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

2016
Interim Report

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. ZHENG Yaonan *(Chairman and Chief Executive Officer ("**CEO**"))*
Mr. ZHANG Shengfeng *(Deputy Chairman)*
Mr. LIN Zonghong *(Deputy Chairman)*
Mr. CHENG Zuming
Ms. WU Xiaoli

Non-executive Director

Mr. WEN Baoma

Independent Non-executive Directors

Mr. YAU Chi Ming
Dr. DAI Yiyi
Mr. CHEN Zhigang

Company Secretary

Mr. YU Chun Kau, *FCPA, FCCA, FCA, ACS, ACIS, SIFM*

BOARD COMMITTEES

Audit Committee

Mr. YAU Chi Ming *(Chairman)*
Dr. DAI Yiyi
Mr. CHEN Zhigang

Remuneration Committee

Dr. DAI Yiyi *(Chairman)*
Mr. CHEN Zhigang
Mr. ZHANG Shengfeng

Nomination Committee

Mr. ZHENG Yaonan *(Chairman)*
Mr. YAU Chi Ming
Mr. CHEN Zhigang

Risk Management Committee

Mr. CHEN Zhigang *(Chairman)*
Mr. YAU Chi Ming
Dr. DAI Yiyi

AUTHORIZED REPRESENTATIVES

Mr. ZHENG Yaonan
Mr. YU Chun Kau

REGISTERED OFFICE

Appleby Trust (Cayman) Ltd.
Clifton House
75 Fort Street, P.O. Box 1350
Grand Cayman, KY-1108
Cayman Islands

HEAD OFFICE IN CHINA

Shi Shi Xia Shan Tang Wei
Fengdeling Village, Fenggang Town
Dongguan City, Guangdong Province
People's Republic of China (the "**PRC**")

HONG KONG OFFICE

Suite 2012, Tower 1, Times Square
1 Matheson Street
Causeway Bay
Hong Kong

SHARE REGISTRARS

Principal

Appleby Trust (Cayman) Ltd.
Clifton House
75 Fort Street, P.O. Box 1350
Grand Cayman, KY-1108
Cayman Islands

Hong Kong Branch

Computershare Hong Kong Investor Services Limited
Shops 1712-1716
17/F, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

LEGAL ADVISORS

As to Hong Kong laws:
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500 Hennessy Road
Hong Kong

As to PRC laws:
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34/F, Tower 3
China Central Place
77 Jianguo Road
Chaoyang District
Beijing, PRC

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants
22/F, Prince's Building
Central
Hong Kong

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Industrial and Commercial Bank of China Limited,
Fenggang Branch
Dongguan Rural Commercial Bank,
Fenggang Branch
China Construction Bank Corporation,
Yantian Branch

STOCK CODE

2298

COMPANY'S CORPORATE WEBSITE

www.cosmo-lady.com.hk

INVESTOR RELATIONS CONTACT

cosmo-lady@pordahavas.com

Financial Highlights

		Six months ended June 30,		
		2016	2015	Change
Revenue	*RMB'000*	2,211,369	2,207,351	0.2%
Operating profit	*RMB'000*	222,950	347,892	-35.9%
Profit attributable to equity holders of the Company	*RMB'000*	174,019	270,350	-35.6%
Gross profit margin	*%*	47.7%	44.7%	6.7%
Operating profit margin	*%*	10.1%	15.8%	-36.1%
Margin of profit attributable to equity holders of the Company	*%*	7.9%	12.2%	-35.2%
Earnings per share — basic and diluted	*RMB cents*	9.13	14.18	-35.6%

Statement from Chairman and CEO

OVERCOMING CHALLENGES

Mr. ZHENG Yaonan
Chairman and CEO

Dear Shareholders,

During the first half of 2016, the turmoil in the international and domestic economic and political environment, general lack of growth momentum of the global economy and occurrence of Brexit caused volatility in the global market. While Chinese economy remained stagnant for the first half of 2016, its gross domestic product ("**GDP**") growth further slowed down, growth rate of private investments hits the lowest level in recent years and consumers are in general more cautious about their spending habits. For the first half of 2016, the total retail sales of social consumer goods increased by 10.3% over the same period last year, with the growth rate further declined. The whole retail market has entered a harsh winter. The economy in China is under an urge to upgrade itself and in the process of reform. However, as the Chinese government is pushing forward its supply-side reform structurally, the effort will continue to bear fruit, giving a promising economic outlook.

Since the second half of last year, the growth of domestic economy has slowed down and such trend continued in the first half of 2016, which resulted in a drop of investors' confidence that negatively affected the whole retail sector, including Cosmo Lady (China) Holdings Company Limited (the "**Company**", together with its subsidiaries, the "**Group**"). In addition, in the first half of the year, Wechat business (also known as Micronet), which was characterized by multiple levels of agents, new customer solicitation model and commission scheme, impacted the intimate wear industry in where the Company operates and directly and negatively affected the sales and procurement of the Company's products. During the first half of the year, the Company took initiatives to optimize its channels, shut down outlets with low efficiency and adjust franchisees with single or few outlets, with an aim to maximize the utilization of market resources and boost the Company's operating efficiency.

Based on the results of the Group for the six months ended June 30, 2016, the total revenue of the Group increased to RMB 2,211 million from approximately RMB2,207 million, being an increase of 0.2% as compared to the same period last year. Operating profit for the first half of 2016 was RMB223 million, down by 35.9% as compared to the same period last year, while net profit for the first half of 2016 was approximately RMB174 million, representing a decrease of 35.6% as compared to the same period last year.

In view of the adversity faced by the retail sector in China, the Group was dedicated to keeping its retail network intact and stable. As at June 30, 2016, it has 1,568 self-managed outlets and 6,803 franchised outlets across China, forming an extensive network of physical outlets covering all parts of China. Meanwhile, the Group introduced the online and offline omni-channel marketing model and achieved substantial growth in its online business. During the first half of 2016, revenue from e-commerce amounted to RMB165 million, representing an increase of 280.8% as compared to the same period last year. Looking forward, the Group will continue to enhance its integration of online and offline resources to facilitate the positive interaction between online and offline businesses. In the first half of 2016, the Group adhered to its multi-channel strategy and achieved rapid growth in counties, communities and third- and fourth-tier cities. We will continue to focus on the market development of third- and fourth-tier cities, as well as market expansion of channels such as shopping malls and supermarkets where sales are vibrant. In April 2016, the Group officially launched the 5th generation of its outlet image. The Group believed that the concerted effort in outlet image upgrade would boost sales performance.

The Group recognizes that, as the macro-economy continues to undergo adjustment, the Company will face various challenges and risks. In spite of such, we are of the view that the economic potential of China shall not be underestimated, as it is a country with vast population and full of individuals with entrepreneurship. It has also come to the Group's awareness that the impact of Micronet to the intimate wear industry is gradually fading out. On July 1, 2016, the State Administration for Industry and Commerce issued a notice to curb online marketing activities under the name of "Micronet", "e-commerce", "multi-level distribution", "consumption investment" and "care and helping hands". Meanwhile, the Wechat platform also implemented measures to regulate online marketing. As a result, the influence of Micronet intimate wear marketing model will become weak gradually. In the future, the Group will implement the "one core, two wings, dual channels" strategy, which sets its business of mass market brands "Cosmo Lady" and its sub-brands as the "one core"; the Korean style new brand "Freeday" and high-end brand "Ordifen" as the "two wings", and the online and offline "dual channels" as the drivers to boost the sustainable growth of the Company's performance.

The Group will continue to adhere to its development strategy of multi-brands, multi-channels and multi-product categories. In view of the fluctuations in operating results of the Group for the first half of 2016, we are in the process of conducting organizational restructuring. We have engaged internationally renowned strategic consultants to fully rationalize the workflow, so as to adopt a flatter and more efficient organizational structure. We will optimize the product scheme and invest more on product research and design, to enable the Company to transform from a trend follower to a trend setter. We will make more effort in adjusting the supply chain so that it can make more timely and effective response to changes in market and fulfill the demand for products. To enhance efficiency of marketing channels, we will optimize the channels by integrating and eliminating franchisees with poor performance or which occupy market resources but fail to realize market potential. We aim to enhance capability of our retail side and facilitate the transition by adjusting staff structure, improving operating workflow and adopting better allocation of brand resources, so as to upgrade the level of refined management of the Company's retail segment. The Group will also make extra effort in implementing the merger and acquisition strategy and acquire corporations with competitive edges in brand or product categories in the intimate wear industry that the Company operates, with a view to facilitate substantial development and increase market share of the Company.

The Group firmly believes that in every challenge, there lies an opportunity. The further slowdown of macroeconomic growth and the overall stagnant retail market added new variables to China's intimate wear industry. Under the backdrop of this changing market, the Group is able to leverage its established first-mover advantage in the intimate wear industry, accelerate internal restructuring and reform, as well as speed up external expansion, so as to offer value-for-money products with high price-performance ratio and excellent shopping experience to customers. The Group is confident that the potential in the market for the intimate wear industry is enormous. As the mass market, in which the Company mainly operates, is the market segment with the largest market scale, greatest growth potential and most rapid development, the Group will be able to obtain extra market share and better results in the ever-changing market, as long as we stay confident and keep on implementing the suitable measures, planning ahead and putting contingency plans in place.

The Group will never forget its original missions, for it is what leads us to the goal. We will continue to focus on its products, retail business and market demand in order to better serve customers, create value for shareholders and make contribution to the society.

ZHENG Yaonan
Chairman and CEO

Hong Kong, August 15, 2016

Management Discussion and Analysis

MARKET REVIEW

Sluggish China's Economic Development

Following the considerable turmoil in China's stock market and depreciating trend of Renminbi against United States dollars resulted in pressure on local economy in the second half of 2015, the first half of 2016 continued to be a challenging period, in particular, for retail business in China. According to the National Bureau of Statistics of China, the GDP growth dwindled from 6.9% in year 2015 to 6.7% in the first half of 2016. The uncertain future prospect in the economy has negatively impacted the purchasing desire of consumers, as reflected by the decline of 3.2% in merchandise sales by the China's top 100 retailers for the six months ended June 30, 2016 according to the National Commercial Information Center of China. Also, the growth of total retail sales of consumer goods in China was 10.3% during the first half of 2016 as compared to that of 10.4% in the corresponding period in 2015, demonstrating that consumers became more prudent in their spending attitude. Among the total retail sales of consumer goods in China in the first half of 2016, 86.0% of sales were attributable to the retail activities taken place in urban areas, representing a growth of 10.2%. The retail sales in rural areas also grew at 11.0%.

On the bright side, consumers' wealth available for spending and saving is still observing an increasing trend even under the current economic situation. In the first half of 2016, the national per capita disposable income of China increased by 6.5% and reached RMB11,886. While the per capita disposable income of urban residents rose by 5.8% to RMB16,957, that of rural residents increased by 6.7% to RMB6,050. The growth momentum was higher in rural areas as indicated by higher growth of both retail sales and also per capita disposable income relative to urban areas. Moreover, China's government has been taking a series of stimulative measures in order to improve the overall economy and business environment, which is progressively delivering the impact. However, with the gloomy economic situation and high uncertainty, it is generally believed that the consumers' confidence on prospect of the economy and spending is unlikely to turnaround in near future.

More Competitive China's Intimate Wear Industry

In view of the more cautious spending habit of consumers as a result of the slowdown of China's economic development, retail business was in general negatively affected. While the high-end segment of the intimate wear market was to bear the brunt of sluggish economy, mass market players offering affordable price products did suffer from the same. To cope with the challenging period, some market players offered bigger discount and made more promotional and sales efforts, which made the industry more competitive.

Apart from the impact of the slowdown in economic development, the surge of Micronet (微商, an emerging channel for, among others, intimate wear retailers in China) during the first half of 2016 also struck the performance of mass market players due to the alternative option of similar-in-nature intimate wear products in terms of design and functionality being available on market. Micronet, also known as Wechat Business, is a multi-level pyramid distribution scheme based on Wechat which involves layers (as many as more than 10) of distributors owning and redistributing inventory, and thus could easily create channel stock stuffing problem. Based on market research conducted by the Group, the retail sales of Micronet represented over 10% of the whole China's intimate wear industry. Though it is generally believed the Micronet would not be sustainable in a long run due to regulatory measures adopted by the local government and enhancement of compliance management by Tencent, the threat from Micronet on the Group would persist for some time in the coming future before its subsidence.

On the bright side, consumers in China are experiencing an increase on their disposable income even under the current economic situation. They improve their quality of life through spending not only on higher value-for-money and fashionable outerwear products, but also on intimate wear products. Also, the higher growth momentum in rural areas in China could benefit the Group as a result of its direction of deepening market penetration across the sales channels in the third- and fourth-tier cities. The Group believes that, with the increasing demand for branded and high value-for-money intimate wear products, together with stronger marketing effort and the continuous development of various market segments, especially the mass market segment, the intimate wear market in China will maintain its high growth trend in future.

BUSINESS REVIEW

For the six months ended June 30, 2016, the Group continued to focus on the largest and fastest-growing mass market. While experiencing the economic slowdown, the competition from Micronet also created a new challenge to the Group. During the first half of 2016, the Group did not fully anticipate the competition intensity from Micronet and therefore it did not respond fast enough to address the threat. While the demand of the Group's mass market products was partially shifted to Micronet in the first half of 2016 due to products similarity, the products supply from its original equipment manufacturers ("**OEMs**") was affected as well. During the reporting period, there was a surging demand of seamless and wireless bras. Micronet players managed to react quickly on their supply and retail sides to grasp the opportunity while the Group faced shortage of the same kinds of products, affecting the sales growth of the Group, in particular sales to franchisees, during the period. Consequently, despite the Group's commitment in expansion, it managed to achieve a revenue of RMB2,211,369,000, a slight increase by 0.2% as compared to the corresponding period in 2015, and maintained the same store sales growth at a low single digit.

On the profitability side, operating expenses such as staff costs, operating lease rentals and marketing and promotion expenses kept their increasing trend during the first half of 2016. The completion of construction of Dongguan central logistics center in 2015, though highly enhanced our logistics capability and efficiency, at the same time incurred higher fixed operating expenses and depreciation charges during this period. Moreover, the expansion of headquarters in Dongguan also caused a general increase in most categories of general and administrative expenses. The operating deleverage resulted in higher expenses as a percentage of revenue. During the six months ended June 30, 2016, profit attributable to equity holders of the Company decreased by 35.6% to RMB174,019,000. Earnings per share amounted to RMB9.13 cents in the first half of 2016 (First half of 2015: RMB14.18 cents), representing a year-on-year decrease of 35.6%.

In spite of the challenges encountered, the Group has adopted a series of defensive measures in order to minimize the impact. Measures include acceleration of closure of low-efficiency outlets to improve the overall outlet quality, postponement of new outlet openings in view of the more intense competition, further integration and enhancement of supply chain management and evaluation of development strategy of the Group to cope with the latest market condition. The Group believes its operating performance would gradually improve and restore back to the original position in the near future.

Promising Performance in E-commerce

E-commerce, as one of the surging sales channels in China's intimate wear industry, continued its high developing momentum during the first half of 2016. The Group's e-commerce platform, launched since first half of 2014, has been adopting an effective strategy to partner with popular online sales platforms such as Tmall.com, VIP.com and JD.com. During the six month ended June 30, 2016, the Group enhanced such distribution channel through carrying out more effective promotional activities in order to increase traffic on online platforms and integrating its online and offline sales channels. Brand awareness was gradually built up in online consumer group and the Group's products became more welcomed, as reflected by the increase in overall per-ticket sales, number of pieces purchased per ticket and also the proportion of newly launched products sales.

While more marketing and promotion effort has been made to enhance the Group's brand awareness, the profitability of the Group's online channel has been improved, driven by product mix improvement, the strengthening of cost control and also higher power to bargain more competitive platforms commission expense. Thanks to the Group's committed effort in developing e-commerce business, its performance in first half of 2016 was encouraging, particularly on International Women's Day on March 8, 2016, on which the Group achieved a record-breaking sales and traffic. For the six months ended June 30, 2016, revenue attributed to e-commerce sales amounted to RMB164,937,000, accounting for 7.5% of the Group's total revenue (First half of 2015: 2.0%). Such amount also represented a 280.8% increase of e-commerce sales as compared to the corresponding period of last year. The e-commerce business generated a promising profit during the six months ended June 30, 2016 and is expected this growth momentum will continue in the second half of 2016.

According to Frost & Sullivan, e-commerce sales will be a more important channel in China's intimate wear industry in the next five years, due to the development of the mobile internet and smartphone technology, accounting for 6.5% market share in year 2020. The Group will therefore continue to strengthen and implement its effective development strategy on e-commerce business and expects that the sales through e-commerce of the Group will grow significantly and continually in the coming future.

Revitalizing and Optimizing High-end Brands

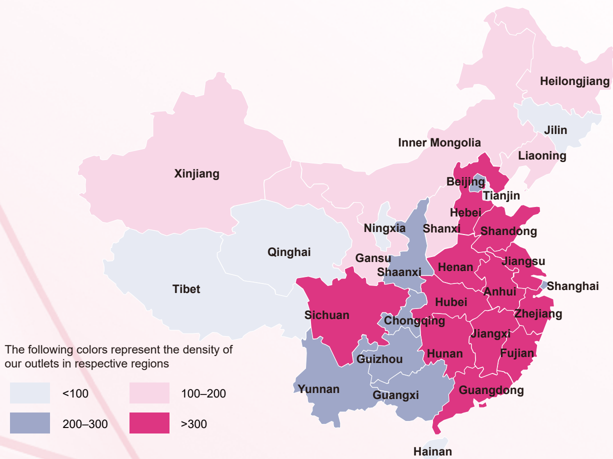
In 2015, the Group successfully gained access to the high-end intimate wear market in China through its acquisition of renowned high-end brands, namely Ordifen (歐迪芬) and its sub-brands, including but not limited to Rubii (璐比) and Ilsée (伊夏) (the "**High-end Brands**"). During the first half of 2016, the Group has been rationalizing its development strategy on the High-end Brands in order to realize its high growth potential. We have continually adopted a number of initiatives to optimize the operating efficiency of the High-end Brands, such as installation of operating system in outlets to facilitate direct control and the enhancement of marketing and logistics capability. At the same time, we streamlined our retail operation by enriching products mix through introducing new and differentiated products in the outlets and also elevating salespersons' competence through organized training programs.

Despite the concerted effort in revitalizing the High-end Brands through a series of improvement and strategic plans launched as mentioned above, its performance and also outlet expansion in the first half of 2016 was negatively impacted by the slowdown of China's economic development. In particular, sales growth was lower than expected and overall operating expenses remained at a relatively high level as a percentage of revenue. As a result, the High-end Brands recorded a net loss during the first half of 2016. As at June 30, 2016, there were 589 retail outlets of the High-end Brands, which consist of 124 franchised outlets and 465 self-managed outlets, mainly located in the shopping malls and department stores in major cities in China.

In future, the Group will continue to tighten cost control, streamline and optimize the operations and channel management of the High-end Brands and further consolidate their foundation in the high-end market through reinforcing the brand awareness.

Extensive Distribution Network Across The Country

Being the leader of the China's intimate wear industry, the Group takes pride in its massive and extensive channel distribution network covering more than 330 prefecture-level cities in all provinces, province-level municipalities and autonomous regions in China. The Group effectively gains access to a wide range of consumers in different locations and with different demographics through its omni-network in five major types of areas including commercial streets, social communities, traffic hubs, school zones and commercial hypermarket complexes as well as high-end retail network in malls, department stores and shopping centers.



During the first half of 2016, in view of the uncertain economic conditions in China's economy and negative impact of Micronet, the Group took a more cautious view in outlet expansion through tightening the outlet expansion policy and also evaluating non-promising outlets for closure. As at June 30, 2016, the Group's distribution network comprised 8,371 retail outlets, of which 6,803 were franchised outlets and 1,568 were self-managed outlets. This represents a net decrease of 238 retail outlets in the first half of 2016, attributable to a net decrease of 323 franchised outlets partially offset by the net increase of 85 self-managed outlets. Details of the Group's standalone outlets by category, namely "Cosmo Lady" (都市麗人), "Freeday" (自在時光) and "Ordifen" (歐迪芬), during the six months ended June 30, 2016 is set out below:

	Six months ended June 30, 2016			
	Cosmo Lady	Freeday	Ordifen	Total
Franchised outlets:				
At the beginning of the period	6,882	55	189	7,126
Add: newly-opened outlets	306	45	–	351
Less: closed outlets	(580)	(8)	(16)	(604)
transferred to self-managed outlets	(21)	–	(49)	(70)
Total franchised outlets	6,587	92	124	6,803
Self-managed outlets:				
At the beginning of the period	1,108	13	362	1,483
Add: newly-opened outlets	61	19	64	144
transferred from franchised outlets	21	–	49	70
Less: closed outlets	(117)	(2)	(10)	(129)
Total self-managed outlets	1,073	30	465	1,568
Total outlets	7,660	122	589	8,371

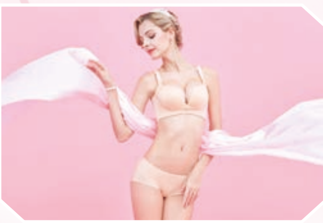
With operation of low-productivity outlets being ceased, the Group believed the overall distribution network's profitability would be improved, which in turn facilitated further growth in future.

Apart from the above, the Group started to launch the 5th generation of its outlet image in April 2016, which promoted a clear and simple design style with white as the theme colour. We have also unified the design of furniture in order to bring a fresh and brand-new image to consumers and to stimulate sales performance. As at June 30, 2016, approximately 100 outlets completed the image upgrade and more will be carried out in the second half of 2016.

Multiple Brands and Product Portfolio Covering Differentiated Consumers

The Group adopts a multi-brand strategy and provides a wide spectrum of value-for-money products for its variety of consumers with divergent tastes and needs in the mass and high-end markets.

For mass market segment, the Group has a number of brands with different design styles and price ranges, targeting a wide range of consumers. For female consumers, the Group markets its products through a few brands including Cosmo Lady (都市•儷人), Cosmo Elegance (都市•絲語), Cosmo Blossom (都市•繽紛派), Secret of City Beauty (都市麗人的秘密) and Freeday (自在時光). For male and kids products, the Group sells its products through the brands Cosmo Esquire (都市•鋒尚) and Miyajia (咪雅佳), respectively. For high-end segment of intimate wear industry, the Group acquired the High-end Brands in order to get access to the high-end consumer and channel.



During the first half of 2016, the Group continued to strengthen its leading position in the mass market through its core brands, Cosmo Lady (都市 • 儷人), Cosmo Elegance (都市 • 絲語) and Cosmo Blossom (都市 • 繽紛派), which accounted for approximately 77.6% of the Group's total revenue, and at the same time nurtured other brands to elevate their brand values. In particular, for Freeday (自在時光) (a brand introduced in the second half of 2014 with an image of Korean style with simple and fresh design), the Group has been allocating remarkable resources to revitalizing its marketing effort focusing on young and fashion-conscious consumers in the mass market to motivate sales. As at June 30, 2016, there were 122 Freeday standalone outlets.

Apart from the above, the opening of the Shanghai Disneyland in June 2016 is expected to have positive impact on the sales performance of Miyajia (咪雅佳). Miyajia is a brand for kids and juveniles and was licensed with Walt Disney group during 2015 to launch intimate wear products bearing Disney cartoon characters. As at June 30, 2016, Disney line products of Miyajia were available in approximately 7,000 outlets of the Group.

Our Core Asset – Consumers' Loyalty

The Group understands building up consumer loyalty towards its brands is one of the most critical elements for its long-term sustainable growth. In view of this, the Group runs a membership program which facilitates it to obtain in-depth understanding on consumers' spending behavior and therefore enables it to launch tailor-made marketing campaigns for consumers with different backgrounds in different regions. Besides, the program also provides a vast and loyal customer base for its development of e-commerce business. As at June 30, 2016, the number of registered members of the loyalty program (the "**Members**") reached 39 million.

During the first half of 2016, with the aim to proactively manage membership program, further the attachment of Members to the Group and assist with franchised outlets to engage in marketing activities focusing on Members with ease and accuracy, the Group launched the programming development of mobile applications ("**APPs**") for franchisees so that they could obtain sale figures and purchasing behaviors of Members in a timely and accurate manner. This provided a strong foundation for franchisees to launch tailor-made marketing activities for their Members and effectively created a sales growth momentum. We are still in the process of launching the APPs and as at June 30, 2016, there were approximately 3,000 franchised outlets adopting such new business development tool.

Apart from the membership program, the Group also runs an e-commerce platform (www.dslrpark.com)* which effectively links the Group with its Members through creating a platform for communication. The Group is committed to continuously enhancing the platform's diversified functions including but not limited to members-only promotion campaigns and redemption of bonus points accumulated from Members purchases to redeem for free gifts or get cash discounts for products on the Group's own e-commerce platform.

* The content of this website does not form part of this interim report.

Dedicated and Effective Brand Building Initiatives

The Group is dedicated in elevating its brand recognition and consumer loyalty through tailor-made and differentiated marketing activities by various means including but not limited to traditional channels such as television media, promotional events and exhibitions. Apart from the above, in the first half of 2016, the Group continued to promote its popularity through sponsoring a number of popular variety shows on China's television channels including "Hurry Up, Brother" (奔跑吧兄弟), "Beat the Champions" (來吧冠軍) and "Chef Nic" (12道鋒味) of Zhejiang Television, which boosted the Group's brand awareness.

As a strategic move to differentiate the Group from other mass market competitors, the Group has continued to engage popular artists with high reputation in China, Ms. Lin Chi-ling (林志玲小姐) and Mr. Huang Xiaoming (黃曉明先生), as the spokespersons for several of its core female brands and its male brand Cosmo Esquire (都市•鋒尚), respectively, which effectively amplified the impact of its marketing effort to promote its corporate image.

In April 2016, with the aim to further consolidate the Group's leading position in China's intimate wear industry, we organized a mega annual intimate wear fashion show "Galaxy Tour" (邁向星世代) with elements of variety shows incorporated, including singing performance by famous singers from China, Taiwan and Korea. During the show, the Group's spokespersons, other famous artists and professional

models strolled down the catwalk showcasing the Group's latest and trendy product collections. The show was well received by the audience and media, and the number of views on the related video of the show on the internet reached over 300 million times. The event greatly raised the Group's visibility and publicity in the industry and created a solid foundation for the Group to further develop its business in future.

Continuous Improvement on Operational Capability

Outstanding logistics capability is a key for a retailer's long-term sustainable growth. Being the leader in China's intimate wear industry, the Group strongly believed that continuously enhancing its logistics management would effectively provide a solid base to cope with the fast fashioning business nature and also outperform other market players. In addition to the construction of Dongguan central logistics center completed in 2015, the Group is currently constructing another new regional logistics center in Tianjin and it is expected to commence its operation in the second half of 2017. The central and regional logistics centers would greatly foster the Group's logistics capability.

On its retail side, the Group started to cooperate with Tencent and China Telecom to adopt the surging mobile payment method based on the existing cashier systems in our outlets - the Weixin Pay (微信支付) and Bestpay (翼支付). As at June 30, 2016, there were approximately 1,300 outlets with such payment system installed. The adoption of alternative payment method does not only provide one more payment options to customers, it also helps boosting sales performance of the outlets.

Apart from the above, the Group understands an enterprise could not succeed without continuous and effective back-up by supportive functions within the organization. During this period, the Group commenced to enhance its financial and human resources management through development of certain functions in the SAP system in relation to consolidation process and rewarding and appraisal systems. These enhancements are expected to be put in place in second half of 2016.

Dedication to Innovation and Quality Control

In view of consumers' increasing demand in fashionable, high quality and value-for-money products and intimate wear comfort, the Group has a dedicated in-house product design, research and development team of more than 100 staff members, which constantly launches new products to meet changes of consumer demands. As at June 30, 2016, the Group had a total of 127 registered patents in China. In addition, facing the ever-changing business environment, the Group commenced to develop a new system during the first half of 2016 for product lifecycle management which facilitates a more organized data storage and analysis on its complete assortment of products. The system is expected to be launched in July 2016.

Besides, the Group has adopted an organized quality control system in order to ensure quality standard of its products. Thanks to its persistence in maintaining a well-functioned quality control system for the best interests of its consumers, the Group was certified with ISO9001 "Quality Management Systems" in June 2016. Moreover, in view of the continuous business expansion, the Group had completed the construction of and commenced to operate a new and larger quality control center in Dongguan with more sophisticated equipment installed.

Corporate Social Responsibility and Awards

The Group understands giving back to the communities and maintaining high standard of social and environmental responsibility are as important as maximizing shareholders' wealth. During the first half of 2016, the Group agreed to make donations to a number of charitable organizations focusing on helping the underprivileged groups and promoting education, such as the China Foundation For Poverty Alleviation (中國扶貧基金會), Dongguan City Fenggang Town New Centre Primary School Construction Project (東莞市鳳崗鎮新中心小學項目) and Xiamen University (廈門大學). The Group is committed to maintaining good relationship with local governmental bodies, universities and social organizations through charitable contributions and participation in community events.

The Group's effort in contributing to and leading the China's intimate wear market was also widely recognized. During the first half of 2016, the Group was honored to receive the following accolades in recognition of the Group's commitment to lead and contribute to the industry: "China Intimate Wear Industry Contribution Award for 2015-2016" (2015-2016中國內衣行業年度推動獎) from "China International Intimate Wear Culture Week Committee" (中國國際內衣文化周組委會), "Top Ten Leading Brands in China's Intimate Wear Industry" (中國內衣行業年度十大領軍品牌) and "Consumer's Choice on China's Intimate Wear Brand for the Year" (中國內衣行業年度消費者喜愛品牌獎) from "China International Intimate Wear Culture Week Committee" and "China (Shenzhen) International Brand Intimate Wear Exhibition Committee" (中國(深圳)國際品牌內衣展組委會).

Apart from the above, the Group was certified with ISO14001 "Environmental Management Systems" and OHSAS18001 "Occupation Health and Safety Management Systems" as recognition of its commitment on these aspects.

FINANCIAL REVIEW

Revenue

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

The total revenue increased slightly by 0.2% from RMB2,207,351,000 for the six months ended June 30, 2015 to RMB2,211,369,000 for the six months ended June 30, 2016, mainly attributable to the combined effect of (i) the decrease in sales to franchisees under the core brand Cosmo Lady (都市 • 儷人) and its sub-brands by RMB222,173,000 or 16.0% compared to the corresponding period last year: such decrease was mainly due to the more cautious consuming sentiments as a result of slowdown in China's economic development, surge of Micronet affecting both the Group's sales and product supply from its OEMs and inventory shortage of seamless and wireless bras, a product type with surging demand during the first half of 2016, as the Group did not fully anticipate such market change or respond effectively to capture the opportunities; (ii) the full-period effect of sales under the brand Ordifen (歐迪芬) and its sub-brands through offline channels as their results were consolidated into the financial statements of the Group since June 1, 2015 upon completion of the acquisition: such sales for the six months ended June 30, 2016 increased by RMB116,703,000 compared to the sales for the corresponding period last year; and (iii) the increase in e-commerce sales by RMB121,621,000 or 280.8% compared to the corresponding period last year, as a result of the effective development strategies adopted by the Group.

Revenue by sales channel

The products of the Group were sold to consumers through an extensive network of 8,371 outlets including 6,803 franchised outlets and 1,568 self-managed outlets in more than 330 prefecture-level cities across China as at June 30, 2016 and via online sales platforms. The following table sets out a breakdown of the total revenue by sales channel, each expressed in absolute amount and as a percentage of the total revenue.

	Six months ended June 30, 2016				
	Cosmo Lady and its sub-brands	Freeday	Ordifen and its sub-brands	Total	Proportion
	RMB'000	RMB'000	RMB'000	RMB'000	%
Sales to franchisees	1,165,604	29,780	4,630	1,200,014	54.2
Retail sales	710,866	5,860	129,692	846,418	38.3
E-commerce	137,407	–	27,530	164,937	7.5
Total revenue	2,013,877	35,640	161,852	2,211,369	100.0

	Six months ended June 30, 2015				
	Cosmo Lady and its sub-brands	Freeday	Ordifen and its sub-brands	Total	Proportion
	RMB'000	RMB'000	RMB'000	RMB'000	%
Sales to franchisees	1,387,777	10,892	3,683	1,402,352	63.5
Retail sales	747,682	65	13,936	761,683	34.5
E-commerce	41,673	–	1,643	43,316	2.0
Total revenue	2,177,132	10,957	19,262	2,207,351	100.0

Revenue by types of products

The Group's revenue is generated from five major lines of intimate wear products: bras, underpants, sleepwear and loungewear, thermal clothes and others. The following table sets out a breakdown of the total revenue by product category, each expressed in the absolute amount and as a percentage of the total revenue.

	Six months ended June 30,			
	2016		2015	
	RMB'000	%	RMB'000	%
Sales to franchisees and retail sales:				
Bras	1,006,453	45.5	1,112,704	50.4
Underpants	318,178	14.4	337,408	15.3
Sleepwear and loungewear	344,470	15.6	355,434	16.1
Thermal clothes	119,416	5.4	99,138	4.5
Others[1]	257,915	11.6	259,351	11.7
Subtotal	2,046,432	92.5	2,164,035	98.0
Sales through online platforms:				
Bras	107,349	4.9	37,672	1.7
Underpants	21,335	1.0	3,002	0.2
Sleepwear and loungewear	7,021	0.3	476	0.0
Thermal clothes	9,344	0.4	1,678	0.1
Others[1]	19,888	0.9	488	0.0
Subtotal	164,937	7.5	43,316	2.0
Total revenue	2,211,369	100.0	2,207,351	100.0

Note:

(1) Includes leggings and tights, vests, hosiery and accessories.

The increase in sales of thermal clothes by 27.7% or RMB27,944,000 during the six months ended June 30, 2016 as compared to the corresponding period last year was mainly attributable to the colder than normal weather in January and February of 2016.

Revenue by brand

The Group's revenue is generated from intimate wear products under different brands: Cosmo Lady (都市•儷人), Cosmo Elegance (都市•絲語), Cosmo Blossom (都市•繽紛派), Cosmo Esquire (都市•鋒尚), Secret of City Beauty (都市麗人的秘密), Freeday (自在時光) as well as Ordifen (歐迪芬) and its sub-brands. The following table sets out a breakdown of the total revenue by brand, each expressed in the absolute amount and as a percentage of the total revenue.

	Six months ended June 30,			
	2016		2015	
	RMB'000	%	RMB'000	%
Sales to franchisees and retail sales:				
Cosmo Lady	807,161	36.5	875,220	39.7
Cosmo Elegance	499,963	22.6	684,561	31.0
Cosmo Blossom	289,744	13.1	285,841	13.0
Cosmo Esquire	207,660	9.4	206,008	9.3
Ordifen and its sub-brands	134,322	6.1	17,619	0.8
Freeday	35,640	1.6	10,957	0.5
Others	71,942	3.2	83,829	3.7
Subtotal	2,046,432	92.5	2,164,035	98.0
Sales through online platforms:				
Cosmo Lady	75,714	3.4	24,688	1.1
Cosmo Elegance	32,344	1.5	6,987	0.3
Cosmo Blossom	10,338	0.5	4,554	0.2
Cosmo Esquire	9,850	0.4	882	0.1
Ordifen and its sub-brands	27,530	1.2	1,643	0.1
Others	9,161	0.5	4,562	0.2
Subtotal	164,937	7.5	43,316	2.0
Total revenue	2,211,369	100.0	2,207,351	100.0

Revenue by geographic location

In order to facilitate sales and optimize decision-making, the Group manages its nationwide retail network across four sales regions, namely Southern China, Eastern China, South-Western China and Northern China (all as defined below), which report individually to the headquarters. The following table sets out a breakdown of the total revenue by region, each expressed in the absolute amount and as a percentage of the total revenue.

	Six months ended June 30,			
	2016		2015	
	RMB'000	%	RMB'000	%
Sales to franchisees and retail sales:				
Southern China[1]	837,366	37.9	902,996	40.9
Eastern China[2]	527,066	23.8	543,652	24.6
South-Western China[3]	348,894	15.8	417,374	18.9
Northern China[4]	333,106	15.0	300,013	13.6
Subtotal	2,046,432	92.5	2,164,035	98.0
Sales through online platforms	164,937	7.5	43,316	2.0
Total revenue	2,211,369	100.0	2,207,351	100.0

Notes:

(1) Southern China includes Guangdong, Fujian, Hubei, Hunan, Guangxi, Jiangxi and Hainan ("**Southern China**");

(2) Eastern China includes Shanghai, Jiangsu, Zhejiang, Anhui, Shandong and Henan ("**Eastern China**");

(3) South-Western China includes Sichuan, Chongqing, Gansu, Qinghai, Yunnan, Guizhou, Tibet, Xinjiang and Ningxia ("**South-Western China**"); and

(4) Northern China includes Heilongjiang, Jilin, Liaoning, Beijing, Inner Mongolia, Hebei, Tianjin and Shanxi ("**Northern China**").

Southern China and Eastern China remained the two largest regional markets, which in aggregate contributed to approximately 61.7% and 65.5% of the total turnover for the six months ended June 30, 2016 and 2015, respectively. During the first half of 2016, the sales to franchisees and retail sales in general decreased across the country, except for Northern China which was less affected by Micronet's growth.

Cost of Sales

Cost of sales primarily consists of costs of inventories recognized in cost of sales, employee benefit expenses, government surcharges and levies, write-down of inventories, and others.

Costs of sales in the absolute amount decreased by 5.2% during the six months ended June 30, 2016 compared with the same period in 2015, because of the decrease in cost of inventories recognized in cost of sales as a result of decline in sales quantity of products and reduction in write-down of inventories. The table below sets forth a breakdown of cost of sales, each expressed in the absolute amount and as a percentage of the total cost of sales.

	Six months ended June 30,			
	2016		2015	
	RMB'000	%	RMB'000	%
Cost of inventories recognized in cost of sales	1,121,718	96.9	1,187,253	97.3
Employee benefit expenses	13,225	1.1	11,486	0.9
Government surcharges and levies	12,458	1.1	9,693	0.8
Write-down of inventories	9,241	0.8	11,976	1.0
Others	699	0.1	245	0.0
Total cost of sales	1,157,341	100.0	1,220,653	100.0

Gross Profit and Gross Profit Margin

During the six months ended June 30, 2016, the Group recorded a gross profit of RMB1,054,028,000, representing an increase of 6.8% from the corresponding period in 2015.

Gross profit margin of the Group increased from 44.7% for the six months ended June 30, 2015 to 47.7% for the six months ended June 30, 2016. The table below sets forth a breakdown of gross profit margin by sales channel.

	Six months ended June 30, 2016			
	Cosmo Lady and its sub-brands	Freeday	Ordifen and its sub-brands	Total
	%	%	%	%
Sales to franchisees and retail sales	47.0	14.5	72.7	48.1
E-commerce	38.6	N/A	59.1	42.0
Total gross profit margin	46.4	14.5	70.4	47.7

	Six months ended June 30, 2015			
	Cosmo Lady and its sub-brands	Freeday	Ordifen and its sub-brands	Total
	%	%	%	%
Sales to franchisees and retail sales	44.2	38.1	75.9	44.4
E-commerce	59.1	N/A	59.8	59.1
Total gross profit margin	44.5	38.1	74.5	44.7

The increase in gross profit margin of the Group was primarily due to the continuous improvements to sales channels and product portfolio, the further integration of the supply chain and higher proportion of sales of higher gross profit margin products.

Selling and Marketing Expenses

Selling and marketing expenses primarily consist of employee benefit expenses, operating lease rentals, marketing and promotion expenses, consumables recognized in expenses, depreciation and amortization, and others.

Selling and marketing expenses increased by 23.7% from RMB577,806,000 for the six months ended June 30, 2015 to RMB714,660,000 for the six months ended June 30, 2016. The increase was primarily attributable to (i) the increase of operating lease rentals and employee benefit expenses in respect of self-managed outlets, in particular, the operating lease rentals of self-managed outlets as a percentage of the respective revenue increased from 29.5% for the six months ended June 30, 2015 to 32.3% for the six months ended June 30, 2016; (ii) the increase of other operating expenses in relation to self-managed outlets, such as logistics expenses and depreciation and amortization charges; and (iii) the expansion of headquarters operation resulted in general increase of other items under selling and marketing expenses during the first half of 2016, such as marketing and promotion expenses and travelling expenses.

The table below sets forth a breakdown of selling and marketing expenses, each expressed in the absolute amount and as a percentage of the total selling and marketing expenses.

	Six months ended June 30,			
	2016		2015	
	RMB'000	%	RMB'000	%
Employee benefit expenses	188,217	26.3	162,085	28.1
Operating lease rentals in respect of retail outlets	273,765	38.3	188,472	32.6
Concessionaire fee in respect of outlets under cooperative arrangements	–	–	50,510	8.7
Other operating rental expenses in respect of land and buildings	13,911	2.0	12,890	2.2
Marketing and promotion expenses	66,289	9.3	44,290	7.7
Depreciation and amortization	32,996	4.6	22,613	3.9
Logistics warehousing and delivery expenses	22,778	3.2	15,968	2.8
E-commerce platforms commission expenses	23,123	3.2	10,092	1.7
Government charges and levies	3,083	0.4	1,963	0.3
Consumables recognized in expenses	12,206	1.7	14,683	2.5
Utilities expenses	12,464	1.7	11,455	2.0
Travelling expenses	7,798	1.1	5,530	1.0
Consulting service expenses	7,734	1.1	6,280	1.1
Miscellaneous	50,296	7.1	30,975	5.4
Total selling and marketing expenses	714,660	100.0	577,806	100.0

General and Administrative Expenses

General and administrative expenses primarily consist of employee benefit expenses, other operating rental expenses in respect of land and buildings, government charges and levies, consulting service fees, depreciation and amortization, and others.

General and administrative expenses increased by 71.0% from RMB82,633,000 for the six months ended June 30, 2015 to RMB141,330,000 for the six months ended June 30, 2016. The increase was primarily attributable to the expansion of headquarters in Dongguan resulting in (i) an increase of RMB35,053,000 in employee benefit expenses; and (ii) general increase in other operating expenses such as other operating rental expenses in respect of land and buildings, travelling expenses and consultancy fee.

The table below sets forth a breakdown of general and administrative expenses, each expressed in the absolute amount and as a percentage of the total general and administrative expenses.

	Six months ended June 30,			
	2016		2015	
	RMB'000	%	RMB'000	%
Employee benefit expenses	79,099	56.0	44,046	53.3
Other operating rental expenses in respect of land and buildings	7,503	5.3	3,659	4.4
Depreciation and amortization	9,520	6.7	7,907	9.6
Logistics warehousing and delivery expenses	422	0.3	–	–
Government charges and levies	5,286	3.7	4,099	5.0
Consumables recognized in expenses	3,583	2.5	1,086	1.3
Utilities expenses	3,250	2.3	2,975	3.6
Travelling expenses	5,033	3.6	3,017	3.7
Consulting service expenses	4,284	3.0	–	–
Net provision for trade receivables	4,994	3.5	505	0.6
Miscellaneous	18,356	13.1	15,339	18.5
Total general and administrative expenses	141,330	100.0	82,633	100.0

Other Income

Other income consists of franchise fee income, software usage income, government grants, service fee income and others.

Other income increased slightly by 5.5% from RMB22,957,000 for the six months ended June 30, 2015 to RMB24,216,000 for the six months ended June 30, 2016. The increase was primarily attributable to an increase of RMB2,003,000 in government grants received, partially offset by a general decrease in other items related to newly opened franchised outlets under other income as a result of more conservative new franchised outlets opening during the first half of 2016.

Other Gains/(Losses) – Net

Other net gains/(losses) consist of net loss on disposal of property, plant and equipment, and net foreign exchange gains/(losses).

Finance Income

Finance income represents interest income derived from short-term bank deposits, loan to a third party and other financial assets. The Group had finance income of RMB12,180,000 and RMB11,012,000 for the six months ended June 30, 2016 and 2015, respectively. Out of the finance income generated during the first half of 2016, RMB4,896,000 (First half of 2015: RMB3,094,000) represents interest income generated from an entrusted loan of RMB105,000,000 made to Shanghai Ordifen Company Limited ("**Shanghai Ordifen**"), a third party, through Shenzhen branch of China Merchants Bank Co., Ltd., as a lending agent. The loan is interest bearing at the rate of 9% per annum, repayable in March 1, 2017 and secured by a joint guarantee provided by two individual shareholders of Shanghai Ordifen and a charge over a parcel of land and the building thereon situated in Shanghai owned by Shanghai Ordifen.

Income Tax Expense

Income tax expense primarily represents income tax payable by the Group under relevant income tax rules and regulations of the PRC. Items of income tax expense consist of current income tax and deferred income tax. Current income tax consists of PRC enterprise income tax at a rate of 25% that the PRC subsidiaries of the Group pay on their taxable income. Deferred income tax is recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. Income tax expense decreased from RMB88,554,000 for the six months ended June 30, 2015 to RMB61,111,000 for the six months ended June 30, 2016. The decrease in income tax expense was primarily due to a decrease in taxable income. The effective tax rate of the Group for the six months ended June 30, 2015 and 2016 was 24.7% and 26.0%, respectively. As at June 30, 2016, the Group had fulfilled all its tax obligations and did not have any unresolved tax disputes.

WORKING CAPITAL MANAGEMENT

	The Group		Excluding the High-end Brands	
	Six months ended June 30, 2016	Year ended December 31, 2015	Six months ended June 30, 2016	Year ended December 31, 2015
Inventory turnover days	131.4	92.5	118.1	88.3
Trade receivables turnover days	45.0	29.4	45.1	29.6
Trade payables turnover days	77.9	49.2	79.0	49.9

The increase in inventory turnover days by 38.9 days was primarily due to the increase in inventory balance from RMB800,377,000 as of December 31, 2015 to RMB889,719,000 as of June 30, 2016 as a result of adoption of multi-brands strategy and overall sales growth during the first half of 2016 which is lower than the Group's expectation.

Trade receivables turnover days increased from 29.4 days for the year ended December 31, 2015 to 45.0 days for the six months ended June 30, 2016 because of the increase in credit sales made to franchisees during the period.

Trade payables turnover days increased from 49.2 days for the six months ended June 30, 2015 to 77.9 days for the six months ended June 30, 2016 because of increased bargaining power against the OEMs.

LIQUIDITY AND FINANCIAL RESOURCES

The Group maintains a strong and healthy balance sheet. As at June 30, 2016, net working capital was RMB1,932,851,000, representing a slight increase of 3.1% or RMB58,479,000 as compared with December 31, 2015. As at June 30, 2016, current ratio was 3.3 times (December 31, 2015: 3.2 times) (Current ratio is calculated by using the following formula: Current Assets/ Current Liabilities).

Net cash generated from operations decreased from RMB220,650,000 for the six months ended June 30, 2015 to RMB33,292,000 for the six months ended June 30, 2016, mainly attributable to increase in purchases of inventories from OEMs and credit sales made to franchisees as discussed in the section headed "Working Capital Management" in this interim report.

Net cash used in investing activities for the six months ended June 30, 2016 was RMB64,999,000 (First half of 2015: RMB65,513,000). During the six months ended June 30, 2016, the Group invested RMB5,000,000, RMB68,633,000 and RMB3,881,000 on payments and deposits for business acquisition of High-end Brands, purchases of property, plant and equipment (including retail outlets' decorations) and intangible assets respectively, partially offset by the interest income received of RMB12,137,000.

During the six months ended June 30, 2016, net cash used in financing activities was the payment of dividends to the then equity holders in the amount of RMB177,420,000 (First half of 2015: RMB114,713,000).

As at June 30, 2016, the Group was in a net cash position of RMB743,105,000 (December 31, 2015: RMB950,639,000).

CAPITAL EXPENDITURES

Capital expenditures decreased from RMB181,463,000 for the six months ended June 30, 2015 to RMB84,811,000 for the six months ended June 30, 2016. Capital expenditures for the first half of 2016 were used primarily for (i) construction of logistics centers in Tianjin, (ii) additions to property, plant and equipment for the newly opened self-managed outlets and (iii) additions to intangible assets.

PLEDGE OF ASSETS

As of June 30, 2016, no property, plant and equipment, and land use rights were pledged as security for banking facilities available to the Group.

CONTINGENT LIABILITIES

As of June 30, 2016, the Group did not have any significant contingent liabilities.

FINANCIAL RISK MANAGEMENT

Foreign Exchange Risk

The Group manages its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposures and tries to minimize these exposures through natural hedges, whenever possible or may enter into certain forward foreign exchange contracts, when necessary, to manage its exposure against foreign currencies risk and to mitigate the negative impact from exchange rate fluctuations. During the six months ended June 30, 2016, no forward foreign exchange contracts were entered into by the Group.

The Group operates in the PRC with most of the Group's transactions denominated and settled in RMB. The Group's assets and liabilities, and transactions arising from its operations did not expose the Group to material foreign exchange risk as the Group's assets and liabilities as at June 30, 2016 and December 31, 2015 were denominated in the respective group companies' functional currencies.

Interest Rate Risk

As the Group has no significant interest-earning assets (other than bank balances and cash and loan to a third party), the Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group had no interest-bearing liabilities as at June 30, 2016 and December 31, 2015.

Price Risk

Except for the investments held by the Group and classified on the consolidated balance sheet as available-for-sale financial assets of RMB18,600,000 (December 31, 2015: RMB15,600,000), the Group was not exposed to any equity securities price risk as at June 30, 2016.

Credit Risk

The Group has no significant concentrations of credit risk. The carrying amounts of loan to a third party, trade receivables, deposits and other receivables, cash and cash equivalents, term deposits and restricted cash with banks included in the consolidated balance sheets represent the maximum exposure to credit risk in relation to the Group's financial assets. The Group has policies in place to ensure credit terms are only granted to franchisees with good credit histories, and credit evaluations were conducted on them periodically, taking into account their financial position, past experience and other factors. For customers to whom no credit terms were offered, the Group generally requires them to pay deposits and/or advances prior to delivery of products. The Group in general does not require collaterals from customers. Provisions are made for the balance that is past due when the management considers the loss from non-performance by the customers is likely. Sales to retail customers are settled in cash or using credit cards issued by major banks. The Group also makes deposits to the relevant landlords for leases of certain of the self-managed outlets. The management does not expect to incur any loss from non-performance by these counterparties.

The Group also has policies in place to ensure that deposits with banks are mainly placed with either state-owned or reputable financial institutions in the PRC and Hong Kong. As of June 30, 2016 and December 31, 2015, all of the bank balances and restricted bank deposits were deposited with highly reputable and sizable banks and financial institutions without significant credit risk in the PRC and Hong Kong. The management does not expect to incur any loss from non-performance by these banks and financial institutions.

Liquidity Risk

The liquidity position is monitored closely by the management. The Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance its operations and mitigate the effects of fluctuations in cash flows.

HUMAN RESOURCES

The Group had approximately 8,000 full-time employees as at June 30, 2016. Employees are valuable assets for an enterprise to achieve long-term sustainable success. The Group has been investing significantly in staff recruitment, training and retention through offering competitive remuneration packages and performance-based incentive schemes and also providing comprehensive trainings to upgrade its employees. Staff attendances of over 9,000 were recorded in approximately 600 staff training sessions held by the Group for the six months ended June 30, 2016. The Group is also committed to creating a caring work environment as well as promoting the sense of belonging among its staff. Staff welfare initiatives and programs were carried out during the six months ended June 30, 2016. Besides, the Group reviews regularly its human resources policies to cater its corporate development needs on a timely manner.

SUBSEQUENT EVENTS

There were no significant subsequent events affecting the Group that took place from June 30, 2016 to the date of this interim report.

USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING

The Company's ordinary shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on June 26, 2014. The total net proceeds from the Company's initial public offering amounted to approximately HK$1,463 million (equivalent to approximately RMB1,162 million). The Group has, during the six months ended June 30, 2016, utilized RMB97,604,000 (equivalent to approximately HK$115,339,000) to expand and maintain its retail network of its self-managed outlets, RMB36,354,000 (equivalent to approximately HK$42,960,000) and RMB32,033,000 (equivalent to approximately HK$37,853,000), respectively to establish and operate the logistics centers in Dongguan and Tianjin, RMB3,950,000 (equivalent to approximately HK$4,668,000) to upgrade information technology infrastructure, and RMB5,000,000 (equivalent to approximately HK$5,909,000) as consideration paid for the acquisition of High-end Brands. As at June 30, 2016, net proceeds not yet utilized were deposited with licensed banks in Hong Kong and China.

OUTLOOK AND STRATEGY

During the first half of 2016, the Group experienced the first major challenge following its high-growth stage in the previous years, arising from the surge of Micronet's development and the more cautious consuming sentiment as a result of the slowdown of China's economic growth as discussed. These external uncertainties are expected to continuously impact on the whole intimate wear industry in the second half of 2016.

Nevertheless, we are prudently optimistic about the prospect because (i) consumers' disposable income is still increasing year-on-year at a mid-single digit percentage, which means consumers are accumulating wealth and purchasing power even though they are now more cautious on spending in view of the economic conditions. This creates a solid foundation for the industry to revive in future; (ii) the higher growth momentum in rural areas as compared to the growth momentum in urban areas (as evidenced by higher growth in total retail sales and disposable income in rural areas) will benefit the Group's performance in view of its strategies on deepening market penetration across the channels in the third- and fourth-tier cities in China; (iii) it is generally believed that the high growth in Mircronet would not be sustainable in long run due to regulatory measures adopted by the local government; and (iv) the Group has adopted effective measures to solve the inventory shortage of seamless and wireless bras once it realized the problem, and it's expected that such inventory shortage will be significantly solved in the third quarter of 2016.

In order to revitalize the business of the Group and capture the growth opportunities arising from industry revival in future, the Group has carried out in-depth evaluation to identify areas for improvement, especially those encountered during the first half of 2016 such as slow responses on both retail and supply sides to the surge of Micronet, and has reformulated its development strategies in view of the latest market change. The Group will dedicate itself to enhance its core competitiveness and outperform its competitors through a number of initiatives, including (i) cautiously expanding its omni-channel distribution network particularly in third- and fourth-tier cities to grasp the higher growth momentum in rural areas; (ii) continuous integration of online and offline sales channels in order to elevate the brand popularity and ultimately boost sales; (iii) fostering competitiveness of its product categories through enhancement of product design and quality control capabilities with the new quality control center under operation and new product lifecycle management system under development is expected to play important roles; (iv) increasing resources on market research and forecast so that the Group is able to promptly react to market change, capture changes in consumers' behaviors and minimize the risk of inventory shortage; (v) accelerating the outlets image upgrade to the 5th generation to stimulate consumers' demand and therefore sales; (vi) re-engineering the brands Freeday (自在時光) and high-end brand Ordifen (歐迪芬) including optimizing their product mix and sales channels; (vii) continuous improvement of supply chain and logistics management. For example, the Tianjin regional logistics center under construction, together with the Dongguan central logistics center in operation, will build up a solid base to facilitate the Group's sustainable expansion and the Group will further integrate and consolidate the supply chain including connecting the information system with selected raw materials suppliers and OEMs so that information sharing and flow among these suppliers and the Group will be better facilitated; (viii) reviewing the cost structure and tightening the cost control; and (ix) continuously exploring opportunities for inorganic growth in the industry, including acquisitions of underwear businesses and other related businesses, which are expected to broaden the Group's income stream.

Despite the challenges faced and decline in performance in the first half of 2016, the Group has drawn a lesson from the setback and is prepared to combat the up-coming challenges in future.

INTERIM DIVIDEND

The board of directors (the "**Directors**") of the Company (the "**Board**") does not recommend the payment of interim dividend to shareholders of the Company (the "**Shareholders**") for the six months ended June 30, 2016.

Report on Review of Interim Financial Information

pwc 羅兵咸永道

TO THE BOARD OF DIRECTORS OF COSMO LADY (CHINA) HOLDINGS COMPANY LIMITED
(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 38 to 67, which comprises the condensed consolidated balance sheet of Cosmo Lady (China) Holdings Company Limited (the "**Company**") and its subsidiaries (together, the "**Group**") as at June 30, 2016 and the related condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting". The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, August 15, 2016

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Note	Six months ended June 30, 2016 Unaudited RMB'000	2015 Unaudited RMB'000
Revenue	5	2,211,369	2,207,351
Cost of sales	7	(1,157,341)	(1,220,653)
Gross profit		1,054,028	986,698
Selling and marketing expenses	7	(714,660)	(577,806)
General and administrative expenses	7	(141,330)	(82,633)
Other income	6	24,216	22,957
Other gains/(losses) – net	6	696	(1,324)
Operating profit		222,950	347,892
Finance income	8	12,180	11,012
Profit before income tax		235,130	358,904
Income tax expenses	9	(61,111)	(88,554)
Profit for the period		174,019	270,350
Other comprehensive income for the period			
(Item that may be reclassified subsequently to profit or loss)			
Exchange differences		761	6,723
Total comprehensive income for the period		174,780	277,073
Profit attributable to equity holders of the Company		174,019	270,350
Total comprehensive income attributable to equity holders of the Company		174,780	277,073
Earnings per share attributable to equity holders of the Company during the period	10	RMB cents	RMB cents
– basic		9.13	14.18
– diluted		9.13	14.18

The notes on pages 44 to 67 form an integral part of this condensed consolidated interim financial information.

Condensed Consolidated Balance Sheet

	Note	As at June 30, 2016 Unaudited RMB'000	As at December 31, 2015 Audited RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	12	488,821	448,999
Land use rights	12	90,431	91,471
Intangible assets	12	42,621	40,110
Investment in a joint venture		1,990	1,990
Available-for-sale financial assets		18,600	15,600
Loan to a third party	13	–	105,000
Deposits, prepayments and other receivables		26,256	32,780
Deferred income tax assets	14	38,764	30,318
		707,483	766,268
Current assets			
Inventories		889,719	800,377
Trade receivables	15	586,811	517,705
Loan to a third party	13	105,000	–
Deposits, prepayments and other receivables		452,388	438,343
Term deposits	16	9,225	9,435
Cash and cash equivalents	16	743,105	950,639
		2,786,248	2,716,499
Total assets		3,493,731	3,482,767

	Note	As at June 30, 2016 Unaudited RMB'000	As at December 31, 2015 Audited RMB'000
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	*17*	117,320	117,320
Share premium	*17*	1,254,574	1,431,994
Other reserves	*18*	295,111	244,196
Retained earnings		971,640	845,352
Total equity		2,638,645	2,638,862
LIABILITIES			
Current liabilities			
Trade payables	*20*	506,567	495,411
Accruals and other payables		289,914	283,556
Current income tax liabilities		56,916	63,160
		853,397	842,127
Non-current liabilities			
Deferred income tax liabilities	*14*	1,689	1,778
Total liabilities		855,086	843,905
Total equity and liabilities		3,493,731	3,482,767

The notes on pages 44 to 67 form an integral part of this condensed consolidated interim financial information.

ZHENG Yaonan
Director

ZHANG Shengfeng
Director

Condensed Consolidated Statement of Changes in Equity

	Note	Unaudited Attributable to equity holders of the Company				
		Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total equity RMB'000
As at January 1, 2016		117,320	1,431,994	244,196	845,352	2,638,862
Comprehensive income						
Profit for the period		–	–	–	174,019	174,019
Other comprehensive income						
Exchange differences		–	–	761	–	761
Total comprehensive income for the period		–	–	761	174,019	174,780
Transactions with equity holders						
Dividends		–	(177,420)	–	–	(177,420)
Appropriation to statutory reserve		–	–	47,731	(47,731)	–
Equity-settled share-based compensation	19	–	–	2,423	–	2,423
Total transactions with equity holders		–	(177,420)	50,154	(47,731)	(174,997)
As at June 30, 2016		117,320	1,254,574	295,111	971,640	2,638,645

		Unaudited Attributable to equity holders of the Company				
	Note	Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total equity RMB'000
As at January 1, 2015		117,320	1,431,994	231,699	456,519	2,237,532
Comprehensive income						
Profit for the period		–	–	–	270,350	270,350
Other comprehensive income						
Exchange differences		–	–	6,723	–	6,723
Total comprehensive income for the period		–	–	6,723	270,350	277,073
Transactions with equity holders						
Dividends		–	–	–	(151,175)	(151,175)
Equity-settled share-based compensation	*19*	–	–	3,539	–	3,539
Total transactions with equity holders		–	–	3,539	(151,175)	(147,636)
As at June 30, 2015		117,320	1,431,994	241,961	575,694	2,366,969

The notes on pages 44 to 67 form an integral part of this condensed consolidated interim financial information.

Condensed Consolidated Statement of Cash Flows

	Note	Six months ended June 30, 2016 Unaudited RMB'000	2015 Unaudited RMB'000
Cash flows from operating activities			
Cash generated from operations	*21*	109,181	301,389
Income tax paid		(75,889)	(80,739)
Net cash generated from operating activities		33,292	220,650
Cash flows from investing activities			
Proceeds from disposal of property, plant and equipment		168	–
Interest received		12,137	7,957
Purchases of property, plant and equipment		(68,633)	(68,920)
Purchases of intangible assets		(3,881)	(4,550)
Term deposits with initial term of over three months		210	150,000
Loan to a third party	*13*	–	(105,000)
Acquisition of a business		(5,000)	(45,000)
Net cash used in investing activities		(64,999)	(65,513)
Cash flows from financing activity			
Dividends paid		(177,420)	(114,713)
Net cash used in financing activity		(177,420)	(114,713)
Net (decrease)/increase in cash and cash equivalents		(209,127)	40,424
Cash and cash equivalents at beginning of the period	*16*	950,639	921,337
Effect of foreign exchange rate changes		1,593	5,420
Cash and cash equivalents at end of the period	*16*	743,105	967,181

The notes on pages 44 to 67 form an integral part of this condensed consolidated interim financial information.

1 GENERAL INFORMATION

Cosmo Lady (China) Holdings Company Limited (the "**Company**") was incorporated in the Cayman Islands on January 28, 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 Clifton House, 75 Fort Street, P.O. Box 1350, Grand Cayman, KY-1108, Cayman Islands.

The Company is an investment holding company. Its subsidiaries (the Company and its subsidiaries are hereinafter referred to as the "**Group**") are 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 ("**Stock Exchange**") on June 26, 2014.

The interim condensed consolidated financial information for the six months ended June 30, 2016 ("**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 August 15, 2016.

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 December 31, 2015, which have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**").

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 December 31, 2015.

2 BASIS OF PREPARATION (Continued)

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 December 31, 2015, except as mentioned below.

(a) Amended standards adopted by the Group

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning January 1, 2016.

IFRS 14	Regulatory Deferral Accounts
IFRS 10, IFRS 12 and IAS28 (Amendment)	Investment Entities: Applying the Consolidation Exception
IFRS 11 (Amendment)	Accounting for Acquisitions of Interests in Joint Operation
IAS 1 (Amendment)	Disclosure Initiative
IAS 16 and IAS 38 (Amendments)	Clarification of Acceptable Methods of Depreciation and Amortization
IAS 16 and IAS 41 (Amendments)	Agriculture: Bearer Plants
IAS 27 (Amendment)	Equity Method in Separate Financial Statements
Annual Improvements 2014	2012-2014 Cycle of the Annual Improvements

The adoption of these amended standards does not have any material effect on the Group's operating results or financial position.

2 BASIS OF PREPARATION (Continued)

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

The following new standards and amendments to standards have been issued but are not effective for the period and have not been early adopted by the Group:

IFRS 9	Financial Instruments [1]
IFRS 15	Revenue from Contracts with Customers [1]
IFRS 16	Lease [2]
IAS 28 and IFRS 10 (Amendments)	Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture [3]

[1] Effective for the Group for annual period beginning on January 1, 2018
[2] Effective for the Group for annual period beginning on January 1, 2019
[3] Effective date is to be determined by the International Accounting Standard Board

The Group is in the process of making an assessment on the impact of these new standards and amendments on the consolidated financial statements of the Group in the initial application.

(c) Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

3 FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow and fair value interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management policy focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group currently does not use any derivative financial instruments to hedge certain risk exposures during the period.

The Interim Financial Information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the financial statements of the Group for the year ended December 31, 2015.

There have been no changes in any risk management policies since December 31, 2015.

3 FINANCIAL RISK MANAGEMENT (Continued)

(b) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt calculated as total borrowings less cash and cash equivalents, term deposits and restricted bank deposits. Total capital is calculated as "equity" as shown in the consolidated balance sheet plus net debts. As at June 30, 2016 and December 31, 2015, the Group has no external borrowings.

(c) Fair value estimation

Financial instruments carried at fair value are disclosed by levels of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);

- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and

- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

3 FINANCIAL RISK MANAGEMENT (Continued)

(c) Fair value estimation (Continued)

As at June 30, 2016, except for the available-for-sale financial assets of RMB18,600,000 (December 31,2015: RMB15,600,000) were measured at level 3 fair value, the Group's financial instruments recognized in the consolidated balance sheet are mainly receivables and financial liabilities carried at amortized cost. Movements of level 3 financial instruments for the period ended June 30, 2016 are as follows:

	Six months ended June 30,	
	2016 RMB'000	2015 RMB'000
At January 1	15,600	–
Additions	3,000	–
At June 30	18,600	–

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

The fair value of the Group's available-for-sale financial assets was developed through the application of the income approach technique, the discounted cash flow method. The income approach is the conversion of expected periodic benefits of ownership into an indication of value.

The discounted cash flow method under the income approach has been applied in the determination of the fair value of the Group's available-for-sale financial assets. The discounted cash flow considered the future business plan, specific business and financial risks.

4 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. All of its revenue are derived in the PRC for the six months ended June 30, 2016 and June 30, 2015.

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 June 30, 2016 (2015: None).

5 REVENUE

	Six months ended June 30,	
	2016 RMB'000	2015 RMB'000
Sales to franchisees	1,200,014	1,402,352
Retail sales	846,418	761,683
E-commerce	164,937	43,316
	2,211,369	2,207,351

6 OTHER INCOME AND OTHER GAINS/(LOSSES) – NET

	Six months ended June 30, 2016 RMB'000	Six months ended June 30, 2015 RMB'000
Other income:		
Franchise fee income	483	1,443
Software usage fee income	1,154	1,946
Government grants	13,312	11,309
Service fee income	1,765	2,627
Others	7,502	5,632
	24,216	22,957
Other gains/(losses) – net:		
Net foreign exchange gains/(losses)	832	(1,303)
Loss on disposal of property, plant and equipment – net	(136)	(21)
	696	(1,324)

7 EXPENSES BY NATURE

	Six months ended June 30,	
	2016 RMB'000	2015 RMB'000
Costs of inventories recognized in cost of sales	1,121,718	1,187,253
Employee benefit expenses (including directors' emoluments)	280,541	217,617
Operating lease rentals in respect of retail outlets (including variable rentals of RMB231,811,000 (2015: RMB149,524,000) *(note (i))*)	273,765	188,472
Concessionaire fee in respect of outlets under cooperative arrangements *(note (ii))*	–	50,510
Other operating rental expenses in respect of land and buildings	21,414	16,549
Marketing and promotion expenses	66,289	44,290
Depreciation and amortization	43,214	30,765
Logistics warehousing and delivery expenses	23,200	15,968
E-commerce platforms commission expenses	23,123	10,092
Government charges and levies	20,827	15,755
Consumables recognized in expenses	15,789	15,769
Utilities expenses	15,714	14,430
Travelling expenses	12,831	8,547
Consulting service expenses	12,018	6,280
Net provision for trade receivables	4,994	505
Write-down of inventories	9,241	11,976
Miscellaneous	68,653	46,314
Total cost of sales, selling and marketing expenses and general and administrative expenses	2,013,331	1,881,092

Note:

(i) Revenue in respect of the retail outlets under variable rentals arrangement with minimum commitment amounted to RMB730,037,000 for the six months ended June 30, 2016 (2015: RMB514,505,000).

(ii) Revenue in respect of the outlets under cooperative arrangements amounted to RMB122,976,000 for the six months ended June 30, 2015.

8 FINANCE INCOME

	Six months ended June 30, 2016 RMB'000	2015 RMB'000
Interest income on available-for-sale financial assets	5,777	3,064
Interest income on loan to a third party *(Note 13)*	4,896	3,094
Interest income on short-term bank deposits	1,507	4,854
	12,180	11,012

9 INCOME TAX EXPENSES

	Six months ended June 30, 2016 RMB'000	2015 RMB'000
Current income tax		
– Hong Kong profits tax *(note (a))*	–	–
– PRC corporate income tax *(note (b))*	69,646	90,335
	69,646	90,335
Deferred income tax *(Note 14)*	(8,535)	(1,781)
	61,111	88,554

(a) Hong Kong profits tax

No provision for Hong Kong profits tax has been made in the Interim Financial Information, as the Group did not have assessable profit in Hong Kong for the period (2015: Nil).

9 INCOME TAX EXPENSES (Continued)

(b) PRC corporate income tax

The income tax provision of the Group's subsidiaries in the PRC was calculated at the tax rate of 25% (2015: 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 British Virgin Islands (the "**BVI**") was incorporated under the International Business Companies Act of the BVI and, accordingly, is exempted from BVI income tax.

10 EARNINGS PER SHARE

Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

	Six months ended June 30,	
	2016	2015
Profit for the period attributable to equity holders of Company *(RMB'000)*	174,019	270,350
Weighted average number of ordinary shares for purposes of basic earnings per share *(thousands of shares)*	1,906,457	1,906,457
Basic earnings per share *(RMB cents per share)*	9.13	14.18

Diluted

Diluted earnings per share is the same as the basic earnings per share as there were no potential dilutive ordinary shares outstanding during the period (2015: Nil).

11 DIVIDENDS

The Board does not recommend the payment of any interim dividend to shareholders of the Company for the six months ended June 30, 2016 (2015: Nil).

12 PROPERTY, PLANT AND EQUIPMENT, LAND USE RIGHTS AND INTANGIBLE ASSETS

	Property, plant and equipment RMB'000	Land use rights RMB'000	Intangible assets RMB'000
Six months ended June 30, 2016			
As at January 1, 2016	448,999	91,471	40,110
Additions	78,265	–	6,546
Disposals	(304)	–	–
Depreciation and amortization	(38,139)	(1,040)	(4,035)
As at June 30, 2016	488,821	90,431	42,621
Six months ended June 30, 2015			
As at January 1, 2015	271,339	93,551	25,407
Additions	163,498	–	2,113
Acquisition of a business	5,865	–	9,987
Disposals	(21)	–	–
Depreciation and amortization	(26,427)	(1,040)	(3,298)
As at June 30, 2015	414,254	92,511	34,209

13 LOAN TO A THIRD PARTY

Loan to a third party of RMB105,000,000 represents an entrusted loan advanced to Shanghai Ordifen Company Limited ("**Shanghai Ordifen**"), a third party, through Shenzhen branch of China Merchants Bank Co., Ltd. ("**CMB**"), as lending agent, pursuant to an entrusted loan entrustment agreement, entered into between a subsidiary of the Group and CMB, and an entrusted loan agreement, entered into between CMB and Shanghai Ordifen, as part of the acquisition of the business of Shanghai Ordifen in year 2015.

13 LOAN TO A THIRD PARTY (Continued)

The loan is interest bearing at 9% per annum, repayable in March 2017 and secured by a joint guarantee provided by two shareholders of Shanghai Ordifen and a charge over a parcel of land and the building in Shanghai owned by Shanghai Ordifen.

14 DEFERRED INCOME TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income taxes relate to the same fiscal authority.

Movements in the deferred income tax assets of the Group are as follows:

	Write-down of inventories RMB'000	Provision for trade receivables RMB'000	Provision for sales return RMB'000	Unrealized profit RMB'000	Tax losses carried forward RMB'000	Others RMB'000	Total RMB'000
At January 1, 2016	9,496	366	938	–	2,817	16,701	30,318
Credited/(charged) to the profit or loss *(Note 9)*	361	546	(736)	–	2,912	5,363	8,446
At June 30, 2016	9,857	912	202	–	5,729	22,064	38,764
At January 1, 2015	9,174	403	798	5,641	2,893	4,701	23,610
Credited/(charged) to the profit or loss *(Note 9)*	(490)	119	(2,475)	(5,641)	4,268	6,000	1,781
At June 30, 2015	8,684	522	(1,677)	–	7,161	10,701	25,391

As at June 30, 2016, majority of the Group's deferred income tax assets are expected to be recovered within 12 months.

14 DEFERRED INCOME TAX (Continued)

Movements in the deferred income tax liabilities of the Group are as follows:

	Intangible assets	
	2016 RMB'000	2015 RMB'000
At January 1	1,778	–
Business combination	–	1,778
Credited to the profit or loss *(Note 9)*	(89)	–
At June 30	1,689	1,778

Deferred income tax assets are recognized for tax losses carried forward to the extent that the realization of related tax benefits through future taxable profits is probable.

As at June 30, 2016, temporary differences relating to the undistributed profits of certain subsidiaries of the Group in the PRC amounted to RMB1,056,152,000 (December 31, 2015: RMB852,989,000). Deferred tax liabilities of RMB105,615,000 (December 31, 2015: RMB85,299,000) have not been recognized in respect of the withholding tax that would be payable on the distribution of these retained profits, as the Company controls the dividend policy of these subsidiaries in the PRC and the directors have determined that these profits are not likely to be distributed in the foreseeable future.

15 TRADE RECEIVABLES

	As at June 30, 2016 RMB'000	As at December 31, 2015 RMB'000
Due from third parties	590,460	519,170
Less: provision for impairment	(3,649)	(1,465)
Trade receivables – net	586,811	517,705

(a) As at June 30, 2016 and December 31, 2015, 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 60 to 90 days and 180 to 360 days from the invoice date for seasonal products and first order of products for new outlets, respectively. In addition, the Group also gives an additional credit period of 180 to 360 days to certain franchise customers. The ageing analysis of trade receivables based on invoice date, as at June 30, 2016, and December 31, 2015 is as follows:

	As at June 30, 2016 RMB'000	As at December 31, 2015 RMB'000
Trade receivables, gross		
– Within 30 days	336,468	324,271
– Over 30 days and within 60 days	63,237	76,202
– Over 60 days and within 90 days	60,361	46,968
– Over 90 days and within 180 days	76,894	41,165
– Over 180 days and within 360 days	49,044	21,475
– Over 360 days	4,456	9,089
	590,460	519,170

16 BANK BALANCES AND CASH

(a) Cash and cash equivalents

Cash and cash equivalents are denominated in the following currencies:

	As at June 30, 2016 RMB'000	As at December 31, 2015 RMB'000
RMB	699,932	897,487
HK$	42,260	52,284
Other currencies	913	868
	743,105	950,639

Cash at banks earns interest at floating rates based on daily bank deposit rates. The conversion of RMB denominated balances maintained in the PRC into foreign currencies and remittance of funds out of the PRC is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

16 BANK BALANCES AND CASH (Continued)

(b) Term deposits

	As at June 30, 2016 RMB'000	As at December 31, 2015 RMB'000
Term deposits with initial term of over three months	–	210
Restricted bank deposits	9,225	9,225
	9,225	9,435

As at June 30, 2016 and December 31, 2015, restricted bank deposits were denominated in RMB and pledged to banks as collateral for construction of certain property, plant and equipment.

17 SHARE CAPITAL AND SHARE PREMIUM

	Number of ordinary shares	Share capital RMB'000	Share premium RMB'000
As at January 1, 2016	1,906,457,000	117,320	1,431,994
Dividends	–	–	(177,420)
As at June 30, 2016	1,906,457,000	117,320	1,254,574
As at January 1, 2015 and June 30, 2015	1,906,457,000	117,320	1,431,994

18 OTHER RESERVES

	Merger reserve RMB'000 (note (a))	Statutory reserve RMB'000 (note (b))	Capital reserve RMB'000 (note (c))	Contribution reserve RMB'000	Equity-settled share based compensation reserve RMB'000 (Note 19)	Exchange reserve RMB'000	Total other reserves RMB'000
At January 1, 2016	(8,938)	37,749	192,790	9,119	12,477	999	244,196
Equity-settled share-based compensation							
– Value of employee services	–	–	–	–	2,423	–	2,423
– Transfer upon vested	–	–	–	9,119	(9,119)	–	–
Appropriation to statutory reserve	–	47,731	–	–	–	–	47,731
Exchange differences	–	–	–	–	–	761	761
At June 30, 2016	(8,938)	85,480	192,790	18,238	5,781	1,760	295,111
At January 1, 2015	(8,938)	37,749	192,790	–	14,577	(4,479)	231,699
Equity-settled share-based compensation	–	–	–	–	3,539	–	3,539
Exchange differences	–	–	–	–	–	6,723	6,723
At June 30, 2015	(8,938)	37,749	192,790	–	18,116	2,244	241,961

Notes:

(a) Merger reserve

Merger reserve represented the difference of the aggregate consideration paid by the Group for the acquisition of subsidiaries pursuant to the group reorganization and the aggregate capital of the subsidiaries acquired, after elimination of investments in subsidiaries.

18 OTHER RESERVES (Continued)

Notes: (Continued)

(b) Statutory reserve

In accordance with the relevant laws and regulations in the PRC and the articles of association of the PRC incorporated subsidiaries of the Company, it is required to appropriate 10% of the annual statutory net profits of the Company's PRC incorporated subsidiaries, after offsetting any prior years' losses as determined under the PRC accounting standards, to the statutory surplus reserve fund before distributing the net profit. When the balance of the statutory surplus reserve fund reaches 50% of the share capital of these subsidiaries, any further appropriation is at the discretion of shareholders. The statutory surplus reserve fund can be used to offset prior years' losses, if any, and may be converted into share capital by issuing new shares to shareholders in proportion to their existing shareholding or by increasing the par value of the shares currently held by them, provided that the remaining balance of the statutory surplus reserve fund after such issue is no less than 25% of share capital.

(c) Capital reserve

Capital reserve represented the excess of the cash consideration over the paid-in capital arising from capital contributions to Cosmo Lady Guangdong Holdings Limited ("**Cosmo Lady Guangdong**") by investors.

On July 29, 2013, Cosmo Lady Guangdong was converted into a joint stock company with limited liability by converting the total equity as at December 31, 2012 into 420,000,000 ordinary shares of nominal value of RMB1.00 each. The excess of total equity of Cosmo Lady Guangdong over the nominal value of total issued share capital of RMB192,790,000 has been recognized as capital reserve in the consolidated balance sheet.

19 EQUITY-SETTLED SHARE-BASED COMPENSATION

Great Ray Investment Holdings Limited ("**Great Ray**"), a company incorporated in the BVI, which was set up by the shareholders of the Company for the benefits of the Group's employees and holds certain ordinary shares of the Company, operates a share award scheme of the Group (the "**Share Award Scheme**") in exchange for employee services to the Group.

19 EQUITY-SETTLED SHARE-BASED COMPENSATION (Continued)

Details of each grant under the Share Award Scheme and the number of shares in the Company indirectly held by the eligible employees through Great Ray for the six months ended June 30, 2016 are as follows:

	Six months ended June 30,	
	2016 Number of ordinary shares	2015 Number of ordinary shares
At January 1	21,645,000	33,450,000
Vested	(11,655,000)	(11,708,000)
At June 30	9,990,000	21,742,000

As the Company received the benefits associated with the services of the eligible employees, the fair value of the employee services received in exchange for the grant of the equity instruments is recognized as an expense.

For the six months ended June 30, 2016, expenses arising from the share-based compensation have been charged in the consolidated statement of profit or loss and other comprehensive income as follows:

	Six months ended June 30,	
	2016 RMB'000	2015 RMB'000
General and administrative expenses	1,691	2,499
Selling and marketing expenses	732	1,040
	2,423	3,539

20 TRADE PAYABLES

	As at June 30, 2016 RMB'000	As at December 31, 2015 RMB'000
Due to third parties	503,071	489,652
Due to related parties *(Note 23(c))*	3,496	5,759
	506,567	495,411

As at June 30, 2016 and December 31, 2015, trade payables of the Group are denominated in RMB, non-interest bearing, and the carrying amounts approximate their fair values.

As at June 30, 2016 and December 31, 2015, the ageing analysis of trade payables (including amounts due to related parties of trading in nature) based on invoice date is as follows:

	As at June 30, 2016 RMB'000	As at December 31, 2015 RMB'000
Trade payables		
– Within 30 days	72,778	69,468
– Over 30 days and within 60 days	161,334	125,427
– Over 60 days and within 90 days	121,918	154,705
– Over 90 days and within 180 days	105,634	94,683
– Over 180 days and within 360 days	30,715	30,864
– Over 360 days	14,188	20,264
	506,567	495,411

21 NOTE TO CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended June 30,	
	2016 RMB'000	2015 RMB'000
Profit before income tax	235,130	358,904
Adjustments for:		
– Depreciation of property, plant and equipment *(Note 12)*	38,139	26,427
– Amortization of land use rights *(Note 12)*	1,040	1,040
– Amortization of intangible assets *(Note 12)*	4,035	3,298
– Provision for impairment of trade receivables	2,185	505
– Write-down of inventories	9,241	11,976
– Finance income *(Note 8)*	(12,180)	(11,012)
– Net foreign exchange (gains)/losses	(832)	1,303
– Equity-settled share-based compensation *(Note 19)*	2,423	3,539
– Loss on disposal of property, plant and equipment – net *(Note 6)*	136	21
	279,317	396,001
Changes in working capital:		
– (Increase)/decrease in trade receivables	(71,291)	3,480
– Decrease in restricted bank deposits *(Note 16)*	–	11,072
– Increase in deposits, prepayments and other receivables	(19,943)	(103,637)
– (Increase)/decrease in inventories	(98,583)	43,181
– Increase in trade payables	11,156	22,642
– Increase/(decrease) in accruals and other payables	8,525	(71,350)
Cash generated from operations	109,181	301,389

22 COMMITMENTS

(a) Capital commitments

As at June 30, 2016, the Group had the following capital commitments not provided for:

	As at June 30, 2016 RMB'000	As at December 31, 2015 RMB'000
Authorized but not contracted:		
Property, plant and equipment	189,404	274,954
Contracted but not provided for:		
Property, plant and equipment	133,362	59,260
Intangible assets	5,048	11,881
	138,410	71,141

(b) Operating lease commitments

As at June 30, 2016, the future aggregate minimum lease payments in respect of buildings under non-cancellable operating leases were as follows:

	As at June 30, 2016 RMB'000	As at December 31, 2015 RMB'000
No later than 1 year	200,459	250,622
Later than 1 year and no later than 5 years	333,727	441,382
Later than 5 years	19,190	23,269
	553,376	715,273

23 RELATED-PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control.

The following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business for the six months ended June 30, 2016, and balances arising from related party transactions as at June 30, 2016.

(a) Name and relationship with related parties

Name	Relationship with the Group
Mr. ZHANG Shengfeng	Director
Mr. LIN Zonghong	Director
Shantou City Shengqiang Knitting Industrial Co., Ltd. (汕頭市盛強針織實業有限公司, "**Shantou Shengqiang**")	Controlled by a brother of Mr. ZHANG Shengfeng's spouse
Shantou City Maosheng Knitting Underwear Co., Ltd. (汕頭市茂盛針織內衣有限公司, "**Shantou Maosheng**")	Controlled by a brother of Mr. LIN Zonghong

(b) Transactions with related parties – Purchases of goods

	Six months ended June 30,	
	2016 RMB'000	2015 RMB'000
Continuing transactions:		
Shantou Shengqiang	5,600	15,194
Shantou Maosheng	8,078	10,345
	13,678	25,539

Purchases of goods from these related parties are on mutually agreed terms and conditions, and the purchase prices are determined on cost-plus basis, with a mark-up rate of no more than 9%.

23 RELATED-PARTY TRANSACTIONS (Continued)

(c) Balances with related parties – Payables

	As at June 30, 2016 RMB'000	As at December 31, 2015 RMB'000
Trade balances *(Note 20)*:		
Shantou Shengqiang	1,613	5,594
Shantou Maosheng	1,883	165
	3,496	5,759

These trade payables due to related parties were unsecured, non-interest bearing and repayable on demand.

(d) Key management compensation

The remuneration of directors of the Company and other members of key management of the Group for the six months ended June 30, 2016 is as follows:

	Six months ended June 30,	
	2016 RMB'000	2015 RMB'000
Wages, salaries and bonuses	4,101	3,809
Pension costs – defined contribution plans	194	234
Equity-settled share-based compensation	758	1,229
	5,053	5,272

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at June 30, 2016, the Directors and the chief executive officers of the Company had the following interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")), as recorded in the register required to be kept pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") contained in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"):

(i) Interest and short positions in the Company

Name of Director	Nature of interest	Number of shares held [1]	Approximate percentage of shareholding interest
Mr. ZHENG Yaonan	Interests held jointly with another person; interest of controlled company	1,174,702,010(L) [2][3]	61.62%(L)
Ms. WU Xiaoli	Interest of spouse	1,174,702,010(L) [2][3]	61.62%(L)
Mr. ZHANG Shengfeng	Interests held jointly with another person; interest of controlled company	1,174,702,010(L) [2]	61.62%(L)
Mr. LIN Zonghong	Interests held jointly with another person; interest of controlled company	1,174,702,010(L) [2]	61.62%(L)
Mr. CHENG Zuming	Interests held jointly with another person; interest of controlled company	1,174,702,010(L) [2]	61.62%(L)

Notes:

(1) The letter "L" denotes the person's long position in the shares and the letter "S" denotes the person's short position in the shares.

(2) Mr. Zheng Yaonan ("**Mr. Zheng**"), Mr. Zhang Shengfeng ("**Mr. Zhang**"), Mr. Lin Zonghong ("**Mr. Lin**"), Mr. Cheng Zuming ("**Mr. Cheng**"), Great Brilliant Investment Holdings Limited ("**Great Brilliant**"), Forever Flourish International Holdings Limited ("**Forever Flourish**"), Forever Shine Holdings Limited ("**Forever Shine**"), Mountain Dragon Investment Limited ("**Mountain Dragon**") and Harmonious Composition Investment Holdings Limited ("**Harmonious Composition**"), acting in concert, together controlled 61.62% of the total issued share capital in the Company. As such, each of them was deemed to be interested in such 61.62% interest in the total issued share capital of the Company.

(3) Ms. Wu Xiaoli is the spouse of Mr. Zheng. Under Part XV of the SFO, she was deemed to be interested in the same number of shares in which Mr. Zheng is interested.

(ii) Interest in associated corporations of the Company

Name of Director	Name of associated corporation	Nature of interest	Number of shares held	Approximate percentage of shareholding interest
Mr. ZHENG Yaonan	Harmonious Composition Investment Holdings Limited	Interest of controlled company	615,840	64.59%
Mr. ZHANG Shengfeng	Harmonious Composition Investment Holdings Limited	Interest of controlled company	177,125	18.58%
Mr. LIN Zonghong	Harmonious Composition Investment Holdings Limited	Interest of controlled company	128,743	13.50%
Mr. CHENG Zuming	Harmonious Composition Investment Holdings Limited	Interest of controlled company	31,707	3.33%

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

As at June 30, 2016, the interests and short position of substantial shareholders (other than the Directors and chief executive officers) in the shares and the underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO were as follows:

Name	Nature of interest	Number of shares held [1]	Approximate percentage of shareholding interest
Great Brilliant Investment Holdings Limited	Interests held jointly with another person; interest of controlled company	1,174,702,010(L) [2]	61.62%(L)
Forever Flourish International Holdings Limited	Interests held jointly with another person; interest of controlled company	1,174,702,010(L) [2]	61.62%(L)
Ms. CAI Shaoru [3]	Interest of spouse	1,174,702,010(L)	61.62%(L)
Forever Shine Holdings Limited	Interests held jointly with another person; interest of controlled company	1,174,702,010(L) [2]	61.62%(L)
Ms. CAI Jingqin [4]	Interest of spouse	1,174,702,010(L)	61.62%(L)
Mountain Dragon Investment Limited	Interests held jointly with another person; interest of controlled company	1,174,702,010(L) [2]	61.62%(L)
Harmonious Composition Investment Holdings Limited	Interests held jointly with another person; beneficial interest	1,174,702,010(L) [2]	61.62%(L)
Capital Today Investment XVIII (HK) Limited	Beneficial owner	133,156,000(L)	6.98%(L)

Name	Nature of interest	Number of shares held [1]	Approximate percentage of shareholding interest
Capital Today Investment XVIII Limited [5]	Interest of controlled company	133,156,000(L)	6.98%(L)
Capital Today China Growth Fund, LP [5]	Interest of controlled company	133,156,000(L)	6.98%(L)
Capital Today China Growth GenPar, LTD [5]	Interest of controlled company	133,156,000(L)	6.98%(L)
Capital Today Partners Limited [5]	Interest of controlled company	133,156,000(L)	6.98%(L)
Ms. XU Xin [5]	Interest of controlled company	133,156,000(L)	6.98%(L)
The Capital Group Companies, Inc. [6]	Interest of controlled company	116,186,000(L)	6.09%(L)
Morgan Stanley [7]	Interest of controlled company; interest held jointly with another person	138,760,659(L) 138,202,659(S)	7.27%(L) 7.24%(S)

Notes:

(1) The letter "L" denotes the person's long position in the shares and the letter "S" denotes the person's short position in the shares.

(2) Mr. Zheng, Mr. Zhang, Mr. Lin, Mr. Cheng, Great Brilliant, Forever Flourish, Forever Shine, Mountain Dragon and Harmonious Composition, acting in concert, together controlled 61.62% of the total issued share capital in the Company. As such, each of them was deemed to be interested in such 61.62% interest in the total issued share capital of the Company.

(3) Ms. CAI Shaoru is the spouse of Mr. Zhang. Under Part XV of the SFO, she was deemed to be interested in the same number of shares in which Mr. Zhang was interested.

(4) Ms. CAI Jingqin is the spouse of Mr. Lin. Under Part XV of the SFO, she was deemed to be interested in the same number of shares in which Mr. Lin was interested.

(5) Capital Today Investment XVIII (HK) Limited, a Hong Kong registered company, held 133,156,000 shares, representing 6.98% of the total issued share capital of the Company. Capital Today Investment XVIII (HK) Limited is wholly owned by Capital Today Investment XVIII Limited, which is an exempted company incorporated in the British Virgin Islands. Capital Today China Growth Fund, LP, an exempted limited partnership registered in the Cayman Islands, holds 99.58% shareholding interest in Capital Today Investment XVIII Limited. The sole general partner of Capital Today China Growth Fund, LP is Capital Today China Growth GenPar, LTD, an exempted company registered in the Cayman Islands, 91.19% shareholding interest of which is owned by Capital Today Partners Limited. Capital Today Partners Limited is solely owned by Ms. XU Xin. Therefore, under Part XV of the SFO, each of Capital Today Investment XVIII Limited, Capital Today China Growth Fund, LP, Capital Today China Growth GenPar, LTD, Capital Today Partners Limited and Ms. XU Xin was deemed to be interested in 133,156,000 shares held by Capital Today Investment XVIII (HK) Limited, representing 6.98% of the total issued share capital of the Company.

(6) The Capital Group Companies, Inc. held 116,186,000 shares, representing 6.09% of the total issued share capital of the Company through its wholly owned subsidiary Capital Research and Management Company ("**CRMC**"). As such, The Capital Group Companies, Inc. was deemed to be interested in the same number of shares in which CRMC was interested.

(7) Morgan Stanley was deemed to have a long position in 138,760,659 shares and a short position in 138,202,659 shares in total by virtue of its control over the following corporations:

(a) Morgan Stanley & Co. International plc (Morgan Stanley's indirect subsidiary) had a long position in 132,737,148 shares and a short position in 127,233,981 shares.

(b) Morgan Stanley & Co. LLC (Morgan Stanley's indirect subsidiary) had a long position in 2,034,511 shares and a short position in 10,956,678 shares.

(c) Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. (Morgan Stanley's indirect subsidiary) had a long position in 2,959,000 shares.

(d) Morgan Stanley Capital Services LLC (Morgan Stanley's indirect subsidiary) had a long position in 1,030,000 shares and a short position in 12,000 shares.

In addition, the long position in 27,143,000 shares and short position in 40,554,780 shares involved cash settled derivatives (off exchange).

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at June 30, 2016, the persons or corporations (not being a Director or chief executive of the Company) who had an interest or short positions in the Shares and underlying Shares of the Company as recorded in the register required to be kept under section 336 of the SFO were as follows:

Name	Nature of interest	Number of shares held	Approximate percentage of shareholding interest
The Capital Group Companies, Inc.	Interest of controlled corporation	116,186,000	6.09%

Save as disclosed above, as at June 30, 2016, the Directors were not aware of any other person or corporation having an interest or short positions in Shares and underlying Shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

CORPORATE GOVERNANCE

The Board and management of the Group are committed to abiding by the principles of good corporate governance with an emphasis on transparency and accountability. The Board has established the audit committee, the nomination committee, the remuneration committee and the risk management committee with defined terms of reference, which are of no less exacting than those set out in the Corporate Governance Code and Corporate Governance Report ("**CG Code**") contained in Appendix 14 of the Listing Rules. All these committees comprise a majority of independent non-executive directors of the Company.

The Board had reviewed the Company's corporate governance practices and was satisfied that the Company was in compliance with the code provisions set out in the CG Code throughout the six months ended June 30, 2016, with the exception of code provision A.2.1.

According to code provision A.2.1, the roles of chairman and chief executive should be separate and should not be performed by the same person. The Company deviates from this provision because Mr. Zheng performs both the roles of the chairman of the Board and the CEO 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 its business operations and management in general. The Board believes that vesting the two roles in the same person provides the Company with strong and consistent leadership and facilitates the implementation and execution of the Group's business strategies which is in the best interests of the Company. Under the leadership of Mr. Zheng, the Board works effectively and performs its responsibilities with all key and appropriate issues discussed in a timely manner. In addition, as all major decisions are made in consultation with members of the Board and relevant Board committees, and there are three independent non-executive directors on the Board offering advice from independent perspectives, the Board is of the view that there are adequate safeguards in place to ensure sufficient balance of powers within the Board. The Board shall nevertheless review the structure and composition of the Board from time to time in light of prevailing circumstances, to maintain a high standard of corporate governance practices of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code contained in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions of the directors of the Company. Relevant employees who are likely to possess unpublished inside information of the Group are also subject to compliance with the Model Code. Following specific enquiry, each of the directors of the Company and the relevant employees have confirmed compliance with the Model Code for the six months ended June 30, 2016.

AUDIT COMMITTEE REVIEW

The audit committee was established to, without limitation, assist the Board to provide an independent review and supervision of the Group's financial and accounting policies, to oversee the financial control, internal control and risk management systems of the Group, to oversee the audit process, and to perform other duties and responsibilities as delegated by the Board.

The audit committee comprises three independent non-executive directors of the Company, namely, Mr. Yau Chi Ming, Dr. Dai Yiyi and Mr. Chen Zhigang. The chairman of the audit committee is Mr. Yau Chi Ming who has appropriate professional qualifications.

The audit committee has reviewed with the management of the Company the accounting principles and practices adopted by the Group, and discussed the internal controls and financial reporting matters, including a review of the interim financial information for the six months ended June 30, 2016.

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 June 30, 2016.

SHARE OPTION SCHEME

The Company adopted a share option scheme on June 9, 2014 (the "**Share Option Scheme**") to provide incentives and/or rewards to directors or employees of the Group who in the sole discretion of the Board have contributed or will contribute to the Group (the "**Eligible Persons**") for their contribution to, and continuing efforts to promote the interests of the Group. The principal terms of the Share Option Scheme are as follows:

(a) Who may participate

Subject to the terms of the Share Option Scheme, the Board shall be entitled at any time within the period of 10 years after the adoption date to grant options to any Eligible Person as the Board in its absolute discretion select to subscribe for such number of shares in the capital of the Company (the "**Shares**") as the Board may determine at the subscription price.

(b) Maximum number of Shares available for issue

The maximum number of Shares in respect of which options may be granted under the Share Option Scheme must not exceed 190,645,700 Shares as approved by the Shareholders and must not in aggregate exceed 30% of Shares in issue from time to time. As at the respective date of the Company's 2015 annual report and this interim report, the maximum number of Shares in respect of which options may be granted under the Share Option Scheme remained 190,645,700 Shares, which represents 10% of the total number of issued Shares as at the respective date of the Company's 2015 annual report and this interim report.

(c) Maximum entitlement of each Eligible Person

Unless approved by the Shareholders in general meeting in the manner prescribed in the Listing Rules, the maximum number of Shares issued and to be issued upon exercise of the options granted and to be granted to any Eligible Person under the Share Option Scheme and any other share option schemes of the Company (including exercised, cancelled and outstanding options) in any 12 month period shall not at the time of grant exceed 1% of the Shares in issue.

(d) Acceptance of an offer of options

An offer of the grant of an option under the Share Option Scheme shall remain open for a period of 28 days from the date on which such offer is made to an Eligible Person, provided that no such offer shall be open for acceptance after the tenth anniversary of the adoption date of the Share Option Scheme or after the termination of the Share Option Scheme. Participants are required to pay HK$1.00 as consideration for the acceptance of an option granted to them.

(e) Performance target and minimum holding period

Subject to such terms and conditions as the Board may determine, there is no minimum period for which an option must be held before it can be exercised and no performance target needs to be achieved by the grantee before the options can be exercised.

(f) Basis of determining the exercise price

The exercise price shall be a price determined by the Board and notified to an Eligible Person but in any event shall be at least the higher of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotation sheets on the date of grant of the option, which must be a business day; (ii) the average of the closing price of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of a Share.

(g) Duration of Share Option Scheme

No option may be vested more than 10 years after the date of grant. Subject to earlier termination by the Company in general meeting or by the Board, the Share Option Scheme shall be valid and effective for a period of 10 years commencing from June 9, 2014.

As at June 30, 2016, no option had been granted or agreed to be granted under the Share Option Scheme.

DISCLOSURE OF INFORMATION OF DIRECTOR UNDER RULES 13.51(2) AND 13.51(B)(1) OF THE LISTING RULES

Save as disclosed below, there is no change in the information of each director that is required to be disclosed under Rules 13.51(2) and 13.51(B)(1) of the Listing Rules during the six months ended June 30, 2016.

Mr. YAU Chi Ming (Independent non-executive director)

Mr. YAU Chi Ming has been appointed as an independent non-executive director of Chinese Energy Holdings Limited (stock code: 8009), a company listed on the Growth Enterprise Market of the Stock Exchange, with effect from August 12, 2016. Also, Mr. YAU Chi Ming has resigned as an independent non-executive director of TeleEye Holdings Limited (stock code: 8051), a company listed on the Growth Enterprise Market of the Stock Exchange, with effect from June 27, 2016.