INDEBTEDNESS

Borrowings

At the close of business on 31 October 2006, being the latest practicable date for the purpose of ascertaining information contained in the indebtedness statement prior to the printing of this prospectus, the Group had outstanding secured interest-bearing bank loans of approximately HK$3.9 million, HK$4.1 million, HK$13.8 million and HK$3.0 million which are repayable within one year, in the second year, in the third to fifth years and beyond five years, respectively.

Contingent liabilities

The Group did not have any outstanding contingent liabilities as at 31 October 2006.

Disclaimer

Save as disclosed above, apart from intra-group liabilities, the Group did not have outstanding indebtedness at the close of business on 31 October 2006 or any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or similar indebtedness, liabilities under acceptance, acceptance credits, debentures, mortgages, charges, finance leases or hire purchases commitments, guarantees or other contingent liabilities.

No material changes

Save as disclosed herein, the Directors confirmed that there has not been any material change in the indebtedness and contingent liabilities of the Group since 31 October 2006.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Overview

Up to the Latest Practicable Date, the Group has been generally financing its operations through a combination of shareholders' equity, internally generated cash flows and bank borrowings. Following completion of the Share Offer, the Group expects its capital and operating requirements will be funded principally through internally generated cash flows, the net proceeds from the Share Offer and cash in hand. The Directors believe that in the long term, the Group's operations will be funded by internally generated cash flows and, if necessary, additional equity financing or bank borrowings.

Cash flow

A high level of cash balance is required for the Group's daily transactions and operations. During the Track Record Period, the Group financed its working capital needs principally through net cash inflow from operating activities and short-term borrowings. The Group generally maintained a healthy level of cash balance during the Track Record Period. The Group's cash and cash equivalents amounted to approximately HK$80.6 million, HK$130.3 million, HK$49.5 million and HK$82.2 million as at 31 December 2003, 2004, 2005 and 30 June 2006 respectively.

Operating activities

Net cash inflow generated from operating activities amounted to approximately HK$9.2 million, HK$59.9 million, HK$46.7 million and HK$42.6 million for each of the three years ended 31 December 2005 and the six months ended 30 June 2006 respectively. The significant increase in net cash inflow for the year ended 31 December 2004 as compared to that for the year ended 31 December 2003 was mainly attributable to the significant increase in profit before tax in 2004 and the release of working capital by the reduction of inventory level in 2004. The net cash inflow for the year ended 31 December 2005 decreased as compared to that for the year ended 31 December 2004 as a result of the utilisation of working capital by the additions of inventories and the payment of HK$14.4 million of tax during the year. There was no material change of net operating cashflow between the period ended 30 June 2006 and the corresponding period in 2005 as the cashflow increase generated from profit in 2006 was offset by the large settlement of trade and bills payable during the period.

Investing activities

Net cash outflow used in investing activities amounted to approximately HK$7.9 million, HK$7.2 million, HK$5.4 million and HK$19.3 million for each of the three years ended 31 December 2005 and the six months ended 30 June 2006 respectively. The net cash outflow used in investing activities for the three years ended 31 December 2005 mainly consisted of the acquisition of property, plant and equipment. Net cash outflow used in investing activities for the six months ended 30 June 2006 increased by approximately HK$17 million as compared to the corresponding period. Such increase was mainly due to the deposit paid for a land use right of a piece of land located in Shandong, the PRC.

Financing activities

Net cash outflow used in financing activities amounted to approximately HK$1.1 million, HK$3.1 million, and HK$123.3 million for each of the three years ended 31 December 2005 respectively. The increase in net cash outflow from financing activities for the year ended 31 December 2005 of approximately HK$120 million as compared to that for the year ended 31 December 2004 was mainly attributable to the payment of an interim dividend of HK$150 million. For the six months ended 30 June 2006, the Group recorded a net cash inflow of financing activities of HK$9.4 million as a result of the advance made to the Group by its ultimate holding company of HK$15.8 million.

Net current assets

Based on the unaudited combined management accounts of the Group as at 31 October 2006, the Group had net current assets of approximately HK$273.3 million. The current assets of approximately HK$347.6 million comprised inventories of approximately HK$223.0 million, trade receivables of approximately HK$25.1 million, prepayments, deposits and other receivables of approximately HK$18.6 million and cash and cash equivalents of approximately HK$80.9 million; and current liabilities of approximately HK$74.3 million comprised trade payables of approximately HK$27.5 million, tax payable of approximately HK$0.6 million, other payables and accruals of approximately HK$42.3 million and secured interest-bearing bank loans, which are repayable within one year, of approximately HK$3.9 million.

Loan and banking facilities

The Group generally finances its operations with internally generated resources and banking facilities provided by the banks.

As at 31 October 2006, the Group had aggregate banking and credit facilities of approximately HK$73.5 million, of which approximately HK$24.8 million had been utilised and were secured by certain properties owned by the Group.

Capital structure

As at 31 October 2006, the Group had net tangible assets of approximately HK$370.7 million, comprising non-current assets of approximately HK$124.4 million (comprising property, plant and equipment, investment property, prepaid land lease payment, deposit paid for a land use right and other long term deposit), net current assets of approximately HK$273.3 million and non-current liabilities of approximately HK$27.0 million (comprising deferred liabilities, deferred tax liabilities and secured interest-bearing bank loans).

Capital commitments

As at 31 October 2006, the Group had capital commitments of approximately HK$6.4 million in respect of land lease payment in the PRC and purchase of office equipment.

In addition, as at 31 October 2006, the Group had commitments in respect of capital contribution in the amount of US$8 million (equivalent to approximately HK$62.1 million) to Embry SD. The Group intends to finance the commitment by internal resources.

Working capital

Taking into account the cashflow generated from the operating activities, the financial resources available to the Group, including internally generated funds, the available banking facilities and the estimated net proceeds of the Share Offer, the Directors are of the opinion that the Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the date of publication of this prospectus.

DISTRIBUTABLE RESERVES

As at 30 June 2006, the Company had not been incorporated. There was accordingly no reserve available for distribution to the Shareholders as at that date.

NO MATERIAL ADVERSE CHANGE

The Directors confirm that since 30 June 2006 (being the date to which the latest audited combined financial statements of the Group were made up), there has been no material adverse change in the financial or trading position or prospectus of the Group.

SIGNIFICANT ACCOUNTING POLICIES

Accounting estimates are an integral part of the financial information prepared by the Directors and are based upon management's then judgement. Notes 2 and 3 to the financial information set out in the accountants' report set out in Appendix I to this prospectus include a summary of the principal accounting policies and significant accounting judgement and estimates adopted by the Group in the preparation of such financial information. Critical accounting policies are those that are most important to both the Group's financial conditions and results of operations, and require management's most difficult, subjective, or complex judgement, often as a result of the need to make estimates about the effect of matters that may change in subsequent periods. Certain accounting estimates are particularly sensitive because of their significance to the financial information and because of the possibility that future events affecting the estimate may differ significantly from management's current judgement. The Directors believe the following critical accounting policies involve the most significant judgements and estimates used in the preparation of financial information.

Impairment of assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets, the investment property and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years/periods. A reversal of such impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses.

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the assets to its working condition and location for its intended use. Expenditure incurred after the items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Changes in the values of property, plant and equipment are dealt with as movements in the asset revaluation reserve. If the total of the reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the income statement. Any subsequent revaluation surplus is credited to the income statement to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous revaluations is transferred to retained profits as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land and buildings	over the lease terms
Leasehold improvements	4.5% – 20%
Plant and machinery	10% – 20%
Furniture, fixtures and office equipment	10% – 20%
Motor vehicles	20% – 25%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year/period the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Investment property

Investment property is interest in land and building held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment and depreciation" up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation in accordance with the policy stated under "Property, plant and equipment and depreciation" above.

Gains or losses arising from changes in the fair values of investment property are included in the income statement in the year/period in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year/period of the retirement or disposal.

Financial assets

Financial assets are classified as either financial assets at fair value through the income statement or loans and receivables, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through the income statement, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, i.e., the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Inventories

Inventories are stated at the lower of cost and net realisable value after making due allowances for obsolete or slow moving items. Cost is determined on a weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on the estimated selling prices less any estimated costs to be incurred to completion and disposal.

Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

Prepaid land lease payment under operating leases is initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payment cannot be allocated reliably between the land and buildings elements, the entire lease payment is included in the cost of the leasehold land and buildings as a finance lease in property, plant and equipment.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods* when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) rental income, on a time proportion basis over the lease terms;

(c) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset; and

(d) dividend income, where the shareholder's right to receive payment has been established.

* *Sale of goods include sale from retail, wholesales and OEM*

TRADING RECORD

The following table is a summary of the combined results of the Group for each of the three years ended 31 December 2005 and the six months ended 30 June 2006, prepared on the basis that the current structure of the Group was in existence throughout the period under review. The summary should be read in conjunction with the accountants' report set out in Appendix I to this prospectus.

		Year ended 31 December			Six months ended 30 June	
		2003	**2004**	**2005**	**2005**	**2006**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(Unaudited)	
Revenue	*1*	429,296	508,493	550,014	290,178	314,108
Cost of sales		(116,047)	(125,876)	(136,979)	(80,031)	(72,228)
Gross profit		313,249	382,617	413,035	210,147	241,880
Other income and gains	*1*	857	4,266	5,335	1,331	1,823
Selling and distribution expenses		(240,550)	(277,688)	(312,948)	(157,135)	(164,832)
Administrative expenses		(51,477)	(52,162)	(46,620)	(24,613)	(25,717)
Other expenses, net		32	(543)	(1,617)	(977)	(191)
Finance costs		(204)	(79)	(791)	(100)	(792)
Profit before tax		21,907	56,411	56,394	28,653	52,171
Tax		(6,746)	(11,861)	(10,717)	(4,933)	(10,355)
Profit for the year/period		15,161	44,550	45,677	23,720	41,816
Attributable to:						
Equity holders of the Company		14,668	42,143	44,431	23,124	40,316
Minority interests		493	2,407	1,246	596	1,500
		15,161	44,550	45,677	23,720	41,816
Dividend						
Interim		–	–	150,000	150,000	–
Earnings per share attributable to equity holders of the Company	2					
Basic (HK cents)		4.89	14.05	14.81	7.71	13.44
Diluted (HK cents)		N/A	N/A	N/A	N/A	N/A

Notes:

1. An analysis of the Group's revenue, other income and gains is as follows:

				Six months ended	
		Year ended 31 December		30 June	30 June
	2003	**2004**	**2005**	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Retail					
– Concessions	339,118	399,854	433,908	233,078	258,954
– Retail Stores	40,946	46,473	51,077	27,788	27,009
Wholesale	25,868	22,848	33,748	17,683	19,101
OEM	23,364	39,318	31,281	11,629	9,044
Total	429,296	508,493	550,014	290,178	314,108
Other income					
Bank interest income	470	573	718	558	219
Gross rental income	–	117	923	104	1,053
Subsidy income from the PRC government:					
Rewards as a superbrand in the PRC *	–	–	1,923	–	288
VAT refunded *	377	783	405	–	–
Negative goodwill recognised as income	–	2,051	–	–	–
Others	10	742	766	669	263
	857	4,266	4,735	1,331	1,823
Gains					
Changes in fair value of investment property	–	–	600	–	–
	–	–	600	–	–
Total	857	4,266	5,335	1,331	1,823

* *There are no unfulfilled conditions or contingencies relating to these incomes.*

2. The calculation of the basic earnings per Share for the Track Record Period is based on the profit attributable to equity holders of the Company for each of the year/period under the Track Record Period and assuming 300,000,000 Shares had been in issue throughout the Track Record Period, comprising 20,000,000 Shares in issue as at the date of this prospectus and 280,000,000 Shares to be issued pursuant to the Capitalisation Issue.

MANAGEMENT DISCUSSION AND ANALYSIS OF THE RESULTS OF THE GROUP

Investors should read the following discussion and analysis in conjunction with the combined financial information of the Group for the Track Record Period, all of which is set forth in the accountants' report set out in Appendix I to this prospectus. Moreover, some of the Group's financial information presented in this section has been extracted or derived from the unaudited management accounts or other financial records of the Group which the Directors have taken a reasonable amount of care to prepare. Investors should read the whole of the accountants' report and not rely merely on the financial synopsis contained in this section.

Overview

Over the three years ended 31 December 2005 and the six months ended 30 June 2006, the Group achieved continuous growth in revenue and profitability. 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%. The Group further recorded revenue of approximately HK$314.1 million for the six months ended 30 June 2006. The increases in revenue were mainly attributable to increase in the demand for the products and the continuous expansion of the Group's retail sales network. As at the Latest Practicable Date, the total number of Retail Stores and Concessions of the Group in the PRC and Hong Kong was 1,107.

The Group's profitability is highly driven by its revenue. The major direct costs of the Group included in cost of sales (such as raw materials cost and salaries to manufacturing workers) are variable in nature and mainly represent a certain percentage of its revenue. As a result, the gross profit of the Group will usually increase in pace with the increase in revenue.

For the three years ended 31 December 2005, the Group recorded a growing trend in gross profit as a result of the growth in revenue and the benefits of economies of scale. Gross profit grew from approximately HK$313.2 million in 2003 to approximately HK$413.0 million in 2005, representing compound annual growth rate of approximately 14.8%. The Group further recorded gross profit of approximately HK$241.9 million for the six months ended 30 June 2006. The Group's 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%. The increase in Net Profit was mainly attributable to the increase in gross profit during the year. The Group further recorded Net Profit of approximately HK$40.3 million for the six months ended 30 June 2006.

No transfer of retained profits to the enterprise expansion and statutory reserve funds was made since 31 December 2003 as the reserve balance has already reached 50% of the registered capital of the respective subsidiaries established in the PRC.

Set out below are analyses of the Group's combined revenue by (i) product types; (ii) sales channels; and (iii) geographical areas for the three years ended 31 December 2005 and the six months ended 30 June 2006:

	Year ended 31 December						Six months	
	2003		2004		2005		ended 30 June 2006	
	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
Subtotal	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 represented men's underwear, men's sleepwear, men's swimwear and other accessories.

	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

	For the year ended 31 December						For the 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*

For the year ended 31 December 2003

For the year ended 31 December 2003, the Group recorded revenue of approximately HK$429.3 million, of which sales of lingerie, sleepwear, swimwear, OEM products and other products accounted for approximately 81.1%, 7.3%, 3.7%, 5.4% and 2.5% respectively of the total revenue. The gross profit for the year was approximately HK$313.2 million with gross profit margin of approximately 73.0%. The Group achieved profit before tax of approximately HK$21.9 million and Net Profit of approximately HK$14.7 million for the year ended 31 December 2003, representing a margin of approximately 5.1% and approximately 3.4% respectively.

Selling and distribution expenses of approximately HK$240.6 million comprised mainly occupancy fees paid to department stores or shopping arcades of approximately HK$121.3 million, salaries (including salaries and commission paid to salespersons at retail outlets) of approximately HK$44.1 million, advertising expenses of approximately HK$20.3 million and retail outlets decoration expenses of approximately HK$18.2 million. Administrative expenses of approximately HK$51.5 million comprised mainly salaries and other staff welfare expenses to administrative staff of approximately HK$26.9 million, directors' remuneration of approximately HK$5.9 million, general office expenses of approximately HK$4.6 million and depreciation of approximately HK$4.6 million.

During the year, the Group recorded a write-back for bad and doubtful debts of approximately HK$69,000 and incurred finance costs of approximately HK$0.2 million.

The Group's debtor's turnover days (being average trade receivables balance divided by revenue and times 365 days) and non-retail debtor's turnover days (being average non-retail trade receivable balance divided by non-retail revenue and times 365 days) for the year were approximately 14.7 days and approximately 15.3 days respectively. The Group's inventories turnover days (being average inventories balance divided by revenue and times 365 days) and creditor's turnover days (being average trade and bills payables balance divided by cost of sales and times 365 days) was approximately 148.3 days and 58.9 days respectively.

As at 31 December 2003, the Group's gearing ratio (being total interest-bearing bank loans divided by total assets) was approximately 0.01.

For the year ended 31 December 2004

For the year ended 31 December 2004, the Group recorded revenue of approximately HK$508.5 million, representing a growth of approximately 18.4% over the revenue of approximately HK$429.3 million in 2003. Sales of lingerie, sleepwear, swimwear, OEM products and other products accounted for approximately 75.6%, 9.9%, 4.4%, 7.7% and 2.4% respectively of the total revenue for the year ended 31 December 2004. The increase in revenue in 2004 was mainly due to the increase in the demand for the Group's products and the continuous expansion of the Group's retail sales network. Besides, in order to increase its geographical coverage, the Group continued to open more retail outlets during the year. Over 200 retail outlets were opened in over 30 cities, including Beijing, Chengdu, Chongqing, Changzhou, Guangzhou, Shanghai, Qingdao, Shenzhen, Xian and Zhuhai in the PRC in 2004. The total number of Retail Stores and Concessions of the Group increased from 985 as at 31 December 2003 to 1,024 as at 31 December 2004. With the increase in the number of retail outlets, coupled with the general recovery of the retail market sentiment in 2004 and the Group's marketing efforts in promoting new theme products and designs (including 3D brassieres, strapless brassieres with decorative ornaments, brassieres with self-lock antiskid adjusting buckle and underwear with a smooth seaming structure) to satisfy the needs of different customers and attract new customers, the Group recorded a growth of approximately 18.4% in revenue for the year ended 31 December 2004.

The gross profit for the year ended 31 December 2004 was approximately HK$382.6 million, representing an increase of approximately 22.2% in comparison with the gross profit of approximately HK$313.2 million last year. The increase in gross profit in 2004 was mainly attributable to the growth in revenue during the year. The gross profit margin in 2004 was approximately 75.2%, which was approximately 2.2% higher than the gross profit margin in 2003. The increase in gross profit margin in 2004 was mainly due to the general recovery of economy in the region and benefits of economies of scale enjoyed by the Group due to the growth in revenue during the year. Moreover, due to the outbreak of SARS in the first half of 2003 which dampened the retail market sentiment, the Group had to offer higher sales discounts to attract more customers in that year.

The Group achieved profit before tax of approximately HK$56.4 million for the year ended 31 December 2004, representing a growth of approximately 157.5% over the profit before tax of approximately HK$21.9 million for the year ended 31 December 2003. The profit before tax margin in 2004 of approximately 11.1% was higher than the profit before tax margin of approximately 5.1% in 2003, which was mainly due to the increase in gross profit margin and the decrease in the percentage of total selling and distribution expenses and administrative expenses to revenue from approximately 68.0% in 2003 to approximately 64.9% in 2004. The Net Profit for the year ended 31 December 2004 was approximately HK$42.1 million, which was approximately 187.3% higher than the Net Profit for the year ended 31 December 2003. The Net Profit margin was improved from approximately 3.4% in 2003 to approximately 8.3% in 2004, which was comparable to the growth in profit before tax margin of approximately 6.0% during the year ended 31 December 2004.

Other income and gains of approximately HK$4.3 million comprised mainly the negative goodwill recognised of approximately HK$2.1 million, subsidy income from the PRC government in relation to VAT refund of approximately HK$0.8 million and bank interest income of approximately HK$0.6 million. Selling and distribution expenses of approximately HK$277.7 million comprised mainly occupancy fees paid to department stores or shopping arcades of approximately HK$126.6 million, salaries (including salaries and commission paid to salespersons at retail outlets) of approximately HK$61.5 million, rental expenses of approximately HK$22.2 million, advertising expenses of approximately HK$15.3 million and retail outlets decoration expenses of approximately HK$13.6 million. Administrative expenses of approximately HK$52.2 million comprised mainly the salaries and other staff welfare expenses to administrative staff of approximately HK$22.2 million, directors' remuneration of approximately HK$7.5 million, depreciation of approximately HK$5.0 million and general office expenses of approximately HK$3.9 million. The percentage of total selling and distribution expenses and administrative expenses to revenue decreased slightly from approximately 68.0% in 2003 to approximately 64.9% in 2004, which was mainly due to the decrease in occupancy fees paid to department stores or shopping arcades to revenue ratio from approximately 28.3% in 2003 to approximately 24.9% in 2004 and the economies of scale enjoyed by the Group as a result of the increase in business scale.

During the year, the Group recorded impairment allowances for bad and doubtful debts of approximately HK$0.6 million, representing approximately 0.1% of the Group's revenue for the year. The Group incurred finance costs of approximately HK$0.1 million during the year.

The Group's debtor's turnover days (being average trade receivables balance divided by revenue and times 365 days) and non-retail debtor's turnover days (being average non-retail trade receivables balance divided by non-retail revenue and times 365 days) for the year were approximately 14.4 days (2003: 14.7 days) and approximately 14.4 days (2003: 15.3 days) respectively. The Group's inventories turnover days (being average inventories balance divided by revenue and times 365 days) and creditor's turnover days (being average trade and bill payables divided by cost of sales and times 365 days) were approximately 129.7 days (2003: 148.3 days) and 56.6 days (2003: 58.9 days) respectively. The inventories turnover days in 2004 was improved by approximately 18.6 days as a result of the increase in revenue and the gradual implementation of ERP system in the management of inventory level among the warehouses, Retail Stores and Concessions during the year. The stand-by period of raw materials was slightly shortened by just maintaining those raw materials which are common and frequently used. For those special raw materials, purchase orders were placed only when they are required. In view of the above, the inventories balance of the Group decreased from approximately HK$190.0 million as at 31 December 2003 to approximately HK$171.7 million as at 31 December 2004 and the inventories turnover days was therefore improved accordingly.

As at 31 December 2004, the Group's gearing ratio (being total interest-bearing bank loans divided by total assets) was approximately 0.001. The improvement in gearing ratio in 2004 as compared to the gearing ratio of approximately 0.01 as at 31 December 2003 was mainly due to the decrease in the balance of interest-bearing bank loans and bank overdrafts from approximately HK$3.7 million as at 31 December 2003 to approximately HK$0.4 million as at 31 December 2004.

For the year ended 31 December 2005

For the year ended 31 December 2005, the Group recorded revenue of approximately HK$550.0 million, representing a growth of approximately 8.2% over the revenue of approximately HK$508.5 million in 2004. Sales of lingerie, sleepwear, swimwear, OEM products and other products accounted for approximately 77.1%, 11.0%, 4.2%, 5.7% and 2.0% respectively of the total revenue for the year ended 31 December 2005. During the year ended 31 December 2005, the Group continued to increase its sales network coverage by opening more Retail Stores and Concessions. As at 31 December 2005, the total number of Retail Stores and Concessions had been consolidated to 1,018. The Group had also increased its marketing efforts by posting more advertisements on fashion and ladies' magazines, public transport and outdoor advertisement boards. As a result, together with the increase in the demand for the Group's products, the Group experienced a further growth in revenue during the year ended 31 December 2005.

The gross profit for the year ended 31 December 2005 was approximately HK$413.0 million, representing a growth of approximately 7.9% from 2004 which was in line with the growth of revenue of approximately 8.2%. The increase in gross profit was mainly attributable to the growth in revenue due to the revenue-driven nature of the Group's performance. The gross profit margin in 2005 remained stable at approximately 75.1% (2004: 75.2%).

The Group recorded profit before tax of approximately HK$56.4 million for the year ended 31 December 2005, which was at a similar level to the profit before tax for the year ended 31 December 2004 of approximately HK$56.4 million. The profit before tax margin in 2005 of approximately 10.3% was slightly lower than the profit before tax margin of approximately 11.1% in 2004, which was mainly due to the increase in the percentage of total selling and distribution expenses and administrative expenses to revenue from approximately 64.9% in 2004 to approximately 65.4% in 2005 and the increase in other expenses and finance costs in 2005. The Net Profit for the year ended 31 December 2005 was approximately HK$44.4 million, which was approximately 5.5% higher than the Net Profit for the year ended 31 December 2004. The Net Profit margin was slightly dropped from approximately 8.3% in 2004 to approximately 8.1% in 2005, which was in line with the decrease in profit before tax margin of approximately 0.8% during the year ended 31 December 2005.

Other income and gains of approximately HK$5.3 million comprised mainly the subsidy income from the PRC government in recognition of the Group being a "superbrand" enterprise in the PRC and VAT refund of a total of approximately HK$2.3 million, gross and net rental income of approximately HK$0.9 million, bank interest income of approximately HK$0.7 million and changes in fair value of investment property of HK$0.6 million. The Group's VAT refunds were principally determined with reference to the VAT paid by the Group. Selling and distribution expenses of approximately HK$312.9 million comprised mainly occupancy fees paid to department stores or shopping arcades of approximately HK$135.6 million, salaries (including salaries and commission paid to salespersons at retail outlets) of approximately HK$72.3 million, retail outlets decoration expenses of approximately HK$24.0 million, rental expenses of approximately HK$21.7 million and advertising expenses of approximately HK$19.6 million. Administrative expenses of approximately HK$46.6 million comprised mainly the salaries and other staff welfare expenses to administrative staff of approximately HK$20.2 million, directors' remuneration of approximately HK$4.9 million, general office expenses of approximately HK$5.0 million and depreciation of approximately HK$4.9 million. The percentage of total selling and distribution expenses and administrative expenses to revenue increased from approximately 64.9% in 2004 to approximately 65.4% in 2005, which was mainly due to the increase in retail outlets decoration expenses during the year. In 2005, due to the launch of the new decoration theme for its retail outlets, the Group incurred retail outlets decoration expenses of approximately HK$24.0 million, representing approximately 4.4% of the revenue in 2005, and was approximately 1.7% higher than the corresponding ratio in 2004.

During the year, the Group recorded impairment allowances for bad and doubtful debts of approximately HK$0.5 million, representing approximately 0.1% of the Group's revenue for the year. Besides, the Group charged a provision for obsolete inventories of approximately HK$4.5 million during the year. The Group also incurred finance costs of approximately HK$0.8 million during the year.

The Group's debtor's turnover days (being average trade receivables balance divided by revenue and multiplied by 365 days) and non-retail debtor's turnover days (being average non-retail trade receivables balance divided by non-retail revenue and multiplied by 365 days) for the year were approximately 14.6 days (2004: 14.4 days) and approximately 15.9 days (2004: 14.4 days) respectively. The Group's creditor's turnover days (being average trade and bill payables balance divided by cost of sales and multiplied by 365 days) were 72.1 days (2004: 56.6 days). Although the Group's creditor's turnover days in 2005 was approximately 15.5 days higher than 2004, over 90% of the Group's trade and bills payable balance as at 31 December 2005 was aged within 30 days. The Group's inventories turnover days (being average inventories balance divided by revenue and multiplied by 365 days) were approximately 125.0 days (2004: 129.7 days), which was 4.7 days improved when comparing with the inventories turnover days in 2004. The improvement in inventories turnover days was mainly due to the implementation of the ERP system, with which the inventory level at warehouse, Retail Stores and Concessions is closely monitored to minimise the occurrence of any excessive or shortage of inventory situation. Besides, the implementation of ERP system also helped the Group in the planning of raw materials sourcing to accommodate the production schedule and therefore the level of raw materials was also closely monitored. In view of the above, the inventories turnover days of the Group in 2005 was further improved.

As at 31 December 2005, the Group's gearing ratio (being total interest-bearing bank loans divided by total assets) was approximately 0.07, which was higher than the gearing ratio in 2004 of approximately 0.001. The increase in gearing ratio was mainly due to the increase in interest-bearing bank loans and bank overdrafts balance from approximately HK$0.4 million as at 31 December 2004 to approximately HK$28.2 million as at 31 December 2005.

For the six months ended 30 June 2006

For the six months ended 30 June 2006, the Group recorded revenue of approximately HK$314.1 million, representing an increase of approximately 8.2% over the revenue of approximately HK$290.2 million in the previous corresponding period (the "Corresponding Period") for the six months ended 30 June 2005. Sales of lingerie, sleepwear, swimwear, OEM products and other products accounted for approximately 83.6%, 7.7%, 3.5%, 2.9% and 2.3% respectively of the total revenue for the year ended 30 June 2006. The increase in revenue was mainly attributable to the continuous increase in the demand for the Group's products during the period and the launch of a new brand, ***COMFIT***. Apart from adding new sales outlets, the Group will, from time to time, review the performance of the retail outlets. During the period, the Group has closed down certain sales points which have less rewarding results. As at 30 June 2006, the Group had a total of 1,061 retail outlets in the PRC and Hong Kong.

The gross profit for the six months ended 30 June 2006 was approximately HK$241.9 million, representing an increase of approximately 15.1% in comparison with the gross profit of approximately HK$210.1 million in the Corresponding Period. The increase in gross profit was mainly attributable to the growth in the revenue. Due to economies of scale enjoyed by the Group as a result of the increase in revenue and the reduction of OEM sales in the six months ended 30 June 2006 which had a lower margin than the retail sales, the Group recorded a gross profit margin of approximately 77.0% for the six months ended 30 June 2006, which was higher than the gross profit margin of approximately 72.4% in the Corresponding Period. In the first half of 2005, in order to reduce the amount of slow moving finished goods, the Group offered higher sales discounts and organised more bargain sales thereby lowering the gross profit margin of the Corresponding Period.

The Group achieved profit before tax of approximately HK$52.2 million for the six months ended 30 June 2006, representing a growth of approximately 81.9% over the profit before tax of approximately HK$28.7 million in the Corresponding Period. The profit before tax margin for the six months ended 30 June 2006 of approximately 16.6% was higher than the profit before tax margin of approximately 9.9% in the Corresponding Period, which was mainly due to the increase in gross profit margin and the decrease in the percentage of total selling and distribution expenses and administrative expenses to revenue from approximately 62.6% in the Corresponding Period to approximately 60.7% for the six months ended 30 June 2006. The Net Profit for the six months ended 30 June 2006 was approximately HK$40.3 million, which was approximately 74.5% higher than the Net Profit in the Corresponding Period. The Net Profit margin was improved from approximately 8.0% in the Corresponding Period to approximately 12.8% for the six months ended 30 June 2006, which was comparable to the growth in profit before tax margin of approximately 6.7% in the periods under review.

Other income and gains of approximately HK$1.8 million comprised mainly the gross rental income of approximately HK$1.1 million and subsidy income from the PRC government in relation to rewards as a superbrand in the PRC of approximately HK$0.3 million. Selling and distribution expenses of approximately HK$164.8 million comprised mainly occupancy fees paid to department stores or shopping arcades of approximately HK$80.3 million, salaries (including salaries and commission paid to salespersons at retail outlets) of approximately HK$39.6 million, rental expenses of approximately HK$9.7 million and advertising expenses of approximately HK$8.9 million and retail outlets decoration expenses of approximately HK$8.2 million. Administrative expenses of approximately HK$25.7 million comprised mainly the salaries and other staff welfare expenses to administrative staff of approximately HK$11.2 million, directors' remuneration of approximately HK$2.0 million, general office expenses of approximately HK$2.8 million and depreciation of approximately HK$2.6 million. The percentage of total selling and distribution expenses and administrative expenses to revenue decreased from approximately 62.6% in the Corresponding Period to approximately 60.7% for the six months ended 30 June 2006, which was mainly due to the decrease in advertising expenses and, especially retail outlets decoration expenses during the period under review. As discussed above, the Group incurred a relatively higher retail outlets decoration expenses in 2005 because of the opening of additional retail outlets and the launching of new decoration theme for the retail outlets in 2005.

During the period under review, the Group has charged a provision for obsolete inventories of approximately HK$1.0 million and incurred finance costs of approximately HK$0.8 million during the period.

The Group's annualised debtor's turnover days (being average trade receivables balance divided by revenue multiplied by 365 days) and annualised non-retail debtor's turnover days (being average non-retail trade receivable balance divided by annualised non-retail revenue multiplied by 365 days) for the period were approximately 14.1 days (2005: 14.6 days) and approximately 19.5 days (2005: 15.9 days) respectively. The Group's annualised creditor's turnover days (being average trade and bills payables balance divided by cost of sales multiplied by 365 days) for the period were approximately 85.1 days (2005: 72.1 days). The creditor's turnover days increased in 2006 as the Group took advantage of the flexibility of the credit extended by the creditors. The Group's annualised inventories turnover days (being average inventories balance divided by revenue multiplied by 365 days) were approximately 119.2 days (2005: 125.0 days). The improvement in inventories turnover days was mainly benefited from the implementation of ERP system in the management of inventory level.

As at 30 June 2006, the Group's gearing ratio (being total interest-bearing bank loans divided by total assets) was approximately 0.06, which was slightly improved as compared to the gearing ratio of approximately 0.07 as at 31 December 2005.

MAJOR BALANCE SHEET ITEMS

Inventories

As at 31 December 2003, 2004, 2005 and 30 June 2006, the Group recorded inventories of HK$189.8 million, HK$171.7 million, HK$205.1 million and HK$205.2 million respectively. The amounts of provision were approximately HK$10.7 million, HK$12.6 million, HK$17.3 million and HK$18.3 million as at 31 December 2003, 2004, 2005 and 30 June 2006, respectively. In 2004, the Group has minimised the level of inventories. The stand-by period of raw materials was shortened by keeping common and frequently used raw materials only. For those special raw materials, purchase orders were placed only when they are required. Since 2005, with the gradual implementation of ERP system for the management of the level of finished goods among the warehouses, Retail Stores and Concessions, the inventory levels at warehouse, Retail Stores and Concessions have been closely monitored to minimise the occurrence of any inventory shortage or pile-up. Besides, the implementation of ERP system also helped the Group in the planning of raw materials sourcing to accommodate the production schedule.

Trade receivables

As at 31 December 2003, 2004, 2005 and 30 June 2006, the Group recorded trade receivables of HK$18.5 million, HK$21.7 million, HK$22.2 million and HK$26.3 million respectively. The Group's trade receivables were mainly due from department stores or shopping arcades, which collected the customers' receipts on behalf of the Group for each sale made and then settled with the Group the net sales amount after deducting the occupancy fees and other transaction costs (if any) involved usually on a monthly basis. The increase in trade receivables was in line with the increase in revenue during the Track Record Period as discussed above. As at 30 June 2006, the Group had some trade receivables aged more than the credit period granted. Some of these trade receivables were related to relatively small and remote department stores in which the Group may need to spend more time and resources for the collections. The management has closely monitored these receivables in order to minimise any bad and doubtful debts. Adequate and not excessive impairment allowances have already been made. As for those receivables with ages more than a year, they mainly represented those debtors who were closed down, insolvent or with other collectibility problems.

Prepayments, deposits and other receivables

As at 31 December 2003, 2004, 2005 and 30 June 2006, the Group recorded prepayments, deposits and other receivables of HK$12.0 million, HK$14.9 million, HK$10.9 million and HK$15.9 million respectively. Balance mainly represented the rental deposits and utilities deposits paid for the leases of Retail Stores and offices by the Group, the prepayments of various expenses, trade deposits to suppliers for purchasing of raw materials and professional fees paid for the preparation for the listing of the Company.

The increase in the balance from approximately HK$10.9 million as at 31 December 2005 to approximately HK$15.9 million as at 30 June 2006 was mainly due to the prepayment of professional fees of approximately HK$2.6 million by the Group for the preparation for the listing of the Company and the trade deposits paid to suppliers with outstanding balance of approximately HK$2.6 million as at 30 June 2006.

Trade and bills payables

As at 31 December 2003, 2004, 2005 and 30 June 2006, the Group recorded trade and bills payables and accruals of HK$25.9 million, HK$13.2 million, HK$40.9 million and HK$26.4 million respectively. The amount of trade and bills payables decreased from approximately HK$25.9 million in 2003 to approximately HK$13.2 million in 2004 because of the Group's policy to minimise the level of inventories. As at 31 December 2005, in order to cope with the anticipated increase in the demand for the Group's products and taking into account the then market prices which are considered to be favourable, the Group has stocked up more raw materials for production uses and hence the trade and bills payables balance increased from approximately HK$13.2 million in 2004 to approximately HK$40.9 million in 2005. In 2006, the Group has been utilising the raw materials previously purchased by the Group and therefore the trade and bills payables decreased to approximately HK$26.4 million as at 30 June 2006. As at 30 June 2006, certain trade and bills payable were outstanding for more than 90 days because the Group took advantage of the flexibility of the payment terms offered by the suppliers. The Directors confirmed that there was no dispute between the Group and those suppliers.

Other payables and accruals

As at 31 December 2003, 2004, 2005 and 30 June 2006, the Group recorded other payables and accruals of HK$21.1 million, HK$28.1 million, HK$26.6 million and HK$40.5 million respectively. During the Track Record Period, accruals mainly represented accrued administrative expenses, salaries and staff benefits while other payables mainly represented VAT payables and various deposits from customers. The balance increased from approximately HK$21.1 million as at 31 December 2003 to approximately HK$28.1 million as at 31 December 2004, which was mainly due to the increase in accrued salaries payable to salespersons and the prepayment made by wholesale customers. The balance increased from approximately HK$26.6 million as at 31 December 2005 to approximately HK$40.5 million as at 30 June 2006, which was mainly due to the subsidies of approximately HK$10.7 million received from the PRC local government for the Group's proposed construction of certain basic infrastructure for the Shandong Factory.

These subsidies of approximately HK$10.7 million included in other payable as at 30 June 2006 represented government grant received from the People's Government of Zhangqiu, Shandong Province, the PRC, for the proposed construction of certain basic infrastructure for the Shandong Factory. Upon its completion, this amount will be applied to reduce the carrying value of respective property, plant and equipment regarding the construction of the Shandong Factory and released to the income statement by way of a reduced depreciation charges, and this treatment has been included in the accounting policies "Government grants" on page I-21. As the construction of the Shandong Factory has not yet commenced, the amount has been included as other payable as at 30 June 2006 pending its completion.

Interest-bearing bank loans and overdraft

After the payments of interim dividend of HK$150 million which was financed from internal resources in May 2005, the Group has drawn down a 7-year bank loan of HK$30 million for general working capital purpose. As at 31 December 2005 and 30 June 2006, the Group recorded a total outstanding bank loan and overdraft balance of HK$28.2 million and HK$26.3 million respectively.

TAXATION

Hong Kong profits tax has been provided at the applicable tax rate of 17.5% of the assessable year/period on the estimated assessable profits arising in Hong Kong during the Track Record Period.

Pursuant to relevant laws and regulations in the PRC, the Company's subsidiaries, Embry SZ and Embry CZ are subject to tax rates of 15% and 27%, being the applicable tax rates for foreign invested enterprise in the area of Shenzhen Special Economic Zone and Changzhou respectively during the Track Record Period.

Revenue generated from Concessions and wholesales are subject to 17% output VAT and revenue generated from Retail Stores are subject to, on average 4% to 6% output VAT, in accordance with relevant PRC tax regulation. Further, the Group is entitled to offset 17% input VAT of the Group's purchase of raw materials in the PRC from output VAT when making payments of the latter every month. In addition, certain expenses of the Group are subject to input VAT deduction.

The effective tax rates of the Group during the Track Record Period were approximately 30.8%, 21.0%, 19.0% and 19.8% respectively, representing the provision for the Group's assessable profits arising in Hong Kong and the PRC for each of the three years ended 31 December 2005 and the six months ended 30 June 2006. In 2003, the overall net profit of the Group was reduced by the losses incurred by the Group for its PRC and Hong Kong operation due to the SARS incidence. Accordingly, the effective tax rate in 2003 was the highest during the Track Record Period. Please refer to the accountants' report set out in Appendix I to this prospectus for the reconciliation of the Group's taxation.

DIVIDEND POLICY

No dividends have been paid or declared by the Company since the date of its incorporation. For the three years ended 31 December 2005 and the six months ended 30 June 2006, the Group has declared dividends with amount of approximately nil, nil, HK$150 million and nil respectively. The Directors consider that, in general, the amount of future dividends to be declared by the Company will depend on the Group's results, working capital, cash position, capital requirements and other factors as may be considered relevant at such time by the Directors. It is the present intention of the Directors, that, upon the listing of the Shares, the Company will declare, for each year, dividends to the Shareholders in such amount not less than 25% of the audited consolidated profit after tax of the Group. The dividends will be paid by way of interim and/or final dividends. The Directors consider that the Company's dividend policy mentioned above will not materially affect the Company's working capital position in the coming years.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

The Directors confirm that they are not aware of any other circumstances that would give rise to a disclosure obligation under rules 13.13 to 13.19 of the Listing Rules.

PROPERTY INTERESTS

Properties owned by the Group in Hong Kong

The Group owns the 6th and 7th floors, two lorry parking spaces and five car parking spaces at Wyler Centre Phase II, 192-200 Tai Lin Pai Road, Kwai Chung, New Territories ("**Wyler Property**"). The 7th floor of the Wyler Property is used by the Group as its head office and the principal place of business in Hong Kong.

The 6th floor of the Wyler Property is leased to an Independent Third Party for a term of four years from 15 August 2005 to 14 August 2009. Two of the car parking spaces at the Wyler Property are also licensed to Independent Third Parties.

Properties owned by the Group in the PRC

The Group owns two production facilities in the PRC. One of the Group's production facilities is located at Buxin Road, Luohu District, Shenzhen, Guangdong Province, the PRC. This property is a 5-storey industrial building of which the Group owns 11 units. It occupies a total gross floor area of approximately 11,067 sq.m..

The other production facility is located at an industrial complex at No. 8 Embry Road, Tongjiang Avenue, New District, Changzhou, Jiangsu Province, the PRC. The industrial complex comprises a workshop, a composite building, two utilities rooms with a total gross floor area of approximately 14,140 sq.m..

The Group owns a piece of land in Zhangqiu City, Shandong Province, the PRC, for the development of the Shandong Factory with a site area of approximately 167,870 sq.m..

The Group also owns 66 residential units, with a total gross floor area of approximately 3,244 sq.m., in Shenzhen, Guangdong Province, the PRC as staff quarters.

Properties leased to the Group in Hong Kong and in the PRC

The Group leases 15 properties in Hong Kong as Retail Stores for the operation of its retail business and one property for godown purposes. These properties have a total gross floor area of approximately 877 sq.m..

In addition to the 11 units in the 5-storey industrial building located at Buxin Road, Luohu District, Shenzhen, Guangdong Province, the PRC, the Group also leases two additional units in the same building with a total gross floor area of 1,821 sq.m. for its production and one unit located at Dongchang Road, Luohu District, Shenzhen, Guangdong Province, the PRC as its warehouse with a total gross floor area of 400 sq.m..

The Group also leases 55 properties in the PRC as Retail Stores for the operation of its retail business and 40 properties as branch offices and representative offices. These properties have a total area of approximately 12,613 sq.m..

The above leased properties of the Group have been determined by DTZ Debenham Tie Leung Limited as having no commercial values due to prohibition of assignment or sub-letting or lack of substantial profit rents.

In respect of the leased properties of the Group as mentioned above, the Company is exempted from strict compliance with (i) section 342(1)(b) and paragraph 34(2) of the Third Schedule to the Companies Ordinance in reliance of the exemption under section 6(2) of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice and (ii) Rules 5.01 and 5.06 of the Listing Rules on the ground that:

(1) the conditions set out in paragraph 3(b) of Practice Note 16 of the Listing Rules have been satisfied;

(2) the value of such leased properties of the Group have been determined by DTZ Debenham Tie Leung Limited, an independent qualified valuer, and the value of the Group's leased properties so determined is zero;

(3) a report of DTZ Debenham Tie Leung Limited setting out the particulars required by paragraph 34(2) of the Third Schedule to the Companies Ordinance has been made available to the Stock Exchange before this prospectus is issued and is referred to in this prospectus and is made available to the public for inspection as mentioned in the paragraph headed "Documents available for inspection" in Appendix VIII to this prospectus; and

(4) a summary of all interests in relation to such leased properties of the Group is included in the property valuation report set out in Appendix IV to this prospectus.

As at Latest Practicable Date, the Group had a total of 98 leased properties in the PRC. All of such properties are leased or licensed from Independent Third Parties. Out of these leased properties, landlords of 28 of which have failed to provide the Group with the respective title certificates of the properties concerned and have not registered the respective leases with the relevant PRC authorities. The Group has been occupying such leased properties in the PRC pursuant to the respective tenancy agreements entered into between the Group and the landlords. The Company's PRC legal advisers cannot confirm the legality of these tenancy agreements because the relevant landlords have failed to provide the Group with the relevant title certificates and the relevant lease agreements have not been registered with the relevant PRC authorities. However, the Group has never been evicted from these leased properties. In the event that there is a dispute to the legal title of any of these leased properties, the office or Retail Store operating on such premises may have to be vacated or closed down and the Group may suffer losses due to prepayments and deposits paid for such affected leased properties and the relocation cost. For the three years ended 31 December 2005 and the six months ended 30 June 2006, 0.57%, 0.95%, 1.41% and 1.24% of the total revenue of the Group was attributed to these 28 leased properties, respectively. As confirmed by the Directors, none of these properties housed any flagship store of the Group. In view of the minimal revenue contributed to the Group during the Track Record Period, the Directors are of the view that the absence of title certificates of the relevant properties will not have material effect on the Group's business. In respect of these 28 leased properties in the PRC, the Group will continue to request the relevant landlords to provide the title certificates to verify their rights to lease such properties to the Group. In the event that such landlords fail to provide evidence to the satisfaction of the Group that they may lawfully lease the relevant properties to the Group, the Group will not renew the tenancy agreements with the relevant landlords upon their expiry. In addition, Harmonious World, Fairmout Investments, Mr. Cheng Man Tai, Madam Ngok Ming Chu and Ms. Cheng Pik Ho Liza have provided an indemnity in favour of the Group to cover any loss or damage that the Group may suffer in relation to such lease agreements. Details of such indemnity are set out in the paragraph headed "Estate duty, tax and other indemnity" in Appendix VI to this prospectus.

RECONCILIATION STATEMENT

Disclosure of the reconciliation of the Group's properties from the audited combined financial statements as at 30 June 2006 to the valuation as at 31 October 2006 as required under Rule 5.07 of the Listing Rules is set out below:

	HK$'000
Valuation of properties (including the prepaid land lease payments) owned by the Group as at 31 October 2006 as set out in the property valuation report in Appendix IV to this prospectus	124,894
Net book value of leasehold land and buildings held by the Group as at 30 June 2006	49,698
Valuation of an investment property held by the Group as at 30 June 2006	25,500
Net book value of prepaid land lease payment for Changzhou Factory held by the Group as at 30 June 2006	2,176
Deposits paid for a land use right utilised as prepaid land lease payment for Shandong Factory on 28 October 2006	3,390
	80,764
Less	
Depreciation on leasehold land and buildings for the four months ended 31 October 2006	(741)
Amortisation of a prepaid land lease payment for the four months ended 31 October 2006	(19)
Net book value as at 31 October 2006	80,004
Revaluation surplus, before income taxes	44,890

The above revaluation surplus includes revaluation surplus for leasehold land and buildings, an investment property and prepaid land lease payments amounting to HK$25,037,000, HK$2,200,000 and HK$17,653,000 respectively.

PROFIT FORECAST

The Directors estimate that, on the basis of the assumptions set out in Appendix II to this prospectus and in the absence of unforeseen circumstances, the Net Profit for the year ending 31 December 2006 will amount to not less than HK$77 million.

On the basis of the above profit forecast and the weighted average number of 303,835,616 Shares in issue, the forecast earnings per Share on a weighted average basis will be approximately HK25.34 cents, representing a weighted average price-to-earnings multiple of approximately 11.29 times based on a Offer Price of HK$2.86 or approximately 14.28 times based on an Offer Price of HK$3.62.

On the basis of the above profit forecast and on the assumption that the Company has been listed since 1 January 2006 and no interest income has been derived from the net proceeds received therefrom, the forecast earnings per Share on a pro forma fully-diluted basis would be approximately HK19.25 cents, representing a pro forma fully-diluted price-to-earnings multiple of approximately 14.88 times based on an Offer Price of HK$2.86 or approximately 18.80 times based on an Offer Price of HK$3.62. These estimates do not take into account any Shares which may be issued upon the exercise of the Pre-IPO Share Options and the Over-allotment Option.

The texts of the letters from Ernst & Young, the reporting accountants of the Company, and the Sponsor respectively in respect of the profit forecast as mentioned above are set out in Appendix II to this prospectus.

UNAUDITED PRO FORMA ADJUSTED COMBINED NET TANGIBLE ASSETS

The following is an unaudited pro forma statement of adjusted combined net tangible assets of the Group which is based on the audited combined net tangible assets of the Group attributable to the equity holders of the Company as at 30 June 2006 as shown in the accountants' report, the text of which is set out in Appendix I to this prospectus, adjusted as follows:

	Audited combined net tangible assets of the Group attributable to the equity holders of the Company as at 30 June 2006 *(Note 1)*	**Capitalisation of loans from Harmonious World** *(Note 2)*	**Estimated net proceeds from the Share Offer** *(Note 3)*	**Unaudited pro forma adjusted combined net tangible assets**	**Unaudited pro forma adjusted combined net tangible assets value per Share**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$*
Based on an Offer Price of HK$2.86 per Share	323,128	15,841	263,350	602,319	1.51
Based on an Offer Price of HK$3.62 per Share	323,128	15,841	337,450	676,419	1.69

Notes:

1. The audited combined net tangible assets of the Group attributable to the equity holders of the Company has not taken into account the capitalisation of loans from Harmonious World in July 2006.

2. During the six months ended 30 June 2006, Harmonious World has provided certain advances (amounting to approximately HK$15,841,000) to the Group. The amount advanced to the Group was subsequently fully settled on 3 July 2006 by the allotment and issue of an aggregate of 365 shares of US$1 each in the capital of EGL, details of which was disclosed in the paragraph headed "Group reorganisation" in Appendix VI to this prospectus.

3. The estimated net proceeds from the Share Offer is based on the Offer Price of HK$2.86 or HK$3.62 per Share, after deduction of the underwriting fees and related expenses payable by the Company and taking no account of any Shares which may be allotted and issued upon the exercise of any Pre-IPO Share Options and any options which may be granted under the Share Option Scheme or Shares which may be allotted and issued or purchased by the Company pursuant to the general mandate for the allotment and issue or purchase of Shares referred to in the paragraph headed "Resolutions in writing of all the Shareholders passed on 25 November 2006" in Appendix VI to this prospectus.

4. The pro forma adjusted combined net tangible assets value per Share has been arrived at after making the adjustments referred to in this section and on the basis of a total of 400,000,000 Shares in issue immediately following completion of the Share Offer.

5. As at 31 October 2006, the Group's leasehold land and buildings were revalued by DTZ Debenham Tie Leung Limited, an independent firm of property valuers, and the related property valuation report is set out in Appendix IV to this prospectus. The net revaluation surplus, representing the excess of market value of the leasehold land and buildings and the prepaid land lease payment over their book carrying amounts are approximately HK$25,037,000 and HK$17,653,000 respectively. Such net revaluation surplus has not been included in the Group's unaudited management accounts as at 31 October 2006 and will not be included in the Group's financial statements for the year ending 31 December 2006. The above adjustment does not take into account the above revaluation surplus or the related additional depreciation and amortisation. Had the leasehold land and buildings and the prepaid land lease payment been stated at such valuation, an additional depreciation and amortisation for the four months ended 31 October 2006 of approximately HK$374,000 and HK$85,000, respectively would be charged against the combined income statement.

The purpose of this statement of unaudited pro forma adjusted combined net tangible assets is to illustrate the net tangible assets of the Group as a result of the listing of the Company and the capitalisation of loans from Harmonious World based on the audited combined net tangible assets of the Group as at 30 June 2006. Please note that the above unaudited pro forma statement of adjusted combined net tangible assets is prepared for illustrative purposes only, and that because of its nature, it may not give a true picture of the Company's financial position or results. Please refer to Appendix III to this prospectus for the opinion of the reporting accountants in relation to the unaudited pro forma adjusted combined net tangible assets.

UNAUDITED PRO FORMA FORECAST EARNINGS PER SHARE

The following unaudited pro forma forecast earnings per share for the year ending 31 December 2006 has been prepared in accordance with Rule 4.29 of the Listing Rules on the basis set out in the notes below for the purpose of illustrating the effect of the proposed public offering, as if it had taken place on 1 January 2006. The unaudited pro forma forecast earnings per share has been prepared for illustrative purposes only and, because of its nature, it may not give a true picture of the financial results of the Group following the proposed public offering.

	Forecast for the year ending 31 December 2006
Forecast combined profit attributable to equity holders of the Company *(Note 1)*	not less than HK$77 million
Unaudited pro forma forecast earnings per Share *(Note 2)*	HK$19.25 cents

Notes:

1. The forecast combined profit attributable to equity holders of the Company for the year ending 31 December 2006 is extracted from the profit forecast as set out in the subsection headed "Profit Forecast" under the section headed "Financial Information". The bases and assumptions on which the above profit forecast for the year ending 31 December 2006 has been prepared are summarised in Appendix III.

2. The calculation of the unaudited pro forma forecast earnings per Share is based on the forecast Net Profit for the year ending 31 December 2006 and on the assumptions that the Company had been listed since 1 January 2006 and that a total number of 400,000,000 Shares were in issue during the year ending 31 December 2006. The forecast Net Profit for the year ending 31 December 2006 has not taken into account any interest income that would have been earned if the proceeds from the Share Offer had been received on 1 January 2006.