INTRODUCTION

The Group is a vertically integrated lingerie company with its own design, manufacturing, marketing, distribution and retail capabilities. Since its establishment in the 1970s, the Group has developed itself into a well-known lingerie brand-owner in the PRC and Hong Kong. At present, the principal market of the Group is in the PRC, revenue from which accounted for approximately 77.3%, 77.5%, 80.8% and 83.7% respectively of the Group's total revenue for the three years ended 31 December 2005 and the six months ended 30 June 2006. As at the Latest Practicable Date, the Group had over 1,000 retail outlets covering most of the major cities in the PRC and a total of 44 retail outlets in Hong Kong.

The Group's products are principally sold under its own brand names ***EMBRY FORM***, ***FANDECIE*** and ***COMFIT*** offering a wide range of products with different design and features. In June 2006, the Group soft launched a new series of product under the brand name ***LC***, which targets the premiere luxury lingerie market.

The Group's products have been accredited with a number of awards and recognitions over the past few years. In 2005, ***EMBRY FORM*** brassieres were awarded the "China Top Brand (中國名牌產品)" status from the General Administration of Quality Supervision, Inspection and Quarantine of the PRC (國家質量監督檢驗檢疫總局). Moreover, in 2006, ***EMBRY FORM*** lingerie products were accredited with "The Best-selling Lingerie Products in the Industry in Ten Consecutive Years 1996-2005 (1996-2005 連續十年全國市場同類產品銷量第一名)" by The China Industrial Information Issuing Center (中國行業企業信息發佈中心).

For the three years ended 31 December 2005 and the six months ended 30 June 2006, the revenue derived from the Group's retail operation accounted for approximately 88.5%, 87.8%, 88.2% and 91.0% respectively of the Group's total revenue. The Group also has the OEM and wholesale businesses. The OEM customers of the Group are mainly lingerie trading companies in Japan and the United Kingdom. The Group's branded products are also sold to its wholesale customers (which include individuals and companies in the PRC and Hong Kong selling lingerie products under a variety of brands to retail customers).

The Group owns two production sites in the PRC, which are located in Shenzhen and Changzhou with a total gross floor area of approximately 25,207 sq.m..

During the Track Record Period, the total revenue of the Group increased from approximately HK$429.3 million in 2003 to approximately HK$550.0 million in 2005, representing a compound annual growth rate of approximately 13.2%. In addition, the Net Profit increased from approximately HK$14.7 million in 2003 to approximately HK$44.4 million in 2005, representing a compound annual growth rate of approximately 73.8%. During the six months ended 30 June 2006, the Group recorded a total revenue of approximately HK$314.1 million and Net Profit of approximately HK$40.3 million.

As the Group is a well-known lingerie brand-owner in the PRC, the Directors believe that the Group will benefit from the anticipated growth in the PRC lingerie market. Besides, the Directors expect to leverage the Group's leading position in the PRC market to increase its market share in the PRC and capture new market opportunities if identified.

COMPETITIVE STRENGTHS

The Directors believe that the success of the Group is attributable to the following principal factors:

High brand recognition

The Group has a long development history in the PRC. Since its establishment, and after the efforts of the past few decades, ***EMBRY FORM*** has been developed into a well-known lingerie brand in the PRC. Besides, the Group's products have been accredited with a number of awards and recognitions over the past few years, details of which are stated in the paragraph headed "Awards and recognition" in this section. Moreover, the Group has different brands covering various segments in the lingerie market.

Extensive sales network

The Group has established an extensive retail sales network with a wide geographical spread in the PRC, covering many of the major cities in the PRC and Hong Kong. As at the Latest Practicable Date, the Group had 1,107 retail outlets in the PRC and Hong Kong.

Experienced management

The senior management team of the Group is experienced in the design, manufacture and distribution of lingerie and related products. The senior management team has developed long term business relationship with major suppliers and department stores. The Group believes that the industry knowledge and experience of its management and design teams and their understanding of the fashion and retail business, together with their application of international business standards and management practices, constituted an essential element of the Group's success and future development.

Commitment to provide quality products and services

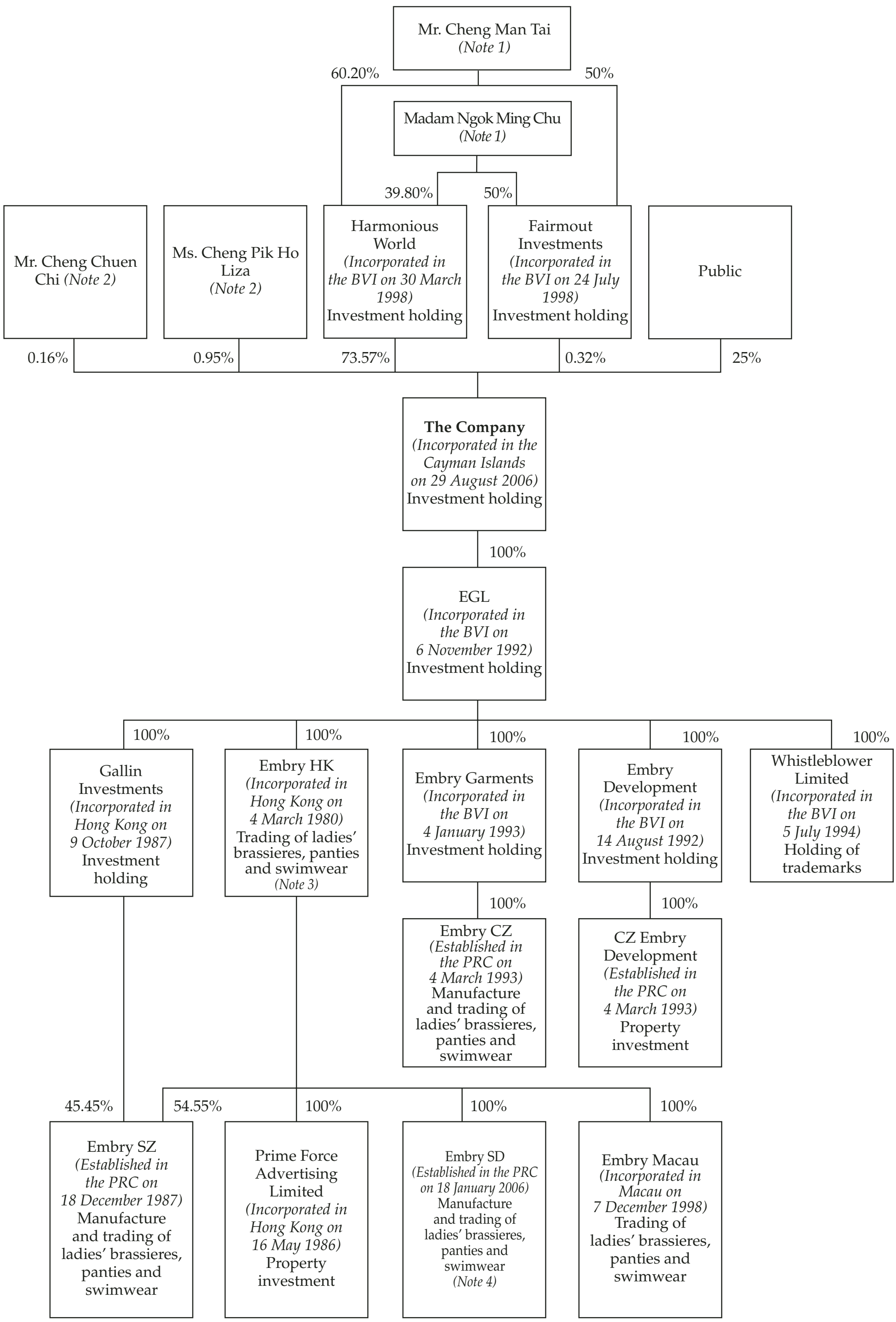
The Group has adopted a comprehensive quality control system, from the sourcing of raw materials to the inspection of finished goods. The Group is also committed to providing quality service to its retail customers at its Retail Stores and Concessions. In addition, the Group makes continuous efforts in product development and new product series are launched regularly throughout the years.

Comprehensive supply chain management capabilities

The Group has its own in-house capabilities of managing the supply chain for its products, from product design and development, raw materials procurement, production and distribution to retail outlets management. With the initial installation of the ERP system in June 2003, the information flow among the headquarters, regional offices, retail outlets and different departments is enhanced and the supply chain management is further strengthened.

GROUP AND SHAREHOLDING STRUCTURE

The following chart sets out the shareholding structure and corporate structure of the Group immediately following the completion of the Share Offer and the Capitalisation Issue, assuming that none of the Over-allotment Option and the Pre-IPO Share Options are exercised:



Notes:

1. Mr. Cheng Man Tai and Madam Ngok Ming Chu are executive Directors. Madam Ngok Ming Chu is the spouse of Mr. Cheng Man Tai.

2. Mr. Cheng Chuen Chi and Ms. Cheng Pik Ho Liza are respectively the son and the daughter of Mr. Cheng Man Tai. Ms. Cheng Pik Ho Liza is an executive Director.

3. Embry HK has also had 4,500,000 non-voting deferred shares of HK$1 each in issue. Such non-voting deferred shares carry no rights to dividends (other than for any financial year during which the net profit of Embry HK available for dividend exceeds HK$1,000,000,000,000), no rights to vote at general meetings and no rights to receive any surplus in return of capital in a winding-up in respect of the first HK$500,000,000,000,000. These shares are held by Mr. Cheng Man Tai as to 2,887,500 shares, Madam Ngok Ming Chu as to 1,350,000 shares, Ms. Cheng Pik Ho Liza as to 225,000 shares and Mr. Cheng Chuen Chi as to 37,500 shares.

4. As at the Latest Practicable Date, Embry SD has not yet commenced business.

HISTORY AND DEVELOPMENT

The Group was founded in 1970s by Mr. Cheng Man Tai. With years of efforts, the Group has developed itself into a well-known lingerie brand-owner in the PRC. The Group's products are widely-recognised by the Group's customers. The following sets out the key milestone events of the Group since its establishment:

1970s

- Embry Manufacturing Co. was established by Mr. Cheng Man Tai as a sole proprietorship in Hong Kong to engage in the business of garment manufacturing
- In 1977, ***EMBRY FORM*** brand name was created and the Group launched ***EMBRY FORM*** products in Hong Kong through wholesale channels

1980s

- In March 1980, Embry HK was established in Hong Kong by Mr. Cheng Man Tai and Madam Ngok Ming Chu to engage in the manufacture and distribution of lingerie products. At that time, production was based in Hong Kong
- In view of the business potential of the retail sales of brassieres products in Hong Kong, the Group opened an ***EMBRY FORM*** Concession in Mongkok, Hong Kong in September 1980
- Embry SZ was established in the PRC as a sino-foreign equity joint venture in 1987 to engage in the business of manufacture and sale of brassieres, which became a foreign enterprise wholly owned by Embry HK in 1988
- In 1989, the Shenzhen Factory was initially established
- In 1989, the Group's business was further expanded to Macau with the opening of an ***EMBRY FORM*** Concession in Macau

1990s

- Embry CZ and CZ Embry Development were established in the PRC as sino-foreign equity joint ventures in March 1993 with a registered capital of RMB11.6 million and RMB20 million respectively. At the time of establishment, Embry Garments owned 80% equity interest in Embry CZ and Embry Development owned 80% equity interest in CZ Embry Development

- Subsequent to the establishment of Embry CZ and CZ Embry Development in 1993, the Changzhou Factory was set up in 1996

- In November 1995, Embry CZ and CZ Embry Development became 95% owned subsidiaries of the Group

- In 1996, the Group obtained the "Hong Kong Awards for Industry: Productivity Award" granted by the Hong Kong Productivity Council

- In 1996, Embry SZ obtained the ISO9001:1994 certification on the quality system relating to the design and manufacture of its brassieres, panties, swimwear and sleepwear

- In 1998, with a view to raising additional capital, the Group brought in Transpac Nominees Pte Limited ("Transpac") as a strategic investor. Pursuant to an agreement entered into between Transpac and EGL, Transpac subscribed for 40 new shares in EGL (representing 40% of its then enlarged issued share capital) at an aggregate subscription price of HK$100 million (the "Transpac Acquisition"). Following the Transpac Acquisition, Mr. Cheng Man Tai and Madam Ngok Ming Chu remained as the ultimate controlling shareholders holding in aggregate 60% interest in EGL (the then holding company of the Group) and, together with the management team, also remained responsible for the daily operation of the Group

- Embry Macau was established in 1998 for the Group's distribution and trading operations in Macau

- In 1999, Embry CZ became a wholly foreign owned enterprise and a wholly owned subsidiary of the Group

- In 1999, in order to increase market penetration, the Group launched a new line of products under the brand name of ***FANDECIE*** which products include brassieres, panties, swimwear and sleepwear

2000-Latest Practicable Date

- In 2002, Embry SZ upgraded its ISO certification for the quality system relating to the design and manufacture of its brassieres, panties, swimwear and sleepwear from ISO9001:1994 to ISO9001:2000 standard. In 2005, Embry CZ also obtained the ISO9001:2000 certificate

- The ERP system was initially launched in June 2003 to strengthen the Group's inventory replenishment system

- In November 2004, CZ Embry Development became a wholly foreign owned enterprise and a wholly owned subsidiary of the Group

- In April 2005, Harmonious World, a company owned as to 60.2% by Mr. Cheng Man Tai and as to 39.8% by Madam Ngok Ming Chu, entered into a share transfer agreement with Transpac to acquire the 40% interest in EGL held by Transpac at a total consideration of HK$150 million (which was subject to the reduction by the amount of dividend received by Transpac from EGL during the period from the date of share transfer agreement to the completion date of the acquisition (the "Relevant Period")). During the Relevant Period, EGL declared total interim dividend of HK$150 million, of which Transpac was entitled to HK$60 million. Accordingly, the consideration for the acquisition was adjusted downwards to HK$90 million, being the difference between the original consideration of HK$150 million and the dividend of HK$60 million paid to Transpac. The transaction was completed in May 2005. Immediately after the completion of the transaction, the Group became substantially owned by Mr. Cheng Man Tai and Madam Ngok Ming Chu, with certain minority interests in Embry HK owned by Ms. Cheng Pik Ho Liza and Mr. Cheng Chuen Chi, both being family members of Mr. Cheng Man Tai

- In September 2005, ***EMBRY FORM*** brassieres were awarded the "China Top Brand (中國名牌產品)" status by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC (國家質量監督檢驗檢疫總局)

- In November 2005, ***EMBRY FORM*** was also awarded the "Hong Kong Superbrand" status by the Hong Kong Superbrands Council after a qualitative assessment and grading exercise based on five selection criteria, namely market dominance, customer loyalty, goodwill, brand heritage and overall market acceptance

- In January 2006, in order to capture the increasing demand for lingerie products in the market, the Group introduced a new line of products under the brand name of ***COMFIT***. ***COMFIT*** products target the high end market segment and are specially designed for ladies who are looking for functional brassieres, corsets and panties

- Embry SD was established in the PRC by the Group in January 2006 as a wholly foreign owned enterprise with a registered capital of US$10 million in preparation for the Group's expansion plan in the PRC

- In June 2006, the Group soft launched a new product series under the brand name of ***LC***, which targets the premiere luxury lingerie markets

- Pursuant to the Reorganisation, Ms. Cheng Pik Ho Liza, an executive Director, and Mr. Cheng Chuen Chi sold their respective minority interests in Embry HK to EGL and became shareholders of EGL having a shareholding interest of approximately 1.5% in aggregate

- The Company was incorporated in the Cayman Islands on 29 August 2006 and became the holding company of the Group as a result of the Reorganisation. Further details of the Reorganisation are set out in the paragraph headed "Group reorganisation" in Appendix VI to this prospectus

- Having accumulated years of experience in the lingerie industry, the Group has evolved into a prominent lingerie brand-owner with extensive retail sales network over the PRC and Hong Kong. As at the Latest Practicable Date, the Group had 1,107 retail outlets in the PRC and Hong Kong

In 2006, the companies comprising the Group underwent the Reorganisation to rationalise the Group's structure in preparation for the listing of the Shares on the Stock Exchange. The Reorganisation involved the transfer to the Company by Harmonious World, Fairmout Investments, Ms. Cheng Pik Ho Liza and Mr. Cheng Chuen Chi of an aggregate of 472 shares of US$1 each of EGL, being the entire issued share capital of EGL, the intermediate holding company of the Group, as to 463 shares by Harmonious World, 2 shares by Fairmout Investments, 6 shares by Ms. Cheng Pik Ho Liza and 1 share by Mr. Cheng Chuen Chi, to the Company. The Reorganisation was completed in November 2006.

The Directors confirm that the Group's operations are in compliance with the applicable PRC laws and regulations in all material aspects and the Group is not involved in any legal proceedings which is material to the business and operation of the Group.

PRODUCTS

The Group's products manufactured for retail and wholesale are principally sold to customers under three self-owned brands ***EMBRY FORM***, ***FANDECIE*** and ***COMFIT***. In June 2006, the Group soft launched a new series of products under the brand ***LC***. The products of these four brands target different market segment and have their own unique design, features and characteristics to fit the target customers' tastes and needs.

Brand		Major types of products	Target markets
EMBRY FORM		Brassieres, panties, corset, swimwear and sleepwear	Medium to high end market segment such as office ladies and executives
FANDECIE		Brassieres, panties, swimwear and sleepwear	Younger generation and medium end market segment such as students and teenagers
COMFIT		Brassieres, corset and panties	High end market segment who are looking for functional lingerie
LC		Brassieres, panties and sleepwear	Premiere luxury market segment

In addition to the products sold under the brand names owned by the Group as stated above, the Group has its OEM business. The OEM customers of the Group are mainly lingerie trading companies in Japan and the United Kingdom. The products manufactured for the OEM customers carry such customers' designated labels.

The table below illustrates the breakdown of Group's revenue by brands and product types during the Track Record Period:

	Year ended 31 December						Six months ended 30 June 2006	
	2003		2004		2005			
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*
EMBRY FORM	286,089	66.7	328,428	64.6	349,894	63.6	199,529	63.5
FANDECIE	119,843	27.9	140,747	27.7	168,839	30.7	100,101	31.9
COMFIT	–	–	–	–	–	–	5,434	1.7
OEM products	23,364	5.4	39,318	7.7	31,281	5.7	9,044	2.9
Total	429,296	100	508,493	100	550,014	100	314,108	100

	Year ended 31 December						Six months ended 30 June 2006	
	2003		2004		2005			
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Lingerie								
Brassieres	239,691	55.8	275,385	54.1	309,039	56.2	185,736	59.1
Panties	56,991	13.3	62,427	12.3	73,176	13.3	43,320	13.8
Corset	25,806	6.0	29,839	5.9	29,793	5.4	19,309	6.1
Other underwear	25,491	6.0	16,541	3.3	12,241	2.2	14,048	4.6
Sub-total	347,979	81.1	384,192	75.6	424,249	77.1	262,413	83.6
Sleepwear	31,304	7.3	50,592	9.9	60,366	11.0	24,310	7.7
Swimwear	15,853	3.7	22,179	4.4	23,150	4.2	11,090	3.5
OEM products	23,364	5.4	39,318	7.7	31,281	5.7	9,044	2.9
Other products	10,796	2.5	12,212	2.4	10,968	2.0	7,251	2.3
Total	429,296	100	508,493	100	550,014	100	314,108	100

Note: Other products mainly included men's underwear, men's sleepwear, men's swimwear and other accessories.

SALES AND DISTRIBUTION

Set out below is a table showing the Group's revenue by business activities and geographical locations during the Track Record Period:

	Year ended 31 December						Six months	
	2003		2004		2005		ended 30 June 2006	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Retail								
– Concessions	339,118	79.0	399,854	78.7	433,908	78.9	258,954	82.4
– Retail Stores	40,946	9.5	46,473	9.1	51,077	9.3	27,009	8.6
Wholesale	25,868	6.1	22,848	4.5	33,748	6.1	19,101	6.1
OEM	23,364	5.4	39,318	7.7	31,281	5.7	9,044	2.9
Total	429,296	100	508,493	100	550,014	100	314,108	100

	Year ended 31 December						Six months	
	2003		2004		2005		ended 30 June 2006	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*
PRC	331,654	77.3	393,909	77.5	444,554	80.8	262,916	83.7
Hong Kong	74,278	17.3	75,266	14.8	74,179	13.5	42,148	13.4
Others*	23,364	5.4	39,318	7.7	31,281	5.7	9,044	2.9
Total	429,296	100	508,493	100	550,014	100	314,108	100

* *Others mainly represented the United Kingdom and Japan.*

Retail sales

Operation model

Retail sales constituted the major source of revenue, contributing approximately 88.5%, 87.8%, 88.2% and 91.0% of the Group's total revenue for the three years ended 31 December 2005 and the six months ended 30 June 2006 respectively. Under the retail sales operation model, the Group's products are sold through its Retail Stores and Concessions in the PRC and Hong Kong. The Retail Stores and Concessions are opened and operated under the brand name of ***EMBRY FORM*** and/or ***FANDECIE*** where products of these two brand names are sold. ***COMFIT*** and ***LC*** products are sold in some of the ***EMBRY FORM*** Retail Stores and Concessions. Depending on market demand, the Group will consider setting up individual Retail Stores or Concessions for ***COMFIT*** and/or ***LC*** products.

Retail Stores

Retail Stores are generally located in shopping arcades or shopping areas and are directly operated and managed by the Group. As at the Latest Practicable Date, the Group had 64 Retail Stores, which were all located in premises leased from Independent Third Parties. The terms of these lease agreements, in general, range from one year to three years and a fixed monthly rental fee and/or a turnover rent is charged for the Retail Stores.

The Group collects the customers' receipts for each sale made at the Retail Stores directly and bears all the transaction costs involved if customers settle their bills by credit cards or other electronic payments.

Concessions

Concessions are retail outlets located within department stores or shopping arcades. All of the sales persons at the Concessions are employees of the Group and the Concessions are principally operated and managed by the Group directly in accordance with policies implemented by the respective department stores or shopping arcades. From time to time, the Group will have meetings and/or discussions with the department stores or shopping arcades to coordinate the operation of such Concessions. As at the Latest Practicable Date, the Group had 1,043 Concessions in the PRC and Hong Kong. The Group has entered into concession agreements with department stores or shopping arcades, with terms ranging from one year to two years, to govern the terms and conditions for the operation of its Concessions. Pursuant to the agreements, department stores or shopping arcades charge the Group an occupancy fee, which, typically is calculated with reference to a pre-determined percentage of generally 20% to 30% of the monthly sales made by a particular Concession or a fixed minimum fee, whichever is higher.

In general, department stores and shopping arcades collect the customers' receipts on behalf of the Group for each sale made at Concessions and then settle the net sales amount with the Group after deducting the occupancy fee and other transaction costs (if any) involved usually on a monthly basis.

Number and locations of Retail Stores and Concessions

The Group has established a retail network in the PRC and Hong Kong. As at the Latest Practicable Date, the Group had 49 Retail Stores and 1,014 Concessions in the PRC, 15 Retail Stores and 29 Concessions in Hong Kong, the locations of which are set out as follows:

Note: The number in the relevant province, municipality, autonomous region or special administrative region in the above map denotes the number of retail outlets (including both Retail Stores and Concessions) in that region as at the Latest Practicable Date.

The following table sets forth the geographical distribution of the Retail Stores and Concessions as at the Latest Practicable Date:

	Number of Retail Stores			Number of Concessions	
	EMBRY FORM	*FANDECIE*	*LC*	*EMBRY FORM*	*FANDECIE*
The PRC					
Eastern region *(note 1)*	6	–	–	131	115
Northern region *(note 2)*	13	–	–	151	127
Southern region *(note 3)*	21	2	1	205	193
Western region *(note 4)*	6	–	–	52	40
	46	2	1	539	475
Hong Kong	15	–	–	24	5
Total	61	2	1	563	480

Notes:

1. This region includes Anhui Province, Jiangsu Province, Shanghai Municipality and Zhejiang Province.

2. This region includes Beijing Municipality, Gansu Province, Hebei Province, Heilongjiang Province, Jilin Province, Liaoning Province, Shandong Province, Shanxi Province, Shaanxi Province, Qinghai Province, Tianjin Municipality, Xinjiang Uighur Autonomous Region and Inner Mongolia Autonomous Region.

3. This region includes Fujian Province, Guangdong Province, Guangxi Zhuang Autonomous Region, Hainan Province, Henan Province, Hubei Province, Hunan Province, Jiangxi Province and Macau.

4. This region includes Chongqing Municipality, Guizhou Province, Sichuan Province and Yunnan Province.

The revenue generated from Retail Stores accounted for approximately 9.5%, 9.1%, 9.3% and 8.6% of the total revenue of the Group for each of the three years ended 31 December 2005 and the six months ended 30 June 2006 respectively and the revenue generated from Concessions accounted for approximately 79.0%, 78.7%, 78.9% and 82.4% of the total revenue of the Group for each of the three years ended 31 December 2005 and the six months ended 30 June 2006 respectively. While it is the Group's strategy to increase the number of retail outlets of the Group in order to capture the increasing demand, the Group will also review the performance of each retail outlet and close down those retail outlets with less rewarding results.

Selection of the appropriate location for the establishment of new retail outlets is crucial to the success and growth of the Group's operation. In the selection process, the Group will consider a number of factors including, but not limited to the gross floor area available to the Group, image and target customers of the department store or shopping arcade, monthly sales achieved by the department store or shopping arcade, presence of competitors in the department store or shopping arcade, and the expected return.

The Group has not set up any flagship Retail Store or Concession in the Group in which significant portion of sales revenue was concentrated. During the Track Record Period, the 100 highest revenue generating retail outlets of the Group accounted for approximately 30.2%, 30.6%, 29.6% and 31.0% respectively of the Group's total revenue.

Format of the Retail Stores and Concessions

Subject to the periodic change in line with the marketing activities, the decoration of the Retail Stores and Concessions is generally standardised. The retail outlets of different brands may have their own themes to project its brand image while the decoration for retail outlets operated under the same brand are typically unified.

Management of the Retail Stores and Concessions

Each of the Retail Stores and Concessions is required to follow the operational policies and procedures established by the Group's head office. The Group also has 6 regional branches and 30 representative offices in the PRC to oversee the operation of the Retail Stores and Concessions in the respective regions (except Macau). These regional branches and representative offices are in turn managed by the district managers, which are under the supervision of the PRC sales director. The Retail Stores and Concessions in Hong Kong and Macau are managed by the Hong Kong district manager.

Inventory replenishment logistics

Apart from the warehouse in the Changzhou Factory, the Group has another warehouse in Shenzhen to support its sales network in the PRC. Moreover, the Group has a warehouse in Hong Kong to cater for its inventory requirements in Hong Kong. In general, the warehouse in Shenzhen is responsible for the distribution of the Group's products to its retail outlets in Hong Kong and southern China while the warehouse in Changzhou is responsible for supplying to the Group's retail outlets in northern China. Under the ERP system, the inventory replenishment decision is made at the headquarters in Shenzhen with reference to the market assessment of the retail outlet supervisor, sales performance of the retail outlets and the inventory level of particular products kept in the retail outlets and the warehouse. The inventory level at the warehouses and the merchandise sold at the Retail Stores and Concessions are recorded in the ERP system. Reports will be generated to show that inventories are needed to be replenished when the inventory levels at the retail outlets are lower than optimal. All products are delivered to the designated outlets by land transportation through the Group's vehicle fleet and logistics companies.

Customer services

The Group recognises that the service quality of the Group's front line salespersons is crucial to the reputation of the Group. The Group places strong emphasis on product and customer service quality. The Group provides various training programmes to all newly-joined salespersons. These include training programme for/relating to store operation, sales skills, customer service and product knowledge. Regular briefings are also held to ensure that salespersons are familiar with the Group's newly launched products. The Directors believe that, through these training programmes and briefings, the Group is able to enhance the quality of services provided to its retail customers.

As part of its dedication to customer services, the Group also provides to its PRC customers free repair services for its products and collects customers' feedback on the products and services by conducting surveys from time to time. Moreover, customers can lodge enquiries and complaints through the Group's website and customer service hotlines (both in the PRC and Hong Kong). The brand management department and the sales centre take into consideration of the results of the Group's customers surveys when formulating suggested improvement and correction policies. The Directors believe that the provision of these customer services are effective in building customer loyalty and developing the clienteles of the Group.

Wholesale business

Apart from retail customers, the Group also sells its self-owned brand products to wholesalers in the PRC and Hong Kong. During the Track Record Period, the sales generated from wholesale business accounted for approximately 6.1%, 4.5%, 6.1% and 6.1% of the total revenue of the Group for each of the three years ended 31 December 2005 and the six months ended 30 June 2006 respectively.

The wholesale customers of the Group include individuals and companies in the PRC and Hong Kong which sell lingerie products under a variety of brands to retail customers. During the six months ended 30 June 2006, the Group had over 500 wholesale customers.

OEM business

As the Group places first priority on the production of its own brand products, it typically accepts the orders from OEM customers only when there is spare production capacity available. Ensuring reasonable profit margin is another factor that the Group will take into account when it decides whether or not to accept the OEM orders.

During the Track Record Period, the Group's OEM customers principally comprised lingerie trading companies mainly in Japan and the United Kingdom. The revenue generated from the Group's OEM business accounted for approximately 5.4%, 7.7%, 5.7% and 2.9% of the total revenue of the Group for each of the three years ended 31 December 2005 and the six months ended 30 June 2006 respectively. The products manufactured for the OEM customers by the Group are mainly brassieres.

Customers

Since the Group's retail sales accounted for over 87% of its total revenue for each of the three years ended 31 December 2005 and six months ended 30 June 2006, the five largest customers of the Group, all being OEM customers, only accounted for approximately 5.0%, 7.3%, 5.1% and 2.6% respectively of the Group's total revenue for the corresponding periods. The Group's largest customer accounted for approximately 2.3%, 2.6%, 1.9% and 1.8% respectively of the Group's total revenue for each of the three years ended 31 December 2005 and the six months ended 30 June 2006. Most of the five largest customers of the Group during the Track Record Period had more than five years of business relationship with the Group.

None of the Directors, their associates or, as far as the Directors are aware, Shareholders who own more than 5% of the issued share capital of the Company or any of their respective associates has any interest in any of the five largest customers of the Group for each of the three years ended 31 December 2005 and the six months ended 30 June 2006.

Pricing policy

In deciding the retail prices of its products, the Group considers principal factors including product costs, product type, design and market prices of similar products. The Group implements uniform retail price within each retail territory namely the PRC (for this purpose excluding Macau), Macau and Hong Kong whereas as between the three retail territories the retail prices can differ.

The Group's head office determines all product promotional discount policies and programmes. Nevertheless, with the consent of the Group's head office, a particular Concession may join the promotional activities organised by the department store or shopping arcade where the Concession is located and offer special discount or other complimentary gifts to its customers.

Credit control

Sales made to customers at the Retail Stores are principally settled in cash or by credit card. For sales made at Concessions, department stores and shopping arcades will collect the customers' receipts on behalf of the Group for each sale made and then settle the net sales amount with the Group after deducting the occupancy fee and other transaction costs (if any) involved, usually on a monthly basis. Sales to wholesalers are usually settled in cash or by cheque against delivery of goods or sometimes telegraphic transfer with credit terms ranging from one to three months. OEM sales are generally settled by letter of credit or telegraphic transfer with credit terms ranging from one to three months.

As most of the Group's revenue were contributed by its retail sales, the debtor's turnover days recorded by the Group during the three years ended 31 December 2005 and the six months ended 30 June 2006 were relatively short, ranging from approximately 14.1 days to 14.7 days. The Group's non-retail debtor's turnover days ranged from approximately 14.4 days to 19.5 days during the Track Record Period.

In deciding the credit terms granted to the customers, the Group considers various factors such as creditworthiness of the customers, their sales volume and years of business relationship. Ageing analysis of the trade receivables is reviewed regularly by the management and credit limits granted to department stores, shopping arcades, wholesale customers and OEM customers are revised from time to time in accordance with the customer's risk profile. During the Track Record Period, the Group did not experience any significant difficulty in collecting trade receivables from department stores, shopping arcades, wholesale customers and OEM customers. Approximately 77.3%, 77.5%, 80.8% and 83.7% respectively of the Group's revenue was settled in RMB while the remaining balance was mainly settled in Hong Kong dollars, Euro and Japanese Yen for the three years ended 31 December 2005 and the six months ended 30 June 2006.

The Group recorded impairment allowances for bad and doubtful debts of approximately HK$0.6 million and HK$0.5 million for the two years ended 31 December 2005 respectively, representing approximately 0.1% and 0.1% of the Group's revenue in the respective year. For the year ended 31 December 2003, the Group recorded a write back for bad and doubtful debts of approximately HK$69,000 and did not record any impairment allowances for bad and doubtful debts.

Cash control

For Concessions, shopping arcades and department stores collect cash directly from customers on behalf of the Group. Therefore, the Group has not implemented any particular cash control and cash management over the Concessions as such responsibility has been assumed by the operators of the relevant shopping arcades and department stores and they would settle such receipts with the Group mainly on a monthly basis. For the Retail Stores in the PRC, a designated officer is assigned for the custody of cash in each Retail Store. Daily receipts are required to be deposited into the designated bank accounts of the Group by not later than the next business day. In addition, all cash sales records are reconciled with the bank deposits of each Retail Store at least twice a week. Any discrepancy in records will be investigated and followed up.

PRODUCT DEVELOPMENT

The Directors consider product development to be vital for the Group to maintain its competitive advantages. Apart from developing new products (including new features and patterns) to cater for the perceived demands of the retail market, the Group also places strong emphasis on the alignment of product styles with the projected images of the relevant brands of the Group. At present, three functional units, namely, the design team, the brand management department and the research and development team are assigned responsibility for the product development of the Group.

Design

Design of the Group's products are carried out by its own in-house design team which, as at the Latest Practicable Date, comprised five chief designers and four assistants. The design team has four sub-teams designated as responsible for the design work of each of the four brands owned by the Group, namely ***EMBRY FORM, FANDECIE, COMFIT*** and ***LC***.

In addition to in-house product development, the Group has appointed Concepts Paris SARL ("Concepts Paris") as its consultant to assist the Group in the development and the design of ***LC*** products. Concepts Paris is an independent French design house specialising in the design of lingerie. Apart from acting as a consultant to the Group, Concepts Paris also has a business relationship with a number of famous overseas lingerie label carriers. Pursuant to the consultancy agreement (which was renewed on 1 July 2006) entered into between Concepts Paris and the Group, all the concepts, creations, research findings and any associated intellectual property rights arising from the design work by Concepts Paris under the agreement shall be retained by the Group in the PRC and Hong Kong as well as in the regions where the Group and its other brands have their presence. Concepts Paris provides the Group with the design concepts for ***LC*** products, which include sketches on the product outlook and the suggested fabrics. The brand management department of the Group will select the design concepts from Concepts Paris and the in-house design team will modify the sketches to suit perceived taste and needs of the Group's target customers and convert the concepts into detailed product specifications.

Brand management

The brand management department had 18 staff as at the Latest Practicable Date, and its principal function is to formulate the product development plans for new product series under each of the four brands owned by the Group. It is responsible for co-ordinating with the design team and research and development team to work out the details of the products once the product development plan is formulated.

Research and development

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. They conduct studies and develop machines to facilitate manufacturing of the lingerie products. As at the Latest Practicable Date, the research and development team comprised 99 staff. During the Track Record Period, the research and development expenses of the Group were approximately HK$0.7 million, HK$1.4 million, HK$1.7 million and HK$0.5 million respectively which mainly represent testing expenses and other associated costs incurred during the research and development process.

In order to keep abreast with market trends and customers' taste, in-house market research is conducted from time to time. Based on analyses of the results of such research and input from the design team and research and development team, the brand management department devises detailed product development plans specifying the theme, the quantity, types of products and the expected launch date for each new product series. According to the detailed product development plans devised by the brand management department, the design team will prepare draft design sketches, which are subject to continuous refinements or adjustments. When the draft design is approved by the brand management department, the research and development department will prepare the prototypes. In-house models will fit the prototypes to assess the functionality, comfort ability and appearance of the new products. The prototypes also undergo a series of functional and reliability testings including shrinkage tests, strength tests, colour fastness tests and performance tests on fabrics and elastic bands. After a series of refinements and adjustments, the product, technical and workmanship designs will be finalised and adopted for the set up of bulk production standard.

MARKETING

The Group's marketing activities in the PRC and Hong Kong are coordinated by the Group's Shenzhen head office and the Hong Kong office respectively. Ms. Cheng Pik Ho Liza, an executive Director and the chief executive officer of the Group, is responsible for overseeing the Group's marketing function. The Group also occasionally engages professional public relations or advertising companies to plan or organise its promotion activities. During the Track Record Period, the Group's marketing expenses accounted for approximately 4.7%, 3.0%, 3.6% and 2.8% of the total revenue in each of the three years ended 31 December 2005 and the six months ended 30 June 2006.

The Group organises marketing activities with various themes that correspond with the launch of certain new products, the turn of the season and various festivals. In general, the Group promotes its brand images and increases customer awareness on the Group's products through:

(i) Media advertising

The Group, through different forms of media, including television commercials, publication media such as fashion magazines and newspapers, and other indoor and outdoor advertisements, promotes the Group's products and brand image. The Group also regularly updates its website to provide the latest information on its products to customers. Futhermore, the Group also prepares brochures for many of its newly launched product series, which can be collected by customers free of charge at the Group's Retail Stores and the Concessions.

(ii) Event marketing

Organising fashion-related events is another marketing channel adopted by the Group to promote the brand image and attract potential customers and business partners. During the Track Record Period, the Group organised a total of nine fashion shows, eight in the PRC and one in Hong Kong.

In addition, the Group sponsored several large-scale events during the Track Record Period, including the 2003 and 2004 "China Cup, Embry Form" International Lingerie/Beachwear Design Competition.

(iii) Customer loyalty program

The Group hosts customer loyalty programs in retail outlets in Shenzhen and Shanghai, the PRC. Customers can register as a premium customer of the Group if their purchases of the Group's products exceed a certain amount. They can also enjoy special discounts for future purchases under certain circumstances.

(iv) Souvenirs

Sometimes, customers are offered free gifts if their purchases exceed a certain amount. During the Track Record Period, the free gifts offered by the Group included, but were not limited to, notebooks, dolls, mirrors, towels and bags with the Group's brand logos.

AWARDS AND RECOGNITIONS

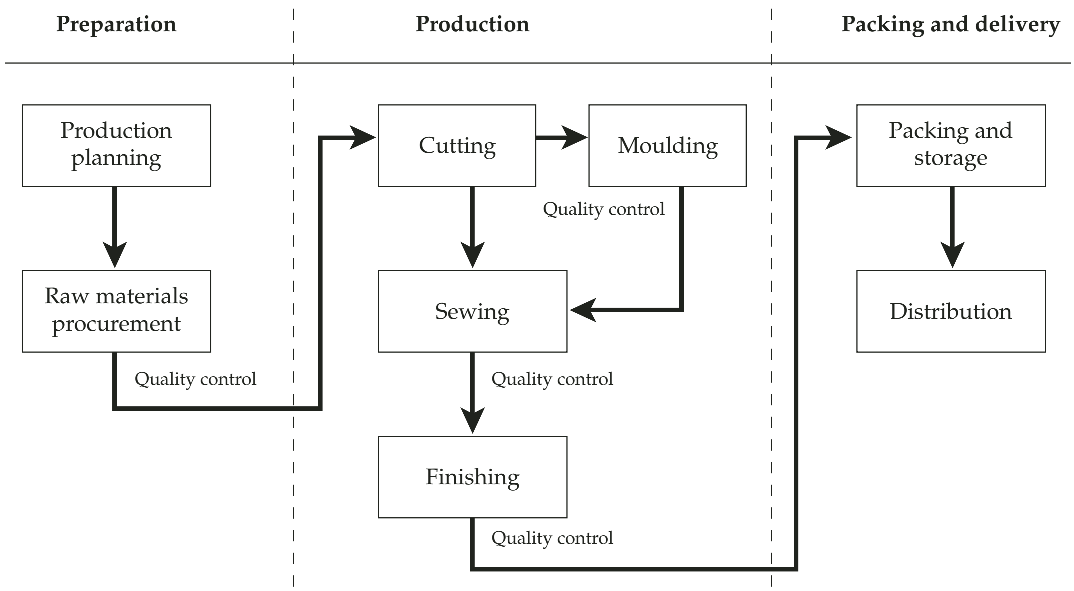
Over the past few years, the Group has been accredited with a number of awards and recognitions. Set out below is a summary of certain awards obtained by the Group during the Track Record Period to the Latest Practicable Date:

Year of granting	**Awards**	**Issuing organisation**
2006	*EMBRY FORM* Lingerie Products – The Best-selling Lingerie Products in the Industry in Ten Consecutive Years 1996-2005 (安莉芳牌女內衣－1996-2005連續十年全國市場同類產品銷量第一名)	China Industrial Information Issuing Center (中國行業企業資訊發佈中心)
2006	Top 100 PRC Garment Enterprises 2005 (2005全國服裝行業百強企業)	China National Garment Association (中國服裝協會)
2006	Superbrands™ in the PRC (中國超级品牌™)	PRC Superbrands Committee (中國超級品牌主委會)
2005	Lingerie Products – Best-selling Brand in Shanghai in Five Consecutive Years (安莉芳女式內衣系列 － 上海市場暢銷品牌(連續五年銷量第一))	Shanghai Commercial Information Center (上海市商業信息中心)

Year of granting	Awards	Issuing organisation
2005	Hong Kong Superbrands 2005/2006	Hong Kong Superbrands Council
2005	Brassieres — China Top Brand (安莉芳牌文胸－中國名牌產品)	General Administration of Quality Supervision, Inspection and Quarantine of the PRC (國家質量監督檢驗檢疫總局)
2005	Top 100 PRC Garment Enterprises 2004 (2004 全國服裝行業百強企業)	China National Garment Association (中國服裝協會)
2004	The Most Influential Shenzhen Top Brand (最具影響力的深圳知名品牌)	Shenzhen Top Brand Nomination Council (深圳知名品牌評價委員會)
2004	***EMBRY FORM*** Lingerie — Reliable and Well-known Brand for Consumers (安莉芳內衣系列－消費者信賴的知名品牌)	China Consumer Protection Foundation (中國保護消費者基金會)
2003	China Environmental Labelling Products Certificate (中國環境標誌產品認證證書)	China Environmental Labelling Products Certification Committee (中國環境標誌產品認證委員會)

PRODUCTION PROCESS

The Group's production process mainly comprises cutting, moulding and sewing and the product quality is highly dependent on the skill and technique of the labour force. Therefore, the whole production process is supported and closely monitored by quality control staff assigned to specific steps to optimise efficiency and ensure product quality. The production time required for each product will vary depending on the design and complexity of the product. The following illustrates the principal steps involved in the production process of the Group's products:



Preparation

Production planning

The production co-ordination department is responsible for formulating the production plans of the Shenzhen Factory and the Changzhou Factory based on the product development plans prepared by the brand management department as discussed above and the actual sales and inventory level of existing products. The allocation of the production orders among the Shenzhen Factory and the Changzhou Factory is mainly dependent on the nature of the products and the production capacity utilisation rates of the two factories. If spare production capacity is identified, the Group will consider accepting orders from its OEM customers.

Raw materials procurement

The procurement department will source the required type and quantity of raw materials based on the product development plan and the production plans. For details of the purchasing function, please refer to the paragraph headed "Purchasing" in this section.

The staff of the Group's quality control department inspect the raw materials received to ensure that they conform to the specifications as stated in the material quality specifications and purchase orders. Further details of the quality control procedures on purchasing are set out in the paragraph headed "Quality control" below.

Production

Cutting

The pattern making, grading and plotting of markers are handled by the Group's in-house pattern markers with the aid of a computerised system so that the fabric utilisation can be maximised. Fabrics, foams and fiberfill are then cut into different shapes. For some brassiere designs, moulding machines are used to produce the required bra cups by heat setting the fabrics, foams and fiberfill under high temperature with designated moulds. Other materials, including decorative lace, are also cut into different lengths for further processing. The semi-finished parts are inspected by quality control staff to ensure product quality.

Sewing

The semi-finished parts are sewn together based on the product sewing specifications. The whole sewing process is conducted in a flow process so that each sewing worker is only required to perform certain sewing processes in which he/she is specialised in order to improve efficiency and maintain product quality. Quality control staff will perform sample checking on the semi-finished products throughout the whole sewing process to monitor the product quality. The semi-finished products will be reprocessed if any material discrepancy is identified.

Finishing

Brand labels and size tags are attached and quality control staff will further inspect and test the finished products in sampling basis for quality assurance purpose.

Packing and delivery

Packing

The finished goods are packed properly to minimise potential damage to the finished products. The packed goods are then delivered to the centralised warehouses in the Shenzhen Factory and the Changzhou Factory for further distribution to Retail Stores and Concessions. For OEM products, before shipment is arranged, the finished goods are packed and stored in the warehouses or delivered to destinations in accordance with customers' specifications.

Distribution

The inventory levels of each Retail Store and Concession are monitored by the ERP system to avoid any inventories shortage or excessive inventories situation. Finished goods are distributed to different Retail Stores and Concessions to replenish any identified potential shortage of inventories. For details of the control of inventories at warehouses, Retail Stores and Concessions, please refer to the paragraph headed "Inventory control" in this section.

PRODUCTION FACILITIES

Production sites

Currently, the Group has two production sites in the PRC, located in Shenzhen and Changzhou. To cope with its expansion plan, the Group intends to increase its production capacity by the establishment of the Shandong Factory.

Shenzhen Factory

The Shenzhen Factory was initially set up in 1989 and is situated in a five-storey factory building located in Shenzhen, the PRC, with a total gross floor area of approximately 12,888 sq.m.. A portion of the Shenzhen Factory, occupying a gross floor area of approximately 1,821 sq.m., is leased from an Independent Third Party through two tenancy agreements. Each of the two tenancy agreements will expire on 31 December 2007. In addition, the Group leases one unit located in Dongchang Road, Luohu District, Shenzhen, the PRC as its warehouse with total gross floor area of approximately 400 sq.m. from an Independent Third Party. The tenancy agreement will expire on 14 September 2008. The Group has obtained the relevant real estate title certificates in respect of the units owned by it comprising the Shenzhen Factory for a term expiring on 7 January 2015.

The Group currently occupies the Shenzhen Factory as the Group's principal production site in the PRC. The Shenzhen Factory is equipped with all necessary production facilities. In addition, the Shenzhen Factory also houses the other supporting functions, such as design, research and development, and procurement teams.

Changzhou Factory

The Group's other production site is situated at Changzhou, the PRC, with a site area of approximately 16,700 sq.m.. The Group has been granted with a land use right for a term expiring on 27 June 2045. The major buildings erected on this site include a five-storey factory building with a total gross floor area of approximately 9,378 sq.m., a three-storey composite building comprising the warehouse and staff canteen with a total gross floor area of approximately 4,111 sq.m., two utilities rooms with a total gross floor area of approximately 651 sq.m.. The Group has obtained the relevant building ownership certificates for all the buildings erected on this site.

The Changzhou Factory was set up in 1996 to cater for the continuous expansion of the Group's business. Unlike the Shenzhen Factory, the Changzhou Factory is focused on the production function while the other supporting functions are centralised in and co-ordinated by the headquarters in the Shenzhen Factory.

Shandong Factory

In order to strengthen its production operation and further expand the production capacity, the Group plans to establish the Shandong Factory in Zhangqiu City, Shandong Province, the PRC. The Shandong Factory will be constructed on a piece of land (the "Land") with a site area of approximately 167,870 sq.m.. The Group has been granted a land use right for the Land for a term expiring on 28 October 2056. Subject to the obtaining of all necessary approvals, the Directors plan to start the construction work of the Shandong Factory in early 2007 and target to have the works completed by 2007 and commence operation in mid 2008. In accordance with the current development plan, the Shandong Factory will be divided into three zones, namely a factory zone, an office zone and a living zone. The expected total cost for the development of these three zones, in aggregate (inclusive of the land premium paid for the Land, the construction costs and the machinery installation cost), is approximately HK$70 million.

As at the Latest Practicable Date, the Group was in negotiation with the land bureau in Shandong Province for the proposed grant of the land use right for a further piece of land contiguous to the Land (with a site area of approximately 203,000 sq.m.) which is intended to be reserved for further expansion of the Shandong Factory in the future. In contemplation of the obtaining of land use right for the contiguous piece of land, the Group has paid a total of approximately HK$13.0 million to the People's Government of Zhangqiu, Shandong Province, the PRC. The expected total consideration for the additional land is approximately HK$18.5 million and the Directors intend to finance such payment by internal resources. Based on an agreement entered into with the People's Government of Zhangqiu, the Group may request the People's Government of Zhangqiu to refund the deposit of HK$13.0 million if the land use right certificate is not granted to the Group by 31 December 2008. As advised by the Company's PRC legal advisers, the Group will be granted the land use right certificate when the Group applies for the land registration for the relevant piece of land in accordance with the applicable laws and regulations after (i) the Planning Permit for the Construction of Land (建設用地規劃許可証) is obtained; (ii) a formal land use right grant contract with the relevant land bureau is executed; (iii) the Land Construction Permit (建設用地批准書) is granted to the construction unit; (iv) the land premium and relevant taxes are paid in full. The Company's PRC legal advisers have further advised that there are no material legal impediments in the obtaining of such land use right certificate by the Group if the above conditions have been satisfied. The Planning Permit for the Construction of Land (建設用地規劃許可証) has already been obtained in April 2006.

Production machinery

The Group's production machinery mainly comprise sewing machines, moulding machines, automatic spreading machines, automatic bend-knife cutting tables, air compressing machines, computerised design system and various kinds of testing machines, most of them were made in Japan and the United States. During the Track Record Period, the Group did not have any major overhaul of its production machinery nor were there any significant accidents.

Production capacity

As the workmanship complexity varies for each product of the Group and for the purposes of production planning and administration, the Group's production capacity and production volume of each type of product are expressed in terms of Standard Product Unit. A Standard Product Unit represents a basic-featured brassiere produced by the Group.

Depending on the designs of the products (including brassieres, panties, swimwear and corsets), the Group will assign a complexity indicator to each product by assessing the approximate production time required for each product. In general, the complexity indicators of the Group's brassieres range from 1.1 times of a Standard Product Unit to 1.4 times of a Standard Product Unit while those for panties range from 0.3 time of a Standard Product Unit to 0.7 time of a Standard Product Unit. During each of the three years ended 31 December 2005 and the six months ended 30 June 2006, the weighted average complexity indicator of the products manufactured by the Group was approximately 0.9, 0.9, 1.0 and 1.1 times of a Standard Product Unit respectively.

The following table sets out the production capacity in terms of Standard Product Units and the average utilisation rate of the production facilities of the Group during the Track Record Period:

	For the year ended 31 December			For the six months ended 30 June
	2003	2004	2005	2006
Production capacity (Number of Standard Product Units (in million)) *(Note)*	6.5	6.7	7.2	8.4*
Average utilisation rate	90.4%	89.7%	93.3%	95.3%

Note: Based on the weighted average complexity indicator of the Group's manufactured product for the particular period

* *On an annualised basis*

In order to cope with the expansion of the Group's business, the Group had been increasing its production capacity during the Track Record Period by installing more automatic machinery, expanding production area and employing more workers in both the Shenzhen Factory and the Changzhou Factory. Since 1 July 2006, the Group has further increased its annual production capacity to approximately 11.8 million Standard Product Units. As at the Latest Practicable Date, the annual production capacity of each of the Shenzhen Factory and the Changzhou Factory was approximately 6.6 million and 5.2 million Standard Product Units respectively.

As the production capacity of the Group was almost fully utilised during the Track Record Period and with a view to paving way for its further expansion in the market, the Group plans to construct the Shandong Factory. The annual production capacity of the Group is expected to be further increased by approximately 11.9 million Standard Product Units when the Shandong Factory is put into full operation.

Power supply

With the aim of relieving high electricity usage during certain peak periods, the relevant local authority has a policy which requires enterprises in each area to rotate their business working days in a week. Such policy, in general, does not have any material adverse effect on the overall production capacity of the Group since the Group is able to re-schedule its working days so that the number of working days with normal electricity supply is not reduced. Besides, the Group maintains backup power systems. During the Track Record Period, the Group did not experience any significant shortage of electricity, which substantially affected the Group's productions.

Sub-contracting

The Group sub-contracts part of its production process for non-core products, such as sleepwear and underwear, to certain sub-contractors in the PRC, who are Independent Third Parties. The Directors believe that sub-contracting arrangement will improve its competitive position by reducing costs and shortening lead times.

The Group has not entered into any long-term agreement with its sub-contractors. Instead, the sub-contracting arrangement is made on a case-to-case basis by way of entering into of individual supply agreements, pursuant to which the Group provides the designs, specifications and brand label, and approves the suggested raw materials of the products. In some cases, the Group provides the principal raw materials to the sub-contractors directly. In order to ensure the quality of the Group's products, the sub-contractors are required to strictly follow the Group's product specifications. The Group also closely monitors the performance of the sub-contractors throughout the production process. Quality control over the products produced by the sub-contractors is discussed in more details under the sub-paragraph headed "Sub-contracting products inspection" under the paragraph headed "Quality control" in this section.

During the Track Record Period, the Group's total sub-contracting fees represented approximately 12.2%, 15.4%, 14.7% and 4.6% respectively of the Group's total cost of sales in each of the three years ended 31 December 2005 and the six months ended 30 June 2006. The Directors confirm that they are not aware of any material disputes with these sub-contractors or of any material loss due to any dispute with such sub-contractors during the Track Record Period.

PURCHASING

The primary raw materials used by the Group consist principally of fabrics (including rigid, elastic and lace fabrics), which are sourced from the PRC and other countries such as Japan. For the three years ended 31 December 2005 and the six months ended 30 June 2006, the cost of fabrics accounted for approximately 75.2%, 76.1%, 78.4% and 76.3% respectively of the Group's total cost of sales in the respective year or period.

The Group's purchasing functions are centralised by its procurement department which keeps a list of qualified suppliers and conducts annual assessment on each supplier mainly based on their performance in terms of quality reliability, delivery punctuality and price level. For frequently used and common raw materials, the procurement department will shortlist several suitable suppliers from the list of qualified suppliers maintained by the Group and compare the quotations offered by each supplier to decide which supplier to co-operate with. Occasionally, some product designs may require the sourcing of certain special raw materials which are typically developed by the Group together with its qualified suppliers.

Although the Group has not entered into any long-term contracts with the suppliers, it has maintained long-term business relationships with its major suppliers. Currently, the Group has more than 15 qualified fabrics suppliers and some of them have more than 10 years of business relationship with the Group. The Directors confirm that they are not aware of the Group having any difficulties in sourcing raw materials during the Track Record Period. For the three years ended 31 December 2005 and the six months ended 30 June 2006, the return of raw materials accounts for approximately 2.8%, 2.8%, 2.8% and 2.8% respectively of the Group's total purchases.

Based on the product development plans, actual sales and inventory level of existing products, the production co-ordination department formulates the production plans of the Shenzhen Factory and the Changzhou Factory accordingly. According to the production plans, the procurement department purchases the required type and quantity of raw materials. In addition, the procurement department will monitor the raw materials inventory level regularly to ensure that there are sufficient quantities of raw materials available for production. The Group usually keeps an inventory level of raw materials that is sufficient for the production for about 45 to 60 days.

For each of the three years ended 31 December 2005 and the six months ended 30 June 2006, the five largest suppliers of the Group accounted for approximately 13.6%, 27.6%, 25.7% and 29.9% respectively of the Group's total cost of purchases, while the largest supplier accounted for approximately 4.2%, 8.1%, 6.4% and 8.7% respectively of the Group's total cost of purchases in the respective year or period. None of the Directors, their associates or, as far as the Directors are aware, Shareholders who own more than 5% of the issued share capital of the Company or any of their respective associates have any interest in any of the five largest suppliers of the Group during the Track Record Period.

Purchases of the Group are principally denominated in RMB, Hong Kong dollars and United States dollars with credit period ranging from 30 days to 90 days. Settlement of purchases is generally made by telegraphic transfer, letter of credit and cash.

QUALITY CONTROL

Product quality

The Group places strong emphasis on product quality to protect the brand value and the image of the Group. In view of this, the Group has implemented comprehensive quality control procedures at different production stages to ensure product quality. In recognition of the Group's efforts in implementing the quality control procedures, Embry SZ obtained the ISO9001:1994 certification on the design and manufacture of its brassieres, panties, swimwear and sleepwear in 1996 which was then upgraded to ISO9001:2000 in 2002. Embry CZ also obtained the ISO9001:2000 certification in 2005. As at the Latest Practicable Date, the Group had a total of 40 quality control staff responsible for carrying out the following quality control procedures:

Raw materials inspection

Before placing purchasing orders with the suppliers, the Group requests samples of raw materials from suppliers for testing which include:

Types of tests	Major purpose
Shrinkage tests on fabrics	To test the dimensional stability of the fabrics
Colour fastness tests on fabrics	To test the colour fastness of the fabrics to washing, rubbing and water
Performance tests on fabrics and elastic bands	To test the abrasion, pilling resistance of the fabrics and the stretch and recovery of the fabrics and elastic bands
Strength tests on fabrics	To test the tensile, tearing and bursting strengths of the fabrics

When raw materials are ordered and then delivered to the Group, raw materials will be inspected thoroughly against the specifications stated in the purchase orders.

Production inspection

Production quality control checkpoints are set up throughout the production process to ensure that the semi-finished goods meet the production specifications. Usually, checking is performed on random sampling basis. Any defective goods identified are re-processed before proceeding to the next step.

Finished goods inspection

Finished goods are inspected on a random sampling basis to further minimise the risk of selling defective products to customers.

Sub-contracting products inspection

The quality of products produced by sub-contractors is closely monitored by the Group. Before mass production, the sub-contractors are required to provide product samples for the Group's approval and submit to the Group standard testing reports on the raw materials to be used. The Group also conducts factory visit regularly to sample check the products of sub-contractors and monitor the production process. Sometimes, the Group will also require the sub-contractors to provide testing reports on finished goods before delivery. Before accepting the goods, the quality control staff will inspect the finished goods produced by sub-contractors against the specifications as stated in the supply agreement entered into between the Group and the sub-contractors.

Training

Regular quality awareness training is provided to staff. Due to the stringent quality control procedures adopted by the Group, the Directors confirm that they are not aware of any material claims for defective products from the Group's customers during the Track Record Period.

INVENTORY CONTROL

As a retail lingerie brand-owner, the Group should be able to offer at its retail outlets a variety of sizes for each brassiere design and different colours for each product series to cater for different requirements of the customers. Moreover, the Group has to ensure that there is sufficient inventory at its warehouses to replenish inventories at the retail outlets if required and enough inventory for display purpose at its Retail Stores and Concessions, totaling 64 and 1,043 respectively as at the Latest Practicable Date. Apart from maintaining a sufficient level of finished goods inventory, for production purposes, the Group usually keeps an inventory level of raw materials that is sufficient for the production for about 45 to 60 days. For each of the three years ended 31 December 2005 and the six months ended 30 June 2006, the inventories turnover days (representing average inventories balance divided by revenue and multiplied by 365 days) of the Group was approximately 148.3 days, 129.7 days, 125.0 days and 119.2 days respectively.

As at the Latest Practicable Date, the Group had two major warehouses in the PRC (Shenzhen and Changzhou) and one warehouse in Hong Kong to support the Group's sales network in the PRC and Hong Kong. The brand management department monitors inventory level at each Retail Store and Concession for the purpose of developing and where necessary modifying its inventory plan, with a view to optimising inventory level of different products at different locations. The inventory level at the warehouses and the merchandise sold at the Retail Stores and Concessions are recorded in the ERP system. Reports will be generated to show that inventories are needed to be replenished when the inventory levels are lower than optimal.

The Group adopts stringent control on inventory. In order to monitor the level of obsolete inventories, the Group's management reviews an ageing analysis at each month end, and makes allowance for obsolete and slow-moving inventory items that are no longer suitable for uses in production or resales.

For the three years ended 31 December 2005 and the six months ended 30 June 2006, the provision for obsolete inventories charged to the income statements was nil, approximately HK$1.9 million, HK$4.5 million and HK$1.0 million respectively, representing nil, approximately 0.4%, 0.8% and 0.3% of the Group's revenue in respective year or period.

INSURANCE

The Group has insurance coverage for its assets at the production facilities in Shenzhen and Changzhou, including the decoration, inventories, other items of property, and plant and machinery. The Group, through various kinds of insurance or contractual rights with certain department stores or shopping arcades, also has coverage for its properties, which include, but are not limited to, the finished goods and cash in certain of the Retail Stores and Concessions, the goods in transit and the motor vehicles owned by the Group.

In respect of the Group's employees, the Group has purchased employees' compensation insurance for all its staff in Hong Kong. For further details of the staff benefits, please refer to the paragraph headed "Staff benefits" in the section headed "Directors, senior management and staff" in this prospectus.

The Directors believe that the insurance coverage of the Group over its properties, assets and possible liability is adequate for its operation. The Directors further confirm that the Group did not make any material insurance claims during the Track Record Period.

INTELLECTUAL PROPERTY RIGHTS

As at the Latest Practicable Date, the Group owned 37 registered trademarks in the PRC, 53 registered trademarks in Hong Kong and 26 registered trademarks overseas. In addition, the Group had a total of 36 patent registrations and 9 outlook design registrations as at the Latest Practicable Date. It is the Group's policy to register, subject to applicable regulatory restrictions and requirements, trademarks incidental to its business in the PRC, Hong Kong and other target markets of the Group. For details of the intellectual property rights of the Group, please refer to Appendix VII to this prospectus.

As at the Latest Practicable Date, the Group had not given any consent to any other party for the use of any trademarks or patents owned by the Group. The Directors confirm that they are not aware of (i) any material infringement of trademarks or patents used by the Group during the Track Record Period; and (ii) any litigation or material disputes regarding the intellectual property rights used by the Group during the Track Record Period.

COMPETITION

The Group faces competition from other PRC and overseas brand-owners, in particular from those who have developed strong brand names and have operation size comparable to, or even more substantial than, that of the Group. Competition in the industry is mainly based on the design, pricing, quality and brand name of the product.

The Directors consider that there are several major entry barriers to the industry, which include:

Economies of scale enjoyed by larger manufacturers

Manufacturers with larger scope of operations usually enjoy discount for bulk purchase of raw materials and lower fixed costs because of the operation size. As a result, when compared with other small manufacturers, larger manufacturers usually enjoy lower operating cost.

Importance of recognised brand name

Similar to other consumer products, having a recognised brand name is one of the important factors for customers to consider when they purchase ladies' lingerie products. The Directors therefore believe that it is difficult for new brand owners to develop a customer base which is comparable to that of the Group.

Importance of design and research and development ability

The product trends of ladies' lingerie change rapidly and it is therefore important for ladies' lingerie brand owners to launch new product designs frequently to fit the ever-changing tastes of its customers and to increase customers' awareness of their products. As a result, brand owners with established design teams who have been in the market for some time have an advantage over newer companies.

ENVIRONMENTAL PROTECTION

The principal operations of the Group in the PRC are manufacture and sale of lingerie products. With a view to monitoring the environmental protection measures, the Group has in the past engaged 深圳市環境保護監測站 (Shenzhen Environmental Protection Monitoring Station) to assess the organic gas waste and noise emission level at the Shenzhen Factory and 常州市環境監測中心站 (Changzhou Environmental Monitoring Central Station) to assess the noise and water pollutant emission level at the Changzhou Factory. It was found that in general the relevant standards have been met. As the Group's production process involves mainly the cutting and sewing of fabrics, certain waste disposal monitoring standards such as certain categories of smoke or liquid pollutants emission are not applicable. The Group's principal manufacturing units, Embry SZ and Embry CZ have complied with all applicable requirements under the environmental laws and regulations and have not committed any material breach of any of such laws and regulations during the Track Record Period.

In 2003, Embry SZ was granted 中國環境標誌產品認證證書 (China Environmental Labelling Products Certificate) by 中國環境標誌產品認證委員會 (China Environmental Labelling Products Certification Committee) in recognition of its products complying with the technical standards of environmental labelling products.

CONNECTED TRANSACTIONS

The following transactions have been carried out by the Group and its connected persons (as defined in the Listing rules) during the Track Record Period and are expected to continue following the listing of the Shares on the Main Board:

Exempt continuing connected transaction

On 26 September 2006, the Group entered into a lease agreement (the "Lease Agreement") with Madam Ngok Ming Chu, an executive Director and a substantial shareholder (as defined in the Listing Rules) of the Company pursuant to which Madam Ngok Ming Chu has agreed to lease to the Group the premises located at Unit A, 5th Floor, Kiu Kwong Industrial Centre, 6-10 Ka Hing Road, Kwai Chung, Hong Kong as the Group's warehouse for a term commencing from 1 October 2006 to 31 December 2008 for a monthly rental of HK$12,000 (exclusive of government rent, rates and management fees which are payable by the Group as tenant).

Madam Ngok Ming Chu is an executive Director and a substantial shareholder (as defined in the Listing Rules) of the Company and is thus a connected person (as defined in the Listing Rules) of the Company. The aggregate rental payable by the Group to Madam Ngok Ming Chu under the Lease Agreement for the three months ending 31 December 2006 and the two years ending 31 December 2008 are HK$36,000, HK$144,000 and HK$144,000 respectively.

DTZ Debenham Tie Leung Limited, an independent valuer, has confirmed that the terms set out in the Lease Agreements are normal commercial terms and that the rentals payable under the Lease Agreement by the Group correspond to the fair market rentals.

The Group has occupied the above premises for more than 10 years. For the three years ended 31 December 2005 and ten months ended 31 October 2006, the rental for the premises paid to Madam Ngok Ming Chu by the Group amounted to HK$180,000, HK$180,000, HK$180,000 and HK$147,000 respectively.

The Directors, including the independent non-executive Directors, are of the view that the Lease Agreement was entered into on normal commercial terms and arm's length basis and in the ordinary and usual course of business of the Group, and the terms of the Lease Agreement are fair and reasonable so far as the Shareholders as a whole are concerned.

Since each of the percentage ratios (other than the profits ratio), where applicable, calculated by reference to Rule 14.07 of the Listing Rules, for the Lease Agreement on an annual basis is less than 2.5% and the annual rental payable under the Lease Agreement is less than HK$1,000,000, pursuant to Rule 14A.33(3)(b) of the Listing Rules, the Lease Agreement is exempt from the reporting, announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Non-exempt continuing connected transactions

On 25 November 2006, the following master agreements in respect of the provision of decoration services (collectively, the "**Master Agreements**") were entered into:

(1) a master agreement between Duosiwei Metal & Plastic Products (Shenzhen) Co., Ltd. (多思維五金塑膠製品(深圳)有限公司) ("**Duosiwei Shenzhen**") on one hand and Embry SZ and Embry CZ on the other hand in respect of the provision of decoration services (including manufacture of fixtures and fittings) by Duosiwei Shenzhen to Embry SZ and Embry CZ; and

(2) a master agreement between Changzhou Duosiwei Furniture Decoration Construction Co., Ltd. (常州多思維家俱裝飾工程有限公司) ("**Duosiwei Changzhou**") on one hand and Embry SZ and Embry CZ on the other hand in respect of the provision of decoration services (including manufacture of fixtures and fittings) by Duosiwei Changzhou to Embry SZ and Embry CZ.

Duosiwei Shenzhen is a wholly foreign owned enterprise established in the PRC and is owned as to 100% by Multiple Idea Limited (a company wholly owned by Mr. Cheng Chuen Chuen). Duosiwei Changzhou is a wholly foreign owned enterprise established in the PRC and is owned as to 100% by Mr. Cheng Chuen Chuen. Mr. Cheng Chuen Chuen is the son of Mr. Cheng Man Tai, an executive Director and a controlling Shareholder.

Duosiwei Shenzhen and Duosiwei Changzhou (collectively, "**Duosiwei Companies**") are principally engaged in the production and sale of fixtures and fitting for display.

Material terms of the Master Agreements

The terms of each of the Master Agreements commenced from the date of the Master Agreements and will end on 31 December 2008.

Pursuant to the Master Agreements, the Group has agreed to engage Duosiwei Companies to provide decoration services (including manufacture of fixtures and fittings) to certain of the Group's Retail Stores and Concessions (the "**Continuing Connected Transactions**") on a non-exclusive basis. For the avoidance of doubt, the Group is not contractually bound to engage the services of Duosiwei Companies under the Master Agreement and is free to engage any other third party for the provision of such services during the term of the Master Agreements. Duosiwei Companies will produce the fixtures and fittings in accordance with the design and specifications provided by the Group.

The exact quantity, specifications and quality of the fixtures and fittings and place and date of delivery will be set out in the orders to be issued by the Group to Duosiwei Companies.

Pricing

The terms of the decoration services (including the price) are on normal commercial terms and determined between the Group and Duosiwei Companies on arm's length basis and are comparable to those provided by independent contractors of the Group. The exact pricing of each order shall be subject to the Group's acceptance of the quotation of each order made by the relevant Duosiwei Companies. Since the Group has from time to time engaged other independent contractors for the provision of decoration services, the Group is able to ascertain whether the prices quoted by Duosiwei Companies are comparable to those quoted by independent contractors.

Historical figures

The following is a summary of the historical figures of the above transactions for each of the three years ended 31 December 2005 and the six months ended 30 June 2006:

	For the year ended 31 December			For the six months ended
	2003	**2004**	**2005**	**30 June 2006**
	HK$ (million)	*HK$ (million)*	*HK$ (million)*	*HK$ (million)*
Historical amount	9.8	6.6	13.8	6.2

Based on the unaudited management accounts of the Group, the fees paid to Duosiwei Companies for the decoration services for the ten months ended 31 October 2006 amounted to approximately HK$10.8 million.

Reasons for the Continuing Connected Transactions

Pursuant to the Master Agreements, the Group is not contractually bound to engage Duosiwei Companies to provide decoration services and the Group is free to engage other independent contractors for the provision of such services. During the Track Record Period, the Group has from time to time engaged other independent contractors for the provision of decoration services. During the Track Record Period, the Group recorded total decoration expenses of HK$18.2 million, HK$13.6 million, HK$24.0 million and HK$8.2 million respectively. The Group will take into account the quotations for the provisions of decoration services from various suppliers in deciding the appropriate contractors for the provision of the decoration services. Duosiwei Shenzhen has provided decoration services to the Group for more than nine years whereas Duosiwei Changzhou has had business relationship with the Group for more than five years. As the quality of services have been up to the requirements and standards of the Group and the fact that the prices quoted by Duosiwei Companies have been comparable to those quoted by independent contractors, the Directors consider that it is in the interests of the Shareholders as a whole to enter into the Master Agreements and continue to engage Duosiwei Companies to provide decoration services following the listing of the Shares on the Main Board.

Proposed annual cap amounts

The Group estimates that the Continuing Connected Transactions would not exceed the following annual cap amounts for the three financial years ending 31 December 2008 respectively:

	For the year ending 31 December		
	2006	**2007**	**2008**
	HK$ (million)	*HK$ (million)*	*HK$ (million)*
Proposed annual cap amounts	15.1	17.3	19.9

Basis for the annual cap amount

The Group will engage Duosiwei Companies to provide decoration services when new Retail Store or Concession is being set up. During each of the three years ended 31 December 2005, Duosiwei Companies provided decoration services to 82, 87 and 110 newly set up Retail Stores or Concessions respectively.

The Group will also engage Duosiwei Companies to provide decoration services when the Group launches a new decoration theme for its existing Retails Stores and Concessions. Generally, the Group's Retail Stores and Concessions launch new decoration theme every two to three years. During each of the three years ended 31 December 2005, Duosiwei Companies provided decoration services to 437, 353 and 400 existing Retail Stores or Concessions respectively.

The respective annual cap amounts for the Continuing Connected Transactions for each of the three years ending 31 December 2008 were estimated primarily based on (i) the fees paid by the Group to Duosiwei Companies during the three years ended 31 December 2005 and for the ten months ended 31 October 2006; (ii) the decoration work estimated to be required for the opening of new retail outlets in the PRC pursuant to the future plan of the Group and (iii) the Group's plan to launch a new decoration theme for its existing retail outlets. The Directors consider that the respective annual cap amounts for the Continuing Connected Transactions for each of the three years ending 31 December 2008 are fair and reasonable.

Listing Rules implications

Each of Duosiwei Companies is ultimately and beneficially owned by Mr. Cheng Chuen Chuen, a son of Mr. Cheng Man Tai who is an executive Director and a controlling Shareholder. Accordingly, each of Duosiwei Companies is an associate of a connected person of the Company. Transactions between the Group and Duosiwei Companies after the listing of the Company will be subject to the provisions set out in Chapter 14A of the Listing Rules.

As each of Duosiwei Companies is an associate of a connected person of the Company and taking into account of the amount involved in the Continuing Connected Transactions, the Continuing Connected Transactions as contemplated under the Master Agreements constitute non-exempted continuing connected transactions for the Company which are subject to the reporting, announcement and independent Shareholders' approval requirements set out in Rule 14A.35 of the Listing Rules.

Confirmation from the Directors

The Directors (including the independent non-executive Directors) confirm that the Continuing Connected Transactions are entered into on normal commercial terms and are in the ordinary and usual course of business and are fair and reasonable to the Group and in the interests of the Shareholders and the Group as a whole. The Directors (including the independent non-executive Directors) also confirm that the annual cap amounts set out above are fair and reasonable and in the interests of the Shareholders taken as a whole.

Confirmation from the Sponsor

The Sponsor is of the view that the Continuing Connected Transactions are entered into on normal commercial terms and in the ordinary and usual course of business of the Group and that the terms of the Continuing Connected Transactions and the annual cap amounts set out above are fair and reasonable and in the interests of the Shareholders taken as a whole.

Waiver sought

As the Continuing Connected Transactions will continue on a recurring basis, the Directors consider that strict compliance with the announcement and independent Shareholders' approval requirements would be impractical and would add unnecessary administrative costs to the Company each time when such transaction arises.

The Company has applied for, and the Stock Exchange has granted to the Company, a waiver from strict compliance with the Rule 14A.42(3) of the Listing Rules in respect of the Continuing Connected Transactions, subject to the following conditions:

(a) The annual cap amounts for the Continuing Connected Transactions under the Master Agreements for the three financial years ending 31 December 2008 will not exceed:

	For the year ending 31 December		
	2006	**2007**	**2008**
	HK$ (million)	*HK$ (million)*	*HK$ (million)*
Proposed annual cap amounts	15.1	17.3	19.9

(b) The compliance with all requirements under Chapter 14A (other than the announcement and independent Shareholders' approval requirements under Rule 14A.42(3) of the Listing Rules) by the Group.