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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)

CONTINUING CONNECTED TRANSACTIONS NEW SHANTOU SHENGQIANG AGREEMENT AND SHANTOU MAOSHENG AGREEMENT

NEW SHANTOU SHENGQIANG AGREEMENT

References are made to the Company's announcements dated 25 May 2020 and 8 July 2020, which contain, among others, information in relation to the continuing connected transactions entered into between the Company and Shantou Shengqiang under the Old Shantou Shengqiang Agreement.

Since the Old Shantou Shengqiang Agreement will expire on 31 December 2022, and the Group intends to continue the relevant transactions upon expiration of the said agreement, on 19 December 2022, the Company entered into the New Shantou Shengqiang Agreement with Shantou Shengqiang, to govern the transactions between the Company and Shantou Shengqiang for the period from 1 January 2023 and ending on 31 December 2025. Except for the annual cap, all other terms of the New Shantou Shengqiang Agreement remain unchanged.

SHANTOU MAOSHENG AGREEMENT

The Group has been purchasing intimate wear products from Shantou Maosheng and these transactions constituted fully exempted continuing connected transactions under Rule 14A.76 of the Listing Rules in the past. For details, please refer to the section headed "Report of the Directors – Related Party Transactions" in the Company's annual report for the year ended 31 December 2021. On 19 December 2022, the Company entered into the Shantou Maosheng Agreement with Shantou Maosheng, pursuant to which the Company will purchase, and Shantou Maosheng will manufacture intimate wear products for the Company on an OEM basis for the period from 1 January 2023 and ending on 31 December 2025.

LISTING RULES IMPLICATIONS

Mr. Zhang is an executive Director and hence a connected person of the Company. Shantou Shengqiang, in which Mr. Cai Shaoqiang (a brother of Mr. Zhang's spouse) and his wife, in aggregate, own the entire equity interests, is an associate of Mr. Zhang and a connected person of the Company.

Mr. Lin is a non-executive Director and hence a connected person of the Company. Shantou Maosheng, in which Mr. Lin Zonglie and Ms. Lin Fengqing, a brother and sister of Mr. Lin, in aggregate, own the entire equity interests, is an associate of Mr. Lin and is a connected person of the Company.

Accordingly, the transactions entered in between the Company, Shantou Shengqiang and Shantou Maosheng contemplated under each of the Framework Purchase Agreement constitute continuing connected transactions of the Group under Chapter 14A of the Listing Rules.

As one or more of the applicable Percentage Ratios in respect of the proposed annual caps for each of the continuing connected transactions proposed to be renewed and contemplated under each of the Framework Purchase Agreement exceeds 0.1% but are less than 5%, the transactions contemplated under each of the Framework Purchase Agreements are subject to the reporting, announcement and annual review requirements, but are exempt from Shareholders' approval requirement under Chapter 14A of the Listing Rules.

New Shantou Shengqiang Agreement

References are made to the Company's announcements dated 25 May 2020 and 8 July 2020, which contain, among others, information in relation to the continuing connected transactions entered into between the Company and Shantou Shengqiang under the Old Shantou Shengqiang Agreement.

Since the Old Shantou Shengqiang Agreement will expire on 31 December 2022, and the Group intends to continue the relevant transactions upon expiration of the said agreement, on 19 December 2022, the Company entered into the New Shantou Shengqiang Agreement with Shantou Shengqiang, to govern the transactions between the Company and Shantou Shengqiang for the period from 1 January 2023 and ending on 31 December 2025. Except for the annual cap, all other terms of the New Shantou Shengqiang Agreement remain unchanged.

The principal terms of the New Shantou Shengqiang Agreement are set out below:

Date : 19 December 2022

Parties : Shantou Shengqiang (as the supplier); and
The Company (as the purchaser).

Principal terms : The Company entered into the New Shantou Shengqiang Agreement with Shantou Shengqiang on 19 December 2022, pursuant to which the Company will purchase, and Shantou Shengqiang will manufacture intimate wear products for the Company on an OEM basis.

The term of the New Shantou Shengqiang Agreement commenced on 1 January 2023 and will end on 31 December 2025.

Pricing policy: Similar to the Old Shantou Shengqiang Agreement, under the New Shantou Shengqiang Agreement, the purchase prices shall be determined on a cost-plus basis, with a markup rate of no more than 9%. The purchase prices shall not be higher than the prices at which the Company purchases similar products from independent third-party OEM suppliers.

Historical figures:

Historical figures of the procurement under the Old Shantou Shengqiang Agreement from Shantou Shengqiang are set out below:

	For the year ended 31 December 2020	For the year ended 31 December 2021	10 months ended 31 October 2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(approx.)</i>	<i>(approx.)</i>	<i>(approx.)</i>
Total procurement amount	15,681	30,998	18,538

The proposed annual caps and basis for the determination of the proposed annual caps:

The maximum aggregate annual procurement amount from Shantou Shengqiang for the years ending 31 December 2023, 2024 and 2025 respectively shall not exceed the caps set out below:

	Proposed annual cap for the year ending 31 December		
	2023	2024	2025
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Total procurement amount	16,000	16,000	16,000

The proposed annual caps under New Shantou Shengqiang Agreement were determined primarily based on arm's length negotiations between the Company and Shantou Shengqiang with reference to, among others, (i) the historical transaction amounts and (ii) the expected purchase volume under the Group's business plan.

Shantou Maosheng Agreement

The Group has been purchasing intimate wear products from Shantou Maosheng and these transactions constituted fully exempted continuing connected transactions under Rule 14A.76 of the Listing Rules in the past. For details, please refer to the section headed "Report of the Directors – Related Party Transactions" in the Company's annual report for the year ended 31 December 2021. On 19 December 2022, the Company entered into the Shantou Maosheng Agreement with Shantou Maosheng, pursuant to which Shantou Maosheng will manufacture intimate wear products for the Company on an OEM basis for the period from 1 January 2023 and ending on 31 December 2025.

The principal terms of the Shantou Maosheng Agreement are set out below:

Date	:	19 December 2022
Parties	:	Shantou Maosheng (as the supplier); and the Company (as the purchaser).

Principal terms : The Company entered into the Shantou Maosheng Agreement with Shantou Maosheng on 19 December 2022, pursuant to which the Company will purchase, and Shantou Maosheng will manufacture intimate wear products for the Company on an OEM basis.

The term of the Shantou Maosheng Agreement commenced on 1 January 2023 and will end on 31 December 2025.

Pricing policy : Under the Shantou Maosheng Agreement, the purchase prices shall be determined on a cost-plus basis, with a markup rate of no more than 9%. The purchase prices shall not be higher than the prices at which the Company purchases similar products from independent third-party OEM suppliers.

Historical figures:

Historical figures of the procurement from Shantou Maosheng are set out below:

	For the year ended 31 December 2020	For the year ended 31 December 2021	10 months ended 31 October 2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(approx.)</i>	<i>(approx.)</i>	<i>(approx.)</i>
Total procurement amount	1,470	5,140	1,730

The proposed annual caps and basis for the determination of the proposed annual caps:

The maximum aggregate annual procurement amount from Shantou Maosheng for the years ending 31 December 2023, 2024 and 2025 respectively shall not exceed the caps set out below:

	Proposed annual cap for the year ending 31 December		
	2023	2024	2025
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Total procurement amount	5,000	5,000	5,000

The proposed annual caps under the Shantou Maosheng Agreement were determined primarily based on arm's length negotiations between the Company and Shantou Maosheng with reference to, among others, (i) the historical transaction amounts and (ii) the expected purchase of products produced from Shantou Maosheng under the Group's business plan.

Internal control and corporate governance procedures

The Company believes that the following internal control and corporate governance procedures can ensure that the prices for the purchases under the Framework Purchase Agreements shall not be higher than the prices at which the Company purchases similar products from independent third-party OEM suppliers:

- When the Company selects OEM suppliers, the research and development department will require at least two to three different OEM suppliers, including independent third-party OEM suppliers, to provide the Company with quotations. The department will then compare the quotations and evaluate each OEM supplier based on a range of factors, including overall track record, expertise, product quality and quality control effectiveness, historical relationship with the Group, price, reliability, financial condition, reputation, experience, ability to meet our delivery timeline and production capacity. The Company also conducts regular evaluations of our existing OEM suppliers to identify and remove unqualified ones.
- The management of the Company will conduct regular checks to review and assess whether the transactions contemplated under the Framework Purchase Agreements are conducted in accordance with the terms of the Framework Purchase Agreements, whether the pricing terms have been adhered to and whether the relevant caps have been exceeded.
- The independent non-executive Directors will review the continuing connected transactions of the Company annually to check and confirm whether such continuing connected transactions are conducted in the ordinary and usual course of business of the Group, on normal commercial terms or better, in accordance with the terms of the Framework Purchase Agreements, and whether the terms of the Framework Purchase Agreements are fair and reasonable and in the interests of the Shareholders as a whole.
- The Board will review and examine whether the internal control procedures put in place by the Company are adequate and effective.
- The Company's external auditors will conduct an annual review of the pricing and annual caps of the continuing connected transactions of the Company.

Reasons for and Benefits of Entering into the Framework Purchase Agreements

The Directors' View

The Group has been purchasing intimate wear products from Shantou Shenqiang and Shantou Maosheng for more than 10 years, and the Directors consider that the products have been consistently of reasonable quality. The entering into of the Framework Purchase Agreements will enable the Group to continue to enjoy the flexibility of securing the supply of quality intimate wear from Shantou Shenqiang and Shantou Maosheng, which are sizeable and capable OEM suppliers, at a price not higher than other OEM suppliers.

Based on the above, the Directors (including the independent non-executive Directors) consider that the transaction contemplated under the Framework Purchase Agreements are on normal commercial terms, fair and reasonable and are in the interests of the Company and its Shareholders as a whole.

Information on the Company

The Company is an investment holding company. The Group is principally engaged in the design, research, development and sale of its own branded intimate wear products (namely, bras, underpants, sleepwear and loungewear, thermal clothes and others) in the PRC.

Information on Shantou Shengqiang

Shantou Shengqiang is a limited liability company incorporated in the PRC which is principally engaged in producing intimate wear products as an OEM supplier. According to the information available to the Company, Shantou Shengqiang is owned as to 60% by Mr. Cai Shaoqiang and 40% by Ms. Xiao Xuanqiong.

Information on Shantou Maosheng

Shantou Maosheng is a limited liability company incorporated in the PRC which is principally engaged in producing intimate wear products as an OEM supplier. According to the information available to the Company, Shantou Maosheng is owned as to 60% by Mr. Lin Zonglie and 40% by Ms. Lin Fengqing.

Listing Rules Implications

Mr. Zhang is an executive Director and hence a connected person of the Company. Shantou Shengqiang, in which Mr. Cai Shaoqiang (a brother of Mr. Zhang's spouse) and his wife, in aggregate, own the entire equity interests, is an associate of Mr. Zhang and a connected person of the Company.

Mr. Lin is a non-executive Director and hence a connected person of the Company. Shantou Maosheung, in which Mr. Lin Zonglie and Ms. Lin Fengqing, a brother and sister of Mr. Lin, in aggregate, own the entire equity interests, is an associate of Mr. Lin and a connected person of the Company.

Accordingly, the transactions entered in between the Company, Shantou Shengqiang and Shantou Maosheng contemplated under each of the Framework Purchase Agreement constitute continuing connected transactions of the Group under Chapter 14A of the Listing Rules.

As one or more of the applicable Percentage Ratios in respect of the proposed annual caps for each of the continuing connected transactions proposed to be renewed and contemplated under each of the Framework Purchase Agreement exceeds 0.1% but are less than 5%, the transactions contemplated under each of the Framework Purchase Agreement are subject to the reporting, announcement and annual review requirements, but are exempt from Shareholders' approval requirement under Chapter 14A of the Listing Rules.

Mr. Zhang and Mr. Lin are deemed to have material interests in the above continuing connected transactions under the Framework Purchase Agreements for the reasons stated above and thus they abstained from voting on the relevant resolutions at the Board meeting. Save as mentioned above, none of the other Directors has a material interest in such transactions and is required to abstain from voting on the relevant resolutions at the Board meeting.

Definitions

In this announcement, the following expressions have the meanings set out below unless the context requires otherwise:

“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors
“Company”	Cosmo Lady (China) Holdings Company Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the main board of the Stock Exchange (stock code: 2298)
“connected person”	has the meaning ascribed thereto under the Listing Rules
“Director(s)”	the director(s) of the Company

“Group”	the Company and its subsidiaries from time to time, while “member of the Group” means any or a specific one of them
“Framework Purchase Agreement(s)”	the New Shantou Shengqiang Agreement and the Shantou Maosheng Agreement
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“independent third party(ies)”	party(ies) which is/are independent of the Group and not connected with the Company and its connected persons
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended or supplemented from time to time
“Mr. Lin”	Mr. Lin Zonghong, a non-executive Director
“Mr. Zhang”	Mr. Zhang Shengfeng, an executive Director
“New Shantou Shengqiang Agreement”	the intimate wear framework purchase agreement which the Company entered into with Shantou Shengqiang on 19 December 2022
“OEM”	original equipment manufacturer
“Old Shantou Shengqiang Agreement”	the intimate wear framework purchase agreement which the Company entered into with Shantou Shengqiang on 25 May 2020
“Percentage Ratios”	the percentage ratios set out in Rule 14.07 of the Listing Rules
“PRC”	the People’s Republic of China, which for the purpose of this announcement, shall exclude Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Shantou Maosheng”	Shantou City Maosheng Knitting Underwear Co., Ltd., a limited liability company incorporated in the PRC
“Shantou Maosheng Agreement”	the intimate wear framework purchase agreement which the Company entered into with Shantou Maosheng on 19 December 2022
“Shantou Shengqiang”	Shantou City Shengqiang Knitting Industrial Co., Ltd., a limited liability company incorporated in the PRC
“Share(s)”	ordinary share(s) of US\$0.01 each in the share capital of the Company

“Shareholder(s)”	holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent

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

Hong Kong, 19 December 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 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.