenses		(117,214)	(126,558)
Net reversal of/(provision for) impairment losses on financial assets		51,493	(9,843)
Other income	5	13,659	18,521
Other (losses)/gains – net		(11,018)	1,093
Operating profit		46,803	34,702
Finance income		3,388	2,486
Finance expenses		(18,062)	(22,377)
Finance expenses – net		(14,674)	(19,891)
Share of net (loss)/profit of joint ventures		(558)	2,440
Profit before income tax	6	31,571	17,251
Income tax expense	7	(29,719)	(3,155)
Profit for the period		1,852	14,096
Other comprehensive income/(loss) for the period			
<i>Item that may be reclassified subsequently to profit or loss</i>			
Exchange differences		17,147	(4,860)
<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		(7,287)	(3,189)
Total comprehensive income for the period		11,712	6,047
Profit/(loss) attributable to:			
Owners of the Company		10,123	15,113
Non-controlling interests		(8,271)	(1,017)
		1,852	14,096
Total comprehensive income/(loss) attributable to:			
Owners of the Company		19,983	7,064
Non-controlling interests		(8,271)	(1,017)
		11,712	6,047
Earnings per share	8	RMB cents	RMB cents
– Basic and diluted earnings per share		0.46	0.68

CONDENSED CONSOLIDATED BALANCE SHEET

		As at 30 June 2022 Unaudited RMB'000	As at 31 December 2021 Audited RMB'000
	<i>Note</i>		
ASSETS			
Non-current assets			
Property, plant and equipment		637,709	676,484
Right-of-use assets		359,399	342,800
Intangible assets		29,074	31,419
Investment in joint ventures		110,059	154,884
Investment in an associate		—	—
Financial assets at fair value through other comprehensive income		58,405	70,083
Deposits, prepayments and other receivables		9,333	8,050
Deferred income tax assets		120,435	148,858
		<u>1,324,414</u>	<u>1,432,578</u>
Current assets			
Inventories		758,272	964,129
Trade and notes receivables	10	259,258	280,555
Deposits, prepayments and other receivables		582,113	608,889
Financial assets at fair value through profit or loss		—	3,533
Restricted bank deposits		158,240	240,292
Cash and cash equivalents		554,631	515,547
		<u>2,312,514</u>	<u>2,612,945</u>
Total assets		<u>3,636,928</u>	<u>4,045,523</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		396,799	381,598
Accumulated losses		(296,761)	(306,699)
		<u>1,897,019</u>	<u>1,871,880</u>
Non-controlling interests		(160)	22,026
Total equity		<u>1,896,859</u>	<u>1,893,906</u>
LIABILITIES			
Current liabilities			
Trade and notes payables	12	643,749	1,007,450
Accruals and other payables		321,168	334,156
Contract liabilities		71,781	110,526
Current income tax liabilities		12,247	17,818
Borrowings	13	172,899	307,136
Lease liabilities		183,661	174,243
Deferred income		242	242
		<u>1,405,747</u>	<u>1,951,571</u>
Non-current liabilities			
Borrowings	13	187,517	61,941
Lease liabilities		145,713	136,803
Deferred income tax liabilities		627	716
Deferred income		465	586
		<u>334,322</u>	<u>200,046</u>
Total liabilities		<u>1,740,069</u>	<u>2,151,617</u>
Total equity and liabilities		<u>3,636,928</u>	<u>4,045,523</u>

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	(Accumulated losses)/ retained earnings RMB'000	Total RMB'000	Non- controlling interests RMB'000	Total equity RMB'000
As at 1 January 2022	140,312	1,656,669	381,598	(306,699)	1,871,880	22,026	1,893,906
Comprehensive income							
Profit/(loss) for the period	-	-	-	10,123	10,123	(8,271)	1,852
Other comprehensive income/(loss)							
Exchange differences	-	-	17,147	-	17,147	-	17,147
Changes in the fair value of equity investments at fair value through other comprehensive income	-	-	(7,287)	-	(7,287)	-	(7,287)
Transfer of loss on disposal of equity investments at fair value through other comprehensive income to (accumulated losses)/retained earnings	-	-	185	(185)	-	-	-
Total comprehensive income/(loss) for the period	-	-	10,045	9,938	19,983	(8,271)	11,712
Transactions with owners							
Equity-settled share-based compensation	-	-	2,823	-	2,823	-	2,823
Transaction with non-controlling interests	-	-	2,333	-	2,333	(8,778)	(6,445)
Liquidation of a subsidiary	-	-	-	-	-	(3,737)	(3,737)
Withdrawal of capital by non-controlling interests	-	-	-	-	-	(1,400)	(1,400)
Total transactions with owners	-	-	5,156	-	5,156	(13,915)	(8,759)
As at 30 June 2022	140,312	1,656,669	396,799	(296,761)	1,897,019	(160)	1,896,859
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/(loss) 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	-	-	-	-	-	(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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30 June	
	2022	2021
	Unaudited	Unaudited
	RMB'000	RMB'000
Cash flows from operating activities		
Cash generated from operations	61,020	229,711
Income tax credit/(paid)	4,186	(5,646)
	<u>65,206</u>	<u>224,065</u>
Net cash generated from operating activities		
Cash flows from investing activities		
Proceeds from disposal of property, plant and equipment	2,249	3,220
Interest received	3,388	2,486
Purchases of property, plant and equipment	(17,692)	(53,757)
Purchases of intangible assets	(2,301)	(4,904)
Investment income from financial assets at fair value through profit or loss ("FVTPL")	590	1,990
Withdrawal of investment capital from financial assets at fair value through other comprehensive income ("FVOCI")	4,391	200
Dividends from financial assets at FVOCI	1,953	10,378
Capital contribution to joint ventures	–	(1,520)
Withdrawal of investment capital from a joint venture	44,267	–
Repayment from/(advance to) a joint venture	265	(591)
	<u>37,110</u>	<u>(42,498)</u>
Net cash generated from/(used in) investing activities		
Cash flows from financing activities		
Return of capital to non-controlling shareholder upon liquidation of a subsidiary	(3,737)	–
Withdrawal of capital by non-controlling interests	(1,400)	–
Acquisition of additional interest in a subsidiary from non-controlling shareholder	(6,445)	–
Proceeds from borrowings	225,000	120,000
Repayments of borrowings	(233,661)	(180,274)
Interest paid for borrowings	(10,312)	(13,444)
Purchase of the Company's shares for share award scheme	–	(6,540)
Decrease of restricted bank deposits	82,052	89,206
Principal elements of lease payments	(117,898)	(148,699)
	<u>(66,401)</u>	<u>(139,751)</u>
Net cash used in financing activities		
Net increase in cash and cash equivalents	35,915	41,816
Cash and cash equivalents at beginning of the period	515,547	714,569
Effect of foreign exchange rate changes	3,169	(4,111)
	<u>554,631</u>	<u>752,274</u>
Cash and cash equivalents at end of the period		

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 were 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 2022 ("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 31 August 2022.

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 2021, 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 2021.

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 2021, 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 2022:

Amendments to IFRS 3	Reference to the Conceptual Framework
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before intended use
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Annual Improvements to IFRS Standards 2018–2020	Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41

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 2022 and 30 June 2021.

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 2022 (2021: None).

4 REVENUE

	Six months ended 30 June	
	2022 RMB'000	2021 RMB'000
Retail sales	758,952	877,952
Sales to franchisees	473,498	528,868
E-commerce	332,674	357,628
Others (<i>Note</i>)	53,249	62,779
	<u>1,618,373</u>	<u>1,827,227</u>
	As at 30 June 2022 RMB'000	As at 31 December 2021 RMB'000
Contract liabilities related to sales to franchisees	68,064	105,373
Contract liabilities related to trading of raw materials	3,717	5,153
	<u>71,781</u>	<u>110,526</u>

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

5 OTHER INCOME

	Six months ended 30 June	
	2022 RMB'000	2021 RMB'000
Dividends from financial assets at FVOCI	1,999	5,961
Government grants (<i>Note</i>)	3,532	2,286
Investment income from financial assets at FVTPL	590	1,990
Others	7,538	8,284
	<u>13,659</u>	<u>18,521</u>

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	
	2022	2021
	RMB'000	RMB'000
Employee benefit expenses (including directors' emoluments)	161,012	184,284
Operating expenses in respect of stores under cooperative arrangements	136,526	103,696
Commission expenses in respect of consignment sales		
in franchised stores	84,822	141,033
Other operating rental expenses	7,731	12,061
Marketing and promotion expenses	85,262	86,157
E-commerce platforms commission expenses	35,595	41,793
Depreciation and amortisation		
– Right-of-use assets	118,414	134,431
– Property, plant and equipment	59,599	53,055
– Intangible assets	3,701	4,018
Impairment of right-of-use assets	1,263	13,181
Provision for inventories	46,031	7,833

7 INCOME TAX EXPENSE

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Current income tax		
– Hong Kong profits tax (<i>Note (a)</i>)	–	–
– PRC corporate income tax (<i>Note (b)</i>)	1,385	9,055
	<u>1,385</u>	<u>9,055</u>
Deferred income tax		
– Deferred income tax current period	28,334	(5,900)
Income tax expense	<u>29,719</u>	<u>3,155</u>

Notes:

(a) Hong Kong profits tax

The applicable Hong Kong profits tax rate is 16.5% for the period (2021: 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 December 2021, which is effective for 3 years from 2021 to 2024. 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 2022 (2021: 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 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^(Note) during the period.

	Six months ended 30 June	
	2022	2021
Profit for the period attributable to owners of the Company (RMB'000)	<u>10,123</u>	<u>15,113</u>
Weighted average number of ordinary shares for the purposes of basic earnings per share (thousands of shares)	<u>2,193,421</u>	<u>2,207,054</u>
Basic earnings per share (RMB cents per share)	<u>0.46</u>	<u>0.68</u>

Note: The weighted average numbers of ordinary shares for the purpose of basic earnings per share for the six months ended 30 June 2022 and 30 June 2021 have been adjusted for the effects of purchase and withholding of ordinary shares of the Company for the share award scheme during the six months ended 30 June 2022 and 30 June 2021, respectively.

Diluted

For the six months ended 30 June 2022 and 30 June 2021, diluted earnings per share is the same as the basic earnings 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 2022 (for the six month ended 30 June 2021: Nil).

10 TRADE AND NOTES RECEIVABLES

	As at 30 June 2022 RMB'000	As at 31 December 2021 RMB'000
Due from third parties	323,752	365,283
Notes receivables	461	3,830
Less: provision for impairment	<u>(64,955)</u>	<u>(88,558)</u>
Trade and notes receivables – net	<u>259,258</u>	<u>280,555</u>

- (a) As at 30 June 2022, 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 franchise customers with an appropriate credit history. The Group generally grants franchise customers with a credit period of 60 to 90 days from the invoice date for seasonal products. The Group would grant longer credit periods, up to 360 days, for certain franchise customers under certain circumstances.

- (c) The ageing analysis of trade receivables based on invoice date, as at 30 June 2022 and 31 December 2021, is as follows:

	As at 30 June 2022 RMB'000	As at 31 December 2021 RMB'000
Trade receivables, gross		
– Within 30 days	171,638	139,254
– Over 30 days and within 60 days	14,888	23,684
– Over 60 days and within 90 days	36,959	18,163
– Over 90 days and within 180 days	18,993	66,604
– Over 180 days and within 360 days	36,810	67,578
– Over 360 days	44,464	50,000
	<u>323,752</u>	<u>365,283</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 2022	<u>2,249,457,213</u>	<u>140,312</u>	<u>1,656,669</u>	<u>1,796,981</u>
As at 30 June 2022	<u>2,249,457,213</u>	<u>140,312</u>	<u>1,656,669</u>	<u>1,796,981</u>
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 31 December 2021	<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 2022 RMB'000	As at 31 December 2021 RMB'000
Trade payables (Note (a))		
Due to third parties	502,216	703,450
Due to related parties	12,296	11,373
	<u>514,512</u>	<u>714,823</u>
Notes payables		
Due to third parties	125,767	292,627
Due to related parties	3,470	–
	<u>129,237</u>	<u>292,627</u>
	<u>643,749</u>	<u>1,007,450</u>

Notes:

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

As at 30 June 2022, 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 2022 RMB'000	As at 31 December 2021 RMB'000
Trade payables, gross		
– Within 30 days	46,413	56,368
– Over 30 days and within 60 days	48,986	83,149
– Over 60 days and within 90 days	170,694	177,993
– Over 90 days and within 180 days	215,847	372,832
– Over 180 days and within 360 days	23,286	19,303
– Over 360 days	9,286	5,178
	<u>514,512</u>	<u>714,823</u>

13 BORROWINGS

	As at 30 June 2022 RMB'000	As at 31 December 2021 RMB'000
Non-current		
Secured bank borrowing (<i>Note</i>)	<u>187,517</u>	61,941
Current		
Secured bank borrowing (<i>Note</i>)	<u>172,899</u>	307,136
	<u>360,416</u>	<u>369,077</u>

Movements in borrowings are analysed as follows:

	Six months ended 30 June	
	2022 RMB'000	2021 RMB'000
Opening amount	369,077	537,751
Repayments of borrowings	(233,661)	(180,274)
Proceeds from borrowings	<u>225,000</u>	120,000
Closing amount	<u>360,416</u>	<u>477,477</u>

Note: The bank borrowings were secured by the Group's certain buildings and land use rights with a carrying amount of RMB443,543,000 as at 30 June 2022 (as at 31 December 2021: RMB461,579,000).

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 4.96% (2021: 5.14%) and are within level 2 of the fair value hierarchy.

BUSINESS REVIEW

As adversely affected by the resurgence of COVID-19 pandemic and the downturn of real estate market in mainland China, and the international trade disputes, the consumption power in mainland China generally declined. The GDP of mainland China for the first half of 2022 increased by 2.5% year-on-year (with only a 0.4% year-on-year growth for the second quarter of 2022), while the mainland China apparel product retail value for the first half of 2022 decreased by 6.5% year-on-year.

The pandemic and the prolonged lockdown condition of part of mainland China continued to exert a heavy blow on global supply chains, leading to raw material price hike. For example, the price of cotton, which is widely used in the intimate wear industry, has increased by around 35% in the first half of 2022 year-on-year.

Mainland China's intimate wear market is highly fragmented. In recent years, consumers pay more attention to the comfortability and healthiness of intimate wear, while the emergence of new brands, especially the internet brands, has further intensified the competition.

In response to the above situation, the Group has implemented and will implement the following reform measures for improving the operating results of the Group:

1. Brand upgrading

- (a) Defining the market position of the Group's brands clearly, and promoting products and attracting consumers by stating "leading sales position and specialty in intimate wear in mainland China";
- (b) Publishing the "China Ladies Intimate Wear White Paper" jointly with JD apparel, China Nonwovens and Industrial Textiles Association (intimate wear committee) and Forward Business and Intelligence Co., Ltd. to enhance brand equity;
- (c) Continuing to optimize membership system, refine membership management, introduce appropriate products to our 60 million members and drive the promotion activities between online private domain traffic and offline stores; and
- (d) Using many videos, articles and posters for promoting products with our new brand ambassador and 100 lady-consumers from various industries.

2. Products upgrading

- (a) Building specialty intimate wear products with specialty functions by using specialty materials and specialty bra cups, and performing specialty research and development and specialty quality inspection in order to upgrade hero products (dust-free cotton loungewear products, soft cup bra products, one-size underwear and one-size panty) and launch value-for-money new quality products in the second half of 2022;
- (b) Increasing self-developed products, number of patent rights and the ratio of classic products, and reducing numbers of stock keeping units;
- (c) Regionalizing products by putting appropriate products at appropriate regions, and setting up fashion trend division to enhance market insights in different regions;
- (d) Strengthening the cooperation with professional associations and top-tier suppliers to develop new raw materials for use in new products; and
- (e) Cooperating with over 20 strategic suppliers and connecting with their information systems to enhance sales and production coordination, improve quality of products and shorten response time.

3. Distribution channel upgrading

- (a) Realizing omni-channel by setting up offline store network and by stepping up investments in e-commerce channels and mini APP for breaking down the boundary between online and offline marketing;
- (b) Offline stores
 - (i) Opening stores in untapped markets in low-tier regions which could bring business opportunities amid recent consumption downgrading;
 - (ii) Retaining stores with good potential and striving for rental reduction, closing poor performance stores and setting up outlets for clearing aged inventories; and
 - (iii) Developing shopping mall channel under a new brand “Cotton Regions” with new store image.
- (c) E-commerce channel
 - (i) Arranging many live-streams in various e-commerce platforms to promote products; and
 - (ii) Enhancing visual image of the Group’s products on e-commerce platforms and launching online hero products.

4. Other areas

- (a) Cooperating with JD on digitalization in the first quarter of 2022 for optimizing information technology systems, with higher investments to be made in the next few years;
- (b) Stepping up effort on clearing aged inventories in online, offline and overseas distribution channels; and
- (c) Streamlining corporate structure by gradually simplifying and merging departments to reduce overall staff costs.

FINANCIAL REVIEW

Revenue

The Group's revenue is mainly derived from sales of intimate products in mainland China, either to the franchisees or to consumers through self-managed stores and online sales platforms. The breakdown of the revenue is as follows:

	Six months ended 30 June			
	2022		2021	
	RMB'000	%	RMB'000	%
Retail sales	758,952	46.9	877,952	48.1
Sales to franchisees	473,498	29.3	528,868	28.9
E-commerce	332,674	20.5	357,628	19.6
Others	53,249	3.3	62,779	3.4
	1,618,373	100.0	1,827,227	100.0

During the period, due to the factors mentioned in the "Business Review" section, the Group's revenue declined by approximately 11.4% to approximately RMB1,618,373,000 year-on-year (the first half of 2021: RMB1,827,227,000).

Gross profit margin

During the period, the gross profit margin of the Group declined to around 46.6% (the first half of 2021: 48.7%), mainly due to the surge in raw material prices.

Selling and marketing expenses

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

The decrease in selling and marketing expenses by about 12.8% for the six months ended 30 June 2022 to approximately RMB644,351,000 (the first half of 2021: RMB738,689,000) was mainly driven by the drop in the commission expenses in respect of consignment sales in franchised stores, as less such arrangement has been made during the period.

General and administrative expenses

General and administrative expenses primarily consist of employee benefit expenses, impairment of right-of-use assets, consulting service expenses, travelling expenses, depreciation and amortisation and others.

The decline of general and administrative expenses by about 7.4% for the six months ended 30 June 2022 to approximately RMB117,214,000 (the first half of 2021: RMB126,558,000) was mainly due to the decrease in employee benefit expenses as a result of streamlining corporate structure during the period.

Net reversal of/(provision for) impairment losses on financial assets

The amount of RMB51,493,000 for the six month ended 30 June 2022 mainly represented reversal of part of the provisions for trade receivable and other receivables made in previous years upon settlement of these balances during the period.

Other income

Other income mainly consists of dividends from financial assets at FVOCI, investment income from financial assets at FVTPL, government grants, software usage fee income, franchise fee income and others. During the period, other income declined to approximately RMB13,659,000 (the first half of 2021: RMB18,521,000), mainly due to the decrease in dividends from financial assets at FVOCI.

Other (losses)/gains – net

The losses of about RMB11,018,000 during the six months ended 30 June 2022 mainly represented the exchange losses resulting from depreciation of Renminbi.

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 increased to approximately RMB3,388,000 (the first half of 2021: RMB2,486,000), mainly resulted from the increase in interest income on short-term bank deposits.

The decrease in finance expenses to approximately RMB18,062,000 (the first half of 2021: RMB22,377,000) was mainly due to the drop in interest expenses on lease liabilities.

Income tax expense

As of 30 June 2022, the Group had fulfilled all its tax obligations and did not have any unresolved tax disputes.

The income tax expense for the six months ended 30 June 2022, was mainly due to reversal of part of the deferred tax assets recognized in previous years.

Inventory level

On adoption of various transformation measures, the inventory level at 30 June 2022 has dropped by around RMB205,857,000 when compared with that at 31 December 2021.

The inventory-to-average-monthly-sales ratio has been improved from about 3.4 times for the year ended 31 December 2021 to about 2.8 times for the six months ended 30 June 2022.

Average trade receivables turnover days and average trade payables turnover days

The average trade receivables turnover days for the six months ended 30 June 2022 was 30 days which remained fairly stable (for the year ended 31 December 2021: 32 days).

Average trade payables turnover days increased from 162 days for the year ended 31 December 2021 to 172 days for the six months ended 30 June 2022, mainly due to the increased bargaining power against the OEM suppliers.

LIQUIDITY AND FINANCIAL RESOURCES

The Group maintained a solid balance sheet. As at 30 June 2022, the Group's restricted bank deposits and cash and cash equivalents amounted to approximately RMB712,871,000 (31 December 2021: RMB755,839,000) and bank borrowings amounted to approximately RMB360,416,000 (31 December 2021: RMB369,077,000). As at 30 June 2022, the current ratio was about 1.6 times (31 December 2021: 1.3 times).

As at 30 June 2022, 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 19.0% (31 December 2021: 19.5%). The net gearing ratio, which was calculated on the basis of the amount of bank borrowings less restricted bank deposits and cash and cash equivalents as a percentage of the total shareholders' equity, was approximately negative 18.6% (31 December 2021: negative 20.4%) as the Group continued to maintain a net cash position.

FOREIGN CURRENCY RISK

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

USE OF PROCEEDS FOR FUNDS RAISED

Fosun Subscription

Reference is made to the announcements of the Company dated 5 May 2017, 17 May 2017 and 30 June 2022 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.

On 30 June 2022, the Board had resolved to change the allocation of the unutilized net proceeds from Fosun Subscription up to 31 May 2022. The revised actual use of net proceeds up to 30 June 2022 was as follows:

Use of net proceeds	Original intended use of net proceeds as stated in the 2021 Annual Report HK\$	Net proceeds utilized up to 31 May 2022 HK\$	Unutilized net proceeds up to 31 May 2022 HK\$	Revised allocation of unutilized net proceeds up to 31 May 2022 HK\$	Unutilized net proceeds up to 30 June 2022 HK\$	Expected timeline of full utilization of said unutilized balance (Note)
Financing the reforms in sales and distribution channels of the Group	39,000,000	39,000,000	–	–	–	N/A
Potential mergers, acquisitions and cooperation opportunities	30,000,000	–	30,000,000	–	–	N/A
General working capital	530,000,000	530,000,000	–	30,000,000	29,039,000	Before the end of 2023
Total	599,000,000	569,000,000	30,000,000	30,000,000	29,039,000	

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.

Windcreek Subscription

Reference is made to the announcements of the Company dated 26 April 2018, 25 May 2018 and 30 June 2022 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.

On 30 June 2022, the Board had resolved to change the allocation of the unutilized net proceeds from the Windcreek Subscription up to 31 May 2022. The revised actual use of the net proceeds up to 30 June 2022 was as follows:

Use of net proceeds	Original intended use of net proceeds as stated in the 2021 Annual Report <i>HK\$</i>	Net proceeds utilized up to 31 May 2022 <i>HK\$</i>	Unutilized net proceeds up to 31 May 2022 <i>HK\$</i>	Revised allocation of unutilized net proceeds up to 31 May 2022 <i>HK\$</i>	Unutilized net proceeds up to 30 June 2022 <i>HK\$</i>	Expected timeline of full utilization of said unutilized balance <i>(Note)</i>
Financing the reforms in sales and distribution channels of the Group	239,000,000	50,601,000	188,399,000	88,399,000	85,892,000	Before the end of 2025
Potential mergers, acquisitions and cooperation opportunities	70,000,000	–	70,000,000	–	–	N/A
General working capital	200,000,000	25,555,000	174,445,000	344,445,000	344,445,000	Before the end of 2025
Total	509,000,000	76,156,000	432,844,000	432,844,000	430,337,000	

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.

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 RMB23,570,000 (the first half of 2021: RMB29,105,000), which was mainly used for decoration and renewal of stores.

PLEDGE OF ASSETS

As at 30 June 2022, certain property, plant and equipment, and land use rights were pledged as securities for obtaining banking borrowings of approximately RMB360,416,000 (31 December 2021: RMB369,077,000).

CONTINGENT LIABILITIES

As at 30 June 2022, the Group did not have any significant contingent liabilities.

HUMAN RESOURCES AND MANAGEMENT

The Group had approximately 3,100 full-time employees as at 30 June 2022 (31 December 2021: 3,300). 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 2021 annual report. A similar report will be included in the 2022 annual report which will be issued in next year.

OUTLOOK AND STRATEGY

The path of the Group’s transformation is through unyielding persistence in pursuit of results. While adapting to the changing market conditions, the Group prudently examine its competitive advantages to unleash its untapped potential.

Despite facing profound challenges, the Group, as a leading intimate wear enterprise in mainland China, believes its solid foundation can be translated into opportunities and growth drivers, and bring fruitful returns to shareholders of the Company in the foreseeable 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 2022 (for the six months ended 30 June 2021: Nil).

CORPORATE GOVERNANCE PRACTICES

The Board considers that the Company has complied with all the applicable code provisions set out in the Corporate Governance Code (the “CG Code”) contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) throughout the six months ended 30 June 2022, with the exception of Code Provision C.2.1.

According to Code Provision C.2.1 of the CG 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 from 30 November 2021 because Mr. Zheng Yaonan (“Mr. Zheng”) performed both the roles of the chairman of the Board and the chief executive officer of the Company. Mr. Zheng, with the established market reputation in the intimate wear industry in China, is the founder of the Group and has extensive experience in 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.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities during the six months ended 30 June 2022.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers 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 2022.

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 2022.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2022

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 2022 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, 31 August 2022

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. Wen Baoma, Mr. Chen Xin and Ms. Fung Yat Carol 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.