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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)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2022

ANNUAL RESULTS

The board of directors (the “Board”) of Cosmo Lady (China) Holdings Company Limited (the “Company”) announced the annual results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2022, together with comparative figures for 2021 and selected explanatory notes, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended 31 December	
	Note	2022	2021
		RMB'000	RMB'000
Revenue	4	3,008,760	3,355,403
Cost of sales		(1,612,008)	(1,942,780)
Gross profit		1,396,752	1,412,623
Selling and marketing expenses		(1,215,244)	(1,539,113)
General and administrative expenses		(211,094)	(259,930)
Net reversal of/(provision for) impairment losses on financial assets		76,319	(42,981)
Other income	5	35,120	43,893
Other (losses)/gains – net		(324)	5,480
Operating profit/(loss)		81,529	(380,028)
Finance income		6,700	5,227
Finance expenses		(33,837)	(53,183)
Finance expenses – net		(27,137)	(47,956)
Share of net (loss)/profit of joint ventures accounted for using the equity method		(26,013)	2,349
Profit/(loss) before income tax	6	28,379	(425,635)
Income tax expense	7	(4,355)	(70,422)
Profit/(loss) for the year		24,024	(496,057)
Other comprehensive income/(loss) for the year			
<i>Item that may be reclassified to profit or loss</i>			
Exchange differences		(8,118)	(20,449)
<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		(2,413)	670
Total comprehensive income/(loss) for the year		13,493	(515,836)

		Year ended 31 December	
	<i>Note</i>	2022	2021
		RMB'000	RMB'000
Profit/(loss) attributable to:			
Owners of the Company		33,024	(493,988)
Non-controlling interests		(9,000)	(2,069)
		<u>24,024</u>	<u>(496,057)</u>
Total comprehensive income/(loss) for the year is attributable to:			
Owners of the Company		22,493	(513,767)
Non-controlling interests		(9,000)	(2,069)
		<u>13,493</u>	<u>(515,836)</u>
Earning/(loss) per share for profit/(loss) attributable to the ordinary equity holders of the Company			
	<i>8</i>	RMB cents	RMB cents
Basic earning/(loss) per share		1.51	(22.49)
Diluted earning/(loss) per share		1.51	(22.49)
		<u>1.51</u>	<u>(22.49)</u>

CONSOLIDATED BALANCE SHEET

		As at 31 December	
		2022	2021
	Note	RMB'000	RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		600,320	676,484
Right-of-use assets		341,161	342,800
Intangible assets		28,648	31,419
Investment in joint ventures		84,604	154,884
Investment in an associate		–	–
Financial assets at fair value through other comprehensive income		36,094	70,083
Deposits, prepayments and other receivables		9,481	8,050
Deferred income tax assets		154,361	148,858
		<u>1,254,669</u>	<u>1,432,578</u>
Current assets			
Inventories		702,963	964,129
Trade and notes receivables	10	297,138	280,555
Deposits, prepayments and other receivables		517,535	608,889
Financial assets at fair value through profit or loss		–	3,533
Term deposits and restricted bank deposits		155,375	240,292
Cash and cash equivalents		554,083	515,547
		<u>2,227,094</u>	<u>2,612,945</u>
Total assets		<u>3,481,763</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		378,389	381,598
Accumulated losses		(273,012)	(306,699)
		<u>1,902,358</u>	<u>1,871,880</u>
Non-controlling interests		9,817	22,026
Total equity		<u>1,912,175</u>	<u>1,893,906</u>
LIABILITIES			
Current liabilities			
Trade and notes payables	12	613,185	1,007,450
Accruals and other payables		272,278	334,156
Contract liabilities		52,336	110,526
Current income tax liabilities		22,415	17,818
Borrowings	13	168,118	307,136
Lease liabilities		156,720	174,243
Deferred income		242	242
		<u>1,285,294</u>	<u>1,951,571</u>
Non-current liabilities			
Borrowings	13	163,384	61,941
Lease liabilities		120,028	136,803
Deferred income tax liabilities		538	716
Deferred income		344	586
		<u>284,294</u>	<u>200,046</u>
Total liabilities		<u>1,569,588</u>	<u>2,151,617</u>
Total equity and liabilities		<u>3,481,763</u>	<u>4,045,523</u>

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year ended 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Cash flows from operating activities		
Cash generated from operations	235,967	177,470
Income tax paid	(5,439)	(10,244)
	<hr/>	<hr/>
Net cash generated from operating activities	230,528	167,226
Cash flows from investing activities		
Proceeds from disposal of property, plant and equipment	27,407	4,279
Interest received	6,700	5,227
Investment income from financial assets at fair value through profit or loss	1,508	2,959
Proceeds from disposal of financial assets at fair value through profit or loss	6,376	–
Dividends from financial assets at fair value through other comprehensive income	1,960	12,216
Disposal of financial assets at fair value through other comprehensive income	31,576	–
Investment income from a joint venture	–	5,658
Purchases of property, plant and equipment	(78,678)	(103,336)
Purchases of intangible assets	(5,210)	(5,793)
(Advance to)/repayment from a joint venture	(100)	265
Proceeds from divestment of a joint venture	44,267	142,572
Capital contribution to financial assets at fair value through other comprehensive income	–	(1,520)
Net cash received from disposal of subsidiaries	–	(714)
	<hr/>	<hr/>
Net cash generated from investing activities	35,806	61,813
Cash flows from financing activities		
Transactions with non-controlling interests	(9,555)	–
Capital injections from non-controlling interests	8,291	–
Proceeds from bank borrowings	295,000	200,000
Repayments of bank borrowings	(332,575)	(368,674)
Interest paid for bank borrowings	(22,433)	(35,939)
Purchase of the Company's shares for share award scheme	–	(6,577)
Release of restricted bank deposit	84,917	26,052
Principal elements of lease payments	(239,847)	(232,717)
	<hr/>	<hr/>
Net cash used in financing activities	(216,202)	(417,855)
Net increase/ (decrease) in cash and cash equivalents	50,132	(188,816)
Cash and cash equivalents at beginning of the year	515,547	714,569
Effect of foreign exchange rate changes	(11,596)	(10,206)
	<hr/>	<hr/>
Cash and cash equivalents at end of the year	554,083	515,547

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 consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated, and have been approved for issue by the Board on 29 March 2023.

2 BASIS OF PREPARATION

The consolidated financial statements of the Group have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs") and under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income, which are carried at fair value.

The preparation of the financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

(a) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2022:

Amendments to IAS 16	Property, Plant and Equipment: Proceeds before Intended Use
Amendments to IFRS 3	Reference to the Conceptual Framework
Amendments to IAS 37	Onerous Contracts – Costs of Fulfilling a Contract
Annual Improvements	Annual Improvements to IFRS Standards 2018-2020 Cycle
Amendments to AG 5	Merger Accounting for Common Control Combinations

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(b) New standards, amendments to existing standards and interpretations that have been issued but are not effective

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2022 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Standards, Amendments or Interpretations	Subject	Effective for annual accounting periods beginning on or after
IFRS 17	Insurance Contracts	1 January 2023
Amendments to IAS 1	Classification of liabilities as Current or Non-current	1 January 2023
IFRS Interpretation 5 (2020)	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	1 January 2023
Amendments to IAS 8	Definition of Accounting Estimates	1 January 2023
Amendments to ISA 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies	1 January 2023
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

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 designing, marketing and selling of intimate wear products. Substantially all of its revenue are derived in the PRC.

For the year ended 31 December 2022, none of the revenue derived from any single external customer amounted to more than 10% of the Group's revenue (2021: none).

4 REVENUE

	Year ended 31 December	
	2022	2021
	RMB'000	RMB'000
Retail sales	1,266,975	1,780,769
Sales to franchisees	935,918	628,076
E-commerce	675,736	831,532
Others (<i>Note</i>)	130,131	115,026
	<u>3,008,760</u>	<u>3,355,403</u>
	As at 31 December	
	2022	2021
	RMB'000	RMB'000
Contract liabilities related to sales to franchisees	51,542	105,373
Contract liabilities related to trading of raw materials	794	5,153
	<u>52,336</u>	<u>110,526</u>

The revenue recognised in the current reporting year relating to carried-forward contract liabilities as at 1 January 2022 is approximately RMB110,526,000.

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

5 OTHER INCOME

	Year ended 31 December	
	2022	2021
	RMB'000	RMB'000
Government grants (<i>Note</i>)	4,239	3,550
Dividends from financial assets at fair value through other comprehensive income	4,000	7,756
Investment income from financial assets at fair value through profit or loss	1,508	2,959
Software usage fee income	393	1,218
Others	24,980	28,410
	<u>35,120</u>	<u>43,893</u>

Notes:

These mainly represented grants received from various local governments in the PRC. There are no unfulfilled conditions or contingencies relating to these grants.

Government grants relating to costs are deferred and recognised in the profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

6 PROFIT/(LOSS) BEFORE INCOME TAX

	Year ended 31 December	
	2022	2021
	RMB'000	RMB'000
Operating expenses in respect of stores under cooperative arrangements	264,958	225,294
Commission expenses in respect of consignment sales in franchisees' stores	91,055	291,971
Employee benefit expenses (including directors' emoluments)	292,035	362,545
Other operating rental expenses	18,749	14,025
Depreciation and amortization	338,572	384,537
Marketing and promotion expenses	161,351	240,895
E-commerce platforms commission expenses	88,670	86,185
Provision for inventories	17,457	146,134
(Reversal of)/provision for impairment of trade receivables	(45,495)	9,285
(Reversal of)/provision for impairment of other receivables	(30,824)	33,696

7 INCOME TAX EXPENSE

	Year ended 31 December	
	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>)	10,036	8,231
	10,036	8,231
Deferred income tax		
– Deferred income tax	(5,681)	62,191
Income tax expense	4,355	70,422

Notes:

(a) Hong Kong profits tax

The applicable Hong Kong profits tax rate is 16.5% for the year ended 31 December 2022 (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 year ended 31 December 2022 (2021: 25%) on the estimated assessable profits for the year, 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 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 EARNING/(LOSS) PER SHARE

Basic

Basic earning/(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^(Note) during the year.

	Year ended 31 December	
	2022	2021
Profit/(loss) for the year attributable to owners of the Company (RMB'000)	<u>33,024</u>	<u>(493,988)</u>
Weighted average number of ordinary shares for the purposes of basic earning/(loss) per share (thousands of shares)	<u>2,193,421</u>	<u>2,196,196</u>
Basic earning/(loss) per share (RMB cents per share)	<u>1.51</u>	<u>(22.49)</u>

Note: The weighted average number of ordinary shares for the purpose of basic earning/(loss) per share for the year ended 31 December 2022 has been adjusted for the effects of purchase and withholding of ordinary shares of the Company for the share award scheme during the year ended 31 December 2022.

Diluted

For the year ended 31 December 2022 and 2021, diluted earning/(loss) per share is the same as the basic earning/(loss) per share as there is no diluted impact from the 2019 share award scheme.

9 DIVIDENDS

The Board does not recommend a final dividend to the shareholders of the company for the year ended 31 December 2022 (2021: nil).

The Board did not recommend the payment of interim dividend to shareholders of the Company for the six months ended 30 June 2022 (2021: nil).

10 TRADE AND NOTES RECEIVABLES

	As at 31 December	
	2022	2021
	RMB'000	RMB'000
Trade receivables – due from third parties	339,050	365,283
Notes receivables	1,151	3,830
Less: loss allowance	<u>(43,063)</u>	<u>(88,558)</u>
Trade and notes receivables – net	<u>297,138</u>	<u>280,555</u>

(a) As at 31 December 2022, the carrying amounts of the trade receivables of the Group approximate their fair values and are all denominated in RMB.

- (b) The Group's trade receivables are primarily derived from sales to certain franchise customers with an appropriate credit history. The Group generally grants franchise customers with a credit period of 15 to 90 days from the invoice date. The Group also gives franchise customers a credit period of 90 to 180 days for their first order of products for new retail stores. The Group would also extend the credit period for certain franchise customers under certain circumstances. The ageing analysis of trade receivables based on invoice date, as at 31 December 2022 is as follows:

	As at 31 December	
	2022	2021
	RMB'000	RMB'000
Trade receivables, gross		
– Within 30 days	218,034	139,254
– Over 30 days and within 60 days	15,670	23,684
– Over 60 days and within 90 days	7,288	18,163
– Over 90 days and within 180 days	21,219	66,604
– Over 180 days and within 360 days	32,999	67,578
– Over 360 days	43,840	50,000
	339,050	365,283

11 SHARE CAPITAL AND SHARE PREMIUM

	Number of ordinary shares	Share capital RMB'000	Share premium RMB'000	Total RMB'000
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>
As at 31 December 2022	<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 31 December	
	2022	2021
	RMB'000	RMB'000
Due to third parties	351,223	703,450
Due to related parties	8,477	11,373
Trade payables	359,700	714,823
Notes payables	253,485	292,627
	613,185	1,007,450

As at 31 December 2022, trade payables of the Group are non-interest bearing, and their fair values approximate their carrying amounts due to their short maturities.

As at 31 December 2022, trade payables are denominated in RMB. The ageing analysis of trade payables based on invoice date, as at 31 December 2022 is as follows:

	As at 31 December	
	2022	2021
	RMB'000	RMB'000
Trade payables		
– Within 30 days	100,682	56,368
– Over 30 days and within 60 days	49,348	83,149
– Over 60 days and within 90 days	100,963	177,993
– Over 90 days and within 180 days	102,264	372,832
– Over 180 days and within 360 days	3,476	19,303
– Over 360 days	2,967	5,178
	359,700	714,823

13 BORROWINGS

	As at 31 December	
	2022	2021
	RMB'000	RMB'000
Non-current		
Secured bank borrowings (<i>Note</i>)	163,384	61,941
Current		
Secured bank borrowings (<i>Note</i>)	168,118	307,136
	331,502	369,077

Movements in borrowings are analysed as follows:

	RMB'000
Opening amount as at 1 January 2022	369,077
Repayments of bank borrowings	(332,575)
Proceeds from bank borrowings	295,000
Closing amount as at 31 December 2022	331,502

Note: The amount represents the bank borrowings that are secured by the Group's certain buildings and land use rights of approximately RMB308,343,000 (2021: RMB461,579,000).

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 borrowing rate of 4.73% (2021: 5.14%) and are within level 2 of the fair value hierarchy.

The carrying amounts of the Group's borrowings are denominated in RMB.

BUSINESS REVIEW

Building a Solid Foundation to Stabilize Profits against Headwinds

The year of 2022 was a difficult year for the global economy as the economic environment remained turbulent which caused disruptions for most businesses. In a climate of escalating geopolitical conflicts, rising global inflation and rolling epidemic outbreaks, the mainland faced additional pressure from shrinking demand and tight supply chains. In 2022, China's GDP grew by 3.0% year-on-year, approximately 5.4% lower than the annual growth rate in 2021. Additionally, total consumer goods retail sales decreased by 0.2% year-on-year.

Despite these challenges, with the concerted efforts of its staff, the Group was able to triumph over these extraordinary obstacles to steadily improve its operating conditions, return inventories to a healthy level and generate a profit during the year. In 2022, profit attributable to the owners of the Company was about RMB33,024,000.

Consolidating its foundation to strengthen future growth

In an effort to improve business performance in the challenging global environment, the Group took steps to strengthen its position regarding brand, product, supply chain, channel, digitization and other aspects during the year, including but not limited to:

1. *Enhancing its brand power around “specialty intimate wear”*

- (a) Leveraged years of accumulating a strong brand reputation, the Group re-established itself as a “leading mainland Chinese specialty intimate wear” brand in early 2022;
- (b) The Group launched the “100 spokespersons recruitment” campaign to gather 100 women from different fields, backgrounds and ages to represent the brand image from different aspects;
- (c) At the same time, the Group published the first “China Ladies Intimate Wear White Paper” in partnership with the China Nonwovens and Industrial Textiles Association (intimate wear committee), JD apparel and Forward Business and Intelligence Co., Ltd. to enhance its brand equity;
- (d) The membership rights system was upgraded to add shopping rights for more than 60 million members, and the membership card's grade was reclassified to be consumer-centered to improve the operation efficiency of members; and
- (e) The Group contracted Zhou Bichang (Bibi Zhou) as brand spokesperson to further enhance the brand's image.

2. *Launching model area pilot to accumulate knowledge and replicate successful experience*

The Group launched a model area pilot in Chongqing and then Dongguan. In these model markets, the Group boosted its store image, product structure, display and advertising. Through this successful experience, it accumulated knowledge that can be replicated and promoted which provides a powerful model for first-line stores to improve sales.

3. *Focusing on product innovation to enrich products' strength*

- (a) Continue to create hero products, manufacture specialty intimate wear products with specialty functions by using specialty materials and specialty bra cups, and performs specialty research and development and specialty quality inspection in order to upgrade hero products' quality. Additionally, we launched a soft cup bras series, dust-free cotton series, hyaluronic acid series, and high elastic pants. The market embraced these products as they secured a positive market reputation;
- (b) Promote product regionalization to meet the needs of regional differentiated products;
- (c) Optimize the intimate wear structure, reduce style number, improve style efficiency, and reduce ineffective investment in the tail; and

- (d) Focus resources on bra products' research and development and continue to apply core patent technology for bras.

4. *Enhancing supply chain management capabilities around product breakthroughs*

- (a) Strengthen targeted cooperative development with top material suppliers, establish the implementation mechanism from innovative material development to popular styles and marketing, and enhance the material/process innovation capability;
- (b) Carry out material recommendation meetings and product co-creation meetings by category, and focus on innovative materials and fashion trends for co-creation and implementation;
- (c) Enhance the ability to create proprietary designs through the optimization and improvement in large supply chain capacity; and
- (d) Cooperate with major strategic suppliers and connect their information systems to increase production and marketing synergy, improve product quality and shorten the time for rapid response.

5. *Continuously optimize channel layout to explore channel breakthrough opportunities*

- (a) Scan the national market to formulate future expansion plans, and establish the channel layout strategy of “1 store (flagship store, brand empowerment) + N stores (mainly for increasing market share and making profit) + specialty stores (for cleaning up off-season goods)” by taking the business district as a unit;
- (b) Formulate corresponding efficiency improvement measures for stores with different profitable conditions, improve profitability of individual stores while maintaining operation of the old ones, and orderly divest inefficient stores;
- (c) Define new breakthrough directions in shopping centers and explore incremental opportunities in the shopping center with a new image; and
- (d) Simultaneously, watch for opportunities in market niches and launch a campaign of 1,000 stores in 100 cities to provide support in advertising, goods, shows and membership salons for stores in some eligible areas, so as to increase the empowerment of offline stores.

6. *Fully promote digital construction to improve operational efficiency*

- (a) The Group fully advanced its digital transformation by establishing strategic cooperation with JD Technology on digital transformation. Both parties will carry out in-depth co-creation cooperation in the digitalization of five major areas, namely users and members, channels and operations, supply chain, products and production and infrastructure, which to digitally transform the Group and promote its business' continuous growth;
- (b) The B2B ordering system was officially launched. The system mainly serves as a communication channel to connect the company with its customers by linking up product information between customers and the company, so as to quickly respond to market demand, promote selling out of products and improve gross profit; and
- (c) A universe consumer management platform project was launched, which will greatly enhance precise member marketing capabilities, fully tap the value of more than 60 million members, create a consumer-centric business model, and enhance consumer experience and loyalty of members.

7. *Others*

- (a) Step up the Group's effort on clearing aged inventories on online and offline and other distribution channels to bring inventories back to a healthy level; and
- (b) Streamline corporate structure by gradually simplifying and merging departments in order to reduce overall staff costs.

Forging ahead to promising future

In 2023, following the established strategic plan, we will continue to enhance our brands, adhere to product-based, and achieve channel breakthroughs with “1+N+speciality” channel store layout and pursue further opportunities in niche markets. We will vigorously promote digital construction and other aspects to build business capabilities, grasp market opportunities and propel business growth. Meanwhile, we will continue to optimize our organizational structure and strengthen our team capacity building. We believe that with the solid foundation established in 2022 plus an effective implementation of the above measures, we will steadily enhance the Group’s brand influence, increase competitiveness through product differentiation and improve consumers’ shopping experience, so as to strengthen performance growth and create new breakthroughs in the post-epidemic era, while bringing substantial returns to our shareholders.

FINANCIAL REVIEW

Revenue

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

Revenue by sales channel

The products of the Group were sold to consumers through an extensive network of stores in various cities across China and via online sales platforms. The breakdown of the total revenue by sales channel is as follows:

	Year ended 31 December			
	2022		2021	
	RMB'000	%	RMB'000	%
Offline sales				
Retail sales	1,266,975	42.1	1,780,769	53.1
Sales to franchisees	935,918	31.1	628,076	18.7
	<u>2,202,893</u>	<u>73.2</u>	<u>2,408,845</u>	<u>71.8</u>
E-commerce	675,736	22.5	831,532	24.8
Revenue from products sales	2,878,629	95.7	3,240,377	96.6
Others	130,131	4.3	115,026	3.4
Total revenue	<u>3,008,760</u>	<u>100.0</u>	<u>3,355,403</u>	<u>100.0</u>

In 2022, due to the economic factors mentioned in “Business Review” section, revenue from product sales decreased by approximately 11.2% to RMB2,878,629,000 (2021: RMB3,240,377,000), while total revenue decreased by approximately 10.3% to RMB3,008,760,000 (2021: RMB3,355,403,000).

In 2022, retail sales decreased significantly while sales to franchisees rose, mainly because the Group gradually decreased the arrangement of consignments sales in franchised stores in 2022, in turn increase the sales to franchisees directly. There was a decrease of sales by about 8.6% for the overall offline sales in 2022.

Others mainly represented revenue from logistics warehousing and delivery services.

Gross profit margin

In 2022, the gross profit margin of the Group increased to around 46.4% (2021: 42.1%) because the provision for inventories decrease to RMB17,457,000 in 2022 (2021: RMB146,134,000) as a result of measures taken as mentioned in “Business Review” section.

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 franchisees' stores, marketing and promotion expenses, e-commerce platforms commission expenses, depreciation and amortization and others.

The decrease of selling and marketing expenses by about 21.0% for the year ended 31 December 2022 to RMB1,215,244,000 (2021: RMB1,539,113,000) was primarily due to the decrease in commission expenses in respect of consignment sales in franchisees' stores as less sales was made under such arrangement as mentioned above and decrease in other selling and marketing expenses as a result of effective cost control implemented during the year.

General and administrative expenses

General and administrative expenses primarily consist of employee benefit expenses, consulting service expenses, travelling expenses, depreciation and amortization and others.

The decrease in general and administrative expenses by about 18.8% for the year ended 31 December 2022 to RMB211,094,000 (2021: RMB259,930,000) was mainly due to the decrease of employee benefit expenses as a result of streamlining corporate structuring during the year.

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

The amount of RMB76,319,000 during the year ended 31 December 2022 mainly represented reversal of provision for impairment of trade and other receivables made in previous year upon settlement of these balances during the year.

Other income

Other income mainly consists of government grants, dividends from financial assets at fair value through other comprehensive income ("FVOCI") and others. During the year, other income decreased by approximately 20.0% to RMB35,120,000 (2021: RMB43,893,000) mainly due to the decrease in dividends from financial assets at FVOCI.

Finance expenses – net

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

The decrease in finance expenses – net to RMB27,137,000 in 2022 (2021: RMB47,956,000) was mainly due to the decrease in interest expenses on lease liabilities and bank borrowings.

Income tax expense

The decrease in income tax expense in 2022 to RMB4,355,000 (2021: RMB70,422,000) was mainly due to deferred income tax expenses of RMB62,191,000 recognized in 2021 arising from the reversal of the deferred tax assets recognized in previous years.

LIQUIDITY AND FINANCIAL RESOURCES

The Group maintained a solid balance sheet. As at 31 December 2022, the Group's term deposits, restricted bank deposits and cash and cash equivalents amounted to approximately RMB709,458,000 (31 December 2021: RMB755,839,000) and bank borrowings amounted to approximately RMB331,502,000 (31 December 2021: RMB369,077,000). As at 31 December 2022, the current ratio was about 1.7 times (31 December 2021: 1.3 times).

As at 31 December 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 17.3% (31 December 2021: 19.5%). 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 19.8% (31 December 2021: negative 20.4%) as the Group was at 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. Up to 31 December 2022, the use of net proceeds 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 31 December 2022 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	-	30,000,000	-	-	N/A
General working capital	530,000,000	530,000,000	-	30,000,000	7,835,000	Before the end of 2023
Total	<u>599,000,000</u>	<u>569,000,000</u>	<u>30,000,000</u>	<u>30,000,000</u>	<u>7,835,000</u>	

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 change due to future development of market conditions.

The net proceeds not yet utilized from the Fosun Subscription have been deposited with certain licensed banks.

Windcreek Subscription

Reference is made to the announcements by the Company dated 26 April 2018 and 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. Up to 31 December 2022, the use of the net proceeds 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 31 December 2022 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	50,601,000	188,399,000	88,399,000	32,530,000	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	<u>509,000,000</u>	<u>76,156,000</u>	<u>432,844,000</u>	<u>432,844,000</u>	<u>376,975,000</u>	

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 change 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 year, capital expenditure on property, plant and equipment and intangible assets amounted to approximately RMB90,135,000 (2021: RMB100,404,000), which was mainly used for decoration and renewal of stores.

PLEDGE OF ASSETS

As at 31 December 2022, certain property, plant and equipment, and land use rights were pledged for obtaining banking borrowings of approximately RMB331,502,000 (31 December 2021: RMB369,077,000).

CONTINGENT LIABILITIES

As at 31 December 2022, the Group did not have any significant contingent liabilities.

HUMAN RESOURCES AND MANAGEMENT

The Group had approximately 3,000 full-time employees as at 31 December 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 results 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 revised "Environmental Protection Law of the People's Republic of China" and regulations set by the Environmental Protection Bureau of local governments. The Group has also attained ISO 14001:2015 Environment Management Systems. An environmental, social and governance report for the Group issued in accordance with the Environmental, Social and Governance Reporting Guide of the Stock Exchange has been included in the 2022 annual report.

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 year ended 31 December 2022.

CORPORATE GOVERNANCE PRACTICES

The Board has applied the principles 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 of Hong Kong Limited (the "Listing Rules") and has complied with the code provisions contained therein during the year ended 31 December 2022 and up to the date of this annual result announcement, 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 during the year 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.

AUDIT COMMITTEE REVIEW

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 has appropriate professional qualifications as required by the Listing Rules, is the chairman of the audit committee.

The audit committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters for the year ended 31 December 2022. The audit committee has also reviewed the annual results of the Group for the year ended 31 December 2022.

The figures in respect of the Group's consolidated statement of profit or loss and other comprehensive income, consolidated balance sheet, consolidated statement of cash flows and the related notes thereto for the year ended 31 December 2022 have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year as approved by the Board. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

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 during the year ended 31 December 2022.

FINAL DIVIDEND

The Board does not recommend the payment of final dividend for the year ended 31 December 2022 (2021: nil).

ANNUAL GENERAL MEETING

It is proposed that the annual general meeting of the Company will be held on a date to be fixed by the Board. Further announcement(s) will be made in respect of date of the annual general meeting of the Company and book closure date.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2022

This annual 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 annual report of the Company will be available on both websites and dispatched to the shareholders of the Company in due course.

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

Hong Kong, 29 March 2023

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. Kong Xiangying 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.