



07

INTERIM
REPORT

SHAPING

塑造 THE FUTURE
閃爍未來



EMBRY HOLDINGS LIMITED

Incorporated in the Cayman Islands with limited liability

Stock Code: 1388

Website: www.embryform.com

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CORPORATE INFORMATION

Directors and Board Committees

Directors

Executive Directors

CHENG Man Tai (*Chairman*)

CHENG Pik Ho Liza (*Chief Executive Officer*)

NGOK Ming Chu

HUNG Hin Kit

Independent Non-executive Directors

LAU Siu Ki (alias, Kevin Lau)

LEE Kwan Hung

Prof. LEE T.S. (alias, Lee Tien-sheng)

Board Committees

Audit Committee

LAU Siu Ki (alias, Kevin Lau) (*Chairman*)

LEE Kwan Hung

Prof. LEE T.S. (alias, Lee Tien-sheng)

Remuneration Committee

CHENG Pik Ho Liza (*Chairman*)

LAU Siu Ki (alias, Kevin Lau)

LEE Kwan Hung

Prof. LEE T.S. (alias, Lee Tien-sheng)

Nomination Committee

CHENG Pik Ho Liza (*Chairman*)

LAU Siu Ki (alias, Kevin Lau)

LEE Kwan Hung

Prof. LEE T.S. (alias, Lee Tien-sheng)

Compliance Officer

CHENG Pik Ho Liza

Qualified Accountant

TAM Robert

Company Secretary

HUI Chun Ho Eric

Registered Office

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

Head Office and Principal Place of Business

7th Floor, Wyler Centre II

200 Tai Lin Pai Road

Kwai Chung

Hong Kong

Principal Bankers

The Hongkong and Shanghai Banking
Corporation Limited

Hang Seng Bank Limited

Nanyang Commercial Bank

Bank of China – Shenzhen Shangbu Branch

China Construction Bank – Shenzhen Buxin Branch

China Construction Bank – Shenzhen Tianbei
Branch

China Merchants Bank – Shenzhen Dongmen
Branch

China Merchants Bank – Shenzhen Shekou Branch

Legal Advisers

As to Hong Kong law:

Chiu & Partners

As to PRC law:

GFE Law Office

As to Cayman Islands law:

Conyers Dill & Pearman

Auditors

Ernst & Young

18th Floor

Two International Finance Centre

8 Finance Street, Central

Hong Kong

Share Registrars

Principal Share Registrar and Transfer Office in the Cayman Islands

Butterfield Fund Services (Cayman) Limited

Butterfield House

68 Fot Street

P.O. Box 705

George Town

Grand Cayman

Cayman Islands

Branch Share Registrar and Transfer Office in Hong Kong

Tricor Investor Services Limited

26th Floor, Tesbury Centre

28 Queen's Road East

Wanchai, Hong Kong

Compliance Adviser

Taifook Capital Limited

Investor Relations

iPR Ogilvy Ltd.

REPORT ON REVIEW OF INTERIM FINANCIAL STATEMENTS

To the board of directors of Embry Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

We have reviewed the interim financial statements set out on pages 4 to 18, which comprise the condensed consolidated balance sheet of Embry Holdings Limited as of 30 June 2007 and the related condensed consolidated statements of income, changes in equity and cash flows for the six-month period then ended, and 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 statements to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants.

The directors are responsible for the preparation and fair presentation of these interim financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these interim financial statements based on our review. Our report is made 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 Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial statements 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 Hong Kong 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.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that these interim financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Ernst & Young

Certified Public Accountants

18th Floor, Two International Finance Centre
8 Finance Street, Central
Hong Kong

18 September 2007

The board of directors (the "Board" or "Directors") of Embry Holdings Limited (the "Company") is pleased to present the unaudited condensed consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 June 2007 together with the comparative figures for the corresponding period in 2006 and the relevant explanatory notes as set out below. The condensed consolidated results are unaudited, but have been reviewed by the Company's independent auditors, Ernst & Young, and the audit committee of the Company.

Condensed Consolidated Income Statement

| | Notes | Six months ended 30 June | |
|---|-------|---------------------------------|-------------------------------|
| | | 2007 HK\$'000 (unaudited) | 2006 HK\$'000 (audited) |
| REVENUE | | 369,091 | 314,108 |
| Cost of sales | | (83,572) | (72,228) |
| Gross profit | | 285,519 | 241,880 |
| Other income and gain | 4 | 10,211 | 1,823 |
| Selling and distribution expenses | | (193,327) | (164,832) |
| Administrative expenses | | (34,617) | (25,717) |
| Other expenses | | (10) | (191) |
| Finance costs | 5 | (118) | (792) |
| PROFIT BEFORE TAX | 6 | 67,658 | 52,171 |
| Tax | 7 | (12,041) | (10,355) |
| PROFIT FOR THE PERIOD | | 55,617 | 41,816 |
| Attributable to: | | | |
| Equity holders of the Company | | 55,617 | 40,316 |
| Minority interests | | - | 1,500 |
| | | 55,617 | 41,816 |
| DIVIDENDS | 9 | 8,000 | - |
| EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY | 10 | | |
| - Basic (HK cents) | | 13.90 | 13.44 |
| - Diluted (HK cents) | | 13.74 | N/A |

Condensed Consolidated Balance Sheet

| | Notes | 30 June 2007 HK\$'000 (unaudited) | 31 December 2006 HK\$'000 (audited) |
|---|-------|--|--|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | | 108,699 | 79,518 |
| Investment property | | 30,000 | 27,700 |
| Prepaid land lease payments | | 5,882 | 5,741 |
| Other long term deposits | | 14,817 | 13,132 |
| Total non-current assets | | 159,398 | 126,091 |
| CURRENT ASSETS | | | |
| Inventories | | 242,520 | 227,969 |
| Trade receivables | 11 | 35,646 | 34,967 |
| Prepayments, deposits and other receivables | | 16,567 | 14,046 |
| Cash and bank balances | | 404,681 | 431,225 |
| Total current assets | | 699,414 | 708,207 |
| CURRENT LIABILITIES | | | |
| Trade and bills payables | 12 | 30,191 | 25,283 |
| Tax payable | | 6,544 | 4,212 |
| Other payables and accruals | | 48,618 | 50,851 |
| Interest-bearing bank loans, secured | | – | 4,242 |
| Total current liabilities | | 85,353 | 84,588 |
| NET CURRENT ASSETS | | 614,061 | 623,619 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 773,459 | 749,710 |
| NON-CURRENT LIABILITIES | | | |
| Interest-bearing bank loans, secured | | – | 20,228 |
| Deferred liabilities | | 3,950 | 3,395 |
| Deferred tax liabilities | | 2,304 | 1,850 |
| Total non-current liabilities | | 6,254 | 25,473 |
| Net assets | | 767,205 | 724,237 |

Condensed Consolidated Balance Sheet (continued)

| | Notes | 30 June 2007 HK\$'000 (unaudited) | 31 December 2006 HK\$'000 (audited) |
|---|-------|--|--|
| EQUITY | | | |
| Equity attributable to equity holders of the Company | | | |
| Issued capital | | 4,000 | 4,000 |
| Reserves | | 755,205 | 696,237 |
| Proposed dividends | | 8,000 | 24,000 |
| | | <hr/> | <hr/> |
| Total equity | | 767,205 | 724,237 |
| | | <hr/> | <hr/> |

Condensed Consolidated Statement of Changes in Equity

Attributable to equity holders of the Company

| | Issued capital | Share premium account | Contributed surplus | Asset revaluation reserve | Enterprise expansion and statutory reserve funds | Exchange fluctuation reserve | Goodwill reserve | Share option reserve | Retained profits | Proposed dividends | Total | Minority interests | Total equity |
|---|----------------|-----------------------|---------------------|---------------------------|--|------------------------------|------------------|----------------------|------------------|--------------------|----------|--------------------|--------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| At 1 January 2007 (audited) | 4,000 | 327,270 | 122,610 | 2,539 | 12,657 | 8,561 | (3,168) | 584 | 225,184 | 24,000 | 724,237 | - | 724,237 |
| Exchange realignment | - | - | - | - | - | 7,849 | - | - | - | - | 7,849 | - | 7,849 |
| Total income recognised in equity | - | - | - | - | - | 7,849 | - | - | - | - | 7,849 | - | 7,849 |
| Profit for the period | - | - | - | - | - | - | - | - | 55,617 | - | 55,617 | - | 55,617 |
| Total income and expenses for the period | - | - | - | - | - | 7,849 | - | - | 55,617 | - | 63,466 | - | 63,466 |
| Equity-settled share options arrangements | - | - | - | - | - | - | - | 3,502 | - | - | 3,502 | - | 3,502 |
| Final 2006 dividend declared | - | - | - | - | - | - | - | - | (24,000) | (24,000) | (24,000) | - | (24,000) |
| Proposed interim 2007 dividend | - | - | - | - | - | - | - | - | (8,000) | 8,000 | - | - | - |
| At 30 June 2007 (unaudited) | 4,000 | 327,270* | 122,610* | 2,539* | 12,657* | 16,410* | (3,168)* | 4,086* | 272,801* | 8,000 | 767,205 | - | 767,205 |
| At 1 January 2006 (audited) | 200 | - | 101,769 | 2,539 | 12,657 | 736 | (3,168) | - | 168,079 | - | 282,812 | 3,554 | 286,366 |
| Profit for the period | - | - | - | - | - | - | - | - | 40,316 | - | 40,316 | 1,500 | 41,816 |
| Total income and expenses for the period | - | - | - | - | - | - | - | - | 40,316 | - | 40,316 | 1,500 | 41,816 |
| At 30 June 2006 (audited) | 200 | - | 101,769 | 2,539 | 12,657 | 736 | (3,168) | - | 208,395 | - | 323,128 | 5,054 | 328,182 |

* These reserves accounts comprise the consolidated reserves of HK\$755,205,000 in the condensed consolidated balance sheet as at 30 June 2007.

Condensed Consolidated Cash Flow Statement

Six months ended 30 June
2007 2006
HK\$'000 HK\$'000
(unaudited) (audited)

NET CASH INFLOW/(OUTFLOW) FROM:

| | | |
|----------------------|------------------|----------|
| Operating activities | 42,061 | 42,578 |
| Investing activities | (280,303) | (19,319) |
| Financing activities | (48,518) | 9,392 |

NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS

(286,760) 32,651

Cash and cash equivalents at beginning of period

431,225 49,510

Effect of foreign exchange rate changes, net

5,633 –

CASH AND CASH EQUIVALENTS AT END OF PERIOD

150,098 82,161

ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS

Cash and bank balances

118,404 82,161

Non-pledged time deposits with original maturity of less than
three months when acquired

31,694 –

150,098 82,161

Notes to the Condensed Consolidated Financial Statements

1. Corporate Information

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 29 August 2006 under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 18 December 2006.

The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, the Cayman Islands and the principal place of business of the Company is located at 7th Floor, Wyler Centre II, 200 Tai Lin Pai Road, Kwai Chung, Hong Kong.

The Company is a subsidiary of Harmonious World Limited ("Harmonious World"), a company incorporated in the British Virgin Islands, which is considered by the Directors to be the Company's ultimate holding company.

2. Basis of Presentation

The condensed consolidated financial statements are prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The accounting policies and basis of preparation adopted in the preparation of the interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 2006, except in relation to the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs"), which also include HKASs and Interpretations, that affect the Group and are adopted for the first time for the current period's condensed consolidated financial statements:

| | |
|------------------|--|
| HKAS 1 Amendment | Capital Disclosures |
| HKFRS 7 | Financial Instruments: Disclosures |
| HK(IFRIC)-Int 7 | Applying the Restatement Approach under HKAS 29 <i>Financial Reporting in Hyperinflationary Economies</i> |
| HK(IFRIC)-Int 8 | Scope of HKFRS 2 |
| HK(IFRIC)-Int 9 | Reassessment of Embedded Derivatives |
| HK(IFRIC)-Int 10 | Interim Financial Reporting and Impairment |

The adoption of these new and revised standards and interpretations has had no material impact on the accounting policies of the Group and the methods of computation in the Group's condensed consolidated financial statements.

The condensed consolidated financial statements for the six months ended 30 June 2006 had been audited by the Company's independent auditors.

3. Segment Information

The Group's primary business segment is the manufacture and sale of ladies' brassieres, panties, swimwears and sleepwears. Since this is the only business segment of the Group, no further analysis thereof is presented.

Notes to the Condensed Consolidated Financial Statements (continued)

4. Other Income and Gain

| | Six months ended 30 June | |
|--|--------------------------|--------------|
| | 2007 | 2006 |
| | HK\$'000 | HK\$'000 |
| | (unaudited) | (audited) |
| Other income | | |
| Bank interest income | 6,304 | 219 |
| Gross rental income | 997 | 1,053 |
| Subsidy income from the People's Republic of China (the "PRC") government in respect of rewards as a superbrand in the PRC* | – | 288 |
| Others | 610 | 263 |
| | <u>7,911</u> | <u>1,823</u> |
| Gain | | |
| Changes in fair value of an investment property | 2,300 | – |
| | <u>10,211</u> | <u>1,823</u> |

* There are no unfulfilled conditions or contingencies relating to this income.

5. Finance Costs

| | Six months ended 30 June | |
|---|--------------------------|------------|
| | 2007 | 2006 |
| | HK\$'000 | HK\$'000 |
| | (unaudited) | (audited) |
| Interest on: | | |
| Bank loans and overdrafts repayable within five years | 118 | 14 |
| Bank loans repayable over five years | – | 778 |
| | <u>118</u> | <u>792</u> |
| Total interest | 118 | 792 |

6. Profit before Tax

The Group's profit before tax is arrived at after charging:

| | Six months ended 30 June | |
|--|--------------------------|-----------|
| | 2007 | 2006 |
| | HK\$'000 | HK\$'000 |
| | (unaudited) | (audited) |
| Cost of inventories sold | 83,572 | 72,228 |
| Depreciation | 4,845 | 4,457 |
| Amortisation of prepaid land lease payments | 31 | 29 |
| Minimum lease payments under operating leases in respect of: | | |
| Land and buildings | 12,318 | 10,183 |
| Contingent rents of retail outlets in department stores | 91,005 | 80,314 |
| Advertising and counter decoration expenses | 21,387 | 17,095 |

Notes to the Condensed Consolidated Financial Statements (continued)

7. Tax

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 17.5%) on the estimated assessable profits arising in Hong Kong during the period. Pursuant to relevant laws and regulations in the PRC, the Company's subsidiaries, Embry (China) Garments Ltd. and Embry (Changzhou) Garments Ltd. are entitled to use of tax rates of 15% and 27%, being the applicable tax rates for foreign invested enterprises in the area of Shenzhen Special Economic Zone and Changzhou, respectively. In addition, taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

| | Six months ended 30 June | |
|---------------------------------|---------------------------------|-----------|
| | 2007 | 2006 |
| | HK\$'000 | HK\$'000 |
| | (unaudited) | (audited) |
| Group: | | |
| Current – Hong Kong | 200 | 160 |
| Current – Mainland China | 11,387 | 10,195 |
| Deferred | 454 | – |
| | 12,041 | 10,355 |
| Total tax charge for the period | 12,041 | 10,355 |

8. Related Party Transactions

(a) In addition to the transactions detailed elsewhere in these condensed consolidated financial statements, the Group had the following material transactions with related parties during the period:

| | Notes | Six months ended 30 June | |
|--|-------|---------------------------------|-----------|
| | | 2007 | 2006 |
| | | HK\$'000 | HK\$'000 |
| | | (unaudited) | (audited) |
| Continuing transactions | | | |
| Purchases of furniture for counters and shops from related companies | (i) | 8,438 | 6,199 |
| Rental expenses for a warehouse paid to a director of the Company | (ii) | 72 | 90 |
| Discontinued transactions | | | |
| Rental income received from a related company | (iii) | – | 85 |
| Rental expenses for a director's quarter paid to a director of the Company | (iv) | – | 300 |
| Rental expenses for a director's quarter paid to a related company | (v) | – | 90 |

Notes to the Condensed Consolidated Financial Statements (continued)

8. Related Party Transactions (continued)

(a) (continued)

Notes:

- (i) The purchases of furniture for counters and shops from related companies controlled by a son of a director of the Company were made according to the terms similar to those offered to the Group's independent suppliers.
- (ii) The rental expenses were determined with reference to the then prevailing market conditions.
- (iii) The rental income was received from a related company controlled by a son of a director of the Company and was determined by the directors of the Company and the related company with reference to the then prevailing market conditions. The rental agreement was terminated on 30 June 2006.
- (iv) The rental expenses were determined with reference to the then prevailing market conditions. The rental agreement was terminated on 1 July 2006.
- (v) The rental expenses were paid to a related company controlled by the directors of the Company and were determined with reference to the then prevailing market conditions. The rental agreement was terminated on 1 July 2006.

(b) *Other transaction with a related party*

On 30 June 2006, the Group disposed of certain dormant subsidiaries (the "Disposed Subsidiaries") with an aggregate deficiency in assets of approximately HK\$108,000 to a director of the Company for a total cash consideration of approximately HK\$14,000. The considerations were determined by reference to the net asset values of the respective Disposed Subsidiaries and at nominal value for the respective Disposed Subsidiaries which recorded a deficiency in assets.

(c) Compensation of key management personnel of the Group:

| | Six months ended 30 June | |
|---|---------------------------------|-----------|
| | 2007 | 2006 |
| | HK\$'000 | HK\$'000 |
| | (unaudited) | (audited) |
| Short term employee benefits | 6,343 | 4,608 |
| Post-employment benefits | 77 | 36 |
| Equity-settled share option expenses | 2,644 | – |
| Total compensation paid to key management personnel | 9,064 | 4,644 |

The Directors are of the opinion that the above transactions were conducted in the ordinary course of business of the Group.

The related party transactions in respect of items (a)(i) and (a)(ii) above also constitute continuing connected transactions as defined in Chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

Notes to the Condensed Consolidated Financial Statements (continued)

9. Dividends

| | Six months ended 30 June | |
|---|--------------------------|-----------|
| | 2007 | 2006 |
| | HK\$'000 | HK\$'000 |
| | (unaudited) | (audited) |
| Proposed interim – HK2.0 cents (2006: nil) per ordinary share | 8,000 | – |

10. Earnings per Share Attributable to Equity Holders of the Company

The calculation of basic earnings per share for the six months period ended 30 June 2007 is based on the unaudited profit attributable to equity holders of the Company of HK\$55,617,000 and the weighted average of 400,000,000 ordinary shares in issue during the period.

The calculation of basic earnings per share for the six months period ended 30 June 2006 is based on the audited profit attributable to equity holders of the Company of HK\$40,316,000 and on the assumption that 300,000,000 shares had been in issue during the period, comprising the 20,000,000 shares in issue and 280,000,000 shares issued pursuant to the capitalisation issue under the group reorganisation in the preparation of the listing of the Company in 2006, as described more fully in the prospectus of the Company dated 5 December 2006 (the "Prospectus").

The calculation of diluted earnings per share for the six months period ended 30 June 2007 is based on the unaudited profit attributable to equity holders of the Company of HK\$55,617,000. The weighted average number of ordinary shares used in the calculation is the 400,000,000 ordinary shares as used in the basic earnings per share calculation, and the weighted average of 4,730,000 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options outstanding during the period.

There was no potential dilutive ordinary share in existence for the six months period ended 30 June 2006 and, accordingly, no diluted earnings per share amount has been presented.

Notes to the Condensed Consolidated Financial Statements (continued)

11. Trade Receivables

The Group's trading terms with its customers are mainly on credit, except for wholesalers, where payment in advance is normally required. The credit period is generally for a period of one month, extending up to three months for major customers. The Group seeks to maintain strict control over its outstanding receivables from the sales department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

An aged analysis of the Group's trade receivables as at the balance sheet date, based on the invoice date, is as follows:

| | 30 June 2007 HK\$'000 (unaudited) | 31 December 2006 HK\$'000 (audited) |
|----------------------------|--|--|
| Within 90 days | 34,448 | 33,214 |
| 91 to 180 days | 1,288 | 1,765 |
| 181 to 360 days | 530 | 662 |
| Over 360 days | 1,434 | 1,320 |
| | 37,700 | 36,961 |
| Less: Impairment allowance | (2,054) | (1,994) |
| | 35,646 | 34,967 |

The carrying amounts of trade receivables approximate to their fair values.

12. Trade and Bills Payables

An aged analysis of the Group's trade and bills payables as at the balance sheet date, based on the invoice date, is as follows:

| | 30 June 2007 HK\$'000 (unaudited) | 31 December 2006 HK\$'000 (audited) |
|-----------------|--|--|
| Within 90 days | 27,108 | 21,040 |
| 91 to 180 days | 1,480 | 2,066 |
| 181 to 360 days | 264 | 826 |
| Over 360 days | 1,339 | 1,351 |
| | 30,191 | 25,283 |

The trade payables are non-interest-bearing and are normally settled on 30 to 90 days terms. The carrying amounts of trade and bills payables approximate to their fair values.

Notes to the Condensed Consolidated Financial Statements (continued)

13. Share Option Schemes

The Company has adopted a pre-initial public offering share option scheme on 25 November 2006 (the "Pre-IPO Scheme") and a share option scheme on 18 December 2006 (the "Share Option Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group. Details of the schemes are disclosed in the annual financial statements for the year ended 31 December 2006.

Set out below are the outstanding share options under the Pre-IPO Scheme ("Pre-IPO Share Options") as at 30 June 2007:

| Name or category of participant | Number of share options | | | | | Date of grant of share options | Exercise period of share options* | Exercise price of share options [†] HK\$ |
|--|-------------------------|---------------------------|---------------------------------------|-----------------------------|------------------|--------------------------------|--------------------------------------|--|
| | At 1 January 2007 | Granted during the period | Cancelled or lapsed during the period | Exercised during the period | At 30 June 2007 | | | |
| Executive Directors | | | | | | | | |
| Mr. Cheng Man Tai | 873,000 | - | - | - | 873,000 | 25 November 2006 | 18 December 2007 to 17 December 2011 | 1.81 |
| Ms. Cheng Pik Ho Liza | 500,000 | - | - | - | 500,000 | 25 November 2006 | 18 December 2007 to 17 December 2011 | 1.81 |
| Madam Ngok Ming Chu | 773,000 | - | - | - | 773,000 | 25 November 2006 | 18 December 2007 to 17 December 2011 | 1.81 |
| Mr. Hung Hin Kit | 332,000 | - | - | - | 332,000 | 25 November 2006 | 18 December 2007 to 17 December 2011 | 1.81 |
| Independent non-executive Directors | | | | | | | | |
| Mr. Lau Siu Ki | 68,000 | - | - | - | 68,000 | 25 November 2006 | 18 December 2007 to 17 December 2011 | 1.81 |
| Mr. Lee Kwan Hung | 68,000 | - | - | - | 68,000 | 25 November 2006 | 18 December 2007 to 17 December 2011 | 1.81 |
| Prof. Lee T.S. | 68,000 | - | - | - | 68,000 | 25 November 2006 | 18 December 2007 to 17 December 2011 | 1.81 |
| Other employees | | | | | | | | |
| In aggregate | 3,828,000 | - | (250,000) | - | 3,578,000 | 25 November 2006 | 18 December 2007 to 17 December 2011 | 1.81 |
| | <u>6,510,000</u> | <u>-</u> | <u>(250,000)</u> | <u>-</u> | <u>6,260,000</u> | | | |

As at 30 June 2007, no share options have been granted under the Share Option Scheme since its adoption.

Notes to the Condensed Consolidated Financial Statements (continued)

13. Share Option Schemes (continued)

Notes to the reconciliation of share options outstanding during the period:

- * The Pre-IPO Share Options are vested to the grantees in the following manner:
 - 25% of such options will be vested on 18 December 2007 with an exercise period from 18 December 2007 to 17 December 2011;
 - 25% of such options will be vested on 18 December 2008 with an exercise period from 18 December 2008 to 17 December 2011;
 - 25% of such options will be vested on 18 December 2009 with an exercise period from 18 December 2009 to 17 December 2011; and
 - the remaining 25% of such options will be vested on 18 December 2010 with an exercise period from 18 December 2010 to 17 December 2011.

- # The exercise price of each of the Pre-IPO Share Options per share is 50% of the final offer price of HK\$3.62 and is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

The fair value of the Pre-IPO Share Options granted on 25 November 2006 was estimated at approximately HK\$13,525,000, of which the Company recognised a share option expense of HK\$3,502,000 during the period.

The fair value of the Pre-IPO Share Options granted on 25 November 2006 was estimated as at the date of grant, using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the year ended 31 December 2006:

| | |
|------------------------------------|-----|
| Dividend yield (%) | 0 |
| Expected volatility (%) | 49 |
| Risk-free interest rate (%) | 3.8 |
| Suboptimal exercise factor (times) | 3 |

The suboptimal exercise factor is based on the directors' estimation and not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

At the balance sheet date, the Company had outstanding Pre-IPO Share Options for the subscription of 6,260,000 shares under the Pre-IPO Share Option Scheme. The exercise in full of the Pre-IPO Share Options would, under the present capital structure of the Company, result in the issue of 6,260,000 additional ordinary shares of the Company and additional share capital of approximately HK\$63,000 and share premium account of approximately HK\$11,268,000 (before issue expenses).

At the date of approval of these condensed consolidated financial statements, the Company had 6,100,000 Pre-IPO Share Options outstanding under the Pre-IPO Share Option Scheme, which represented approximately 1.5% of the issued share capital of the Company as at that date.

Notes to the Condensed Consolidated Financial Statements (continued)

14. Operating Lease Arrangements

(a) *As lessor*

The Group leases its investment property to an independent third party under an operating lease arrangement, with a lease negotiated for a term of four years.

At the balance sheet date, the Group had total future minimum lease receivables under a non-cancellable operating lease with its tenant falling due as follows:

| | 30 June 2007 HK\$'000 (unaudited) | 31 December 2006 HK\$'000 (audited) |
|---|--|--|
| Within one year | 2,136 | 2,022 |
| In the second to fifth years, inclusive | 2,435 | 3,517 |
| | 4,571 | 5,539 |

(b) *As lessee*

The Group leases certain of its shops, counters, warehouses, office properties and office equipments under operating lease arrangements with leases negotiated for terms ranging from one to five years.

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | 30 June 2007 HK\$'000 (unaudited) | 31 December 2006 HK\$'000 (audited) |
|---|--|--|
| Within one year | 38,247 | 31,855 |
| In the second to fifth years, inclusive | 17,844 | 10,572 |
| | 56,091 | 42,427 |

In addition, the Group has entered into agreements with department stores to enable the Group to set up its retail outlets therein. The operating lease rentals for the use of their floor areas in department stores are based on the higher of a fixed rental or contingent rent based on sales of the retail outlets pursuant to the terms and conditions as set out in respective agreements. As the future sales of these retail outlets could not be accurately determined, the relevant contingent rent has not been included above and only the minimum lease commitments have been included in the above disclosure.

Notes to the Condensed Consolidated Financial Statements (continued)

15. Commitments

At the balance sheet date, the Group had the following commitments:

| | 30 June 2007 HK\$'000 (unaudited) | 31 December 2006 HK\$'000 (audited) |
|--|--|--|
| Contracted for commitment in respect of its wholly-owned investment in the PRC | 24,646 | 62,184 |
| Contracted for commitments in respect of | | |
| – the land lease payments in the PRC * | 5,715 | 5,548 |
| – the acquisitions of property, plant and equipment | 49,561 | 3,037 |
| | 79,922 | 70,769 |

* Pursuant to the agreement entered into between a subsidiary and the People's Government of Zhangqiu, Shandong Province, the PRC on 28 December 2005, the Group has agreed to acquire 50 years' land use right of a piece of land located in Shandong Province at a consideration of RMB22,262,000 (equivalent to approximately HK\$22,861,000). As at 30 June 2007, the land lease payments of RMB16,697,000 (equivalent to approximately HK\$17,146,000) were made by the Group.

16. Approval of the Condensed Consolidated Financial Statements

The condensed consolidated financial statements were approved and authorised for issue by the Board on 18 September 2007.

MANAGEMENT DISCUSSION AND ANALYSIS

For the six months ended 30 June 2007 (the "Interim Period"), the Group's revenue amounted to approximately HK\$369.1 million (2006: HK\$314.1 million), representing an increase of 17.5%. Profit before tax of approximately HK\$67.7 million was achieved (2006: HK\$52.2 million), representing a growth rate of approximately 29.7%. The profit attributable to equity holders of the Company for the Interim Period was approximately HK\$55.6 million (2006: HK\$40.3 million), representing an increase of 38.0% over the corresponding period of 2006 (the "last period"). Earnings per share of the Company was HK13.90 cents per share (2006: HK13.44 cents) based on the weighted average number of 400,000,000 shares (2006: 300,000,000 shares) in issue during the Interim Period, representing an increase of 3.4% comparing to the last period.

Review of Operations

The Group's gross profit of HK\$285.5 million for the Interim Period (2006: HK\$241.9 million) represented a growth of approximately 18.0% as compared to the last period. Benefited from the economic booming, increasing demand for lingerie products and the appreciation of Renminbi ("RMB") in the PRC, the Group successfully generated a growth in revenue by 17.5% during the Interim Period. Further, the Group continued to enjoy economies of scale and increase the sales of patented products which improved the profit margin generated during the Interim Period. In addition, the Group's younger brand, **COMFIT**, which was launched in 2006 and is targeting on functional and premiere lingerie markets, successfully diversified the Group's product line and produced additional revenue which accounted for 5.9% of the Group's total revenue. As a result, the Group recorded a new peak of revenue and gross profit as compared to the last period.

Revenue

Retail business continued to be the major source of revenue of the Group, contributing approximately 88.9% of the Group's total revenue during the Interim Period. The Group's products are currently sold through the retail outlets in the PRC and Hong Kong under the Group's own brand names of **EMBRY FORM**, **FANDECIE**, **COMFIT** and **LC**. In order to capture the booming market demand for lingerie products, the Group strategically opened more new retail outlets. During the Interim Period, in order to improve and obtain more outstanding sales performance, apart from opening new retail outlets, the Group also shut down less profitable and unsatisfactory retail outlets and re-allocated resources to new locations with improving sales revenue resulted. The Group had a net increase of 117 retail outlets during the Interim Period (opened and/or contracted: 149; closed: 32) and totally operated 1,230 retail outlets as at 30 June 2007, in which a new flagship store was also opened in Shenzhen, the PRC in June 2007. Moreover, the Group may strategically and prudently adjust the timing and locations for the opening of retail outlets and flagship stores. The Directors are of the opinion that an instant response to the market conditions is essential which will enhance the Group's effectiveness in utilising resources and will maximise sales revenue generated from each retail outlet.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Review of Operations (continued)

Revenue (continued)

The Group also ran its wholesale business and original equipment manufacturer (“OEM”) business, which contributed 5.8% and 5.3% respectively of the total revenue of the Group during the Interim Period. Limited by the existing production capacity, the Group may accept new OEM business only when the acceptance of which could generate reasonable profit margins or deliver other benefits such as skill, technique, design or idea to the Group, and in times of spare capacity.

Brand management

The Group’s products are principally sold under its self-owned brand names **EMBRY FORM**, **FANDECIE** and **COMFIT**. Revenue generated from **EMBRY FORM** and **FANDECIE** accounted for 62.1% and 26.7% respectively of the Group’s revenue for the Interim Period. **COMFIT** successfully diversified the Group’s product line and sales of **COMFIT** series products accounted for 5.9% of the Group’s total revenue. The Directors are optimistic that **COMFIT** will become a significant source of the Group’s revenue and growth driver for the future.

Production capacity

For the Interim Period, the aggregate annual production capacity of the Group accounted for 11.8 million standard product units. As stated in the Prospectus, in order to cope with the expansion of the Group’s business, the Group is now constructing a new factory in Zhangqiu City, Shandong Province, the PRC (the “Shandong Factory”), further details of which are discussed in sub-section headed “Significant investment held, material acquisitions and disposal of subsidiaries and associated companies” of “Review of Financial Position” below.

Product development

During the Interim Period, the sales of lingerie, sleepwear, swimwear, OEM products and other products accounted for approximately 83.7%, 5.5%, 3.7%, 5.3% and 1.8% respectively of the Group’s total revenue. Sales of lingerie remained the key contributor to the Group’s revenue and profit.

The Directors consider product development to be vital for the Group to maintain its competitive advantages. The Group’s research and development team focuses on practical areas that are closely related to the functionalities and features of the Group’s products. As at 30 June 2007, the Group had 39 patent registrations and 16 outlook design registrations.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Review of Operations (continued)

Human resources

As at 30 June 2007, the Group had approximately 5,500 employees. Remuneration of employees is determined and reviewed periodically with reference to the market demand, individual performance and working experience, and certain staff is entitled to commission and share options. In addition to the basic salaries, the Group also provides, depending on the results of the Group and individual performance, discretionary bonus in order to retain quality employees. The Group has also adopted a Pre-IPO Scheme to recognise and reward the contribution of certain Directors and employees of the Group to the growth and development of the Group. The Group has also adopted a Share Option Scheme, the primary purpose of which is to motivate the eligible persons referred to in the scheme, which includes employees of the Group, to optimise their future contributions to the Group and to reward them for their efforts. Details of the above-mentioned schemes are set out in note 13 to the condensed consolidated financial statements.

Review of Financial Position

Liquidity and financial resources

The Group generally finances its operations with internally generated cashflow and bank facilities provided by its principal bankers. The financial position of the Group remained sound and healthy during the Interim Period. As at 30 June 2007, the Group had cash and bank balances of approximately HK\$404.7 million. As at 31 December 2006, the Group had secured interest bearing bank borrowings of HK\$24.5 million which had been fully repaid during the Interim Period by applying the internal working capital. The Group therefore had no outstanding interest bearing bank borrowings and remained a net cash position as at 30 June 2007. The gearing ratio, being total interest-bearing bank borrowings divided by total assets, was therefore nil as at 30 June 2007.

Capital structure

Since the listing of the Company's shares on the Main Board of the Stock Exchange on 18 December 2006, there has been no change in the capital structure of the Company. As at 30 June 2007, the total issued share capital of the Company was HK\$4.0 million, comprising 400,000,000 ordinary shares of HK\$0.01 each.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Review of Financial Position (continued)

Significant investment held, material acquisitions and disposal of subsidiaries and associated companies

In order to strengthen the production operation and further expand the production capacity, the Group established the Shandong Factory in Zhangqiu City, Shandong Province, the PRC. At the date of this report, construction of the Shandong Factory was substantially completed. Renovation work and installation of all production facilities will commence soon and it is expected that the aforementioned work will be completed in early 2008 or sooner. Trial production can be started as early as in the first quarter of 2008. According to current construction plan, the Shandong Factory will commence commercial production in mid 2008 and this will complete the Phase I of the Shandong Factory project. Certain construction works of Phase II have commenced which are deemed necessary in order to take advantages of future cost savings in construction and to meet the overall construction plan of the Shandong Factory project.

Save as disclosed above, there was no other significant investment held, material acquisitions and disposal of subsidiaries and associated companies during the Interim Period.

Charges on the Group's assets

As at 30 June 2007, the Group's leasehold land and buildings and investment property situated in Hong Kong with net book value of approximately HK\$23.1 million and HK\$30.0 million, respectively were pledged to secure banking facilities granted to the Group.

Foreign currency exposure

The Group carries on its trading transactions mainly in Hong Kong dollars and RMB. As the Group's foreign currency risks generated from the sales and purchases can be set off with each other, the foreign currency risk is considered as minimal to the Group. It is the policy of the Group to continue maintaining the balance of its sales and purchases in the same currency. The Group does not use derivative financial instruments to protect against the volatility associated with foreign currency transactions and other financial assets and liabilities created in the ordinary course of business.

Contingent liabilities

The Group had no significant contingent liabilities as at 30 June 2007.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Review of Financial Position (continued)

Use of proceeds from the Company's initial public offering

The proceeds from the Company's issue of new shares at the time of its listing on the Stock Exchange on 18 December 2006, after deduction of related issuance expenses, amounted to approximately HK\$331.1 million. These proceeds were applied during the Interim Period, in accordance with the proposed applications as set out in the Prospectus, as follows:

- approximately HK\$19.0 million was used for the expansion of the Group's sales network by increasing 117 retail outlets as at 30 June 2007;
- approximately HK\$21.4 million was used for the promotion and marketing of the Group's products;
- approximately HK\$25.5 million was used for the establishment of the Shandong Factory;
- approximately HK\$1.5 million was used for the Group's product development;
- approximately HK\$4.6 million was used for the enhancement of the Group's enterprise resources planning system and other information technology systems; and
- approximately HK\$5.0 million was used as additional general working capital of the Group.

The remaining unused net proceeds amounted to approximately HK\$254.1 million have been temporarily placed in term deposits with licensed banks in Hong Kong as at 30 June 2007.

Prospects

Look ahead, the Directors are optimistic about the growth potential in the lingerie industry and the future market demand for lingerie products.

In the second half of the year, the Group will continue the same strategy on expanding its sales network. On one hand, the Group will continue opening more retail outlets in the PRC and Hong Kong in order to capture the market share and to strengthen the Group's market presence and on the other hand, less profitable retail outlets will be closed down in these areas so as to improve the overall stores performance. Because of this, the Group has revised its original target of increasing the number of retail outlets from 300 as mentioned in the Prospectus to 230 by the end of 2007. This will bring the total retail outlets to more than 1,300 as at 31 December 2007 which span across the entire Greater China. In the year to come, the Group will concentrate on improving store image with better visual display and will strive to improve the comparable-store-sales growth.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Prospects (continued)

The Group will also continue to formulate innovative and cost effective marketing campaigns and programs to promote its existing brands so as to strengthen its market position in the PRC and to raise brand image.

The Shandong Factory which will commence production in mid 2008 will bring extra production capacity to the Group and will help the Group to meet the continuous rising demand. This extra capacity will not only enable the Group to produce more of its existing brands' products which in turn permits the Group to open more retail outlets carrying sufficient product range and assortment and also allows the Group to crop more margin from the export business by shifting the mode of operation from OEM to original design manufacturer. The Group believes all these measures will boost its operating profit margin.

In the long run, the Group's objective is to become a reputable ladies' lingerie retailer in the Greater China, which offers a wide range of products to fit the needs of customers of different age groups, having different perceptions and purchasing power.

OTHER INFORMATION

Directors' Interests and Short Positions in Shares and Underlying Shares

At 30 June 2007, the interests and short positions of the Directors in the share capital and underlying shares of the Company or 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 by the Company 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"), were as follows:

Long positions in ordinary shares of the Company:

| Name | Capacity and nature of interest | Shares/equity derivatives | Number of shares/equity derivatives held | Percentage of the Company's issued share capital |
|-----------------------|-------------------------------------|---------------------------|--|--|
| Mr. Cheng Man Tai | Interest of controlled corporations | Ordinary shares (Note 1) | 295,550,850 | 73.89 |
| | Beneficial owner | Share options (Note 2) | 873,000 | 0.22 |
| Ms. Cheng Pik Ho Liza | Beneficial owner | Ordinary shares | 3,813,555 | 0.95 |
| | Beneficial owner | Share options (Note 2) | 500,000 | 0.13 |
| Madam Ngok Ming Chu | Interest of controlled corporations | Ordinary shares (Note 1) | 295,550,850 | 73.89 |
| | Beneficial owner | Share options (Note 2) | 773,000 | 0.19 |
| Mr. Hung Hin Kit | Beneficial owner | Share options (Note 2) | 332,000 | 0.08 |
| Mr. Lau Siu Ki | Beneficial owner | Share options (Note 2) | 68,000 | 0.02 |
| Mr. Lee Kwan Hung | Beneficial owner | Share options (Note 2) | 68,000 | 0.02 |
| Prof. Lee T.S. | Beneficial owner | Share options (Note 2) | 68,000 | 0.02 |

OTHER INFORMATION (continued)

Directors' Interests and Short Positions in Shares and Underlying Shares (continued)

Long positions in shares of an associated corporation:

| Name | Name of associated corporation | Relationship with the Company | Shares/equity derivatives | Number of shares | Capacity and nature of interest | Percentage of the associated corporation's issued share capital |
|---------------------|--------------------------------|-------------------------------|---------------------------|-------------------------|---------------------------------|---|
| Mr. Cheng Man Tai | Harmonious World | Ultimate holding company | Ordinary shares | 59 shares of US\$1 each | Directly beneficially owned | 60.2 |
| Madam Ngok Ming Chu | Harmonious World | Ultimate holding company | Ordinary shares | 39 shares of US\$1 each | Directly beneficially owned | 39.8 |

Note 1: These shares are held as to 294,279,660 shares by Harmonious World and as to 1,271,190 shares by Fairmout Investments Limited ("Fairmout Investments"). Harmonious World is owned as to 60.2% by Mr. Cheng Man Tai and as to 39.8% by Madam Ngok Ming Chu. Fairmout Investments is owned as to 50% by Mr. Cheng Man Tai and as to 50% by Madam Ngok Ming Chu.

Note 2: These represent the number of shares which will be allotted and issued to the respective Directors upon the exercise of the share options of the Pre-IPO Scheme granted to each of them, details of which are disclosed in note 13 to the condensed consolidated financial statement.

In addition to the above, certain Directors have non-voting deferred shares in a subsidiary of the Company.

Save as disclosed above, as at 30 June 2007, none of the Directors had registered an interest or short position in the shares, underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Directors' Rights to Acquire Shares or Debentures

At no time during the Interim Period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

OTHER INFORMATION (continued)

Substantial Shareholders' and other Persons' Interests in Shares and Underlying Shares

At 30 June 2007, the following interests of 5% or more of the issued share capital of the Company (other than the Directors of the Company) were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions:

| Name | Capacity | Number of ordinary shares held | Percentage of the Company's issued share capital |
|--------------------------------|----------------------------|---------------------------------------|---|
| Harmonious World | Beneficial owner (Note) | 294,279,660 | 73.57 |
| Fidelity International Limited | Investment manager | <u>20,509,000</u> | <u>5.13</u> |

Note: The relationship between Harmonious World and Mr. Cheng Man Tai and Madam Ngok Ming Chu are disclosed under the heading "Directors' interests and short positions in shares and underlying shares" above.

Save as disclosed above, as at 30 June 2007, no person, other than the Directors, whose interests are set out in the section headed "Directors' interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

Interim Dividend

The Board has resolved to declare the payment of an interim dividend of HK2.0 cents per ordinary share in respect of the Interim Period, to shareholders on the register of members on Friday, 12 October 2007, resulting in an appropriation of HK\$8.0 million. The abovementioned interim dividend will be payable on or before 22 October 2007.

Closure of Register of Members

In order to ascertain the entitlement to the interim dividend, the register of members of the Company will be closed from Wednesday, 10 October 2007 to Friday, 12 October 2007, both dates inclusive. During such period, no transfer of shares will be registered. In order to qualify for the interim dividend, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrar in Hong Kong, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Tuesday, 9 October 2007.

OTHER INFORMATION (continued)

Purchase, Sale or Redemption of the Company's Listed Securities

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the Interim Period.

Compliance with the Code on Corporate Governance Practices

In the opinion of the Directors, the Company has complied with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules throughout the Interim Period.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules. Having made specific enquiry of all Directors, all Directors of the Company confirmed that they have complied with the required standard as set out in the Model Code during the Interim Period.

On behalf of the Board

Cheng Man Tai

Chairman

Hong Kong

18 September 2007