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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 2023

FINANCIAL HIGHLIGHTS		For the six months ended 30 June	
		2023	2022
Revenue	<i>RMB'000</i>	1,367,631	1,618,373
Profit attributable to owners of the Company	<i>RMB'000</i>	26,129	10,123
Gross profit margin	<i>%</i>	47.4%	46.6%
Earnings per share			
– Basic	<i>RMB cents</i>	1.19	0.46
– Diluted	<i>RMB cents</i>	1.19	0.46

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 2023, together with the comparative figures for the corresponding period of 2022 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 International Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	<i>Note</i>	Six months ended 30 June	
		2023	2022
		Unaudited	Unaudited
		RMB'000	RMB'000
Revenue	4	1,367,631	1,618,373
Cost of sales		(720,009)	(864,139)
Gross profit		647,622	754,234
Selling and marketing expenses		(557,613)	(644,351)
General and administrative expenses		(93,793)	(117,214)
Net reversal of impairment losses on financial assets		33,726	51,493
Other income	5	7,986	13,659
Other losses – net	5	(1,784)	(11,018)
Operating profit		36,144	46,803
Finance income		3,738	3,388
Finance expenses		(13,022)	(18,062)
Finance expenses – net		(9,284)	(14,674)
Share of profit/(loss) of joint ventures		6,148	(558)
Profit before income tax	6	33,008	31,571
Income tax expense	7	(8,451)	(29,719)
Profit for the period		24,557	1,852

		Six months ended 30 June	
		2023	2022
		Unaudited	Unaudited
<i>Note</i>		RMB'000	RMB'000
Other comprehensive income/(loss) for the period			
<i>Item that may be reclassified subsequently to profit or loss</i>			
Exchange differences		13,970	17,147
<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		(4,978)	(7,287)
		<u>33,549</u>	<u>11,712</u>
Total comprehensive income for the period			
Profit/(loss) attributable to:			
Owners of the Company		26,129	10,123
Non-controlling interests		(1,572)	(8,271)
		<u>24,557</u>	<u>1,852</u>
Total comprehensive income/(loss) attributable to:			
Owners of the Company		35,121	19,983
Non-controlling interests		(1,572)	(8,271)
		<u>33,549</u>	<u>11,712</u>
Earnings per share attributable to owners of the Company during the period			
Basic and diluted earnings per share	8	<i>RMB cents</i> 1.19	<i>RMB cents</i> 0.46

CONDENSED CONSOLIDATED BALANCE SHEET

		As at 30 June 2023 Unaudited RMB'000	As at 31 December 2022 Audited RMB'000
	<i>Note</i>		
ASSETS			
Non-current assets			
Property, plant and equipment		793,893	600,320
Right-of-use assets		297,769	341,161
Intangible assets		27,867	28,648
Investment in joint ventures		91,352	84,604
Financial assets at fair value through other comprehensive income		28,586	36,094
Deposits, prepayments and other receivables		14,270	9,481
Deferred income tax assets		124,402	154,361
		<u>1,378,139</u>	<u>1,254,669</u>
Current assets			
Inventories		549,544	702,963
Trade and notes receivables	10	316,461	297,138
Deposits, prepayments and other receivables		556,673	517,535
Restricted bank deposits		174,663	155,375
Cash and cash equivalents		483,600	554,083
		<u>2,080,941</u>	<u>2,227,094</u>
Total assets		<u><u>3,459,080</u></u>	<u><u>3,481,763</u></u>

		As at 30 June 2023 Unaudited RMB'000	As at 31 December 2022 Audited RMB'000
	<i>Note</i>		
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		387,987	378,389
Accumulated losses		(250,664)	(273,012)
		<u>1,934,304</u>	<u>1,902,358</u>
Non-controlling interests		4,951	9,817
		<u>1,939,255</u>	<u>1,912,175</u>
LIABILITIES			
Current liabilities			
Trade and notes payables	12	572,292	613,185
Accruals and other payables		223,430	272,278
Contract liabilities		60,731	52,336
Current income tax liabilities		6,879	22,415
Borrowings	13	168,344	168,118
Lease liabilities		139,916	156,720
Deferred income		228	242
		<u>1,171,820</u>	<u>1,285,294</u>
Non-current liabilities			
Borrowings	13	268,304	163,384
Lease liabilities		79,015	120,028
Deferred income tax liabilities		449	538
Deferred income		237	344
		<u>348,005</u>	<u>284,294</u>
Total liabilities		<u>1,519,825</u>	<u>1,569,588</u>
Total equity and liabilities		<u>3,459,080</u>	<u>3,481,763</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30 June	
	2023	2022
	Unaudited <i>RMB'000</i>	Unaudited <i>RMB'000</i>
Cash flows from operating activities		
Cash generated from operations	212,696	61,020
Income tax (paid)/credit	(118)	4,186
	212,578	65,206
Cash flows from investing activities		
Proceeds from disposal of property, plant and equipment	740	2,249
Interest received	3,738	3,388
Purchases of property, plant and equipment	(256,332)	(17,692)
Purchases of intangible assets	(5,771)	(2,301)
Investment income from financial assets at fair value through profit or loss (“FVTPL”)	555	590
Proceeds from disposal of financial assets at fair value through other comprehensive income (“FVOCI”)	1,012	4,391
Dividends from financial assets at FVOCI	–	1,953
Capital contribution to joint ventures	(600)	–
Proceeds from divestment of a joint venture	–	44,267
(Advance to)/repayment from a joint venture	(4)	265
	(256,662)	37,110
Cash flows from financing activities		
Transactions with non-controlling interests	(3,294)	(11,582)
Proceeds from bank borrowings	179,210	225,000
Repayments of bank borrowings	(74,064)	(233,661)
Interest paid for bank borrowings	(7,805)	(10,312)
(Pledge)/release of restricted bank deposits	(19,288)	82,052
Principal elements of lease payments	(98,173)	(117,898)
	(23,414)	(66,401)
Net (decrease)/increase in cash and cash equivalents	(67,498)	35,915
Cash and cash equivalents at beginning of the period	554,083	515,547
Effect of foreign exchange rate changes	(2,985)	3,169
	483,600	554,631
Cash and cash equivalents at end of the period	483,600	554,631

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 2023 ("**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 25 August 2023.

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 2022, 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 2022.

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 2022, 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 2023:

IFRS 17	Insurance Contracts
Amendments to IAS 1	Classification of liabilities as Current or Non-current
IFRS Interpretation 5 (2020)	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause
Amendments to IAS 8	Definition of Accounting Estimates
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction

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 2023 and 30 June 2022.

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 2023 (2022: None).

4 REVENUE

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
Retail sales	622,579	758,952
Sales to franchisees	447,154	473,498
E-commerce	249,553	332,674
Others (<i>Note</i>)	48,345	53,249
	1,367,631	1,618,373

Note: These mainly represented revenue from logistics and warehousing services.

	As at	As at
	30 June	31 December
	2023	2022
	RMB'000	RMB'000
Contract liabilities related to sales to franchisees	60,413	51,542
Contract liabilities related to trading of raw materials	318	794
	60,731	52,336

5 OTHER INCOME AND OTHER LOSSES – NET

	Six months ended 30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Other income		
Government grants (<i>Note</i>)	1,091	3,532
Investment income from financial assets at FVTPL	555	590
Dividends from financial assets at FVOCI	–	1,999
Others	6,340	7,538
	<u>7,986</u>	<u>13,659</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.

	Six months ended 30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Other losses – net		
Net foreign exchange losses	(1,902)	(13,980)
Fair value gains on financial assets at FVTPL	–	2,843
Gains on disposal of property, plant and equipment – net	118	119
	<u>(1,784)</u>	<u>(11,018)</u>

6 PROFIT BEFORE INCOME TAX

	Six months ended 30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Employee benefit expenses (including directors' emoluments)	136,450	161,012
Operating expenses in respect of stores under cooperative arrangements	199,483	136,526
Commission expenses in respect of consignment sales in franchisees' stores	–	84,822
Other operating rental expenses	14,245	7,731
Marketing and promotion expenses	69,777	72,476
E-commerce platforms commission expenses	37,537	48,381
Depreciation and amortisation		
– Right-of-use assets	78,531	118,414
– Property, plant and equipment	56,067	59,599
– Intangible assets	3,461	3,701
Impairment of right-of-use assets	–	1,263
Net provision/(reversal of provision) for inventories	11,219	(121,178)
	<u>11,219</u>	<u>(121,178)</u>

7 INCOME TAX EXPENSE

	Six months ended 30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Current income tax		
– Hong Kong profits tax (<i>Note (a)</i>)	–	–
– PRC corporate income tax (<i>Note (b)</i>)	<u>(21,419)</u>	<u>1,385</u>
	<u>(21,419)</u>	<u>1,385</u>
Deferred income tax		
– Deferred income tax current period	<u>29,870</u>	<u>28,334</u>
Income tax expense	<u><u>8,451</u></u>	<u><u>29,719</u></u>

Notes:

(a) Hong Kong profits tax

The applicable Hong Kong profits tax rate is 16.5% for the period (2022: 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 2023 (2022: 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	
	2023	2022
Profit for the period attributable to owners of the Company (RMB'000)	<u>26,129</u>	<u>10,123</u>
Weighted average number of ordinary shares for the purposes of basic earnings per share (thousands of shares)	<u>2,193,460</u>	<u>2,193,421</u>
Basic earnings per share (RMB cents per share)	<u>1.19</u>	<u>0.46</u>

Note: The weighted average numbers of ordinary shares for the purpose of basic earnings per share for the six months ended 30 June 2023 and 30 June 2022 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 2023 and 30 June 2022, respectively.

Diluted

For the six months ended 30 June 2023 and 30 June 2022, diluted earnings per share is the same as the basic earnings per share as there is no diluted impact from the share award scheme.

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 2023 (for the six month ended 30 June 2022: Nil).

10 TRADE AND NOTES RECEIVABLES

	As at 30 June 2023 RMB'000	As at 31 December 2022 RMB'000
Trade receivables		
– Due from third parties	326,167	339,050
Notes receivables	61	1,151
Less: loss allowance	<u>(9,767)</u>	<u>(43,063)</u>
Trade and notes receivables – net	<u>316,461</u>	<u>297,138</u>

(a) As at 30 June 2023, 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 30 June 2023 is as follows:

	As at 30 June 2023 RMB'000	As at 31 December 2022 RMB'000
Trade receivables, gross		
– Within 30 days	221,818	218,034
– Over 30 days and within 60 days	8,748	15,670
– Over 60 days and within 90 days	13,520	7,288
– Over 90 days and within 180 days	24,645	21,219
– Over 180 days and within 360 days	48,231	32,999
– Over 360 days	9,205	43,840
	326,167	339,050

11 SHARE CAPITAL AND SHARE PREMIUM

	Number of ordinary shares	Share capital RMB'000	Share premium RMB'000	Total RMB'000
As at 30 June 2023	2,249,457,213	140,312	1,656,669	1,796,981
As at 31 December 2022	2,249,457,213	140,312	1,656,669	1,796,981

12 TRADE AND NOTES PAYABLES

	As at 30 June 2023 RMB'000	As at 31 December 2022 RMB'000
Trade payables (<i>Note (a)</i>)		
Due to third parties	262,915	351,223
Due to related parties	<u>6,739</u>	<u>8,477</u>
	269,654	359,700
Notes payable		
Due to third parties	<u>302,638</u>	<u>253,485</u>
	<u>572,292</u>	<u>613,185</u>

Note:

- (a) As at 30 June 2023, trade payables of the Group are non-interest bearing, and their fair values approximate their carrying amounts due to their short maturities.

As at 30 June 2023, trade payables are denominated in RMB. The ageing analysis of trade payables based on invoice date, as at 30 June 2023 is as follows:

	As at 30 June 2023 RMB'000	As at 31 December 2022 RMB'000
Trade payables		
– Within 30 days	77,421	100,682
– Over 30 days and within 60 days	62,332	49,348
– Over 60 days and within 90 days	65,494	100,963
– Over 90 days and within 180 days	48,149	102,264
– Over 180 days and within 360 days	11,177	3,476
– Over 360 days	<u>5,081</u>	<u>2,967</u>
	<u>269,654</u>	<u>359,700</u>

13 BORROWINGS

	As at 30 June 2023 RMB'000	As at 31 December 2022 RMB'000
Non-current		
Secured bank borrowing (<i>Note</i>)	<u>268,304</u>	<u>163,384</u>
Current		
Secured bank borrowing (<i>Note</i>)	<u>168,344</u>	<u>168,118</u>
	<u>436,648</u>	<u>331,502</u>

Movements in borrowings is analysed as follows:

	Six months ended 30 June	
	2023 RMB'000	2022 RMB'000
Opening amount	331,502	369,077
Repayments of borrowings	(74,064)	(233,661)
Proceeds from bank borrowings	<u>179,210</u>	<u>225,000</u>
Closing amount	<u>436,648</u>	<u>360,416</u>

Note:

The amount represents the bank borrowings that are secured by the Group's certain buildings and land use rights of approximately RMB428,178,000 as at 30 June 2023 (31 December 2022: RMB308,343,000).

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 borrowing rate of 4.65% (2022: 4.96%) and are within level 2 of the fair value hierarchy.

BUSINESS REVIEW

In the first half of 2023, with the withdrawal of various epidemic prevention measures by the Chinese government, domestic retail and commercial activities have gradually returned to normal, and the overall economic operation of China showed a steady trend. In the first half of 2023, China's GDP grew by 5.5% year-on-year, representing an increase as compared with 3.0% in 2022. Total consumer goods retail sales increased by 8.2% year-on-year, of which total consumer goods retail sales in June 2023 increased by 3.1% year-on-year and declined by 9.6 percentage points month-to-month. However, as the international environment is still cloudy and severe with the uncertainty of inflation and interest rates, the confidence of residents and enterprises in economic development has not yet been fully recovered, and the economic recovery in mainland China still faces the pressure of insufficient demand, which in turn leads to the weakness of the consumption track.

Despite the multiple challenges, with the concerted efforts of all staff, the Group's operations in the first half of this year still achieved profit growth. During the six months ended 30 June 2023, the profit attributable to the owners of the Company was approximately RMB26,129,000 (for the six months ended 30 June 2022: RMB10,123,000).

Multi-sector collaboration to build a steady development potential

In the first half of 2023, the Group continued to focus on capacity building on brand, product, channel and digitalization, and took the following measures to further enhance the Group's core competitiveness and performance:

1. Brand leadership

- (a) Adhering to the strategic orientation, the Group has calibrated the positioning of the main brand of Cosmo Lady and Ordifen. On this basis, the Group has formed a highly coordinated brand portfolio comprising premium, medium and popular brands;
- (b) The 2023 Autumn and Winter New Products Conference of Cosmo Lady was successfully concluded in Shenzhen, Guangdong Province on 26 March 2023. With the theme of "Breakthrough Growth, Resilience Evolution (破界生長，韌性進化)", the conference started with three chapters: Autumn Rhythm (秋日律動), Urban Classics (都市經典) and Winter Color (冬日色彩), to penetrate the intimate wear into women's diversified life scenarios, attracting a large number of franchisees and customers;

- (c) Continuous upgrade and optimization of marketing:
 - (i) We effectively integrated the terminal marketing activities, reduced the situation of repeated promotion and multiple activities in parallel, and at the same time, promoted the promotion planning by grades and classifications to improve overall marketing efficiency;
 - (ii) We established a new hierarchical advertising system for our stores, combined with the systems of commodity planning, commodity operation, product display, selling point planning, visual presentation, etc., to display the key products of stores in a modular manner to give customers a clearer visual display;
 - (iii) We upgraded the content of new product promotion and promoted new products with concept video to shape product awareness, strengthen product features, accumulate brand assets, and coordinated with online mini programs and offline stores to form a unified potential energy; and
- (d) We comprehensively promoted omni-channel marketing that integrated online and offline platform, to achieve refined operation with all channels from online and offline, 24-hour service and all customer bases. The Group entered into JD Daojia (京東到家), Meituan Instashopping (美團閃購), Douyin Local Life (抖音本地生活), which improved the operating efficiency of offline stores and provided more possibilities for the growth of the Group's performance.

2. *Product as base*

- (a) We strengthened market and consumer insight to capture market trends through the application of relevant data platforms, and refreshed product lines according to the customer bases to accurately locate the customer bases, meet the needs of different market segments and provide consumers with cost-effective products;
- (b) We continued to promote product innovation. Internally, we optimized and adjusted product innovation, promoted the formulation of technical standards and the research on intelligent manufacturing of new types, and continued to promote trend integration, digital planning, category planning and design planning. Externally, we promoted trend cooperation, supplier co-creation and material innovation to continuously improve material/process innovation capabilities and product research, development and design capabilities;

- (c) We took the hero product planning as a key promotion matter at the company level and coordinated multi-department to participate in the hero product planning to continuously improve the hero product matrix. Hero products launched in 2023, such as Porous Cup (洞力杯), Thin Push-up Cup (聚薄杯), Shape Cup (塑顏杯), Soft Cup (柔型杯), Big Cup (大罩杯), Tea-series Underpants (茶舒褲), Soft Underpants (舒柔褲), Soft Series (軟綿綿系列), have received good market reactions; and
- (d) We continued to strengthen supply chain management capability, promote hierarchical management of suppliers, improve the responsive of supply chain, as well as optimize supply chain management costs.

3. Channel Breakthrough

- (a) Franchise strategy has achieved initial results. In the first half of the year, more than 800 stores entered into franchise contracts, creating a record high over the years;
- (b) We will continue to promote 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)”, optimize the structure of stores, and formulate corresponding efficiency measures for different stores, so as to improve the overall profitability of stores;
- (c) We will continue to advance the campaign of “1,000 stores in 100 cities” and through a series of brand and marketing activities, we have provided support to terminal stores, empowered terminal sales, and fully explored the market opportunities in market niches; and
- (d) The business development of Cotton Regions (純棉居物) at shopping center has achieved remarkable results, and initially created a replicable profit model.

4. Digital Transformation

In the first half of the year, the construction of digital projects of Cosmo Lady progressed steadily. At present, some system platforms have been launched one after another, providing strong digital tool support for business development.

- (a) Based on the original foundation, the B2B system platform is further optimized to increase the functions of commodity operation and marketing and the functions of livestreaming forecast, reminder, sharing and commodity recommendation and notification. At the same time, digital reports are built to support precise decision-making of commodity replenishment;

- (b) In June 2023, the universe consumer management platform has been launched, which will greatly enhance the precision marketing capabilities towards more than 62 million members of Cosmo Lady, providing a strong driving force for the continuous growth of performance; and
- (c) Data management and data middle-office projects have established a management cockpit for commodities, channels, members and retail, providing systematic support for the Group to achieve data-driven, fast and accurate marketing decisions, laying a solid foundation for comprehensive improvement of operational efficiency.

Uphold our Original Aspirations and Build a Sustainable Leading Advantage

Over the years, we have adhered to the three aspirations of “1) providing good and affordable intimate wear to consumers; 2) making every franchisee profitable; 3) all employees sincerely better serve each franchisee and consumer”. We have established a unique competitive advantage in brand, product, channel and digitalization.

Looking forward to the second half of the year, although the external environment is still subject to considerable uncertainty, the Group will strive for triumph over these difficulties, while consolidating its inherent foundation, continue to actively seek improvements and breakthroughs to consolidate its continued leadership. At the same time, the Group will continue to optimize the organizational structure and strengthen team capacity building; We are convinced that as long as we uphold the original intention and are not afraid of difficulties, we will be able to make steady progress and achieve even greater success.

FINANCIAL REVIEW

Profit attributable to the owners of the Company

During the period, as mentioned in the “Business Review” section, the Group continued on building its various capacities aiming to further enhance its competitiveness and achieve structurally sound improvement, resulting an increase in the profit attributable to the owners of the Company from RMB10,123,000 for the six months ended 30 June 2022 to RMB26,129,000 for the six months ended 30 June 2023.

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/cooperative stores and online sales platforms. The breakdown of the revenue is as follows:

	Six months ended 30 June			
	2023		2022	
	RMB'000	%	RMB'000	%
Retail sales				
– Self-managed/cooperative stores sales	622,579	45.5	541,556	33.5
– Consignment sales in franchisees' stores	–	–	217,396	13.4
Sales to franchisees	447,154	32.7	473,498	29.3
E-commerce	249,553	18.3	332,674	20.5
Others	48,345	3.5	53,249	3.3
	<u>1,367,631</u>	<u>100.0</u>	<u>1,618,373</u>	<u>100.0</u>

During the period, the changes in revenue of the Group were driven by the following factors:

- Improvement in sales performance on self-managed stores and increase in the number of cooperative stores;
- Termination of consignment sales arrangements in franchisees' stores in the second half of 2022;
- In the second half of 2022, the shift on product ordering system for franchisees from futures basis to spot basis gradually, which reduced the excess stock shipments, alleviated inventory pressure and improved cash flow; and
- The e-commerce business was under restructuring in the first half of 2023.

Gross profit margin

During the period, the gross profit margin of the Group increased to around 47.4% (the first half of 2022: 46.6%), mainly due to continuous improvements in supply chain management, product operations and product planning capabilities, resulting in increased product sold-out and reduced sales discounts.

Selling and marketing expenses

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

The decrease in selling and marketing expenses by about 13.5% for the six months ended 30 June 2023 to approximately RMB557,613,000 (the first half of 2022: RMB644,351,000) was mainly driven by a reduction in commission expenses in respect of consignment sales in franchisees' stores as such arrangement was terminated as mentioned above.

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 decline of general and administrative expenses by about 20.0% for the six months ended 30 June 2023 to approximately RMB93,793,000 (the first half of 2022: RMB117,214,000) was mainly due to the decrease in employee benefits expenses as a result of streamlining corporate structure as well as improved staff productivity and the decrease in other general and administrative expenses resulting from the effective cost control measures implemented during the period.

Net reversal of impairment losses on financial assets

The amount of RMB33,726,000 for the six month ended 30 June 2023 mainly represented reversal of part of the provisions for trade receivables made in previous years upon settlement of these balances during the period.

Finance expenses – net

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

The decrease in finance expenses to approximately RMB13,022,000 (the first half of 2022: RMB18,062,000) was mainly due to the drop in interest expenses on bank borrowings and lease liabilities.

Income tax expense

As of 30 June 2023, the Group had fulfilled all its tax obligations and did not have any unresolved tax disputes.

The decrease in income tax expense for the six months ended 30 June 2023 was mainly due to reversal of part of the deferred tax assets recognized in previous years in respect of provision for inventories and trade receivables in the first half of 2022.

LIQUIDITY AND FINANCIAL RESOURCES

The Group maintained a solid balance sheet. As at 30 June 2023, the Group's restricted bank deposits and cash and cash equivalents amounted to approximately RMB658,263,000 (31 December 2022: RMB709,458,000) and bank borrowings amounted to approximately RMB436,648,000 (31 December 2022: RMB331,502,000). The increase in bank borrowings is mainly due to the obtaining of new loans for the purpose of rebuilding new factories for future sales or rental purposes. As at 30 June 2023, the current ratio was about 1.8 times (31 December 2022: 1.7 times).

As at 30 June 2023, 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 22.5% (31 December 2022: 17.3%). 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 11.4% (31 December 2022: negative 19.8%) 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.

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 RMB253,150,000 (the first half of 2022: RMB23,570,000), which was mainly used for decoration and renewal of stores and rebuilding new factories for future sales or rental purposes.

PLEDGE OF ASSETS

As at 30 June 2023, the Group's certain property, plant and equipment, and land use rights of approximately RMB428,178,000 (31 December 2022: RMB308,343,000) were pledged as securities for obtaining banking borrowings.

CONTINGENT LIABILITIES

As at 30 June 2023, the Group did not have any significant contingent liabilities.

HUMAN RESOURCES AND MANAGEMENT

The Group had approximately 2,800 full-time employees as at 30 June 2023 (31 December 2022: 3,000). 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. 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 2022 annual report. A similar report will be included in the 2023 annual report which will be issued next year.

INTERIM DIVIDEND

The Board does not recommend the payment of interim dividend to shareholders of the Company for the six months ended 30 June 2023 (for the six months ended 30 June 2022: 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 2023, 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 an 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 from independent perspectives, the Board was therefore of the view that there were adequate safeguards in place to ensure a 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 2023.

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 2023.

EVENTS AFTER REPORTING PERIOD

There was no material event after 30 June 2023.

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 2023 and the audit committee has no disagreement with the disclosure in this announcement.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2023

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 2023 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, 25 August 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 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.