08

INTERIM REPORT

STRIVING FOR EXCELLENCE

追求卓越

Embry Form

EMBRY HOLDINGS LIMITED

Incorporated in the Cayman Islands with limited liability

Stock Code: 1388

Website: www.embryform.com

Contents

Corporate information

Directors and Board Committees

Directors

Executive Directors
CHENG Man Tai *(Chairman)*
CHENG Pik Ho Liza *(Chief Executive Officer)*
NGOK Ming Chu
HUNG Hin Kit

Independent Non-executive Directors
LAU Siu Ki (alias, Kevin Lau)
LEE Kwan Hung
Prof. LEE T.S. (alias, Lee Tien-sheng)

Board Committees

Audit Committee
LAU Siu Ki (alias, Kevin Lau) *(Chairman)*
LEE Kwan Hung
Prof. LEE T.S. (alias, Lee Tien-sheng)

Remuneration Committee
CHENG Pik Ho Liza *(Chairman)*
LAU Siu Ki (alias, Kevin Lau)
LEE Kwan Hung
Prof. LEE T.S. (alias, Lee Tien-sheng)

Nomination Committee
CHENG Pik Ho Liza *(Chairman)*
LAU Siu Ki (alias, Kevin Lau)
LEE Kwan Hung
Prof. LEE T.S. (alias, Lee Tien-sheng)

Compliance Officer

CHENG Pik Ho Liza

Qualified Accountant

TAM Robert

Company Secretary

CHAU Kwok Ming

Registered Office

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Head Office and Principal Place of Business

7th Floor, Wyler Centre II
200 Tai Lin Pai Road
Kwai Chung, New Territories
Hong Kong

Principal Bankers

The Hongkong and Shanghai Banking Corporation Limited
Hang Seng Bank Limited
Nanyang Commercial Bank, Limited
Bank of China – Shenzhen Shangbu Branch
China Construction Bank – Shenzhen Buxin Branch
China Construction Bank – Shenzhen Tianbei Branch
China Merchants Bank – Shenzhen Dongmen Branch
China Merchants Bank – Shenzhen Shekou Branch

Legal Advisers

As to Hong Kong law:
Chiu & Partners

As to PRC law:
GFE Law Office

As to Cayman Islands law:
Conyers Dill & Pearman

Auditors

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

Share Registrars

Principal Share Registrar and Transfer Office in the Cayman Islands
Butterfield Fund Services (Cayman) Limited
Butterfield House
68 Fot Street
P.O. Box 705
George Town
Grand Cayman
Cayman Islands

Branch Share Registrar and Transfer Office in Hong Kong
Tricor Investor Services Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai, Hong Kong

Investor Relations

iPR Ogilvy Ltd.

Website

www.embryform.com

Stock Code

1388

The board of directors (the "Board" or "Directors") of Embry Holdings Limited (the "Company") is pleased to present the unaudited condensed consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 June 2008 together with the unaudited comparative figures for the corresponding period in 2007 and the relevant explanatory notes as set out below. The condensed consolidated results are unaudited, but have been reviewed by the audit committee of the Company.

Condensed consolidated income statement

	Notes	Six months ended 30 June **2008** **HK$'000** **(unaudited)**	 2007 HK$'000 (unaudited)
REVENUE		**489,166**	369,091
Cost of sales		**(113,275)**	(83,572)
Gross profit		**375,891**	285,519
Other income and gains	4	**15,621**	13,810
Selling and distribution expenses		**(279,549)**	(193,327)
Administrative expenses		**(59,460)**	(38,216)
Other expenses	5	**(2,565)**	(10)
Finance costs	6	**(2)**	(118)
PROFIT BEFORE TAX	7	**49,936**	67,658
Tax	8	**(10,305)**	(12,041)
PROFIT FOR THE PERIOD		**39,631**	55,617
DIVIDEND	10	**8,023**	8,000
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	11		
– Basic (HK cents)		**9.89**	13.90
– Diluted (HK cents)		**9.82**	13.74

Condensed consolidated balance sheet

	Notes	**30 June 2008 HK$'000 (unaudited)**	31 December 2007 HK$'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**206,344**	164,294
Investment property		**32,500**	31,000
Prepaid land lease payments		**3,908**	3,730
Deferred tax assets		**1,794**	–
Other deposits		**1,371**	1,988
Total non-current assets		**245,917**	201,012
CURRENT ASSETS			
Inventories		**327,775**	295,959
Trade receivables	12	**44,760**	31,912
Prepayments, deposits and other receivables		**20,566**	33,948
Due from a related company		**–**	22,400
Cash and cash equivalents		**354,384**	349,247
Total current assets		**747,485**	733,466
CURRENT LIABILITIES			
Trade and bills payables	13	**26,269**	32,842
Tax payable		**4,769**	3,604
Other payables and accruals		**73,710**	52,652
Total current liabilities		**104,748**	89,098
NET CURRENT ASSETS		**642,737**	644,368
TOTAL ASSETS LESS CURRENT LIABILITIES		**888,654**	845,380

Condensed consolidated balance sheet (continued)

	30 June 2008 HK$'000 (unaudited)	31 December 2007 HK$'000 (audited)
NON-CURRENT LIABILITIES		
Deferred liabilities	**3,388**	3,388
Deferred tax liabilities	**2,703**	2,532
Total non-current liabilities	**6,091**	5,920
Net assets	**882,563**	839,460
EQUITY		
Equity attributable to equity holders of the Company		
Issued capital	**4,011**	4,003
Reserves	**870,529**	811,457
Proposed dividends	**8,023**	24,000
Total equity	**882,563**	839,460

Condensed consolidated statement of changes in equity

	Attributable to equity holders of the Company										
	Issued capital HK$'000	Share premium account HK$'000	Contributed surplus HK$'000	Asset revaluation reserve HK$'000	Enterprise expansion and statutory reserve funds HK$'000	Exchange fluctuation reserve HK$'000	Goodwill reserve HK$'000	Share option reserve HK$'000	Retained profits HK$'000	Proposed dividends HK$'000	Total equity HK$'000
At 1 January 2008 (audited)	4,003	329,240	122,610	2,539	11,768	26,474	(3,168)	5,369	316,625	24,000	839,460
Exchange realignment	–	–	–	–	–	24,531	–	–	–	–	24,531
Total income and expenses recognised in equity	–	–	–	–	–	24,531	–	–	–	–	24,531
Profit for the period	–	–	–	–	–	–	–	–	39,631	–	39,631
Total income and expenses for the period	–	–	–	–	–	24,531	–	–	39,631	–	64,162
Issue of shares	8	2,337	–	–	–	–	–	(868)	–	–	1,477
Equity-settled share option arrangements	–	–	–	–	–	–	–	1,464	–	–	1,464
Share options lapsed	–	–	–	–	–	–	–	(436)	436	–	–
Final 2007 dividend declared	–	–	–	–	–	–	–	–	–	(24,000)	(24,000)
Proposed interim 2008 dividend	–	–	–	–	–	–	–	–	(8,023)	8,023	–
At 30 June 2008 (unaudited)	4,011	331,577*	122,610*	2,539*	11,768*	51,005*	(3,168)*	5,529*	348,669*	8,023	882,563

* *These reserves accounts comprise the consolidated reserves of HK$870,529,000 in the condensed consolidated balance sheet as at 30 June 2008.*

	Attributable to equity holders of the Company										
	Issued capital HK$'000	Share premium account HK$'000	Contributed surplus HK$'000	Asset revaluation reserve HK$'000	Enterprise expansion and statutory reserve funds HK$'000	Exchange fluctuation reserve HK$'000	Goodwill reserve HK$'000	Share option reserve HK$'000	Retained profits HK$'000	Proposed dividends HK$'000	Total equity HK$'000
At 1 January 2007 (audited)	4,000	327,270	122,610	2,539	12,657	8,561	(3,168)	584	225,184	24,000	724,237
Exchange realignment	–	–	–	–	–	7,849	–	–	–	–	7,849
Total income and expenses recognised in equity	–	–	–	–	–	7,849	–	–	–	–	7,849
Profit for the period	–	–	–	–	–	–	–	–	55,617	–	55,617
Total income and expenses for the period	–	–	–	–	–	7,849	–	–	55,617	–	63,466
Equity-settled share option arrangements	–	–	–	–	–	–	–	3,502	–	–	3,502
Final 2006 dividend declared	–	–	–	–	–	–	–	–	–	(24,000)	(24,000)
Proposed interim 2007 dividend	–	–	–	–	–	–	–	–	(8,000)	8,000	–
At 30 June 2007 (unaudited)	4,000	327,270	122,610	2,539	12,657	16,410	(3,168)	4,086	272,801	8,000	767,205

Condensed consolidated cash flow statement

	Six months ended 30 June	
	2008	2007
	HK$'000	HK$'000
	(unaudited)	(unaudited)
NET CASH INFLOW/(OUTFLOW) FROM:		
Operating activities	**29,361**	42,061
Investing activities	**84,008**	(280,303)
Financing activities	**(22,525)**	(48,518)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**90,844**	(286,760)
Cash and cash equivalents at beginning of period	**249,247**	431,225
Effect of foreign exchange rate changes, net	**14,293**	5,633
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**354,384**	150,098
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**145,005**	118,404
Non-pledged time deposits with original maturity of less than three months when acquired	**209,379**	31,694
	354,384	150,098

Notes to the condensed consolidated financial statements

1. Corporate Information

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 29 August 2006 under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, the Cayman Islands and the principal place of business of the Company is located at 7th Floor, Wyler Centre II, 200 Tai Lin Pai Road, Kwai Chung, New Territories, Hong Kong.

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

2. Basis of Preparation and Accounting Policies

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The accounting policies and basis of preparation adopted in the preparation of the interim financial statements are the same as those used in the Group's annual financial statements for the year ended 31 December 2007, except for the adoption of new Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, HKASs and Interpretations) that are adopted for the first time for the current period's condensed consolidated financial statements:

HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC) – Int 12	Service Concession Arrangements
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

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

3. Segment Information

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

4. Other Income and Gains

	Six months ended 30 June 2008 HK$'000 (unaudited)	2007 HK$'000 (unaudited)
Other income		
Bank interest income	**2,999**	6,304
Other interest income	**281**	–
Gross rental income	**1,102**	997
Others	**632**	610
	5,014	7,911
Gains		
Changes in fair value of an investment property	**1,500**	2,300
Foreign exchange differences, net	**9,107**	3,599
	10,607	5,899
	15,621	13,810

5. Other Expenses

	Six months ended 30 June 2008 HK$'000 (unaudited)	2007 HK$'000 (unaudited)
Charitable donation	**2,542**	–
Loss on write-off of items of property, plant and equipment	**23**	10
	2,565	10

6. Finance Costs

	Six months ended 30 June 2008 HK$'000 (unaudited)	2007 HK$'000 (unaudited)
Interests on bank loans and overdrafts repayable within five years	**2**	118

7. Profit before Tax

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

	Six months ended 30 June	
	2008	2007
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Cost of inventories sold	**113,275**	83,572
Depreciation	**12,988**	4,845
Amortisation of prepaid land lease payments	**20**	31
Minimum lease payments under operating leases in respect of:		
Land and buildings	**19,442**	12,318
Contingent rents of retail outlets in department stores	**119,889**	91,005
Advertising and counter decoration expenses	**48,224**	21,387

8. Tax

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 17.5%) on the estimated assessable profits arising in Hong Kong during the period. The decreased Hong Kong profits tax rate became effective from the year of assessment 2008/2009, and so is applicable to the assessable profits arising in Hong Kong for the whole of the period ended 30 June 2008.

Pursuant to the Corporate Income Tax Law (the "New PRC Tax Law") of the People's Republic of China (the "PRC") being effective on 1 January 2008, the PRC income tax rate is unified to 25% for all enterprises. Under an implementation guidance note of the New PRC Tax Law (the "Implementation Guidance"), enterprises established before the publication of the New PRC Tax Law were entitled to preferential treatments of a reduced corporate income tax rate ("CIT rate") granted by relevant tax authorities. The new CIT rate would be gradually increased from the preferential rate to 25% within 5 years after the effective date of the New PRC Tax Law on 1 January 2008. Enterprises that are currently entitled to exemptions or reductions from the standard income tax rate for a fixed term may continue to enjoy such treatment until the fixed term expires.

In addition, taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Six months ended 30 June	
	2008	2007
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Group:		
Current – Hong Kong	**1,532**	200
Current – Mainland China	**10,396**	11,387
Deferred	**(1,623)**	454
Total tax charge for the period	**10,305**	12,041

9. Related Party Transactions

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

	Notes	Six months ended 30 June **2008** **HK$'000** **(unaudited)**	 2007 HK$'000 (unaudited)
Continuing transactions			
Purchases of furniture for counters and shops from related companies	(i)	**10,995**	8,438
Rental expenses for a property paid to a related company	(ii)	**1,193**	–
Rental expenses for a warehouse paid to a director of the Company	(iii)	**72**	72
Discontinued transaction			
Interest income received from a related company	(iv)	**281**	–

Notes:

(i) The purchases of furniture for counters and shops from related companies controlled by a son of a director of the Company were made according to the terms similar to those offered to the Group's independent suppliers.

(ii) The rental expenses which were paid to a related company controlled by a director of the Company and two sons of a director of the Company were determined with reference to the then prevailing market conditions.

(iii) The rental expenses were determined with reference to the then prevailing market conditions.

(iv) The promissory note issued by a related company controlled by a director of the Company and two sons of a director of the Company carried interest which was determined after considering the prevailing interest rates offered by commercial banks in Hong Kong for commercial loans. The promissory note was fully settled in March 2008.

The above transactions constitute continuing connected transactions as defined in Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

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

9. Related Party Transactions (continued)

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

	Six months ended 30 June	
	2008	2007
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Short term employee benefits	**10,500**	6,343
Post-employment benefits	**174**	77
Equity-settled share option expenses	**1,145**	2,644
Total compensation paid to key management personnel	**11,819**	9,064

10. Dividend

	Six months ended 30 June	
	2008	2007
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Proposed interim – HK2.0 cents (2007: HK2.0 cents) per ordinary share	**8,023**	8,000

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

The calculation of basic earnings per share for the six months ended 30 June 2008 is based on the unaudited profit attributable to equity holders of the Company of HK$39,631,000 (2007: HK$55,617,000) and the weighted average of 400,847,000 (2007: 400,000,000) ordinary shares in issue during the period.

The calculation of diluted earnings per share for the six months ended 30 June 2008 is based on the unaudited profit attributable to equity holders of the Company of HK$39,631,000 (2007: HK$55,617,000). The weighted average number of ordinary shares used in the calculation is the 400,847,000 (2007: 400,000,000) ordinary shares as used in the basic earnings per share calculation, and the weighted average of 2,752,000 (2007: 4,730,000) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options outstanding during the period.

12. Trade Receivables

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

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

	30 June 2008 HK$'000 (unaudited)	31 December 2007 HK$'000 (audited)
Within 90 days	**43,792**	31,023
91 to 180 days	**968**	892
181 to 360 days	**272**	649
Over 360 days	**1,155**	1,026
	46,187	33,590
Less: Impairment allowance	**(1,427)**	(1,678)
	44,760	31,912

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

13. Trade and Bills Payables

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

	30 June 2008 HK$'000 (unaudited)	31 December 2007 HK$'000 (audited)
Within 90 days	**21,249**	28,403
91 to 180 days	**1,568**	2,601
181 to 360 days	**1,796**	746
Over 360 days	**1,656**	1,092
	26,269	32,842

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

14. Share Option Schemes

The Company adopted a pre-initial public offering share option scheme on 25 November 2006 (the "Pre-IPO Scheme") and a share option scheme on 18 December 2006 (the "Share Option Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group. Details of the schemes are disclosed in the annual financial statements for the year ended 31 December 2007.

Set out below are the outstanding share options under the Pre-IPO Scheme ("Pre-IPO Share Options") as at 30 June 2008:

	Number of share options							
Name or category of participant	At 1 January 2008	Granted during the period	Cancelled or lapsed during the period	Exercised during the period	At 30 June 2008	Date of grant of share options	Exercise period of share options*	Exercise price of share options # HK$ (per share)
Executive Directors								
Cheng Man Tai	873,000	–	–	(218,000)	655,000	25 November 2006	18 December 2007 to 17 December 2011	1.81
Cheng Pik Ho Liza	500,000	–	–	(125,000)	375,000	25 November 2006	18 December 2007 to 17 December 2011	1.81
Ngok Ming Chu	773,000	–	–	(193,000)	580,000	25 November 2006	18 December 2007 to 17 December 2011	1.81
Hung Hin Kit	332,000	–	–	(83,000)	249,000	25 November 2006	18 December 2007 to 17 December 2011	1.81
Independent non-executive Directors								
Lau Siu Ki	68,000	–	–	–	68,000	25 November 2006	18 December 2007 to 17 December 2011	1.81
Lee Kwan Hung	68,000	–	–	–	68,000	25 November 2006	18 December 2007 to 17 December 2011	1.81
Prof. Lee T.S.	68,000	–	–	–	68,000	25 November 2006	18 December 2007 to 17 December 2011	1.81
Other employees								
In aggregate	3,071,500	–	(531,500)	(197,000)	2,343,000	25 November 2006	18 December 2007 to 17 December 2011	1.81
	5,753,500	–	(531,500)	(816,000)	4,406,000			

As at 30 June 2008, no share options have been granted under the Share Option Scheme since its adoption.

14. Share Option Schemes (continued)

The weighted average closing share price at the date of exercise for share options exercised during the period was HK$4.65 per share.

The weighted average closing share price immediately before the date of exercise for share options exercised during the period was HK$4.76 per share.

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

* The Pre-IPO Share Options are vested to the grantees in the following manner:

- 25% of such options were vested on 18 December 2007 with an exercise period from 18 December 2007 to 17 December 2011;
- 25% of such options will be vested on 18 December 2008 with an exercise period from 18 December 2008 to 17 December 2011;
- 25% of such options will be vested on 18 December 2009 with an exercise period from 18 December 2009 to 17 December 2011; and
- the remaining 25% of such options will be vested on 18 December 2010 with an exercise period from 18 December 2010 to 17 December 2011.

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

The fair value of the Pre-IPO Share Options granted during the year ended 31 December 2006 was estimated at approximately HK$13,525,000, of which the Company recognised a share option expense of HK$1,464,000 (2007: HK$3,502,000) during the period. As at 30 June 2008, the equity-settled option expenses of HK$5,252,000 had not been recognised in the income statement.

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

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

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

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

14. Share Option Schemes (continued)

The 816,000 share options exercised during the period resulted in the issue of 816,000 ordinary shares of the Company and new share capital of HK$8,000 and share premium account of approximately HK$1,469,000. An amount of HK$868,000 has been transferred from the share option reserve.

At the balance sheet date, the Company had outstanding Pre-IPO Share Options for the subscription of 4,406,000 shares under the Pre-IPO Scheme. The exercise in full of the Pre-IPO Share Options would, under the present capital structure of the Company, result in the issue of 4,406,000 additional ordinary shares of the Company and additional share capital of approximately HK$44,000 and share premium account of approximately HK$7,931,000 (before issue expenses).

Subsequent to the balance sheet date and at the date of approval of these condensed consolidated financial statements, none of share options have been exercised and lapsed, respectively.

At the date of approval of these condensed consolidated financial statements, the Company had 4,406,000 Pre-IPO Share Options outstanding under the Pre-IPO Scheme, which represented approximately 1% of the issued share capital of the Company as at that date.

15. Operating Lease Arrangements

(a) As lessor

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

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

	30 June 2008 HK$'000 (unaudited)	31 December 2007 HK$'000 (audited)
Within one year	**2,165**	2,165
In the second to fifth years, inclusive	**270**	1,352
	2,435	3,517

15. Operating Lease Arrangements (continued)

(b) As lessee

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

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

	30 June 2008 HK$'000 (unaudited)	31 December 2007 HK$'000 (audited)
Within one year	**53,708**	48,586
In the second to fifth years, inclusive	**36,861**	28,837
After five years	**1,070**	–
	91,639	77,423

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

16. Commitments

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

	30 June 2008 HK$'000 (unaudited)	31 December 2007 HK$'000 (audited)
Contracted for commitments in respect of		
– the land lease payments in the PRC	**–**	5,948
– the acquisitions of property, plant and equipment	**7,253**	29,948
	7,253	35,896

17. Approval of the Condensed Consolidated Financial Statements

The condensed consolidated financial statements were approved and authorised for issue by the Board on 17 September 2008.

Management discussion and analysis

For the six months ended 30 June 2008 (the "Interim Period"), the Group's revenue amounted to approximately HK$489.2 million (2007: HK$369.1 million), representing an increase of 32.5%. The increase was mainly due to the opening of new stores and increase of same-store-sales growth in Mainland China by approximately 17.7%. Profit before tax of approximately HK$49.9 million was achieved (2007: HK$67.7 million), representing a decrease of approximately 26.3%. The profit attributable to equity holders of the Company for the Interim Period was approximately HK$39.6 million (2007: HK$55.6 million), representing a decrease of 28.8% comparing to the last period. Earnings per share of the Company was HK9.89 cents per share (2007: HK13.90 cents) based on the weighted average number of 400,847,000 shares (2007: 400,000,000 shares) in issue during the Interim Period, representing a decrease of 28.8% when compared to the last period.

Review of Operations

Benefited from strong economic growth and increased retail consumption in the People's Republic of China (the "PRC"), which includes Hong Kong and Macau, and the appreciation of Renminbi ("RMB"), the Group successfully generated a growth in revenue by 32.5% during the Interim Period. Further, the Group continued to enjoy economies of scale and increase the sales of patented products. In addition, the Group's younger brand, ***COMFIT***, which was first launched in 2006 and is targeting on the functional lingerie market, continued to perform well and its sales accounted for 6.2% (2007: 5.9%) of the Group's total revenue.

Revenue

Retail business continued to be the major source of revenue of the Group, contributing approximately 88.3% of the Group's total revenue during the Interim Period. The Group's products are currently sold through the retail outlets in Mainland China and Hong Kong under the Group's own brand names of ***EMBRY FORM***, ***FANDECIE***, ***COMFIT*** and ***LC***. Same as previous years, the Group continued the same strategy on expanding its sales network and strengthening its sales efforts during the Interim Period. On one hand, the Group continued opening more retail outlets in Mainland China and Hong Kong in order to capture the market share and to strengthen the Group's market presence and on the other hand, more efforts were placed to improve the store performance.

In order to capture the growing market demand for lingerie products, the Group strategically opened more new retail outlets. The Group had a net increase of 140 retail outlets during the Interim Period and totally operated 1,492 retail outlets, all are self-managed, as at 30 June 2008 as compared to 1,230 retail outlets as at 30 June 2007. There was no new flagship store opened during the Interim Period as good locations for flagship stores in Mainland China are difficult to find and they also normally demand a much higher rental.

Review of Operations (continued)

Revenue (continued)

Wholesale business grew by 107.9% to HK$44.9 million (2007: HK$21.6 million). This encouraging performance was a result of the new policy specially tailored for the wholesale business. Export business made a revenue of HK$12.5 million (2007: HK$19.6 million), a decrease of 36.2%. The amount represented 2.6% of the Group's total revenue. Limited by the existing production capacity and with a view to maximizing the return on its export business, the Group gradually changed its focus from original equipment manufacturer ("OEM") to original design manufacturer ("ODM") during the Interim Period when compared to the last period.

Gross profit

The Group's gross profit of HK$375.9 million for the Interim Period (2007: HK$285.5 million) represented a growth of approximately 31.7% as compared to the last period. Although labour costs increased significantly due to a high inflation rate and the new labour law requirements in the PRC, nonetheless, the Group was able to raise the average selling price of its products and emphasised on improving the labour efficiency to protect the profit margin. Hence, the gross profit margin decreased slightly to 76.8% from 77.4% in the last period.

Operating expenses

Overall, total operating expenses, excluding other income and gains, increased by 47.4% to HK$341.6 million (2007: HK$231.7 million). Other income and gains included mainly the foreign exchange gains arising from the RMB's appreciation of HK$9.1 million (2007: HK$3.6 million), and bank interest income of HK$3.0 million (2007: HK$6.3 million).

Selling and distribution expenses increased to HK$279.5 million (2007: HK$193.3 million), representing an increase of 44.6%. These expenses primarily consist of concessionaire fees and rental expenses of HK$137.3 million (2007: HK$102.5 million), sales personnel salaries and commissions of HK$67.6 million (2007: HK$45.9 million), and advertising and counter decoration expenses of HK$48.2 million (2007: HK$21.4 million). As a result of increased expenses in these operating areas, the ratio of selling and distribution expenses to revenue increased to 57.1% in 2008 from 52.4% in 2007.

Administrative expenses in 2008 totalled approximately HK$59.5 million (2007: HK$38.2 million), representing an increase of 55.8%. These expenses primarily consist of management and administrative personnel salaries, including directors' emoluments, and other staff costs of HK$29.2 million (2007: HK$18.1 million), and depreciation expenses of HK$7.4 million (2007: HK$3.1 million). Hence, the ratio of administrative expenses to revenue increased to 12.2% in 2008 from 10.4% in 2007.

Review of Operations (continued)

Net profit

The profit attributable to equity holders of the Company for the Interim Period was approximately HK$39.6 million (2007: HK$55.6 million), decreased by approximately HK$16.0 million which represented a decrease of 28.8%. The decrease resulted from the increase in cost of sales and operating expenses in a significantly greater rate as compared to that of the increase in revenue.

Brand management

The Group's products are principally sold under its self-owned brand names ***EMBRY FORM***, ***FANDECIE***, ***COMFIT*** and ***LC***. The four brands were separately managed, each having its own distinctive target customer groups. The multi-brand strategies had kept bringing competitive edge and synergy effects on brand building and generate market potential in the PRC retail market.

Revenue generated from ***EMBRY FORM*** and ***FANDECIE*** accounted for 61.3% and 29.9% respectively of the Group's revenue for the Interim Period. ***COMFIT*** successfully diversified the Group's product line and sales of the ***COMFIT*** series of products accounted for 6.2% of the Group's total revenue whereas sales of ***LC*** were minimal. The Directors are optimistic that ***COMFIT*** will become a significant source of the Group's revenue and growth driver for the future. With respect to ***LC***, the Directors believe that 2008 is still not the appropriate time to put too much resources in promoting the brand based on the current consumers' spending pattern in the PRC.

During the Interim Period, the Group had been active in organising promotional activities in department stores or shopping malls to promote its patented products and increase the brand awareness. Increased exposure of the three brands could also be seen in magazines and at public transport stations in Hong Kong and major cities in Mainland China. The Directors believe that the increase of promotion and advertising expenditure is for the long term benefit of the Group, mainly in strengthening the brand image and maintaining the long term relationships with loyal customers. The Group also increased its inventory level to cope with stores' expansion and to ensure that sufficient stocks were kept at each retail outlet.

Appropriate training was also provided to the frontline sales and management staff regularly to enhance their product knowledge and selling skills.

Production capacity

During the Interim Period under review, the aggregate annual production capacity of the Group amounted to 14.8 million standard product units.

Review of Operations (continued)

Product development

During the Interim Period, the sales of lingerie, sleepwear, swimwear, ODM/OEM products and other products accounted for approximately 87.3%, 5.4%, 4.3%, 2.6% and 0.4% respectively of the Group's total revenue. Sales of lingerie remained the key contributor to the Group's revenue and profit.

The Directors consider product development and excellent product quality to be vital for the Group to maintain its competitive advantages and improve the market potential of its products. The Group's research and development team focuses on practical areas that are closely related to the functionalities and features of the Group's products. As at 30 June 2008, the Group had 48 patent registrations and 20 outlook design registrations registered in various countries.

Human resources

As at 30 June 2008, the Group had approximately 6,500 employees. Remuneration of employees is determined and reviewed periodically with reference to the market demand, individual qualifications and performance and working experience, and certain staff members are entitled to commission and share options. In addition to the basic salaries, the Group also provides, depending on the results of the Group and individual performance, discretionary bonus in order to retain quality employees. The Group has also adopted a Pre-IPO Scheme to recognise and reward the contribution of certain Directors and employees of the Group to the growth and development of the Group. The Group has also adopted a Share Option Scheme, the primary purpose of which is to motivate the eligible persons referred to in the scheme, which includes employees of the Group, to optimise their future contributions to the Group and to reward them for their efforts. Other than the above, the Group also provides employees with mandatory provident fund schemes and fringe benefits including reimbursements of medical expenses.

Review of Financial Position

Liquidity and financial resources

The Group generally finances its operations with internally generated cashflow and bank facilities provided by its principal bankers. The financial position of the Group continued to remain sound and healthy during the Interim Period. As at 30 June 2008, the Group had cash and bank balances of approximately HK$354.4 million (31 December 2007: HK$349.2 million). The Group had no outstanding interest bearing bank borrowings and remained a net cash position as at 30 June 2008 and as at 31 December 2007. The gearing ratio, being total interest-bearing bank borrowings divided by total assets, was therefore nil as at 30 June 2008 and as at 31 December 2007.

Review of Financial Position (continued)

Capital structure

As at 30 June 2008, the total issued share capital of the Company was approximately HK$4.0 million (31 December 2007: HK$4.0 million), comprising 401,130,500 (31 December 2007: 400,314,500) ordinary shares of HK$0.01 each. The increase in the number of issued shares resulted from the exercise of share options granted under the Pre-IPO Scheme by certain employees of the Group, details of which are set out in note 14 to the financial statements.

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

In order to strengthen the production operation and further expand the production capacity, the Group established a new factory in Zhangqiu City, Shandong Province, the PRC (the "Shandong Factory"). At the date of this report, the first-phase construction of the Shandong Factory was completed. The renovation work and installation of all production facilities was substantially completed. Trial production started in the first quarter of 2008 and commercial production commenced in the second quarter of 2008. As at 30 June 2008, the Group had utilised HK$111.3 million for the establishment of the Shandong Factory.

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

Capital expenditure

Total capital expenditure of the Group during the Interim Period amounted to HK$77.0 million as compared to HK$28.4 million for the last period, of which HK$31.9 million was incurred for the construction of the Shandong Factory, HK$45.1 million was incurred by the retail and distribution business mainly for the renovation of its retail outlets in Mainland China and acquisition of information technology systems.

Charges on the Group's asset

As at 30 June 2008, the Group did not have any assets which were pledged to secure banking facilities granted to the Group.

Foreign currency exposure

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

Review of Financial Position (continued)

Contingent liabilities

The Group had no significant contingent liabilities as at 30 June 2008.

Prospects

Although the Group will face more challenges caused by the global inflation, the Directors are optimistic about the growth potential in the lingerie industry and the future market demand for lingerie products.

In the second half of the year, the Group will continue to maintain a pragmatic expansion strategy with strong emphasis on profitability and efficiency.

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

Based on our understanding of the development of the consumer market for the lingerie industry and the future market demand for lingerie products in the PRC, we believe that the consumer market for lingerie will continue to grow over the next couple of years. The Group will strive to maintain its continuously leading position in the industry in the PRC.

Directors' Interests and Short Positions in Shares and Underlying Shares

At 30 June 2008, the interests and short positions of the Directors in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

Long positions in ordinary shares of the Company:

Name	Capacity and nature of interest	Shares/equity derivatives	Number of shares/equity derivatives held	Percentage of the Company's issued share capital
Cheng Man Tai	Interest of controlled corporations	Ordinary shares (Note 1)	287,550,850	71.69
	Beneficial owner	Ordinary shares	968,000	0.24
	Beneficial owner	Share options (Note 2)	655,000	0.16
Cheng Pik Ho Liza	Beneficial owner	Ordinary shares	7,938,555	1.98
	Beneficial owner	Share options (Note 2)	375,000	0.09
Ngok Ming Chu	Interest of controlled corporations	Ordinary shares (Note 1)	287,550,850	71.69
	Beneficial owner	Ordinary shares	193,000	0.05
	Beneficial owner	Share options (Note 2)	580,000	0.14
Hung Hin Kit	Beneficial owner	Ordinary Shares	83,000	0.02
	Beneficial owner	Share options (Note 2)	249,000	0.06
Lau Siu Ki	Beneficial owner	Share options (Note 2)	68,000	0.02
Lee Kwan Hung	Beneficial owner	Share options (Note 2)	68,000	0.02
Prof. Lee T.S.	Beneficial owner	Share options (Note 2)	68,000	0.02

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

Long positions in shares of an associated corporation:

Name	Name of associated corporation	Relationship with the Company	Shares/equity derivatives	Number of shares	Capacity and nature of interest	Percentage of the associated corporation's issued share capital
Cheng Man Tai	Harmonious World	Ultimate holding company	Ordinary shares	57.91 shares of US$1 each	Directly beneficially owned	59.09
Ngok Ming Chu	Harmonious World	Ultimate holding company	Ordinary shares	40.09 shares of US$1 each	Directly beneficially owned	40.91

Notes:

1. These shares are held as to 286,279,660 shares by Harmonious World and as to 1,271,190 shares by Fairmout Investments Limited ("Fairmout Investments"). Harmonious World is owned as to 59.09% by Mr. Cheng Man Tai and as to 40.91% by Madam Ngok Ming Chu. Fairmout Investments is owned as to 50% by Mr. Cheng Man Tai and as to 50% by Madam Ngok Ming Chu.

2. These represent the number of shares which will be allotted and issued to the respective Directors upon the exercise of the share options of the Pre-IPO Scheme granted to each of them, details of which are disclosed in note 14 to the condensed consolidated financial statements.

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

Save as disclosed above, as at 30 June 2008, none of the Directors had registered an interest or short position in the shares, underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Directors' Rights to Acquire Shares or Debentures

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

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

At 30 June 2008, the following interests of 5% or more of the issued share capital of the Company (other than the Directors of the Company) were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions:

Name	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Harmonious World	Directly beneficially owned (Note)	286,279,660	71.37
Fidelity International Limited	Investment manager	28,729,000	7.16

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

Save as disclosed above, as at 30 June 2008, no person, other than the Directors, whose interests are set out in the section headed "Directors' interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

Interim Dividend

The Board has resolved to declare the payment of an interim dividend of HK2.0 cents per ordinary share in respect of the Interim Period, to shareholders registered on the register of members on Tuesday, 14 October 2008, resulting in an appropriation of approximately HK$8.0 million. The above-mentioned interim dividend will be payable on or before 22 October 2008.

Closure of Register of Members

The register of members of the Company will be closed from Friday, 10 October 2008 to Tuesday, 14 October 2008, both dates inclusive. During such period, no transfer of shares will be registered. In order to qualify for the interim dividend, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrar in Hong Kong, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Thursday, 9 October 2008.

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

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

Compliance with the Code on Corporate Governance Practices

In the opinion of the Directors, the Company has complied with the code provisions of the Code on Corporate Governance Practices ("CG Code") as set out in Appendix 14 to the Listing Rules throughout the Interim Period save for the deviations from code provisions A.1.7, A.2.1 and D.1.2.

Under code provision A.1.7 of the CG Code, there should be a procedure agreed by the board to enable directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the issuer's expense. The board should resolve to provide separate independent professional advice to directors to assist the relevant director or directors to discharge his/their duties to the issuer. In order to ensure full compliance with this code provision, a written "Procedure for Seeking Independent Professional Advice by Directors" has been formulated in writing and endorsed by the Board.

Under the second part of code provision A.2.1 of the CG Code, the division of responsibilities between the chairman and the chief executive officer should be clearly established and set out in writing. In order to ensure full compliance with this code provision, the division of the responsibilities between the chairman and the chief executive officer of the Company has been formulated in writing and endorsed by the Board.

Under the first part of code provision D.1.2 of the CG Code, an issuer should formalise the functions reserved to the board and those delegated to the management. In order to ensure full compliance with this code provision, the division of the functions between the Board and the Group's management has been formulated in writing and endorsed by the Board.

Model Code for Securities Transactions by Directors

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

On behalf of the Board

Cheng Man Tai
Chairman

Hong Kong
17 September 2008