

RISK FACTORS

Potential investors should carefully consider all information set out in this prospectus and, in particular, should consider the following risks and special considerations associated with an investment in the Company before making any investment decision in relation to the Company.

RISKS RELATING TO THE GROUP

The Group may not be able to sustain growth in revenue and Net Profit and/or implement its expansion plan successfully

For each of the three years ended 31 December 2005 and the six months ended 30 June 2006, the Group recorded revenue of approximately HK\$429.3 million, HK\$508.5 million, HK\$550.0 million and HK\$314.1 million respectively. During the same periods, the Net Profit was approximately HK\$14.7 million, HK\$42.1 million, HK\$44.4 million and HK\$40.3 million respectively. The business of the Group is largely influenced by the economy and the fashion markets of the PRC and Hong Kong. There can be no assurance that the revenue and the Net Profit will continue to grow in the coming years.

The Group intends to expand its operations and increase its revenue by increasing the number of retail outlets and establishing new manufacturing facilities. Whether the Group's plan to do so can be successfully implemented is dependent upon a number of factors, including, amongst other things, its ability to manage such expansion and to hire and train sufficiently qualified workers, the availability of capital to build new manufacturing facilities and the successful negotiation of terms for renting locations for new retail outlets acceptable to the Group. There is no assurance that the Group will be able to expand manufacturing facilities and open and operate new retail outlets on a timely basis and/or operate the expanded business profitably. If the Group is unable to implement its expansion plan successfully, the Group's operating results could be adversely affected.

The Group may not be able to renew the leases/licences for its Retail Stores or Concessions on favourable terms

All of the Group's Retail Stores and Concessions are located at properties leased or areas licensed from Independent Third Parties. There is no assurance that the leases or licences for these Retail Stores or Concessions will be renewed on expiry or if renewed, on terms and conditions which are acceptable or favourable to the Group. If such leases are not renewed or cannot be renewed on terms which are acceptable to the Group, the Group will have to relocate its Retail Stores or Concessions and if the Group is unsuccessful in doing so, the Group's business, operating results and financial condition may be adversely affected.

RISK FACTORS

Some of the Group's leased properties in the PRC possess defects in title and/or the relevant leases have not been registered with the relevant authorities

As at Latest Practicable Date, the Group had a total of 98 leased properties in the PRC. All of such properties are leased 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. In respect of these leases, the Company's PRC legal advisers are unable to confirm whether the parties named as landlords in these leases have the legal right to execute the relevant leases, whether such parties have the legal right to let or sub-let the relevant properties, or whether they can assume duties and responsibilities as the legal landlords under such leases. For these reasons, the Company's PRC legal advisers cannot confirm whether such leases are valid and enforceable or whether the rights of the Group are protected under the PRC law. For the three years ended 31 December 2005 and the six months ended 30 June, 2006, approximately 0.57%, 0.95%, 1.41% and 1.24% of the total revenue of the Group was attributable to retail outlets operated at these leased properties.

If there is any dispute as to the legal title of any of such leased properties and/or if the Group's right to occupy the properties comes into question, the relevant Retail Stores may have to be vacated and relocated elsewhere. The Group may, as a result, incur additional expenses in relocation and the Group may not be able to identify another property which is comparable in size and location. In such cases, the Group's business and financial condition may be affected.

In respect of these 28 leased properties in the PRC, the Group will continue to request the relevant landlords to provide the title documents 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.

The Group's image and profitability may be adversely affected if there are any infringements of the Group's trademarks and other intellectual property rights, and counterfeit products

The Group uses its own trademarks for the marketing and sales of its products. Further details of the Group's trademarks and other intellectual property rights are set out in Appendix VII to this prospectus. The Group believes that certain of its trademarks and other intellectual property rights are important to its success and its competitive position and therefore it is the policy of the Group to register, subject to applicable regulatory restrictions and requirements, all its trademarks and other intellectual property rights incidental to its business in the PRC, Hong Kong and other target markets of the

RISK FACTORS

Group. Nevertheless, there can be no assurance that such registration, if successful, can be effective in preventing third party from imitating the Group's products, brand, patents and designs. If there is any infringement of the Group's trademarks and other intellectual property rights, and counterfeit products, the Group's image, business, operating results and financial condition may be adversely affected.

The Group maintains comparably high level of inventory. Sudden decrease in market demand for the Group's products may lead to obsolete inventories

The average inventory turnover days (being average inventories balance divided by revenue and multiplied by 365 days) of the Group were approximately 148.3 days, 129.7 days, 125.0 days and 119.2 days respectively for each of the three years ended 31 December 2005 and the six months ended 30 June 2006. For each of the three years ended 31 December 2005 and the six months ended 30 June 2006 respectively, provisions for obsolete inventories of approximately nil, HK\$1.9 million, HK\$4.5 million, and HK\$1.0 million were made. If market demand for the Group's products suddenly decreases or if the products are not as popular as anticipated by the Group's management or if there is a deterioration in the conditions of the PRC and/or Hong Kong economy, the Group's inventory may accumulate and the Group's operations and liquidity may be adversely affected. Details of the Group's inventory management are set out in the paragraph headed "Inventory control" in the section headed "Business" in this prospectus.

Power shortages may lead to disruption in the Group's business

There have been electricity shortages in Shenzhen and Changzhou where the Group's manufacturing operations are situated. Although the Group has maintained backup power systems, there can be no assurance that the Group will always have adequate supplies of electricity to meet its manufacturing requirement. In such cases, the Group's operating results, business or financial condition will be adversely affected.

The Group's success, to a certain extent, relies on its key management

The Directors believe that the Group's success is, to a certain extent, attributable to the expertise and experience of its key management team, which includes Mr. Cheng Man Tai, Ms. Cheng Pik Ho Liza, Madam Ngok Ming Chu and Mr. Hung Hin Kit and their well-established relationship with department stores, in which the Group's Concessions are located, and the Group's suppliers. Although each of Mr. Cheng Man Tai, Ms. Cheng Pik Ho Liza, Madam Ngok Ming Chu and Mr. Hung Hin Kit has entered into a service agreement as an executive Director with the Company for a term of three years, their directorates are subject to the rotation and retirement provisions in the Articles. The Group's operation and profitability may be adversely affected if any of them ceases to be involved in the Group's management.

The Group's production is, to a certain extent, reliant on its skilled labour

The Group's production relies, to a certain extent, on its skilled labour. If the Group fails to retain its existing skilled labour and/or recruit production labour with suitable skills and experience in a timely manner in line with its expansion plans, its ability to deliver products on schedule may be affected and its operation can be adversely affected accordingly.

RISK FACTORS

Increased cost of fabrics not matched by cost reduction in other production areas or increase in selling price may adversely affect the Group's results

During the three years ended 31 December 2005 and the six months ended 30 June 2006, the cost of the raw materials, which are principally fabrics and included in cost of sales of the Group, accounted for approximately 75.2%, 76.1%, 78.4% and 76.3% respectively of the corresponding total cost of sales of the Group. Any significant increase in the cost of fabrics in the future if not matched by corresponding cost reduction in other areas or increase in selling price of the Group's products or a combination of both may adversely affect the business, operating results and financial condition of the Group.

The historical dividends of the Group should not be treated as indicator of future dividend policy

During the Track Record Period, the Group declared and paid dividends of HK\$150 million for the year ended 31 December 2005. All dividends declared were settled in cash. There is no assurance that dividends of similar amounts or at similar rates will be paid in the future. Further discussion on the Group's dividend policy is set out in the section headed "Financial information" in this prospectus. Past dividends should not be used as a reference for the Company's dividend policy nor used as a basis to forecast dividends payable in the future.

Certain PRC subsidiaries of the Company enjoy preferential tax treatment and subsidy income which may be subject to change in the future

Embry SZ and Embry CZ are located in the Shenzhen Special Economic Zone and Changzhou in the PRC respectively. Each of them is entitled to a preferential income tax rate of 15% and 27% respectively as being a foreign investment enterprise in that area whereas other business enterprises in the PRC are, in general, subject to enterprise income tax at the rate of 33%. In addition, the Group has also received subsidy income from the PRC government in relation to VAT refund and in recognition of the Group's contribution as "superbrand" enterprise in the PRC during the Track Record Period. There is no assurance that such preferential tax treatment or subsidy income may not be changed in the future so as to result in the Group being subject to a higher income tax rate generally applicable to PRC companies or losing subsidy income. If there are any such changes, the Group's profitability may be adversely affected.

The Company is an investment holding company which relies on dividend payments from its subsidiaries for funding

The Company is an investment holding company which conducts operations through its subsidiaries. It therefore does not have operating cash flow to finance itself to make payments such as dividends and service of indebtedness. Dividend payments from its subsidiaries would be the major source of funding for the Company. If its subsidiaries incur debt or losses, such indebtedness or loss may impair their ability to pay dividends or other distributions to the Company. As a result, the Company may not be able to pay dividends and to service its indebtedness.

RISK FACTORS

The PRC laws require that dividends be paid only out of the net profit calculated according to PRC accounting principles, which differ in many aspects from Hong Kong Financial Reporting Standards (“HKFRS”). PRC laws also require foreign investment enterprises, including some of the members of the Group, to set aside part of their net profit as statutory reserves. These statutory reserves are not available for distribution as cash dividends. In addition, members of the Group may in the future take out or enter into bank credit facilities, joint venture agreements or other agreements that may contain restrictive covenants which restrict the ability of such members to make contributions to the Company and the Company’s ability to receive distributions. As such, these restrictions on availability and usage of the Company’s major source of funding may impact the Company’s ability to pay dividends to the Shareholders and to service its indebtedness.

RISKS RELATING TO THE INDUSTRY

The Group faces competition from both the PRC and international lingerie companies in the PRC and Hong Kong

The Group is engaged in the design, manufacture and distribution of ladies’ intimate apparel. The Directors believe that the Group faces competition from both the PRC and international market players of lingerie industry in the PRC and Hong Kong. The brand names of a number of international market players are more established than those of the Group. There is no assurance that such international competitors will not increase its market share to the detriment of the Group. In the event that the Group fails to sustain its competitive advantages or to effectively implement its business strategies, the Group’s business, operations and financial position may be materially and adversely affected.

Changes in trend of the fashion market may affect the Group’s business

The Directors believe that the success of the Group depends largely on its ability to originate and define products and fashion trends as well as to anticipate, gauge and react to changing consumer demands in a timely manner. There can be no assurance that the Group will be able to continue to develop products which appeal to consumers or successfully meet the constantly changing consumer demands in the future. Any failure on the Group’s part to anticipate, identify and respond effectively to the changing consumer demands and fashion trends could adversely affect retail and consumer acceptance of the Group’s products and leave the Group with a substantial amount of unsold inventory, missed opportunities, brand image problems and as such could adversely affect results of operations of the Group.

There can be no assurance that the Group will be able to maintain its historical growth in revenues or earnings, or remain profitable in the future. Further, a recession in the global economy, Asia or the PRC or uncertainties regarding future economic prospects of the PRC could affect consumer spending habits and have an adverse effect on the business, operating results and financial condition of the Group in a material respect.

RISK FACTORS

RISKS RELATING TO THE PRC

Changing conditions in the apparel retail industry in the PRC may adversely affect the Group's operations

The results of operations of the Group's business are susceptible to the changing conditions of the PRC retail market. With the accession of China to the World Trade Organisation, changes and developments in the apparel retail industry may be volatile and unpredictable. For example, the reduction in tariffs on garment merchandise of other international brands after the liberalisation of the PRC textiles and clothing market may intensify the competition in the apparel industry in the PRC. This may have a material adverse impact on the business, operating results and financial condition of the Group.

Change in the PRC judicial, political and economic conditions may adversely affect the Group's operations

Most of the Group's retail outlets are situated in the PRC. Besides, all of the Group's production facilities are in the PRC. Changes in the political and economic environment in the PRC and policies adopted by the PRC government (including changes in laws and regulations relating to retail industry or their interpretation thereof) to regulate its economy may adversely affect the business, operating results and financial condition of the Group in the PRC.

The PRC economy has been transitioning from a centrally planned economy to a more market-oriented economy. For more than two decades, the PRC government has implemented economic reform measures emphasising utilisation of market forces in the development of the PRC economy. Although the Directors believe these reforms will have a positive effect on China's overall and long-term development, the Group cannot predict whether changes in the PRC political, economic and social conditions, laws, regulations and policies will have any adverse effect on its current or future business, financial condition or results of operations.

Regional outbreak of SARS or other epidemics, such as avian flu, may adversely affect the Group's operations

Some regions in the PRC, including the cities where the Group operates, are susceptible to epidemics such as SARS. Past occurrences of epidemics, depending on their scale of occurrence, have caused different degrees of damage to the national and local economies in China. A recurrence of SARS or an outbreak of any other epidemics in the PRC, such as the avian flu, especially in the cities where the Group has operations, may result in material disruptions to our sales and operations, which in turn will adversely affect the Group's financial condition and profitability.

RISK FACTORS

Changes in the PRC foreign exchange regulations may affect the Company's ability to pay dividends or to satisfy other foreign exchange requirements

During the Track Record Period, approximately 77.3%, 77.5%, 80.8% and 83.7% of the Group's total revenue derived in the PRC was denominated in RMB. The PRC has adopted a stringent foreign exchange policy. Restrictions on the conversion of RMB into foreign currencies affect the Group's ability to convert RMB into foreign currencies in order to pay for imported raw materials and to distribute dividends. Any tightening of such restrictions could have an adverse effect on the Group, as well as on the payment of dividends to Shareholders.

Fluctuations in the exchange rate of RMB may materially and adversely affect the Group's operations and financial results

The value of RMB against other foreign currencies is subject to changes in the PRC government's policies and international economic and political developments. There can be no assurance that RMB will not become volatile against other foreign currencies as a result of a change in policies and international economic and political developments. If RMB becomes volatile or if it suffers a devaluation, the Group's business, operating results and financial condition may be adversely affected.

RISKS RELATING TO THE SHARE OFFER

There has been no prior public market for the Shares. Liquidity may be low and the market price may be volatile

Prior to the Share Offer, there has been no public market for the Shares. The Offer Price for the Shares was the result of negotiations among the Company and the Lead Manager (for itself and on behalf of the Underwriters). The Offer Price may differ significantly from the market price for the Shares following the Share Offer. The Company has applied for the listing of, and permission to deal in, its Shares on the Stock Exchange. However, being listed on the Stock Exchange does not guarantee that an active trading market for the Shares will develop, or what if it does develop, it will be sustained following the Share Offer, or that the market price of the Shares will not decline following the Share Offer.

The price and trading volume of the Shares will be determined in the market place and may be highly volatile. Factors such as variations in the Group's revenue, earnings and cash flows, changes in or challenges to the Group's business, announcements of new investments or acquisitions, the depth and liquidity of the market for the Shares, investors' perceptions of the Company and of the PRC, and general political, economic, social and market conditions in the PRC, Hong Kong or other parts of Asia might cause the market price of the Shares to change substantially.

RISK FACTORS

Shareholders' interests in the share capital of the Company may be diluted in the future

The Company has in place the Pre-IPO Share Option Scheme under which options entitling the holder thereof to subscribe for an aggregate of 6,510,000 Shares have been granted, representing approximately 1.63% of the Company's total issued share capital immediately following completion of the Share Offer (assuming no exercise of the Over-allotment Option or the option granted under the Pre-IPO Share Option Scheme) and the Capitalisation Issue. The Company has also adopted the Share Option Scheme although no options have been granted thereunder.

Any exercise of the options granted under the Pre-IPO Share Option Scheme or to be granted under the Share Option Scheme in the future and issuance of Shares thereunder would result in the reduction in the percentage ownership of the Shareholders and may result in a dilution in the earnings per Share and net asset value per Share, as a result of the increase in the number of Shares outstanding after the issuance.

Under the HKFRS, the costs of share options granted to employees under the Pre-IPO Share Option Scheme and the Share Option Scheme will be charged to the Group's income statement over the vesting period by reference to the fair value at the date at which the share options are granted. As a result, the Group's profitability may be adversely affected.

The Company cannot guarantee the accuracy of facts and statistics contained in this prospectus with respect to the PRC and Hong Kong, their respective economy or fashion industry

Facts and statistics in this prospectus relating to the PRC and Hong Kong, their respective economy and fashion industry and certain sections thereof are derived from various publicly available official sources generally believed to be reliable. However, the Company cannot guarantee the quality and reliability of such source materials. These facts and statistics have not been independently verified by the Company and therefore the Company makes no representation as to the accuracy of such facts and statistics, which may not be consistent with other information compiled within or outside the relevant jurisdiction and may not be complete or up-to-date. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the statistics herein may be inaccurate or may not be comparable from period to period or to statistics produced for other economies and should not be unduly relied upon. Further, there can be no assurance that they are stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere. Nonetheless, the Directors have taken reasonable care in reproducing in this prospectus such facts and statistics from their respective government official sources.

In all cases, investors should give consideration as to how much weight or importance they should place on all such facts and statistics.

RISK FACTORS

Risks associated with forward-looking statements

This prospectus contains certain statements and information that are “forward-looking” and uses forward-looking terminology such as “anticipate”, “believe”, “could”, “expect”, “estimate”, “may”, “ought to”, “should” or “will”. Those statements include, among other things, the discussion of the Group’s growth strategy and expectations concerning its future operations, liquidity and capital resources. Investors of the Shares are cautioned that reliance on any forward-looking statements involves risks and uncertainties and that, although the Company believes the assumptions on which the forward-looking statements are based are reasonable, any or all of those assumptions could prove to be incorrect and as a result, the forward-looking statements based on those assumptions could also be incorrect. The uncertainties in this regard include, but are not limited to, those identified in this “Risk factors” section, many of which are not within the Group’s control. In light of these and other uncertainties, the inclusion of forward-looking statements in this prospectus should not be regarded as representations by the Company that its plans, or objectives will be achieved and investors should not place undue reliance on such forward-looking statements. The Company does not undertake any obligation to update publicly or release any revisions of any forward-looking statements, whether as a result of new information, future events or otherwise.