

INTERIM REPORT 2007



Hembly International
Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

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corporate information

BOARD OF DIRECTORS

Executive Directors

Mr. Ngok Yan Yu (*Chairman*)
Mr. Lam Hon Keung, Keith
Ms. Tang Chui Yi, Janny
Mr. Wong Ming Yeung
Mr. Marcello Appella

Non-executive Directors

Mr. Antonio Piva
Mr. Je Kin Ming

Independent Non-Executive Directors

Mr. Lo Ming Chi, Charles
Mr. Pao Ping Wing
Mr. Kwan Hung Sang, Francis

COMMITTEES

Audit Committee

Mr. Lo Ming Chi, Charles (*Chairman*)
Mr. Pao Ping Wing
Mr. Kwan Hung Sang, Francis

Nomination Committee

Mr. Ngok Yan Yu (*Chairman*)
Mr. Lo Ming Chi, Charles
Mr. Pao Ping Wing
Mr. Kwan Hung Sang, Francis

Remuneration Committee

Mr. Pao Ping Wing (*Chairman*)
Mr. Kwan Hung Sang, Francis
Mr. Ngok Yan Yu

JOINT COMPANY SECRETARIES

Ms. Kwan Shin Luen, Susanna
Mr. Yeung Kwong Wai

AUTHORIZED REPRESENTATIVES

Mr. Ngok Yan Yu
Ms. Kwan Shin Luen, Susanna

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

36/F., No. 1 Hung To Road
Kwun Tong
Kowloon
Hong Kong

AUDITORS

Deloitte Touche Tohmatsu

LEGAL ADVISERS

Conyers Dill and Pearman

COMPLIANCE ADVISOR

Taifook Capital Limited

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking
Corporation Limited

Hang Seng Bank Limited

Standard Chartered Bank
(Hong Kong) Limited

Bank of China (Hong Kong) Limited

SHARE REGISTRARS AND TRANSFER OFFICES

Principal Registrar in Cayman Islands

Butterfield Fund Services
(Cayman) Limited

Butterfield House

68 Fort Street

P.O. Box 705

George Town

Grand Cayman

British West Indies

Branch Registrar in Hong Kong

Tricor Investor Services Limited

26th Floor, Tesbury Centre

28 Queen's Road East

Wanchai

Hong Kong

CORPORATE WEBSITE

www.hembly.com

STOCK CODE

3989

management discussion and analysis

BUSINESS AND FINANCIAL REVIEW

OVERVIEW

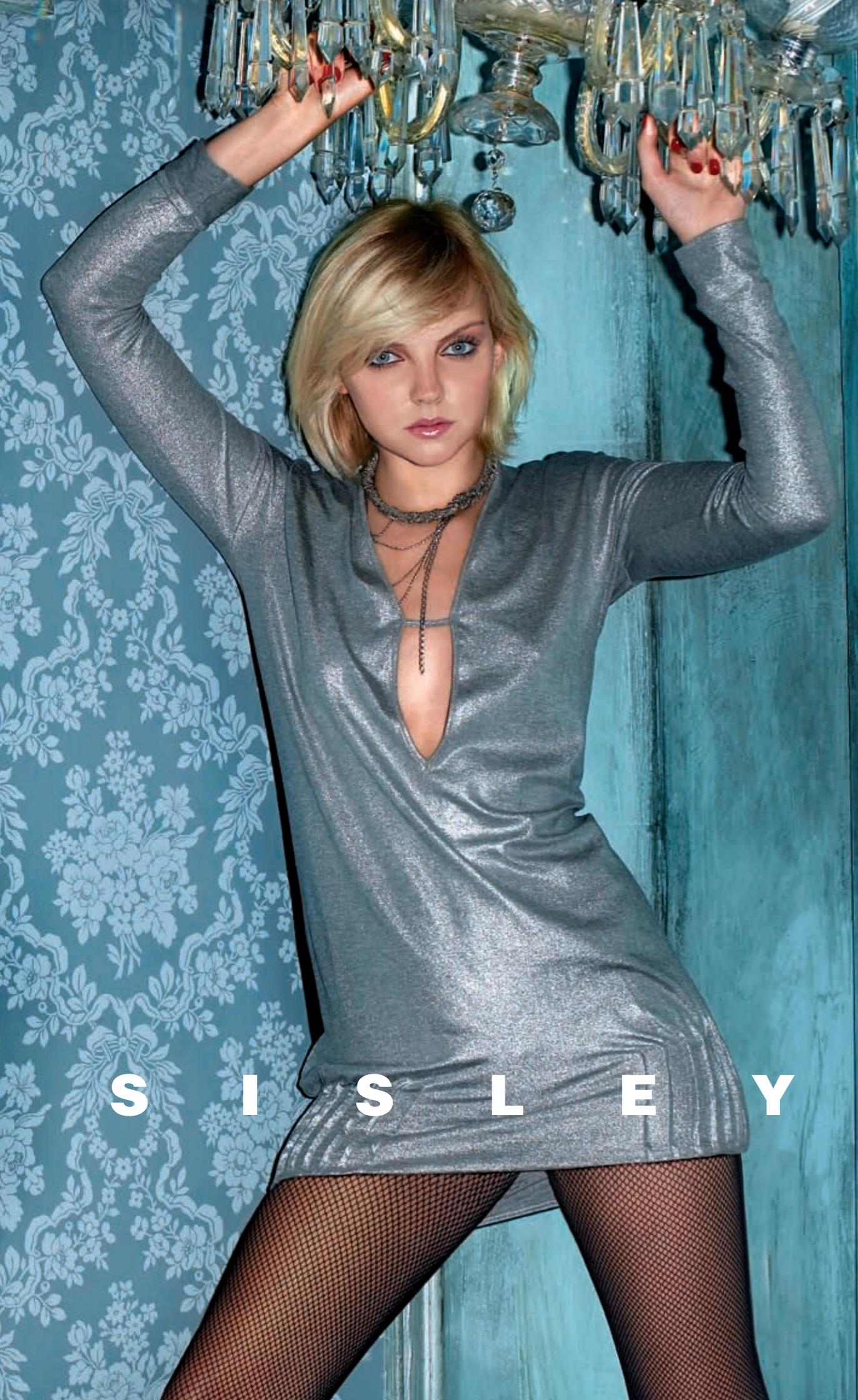
In the first half of 2007, the Group continued to record a robust performance with revenue of HK\$367.4 million. This represents an increase of 39.9% over the same period last year. The Group's overall gross margin remained stable at about 36.0%. The sizeable increase in the gross margin of the Group's distribution and retailing business was offset by a slight decrease in the gross margin of the supply chain services business. Profits attributable to the equity holders of the Company surged by 30.4% to HK\$45.6 million as compared to the corresponding period last year. Earnings per share for the period amount to HK18.01 cents, notwithstanding the Group's increased shareholder base resulting from completion of the Company's IPO on 13 July 2006.

While the supply chain business continued its strong organic growth, the distribution and retailing business benefited from the fast-growing retail market in the PRC, particularly in the mid- to high-income segment, and the rapid expansion of the Group's PRC distribution platform.

SUPPLY CHAIN SERVICES

Despite fierce competitive market environment, which includes rising raw material prices, increased labour costs, textile trading regulatory changes and pricing pressures exerted by the appreciation of RMB, the Group's supply chain services continued to grow rapidly. Revenue for supply chain services reached HK\$337.1 million, up 42.5% as compared to the same period last year, and accounted for about 91.8% of the Group's revenue in the first half of 2007.





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management discussion and analysis

European mid- to high-end brands are focusing more and more on brand management rather than production and product development, which has resulted in a shift of sourcing to Asia and to China, in particular. The Group's early involvement in European markets, coupled with its well-versed foresight in creating added value for its customers, has proved an effective formula to profit from this rising trend. During the period under review, the Group has not only enjoyed increased orders from existing customers, but also continued to expand its existing customer base.

At the same time, the Group's strategy of consolidating its customer base to focus on high-end customers with high margins and significant growth potential progressed smoothly. The success of these strategies drove up sales of our high margin products, which helped to offset the production cost hike created by the appreciation of RMB. Hence, gross margin for the supply chain business decreased only slightly from 35.6% to 34.6% during the period.

China has, over time, become the "world's factory" for high-end products, supported by improved production techniques and skilled and articulated human resources. China is therefore well-equipped to cater to the increasing demand for outsourcing of mid- to high-end goods, especially now that low-end goods sourcing has shifted somewhat to other emerging markets with lower production costs. Against this backdrop, the Group is confident that its extensive experience in providing PRC based supply chain services for mid- to high-end brands will serve it well.

During the period under review, the Group has fine-tuned its value added services to customers to include (i) the provision of increased product design and development support; (ii) the adoption of higher product quality standards; and (iii) the implementation of improved logistics management, to fulfil the increased demands and product expectations of high-end customers.

The new phase of the Group's Yangzhou production base began operation in February 2007. These supplementary facilities have strengthened the Group's dual operation model for production management as well as enhancing the Group's high-tech garment manufacturing techniques.

To capture business opportunities brought about by increased sourcing demands for footwear products, the Group has extended its supply chain service capabilities to include footwear items. During the period under review, a footwear research and development center was established in Dongguan. With full support of its customers, this has empowered the Group to achieve horizontal diversification of its product range. These efforts will clearly fuel the Group's supply chain services for future growth.

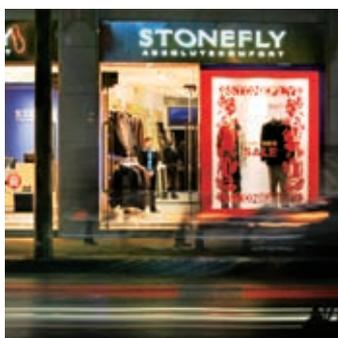
management discussion and analysis

The Group is committed to expand its capabilities in supply chain services and will seek further opportunities to establish strategic alliances with key international brands to increase collaboration and capitalise on PRC's immense potential.

DISTRIBUTION AND RETAILING

The Group's distribution and retailing business continued to operate in a favorable business environment due to PRC's strong and sustained economic growth and the increased consumption power of its emerging middle class. This business achieved a turnaround, from a loss in 2006 to a gain in the first half of 2007, and contributed slightly to the Group's bottom line. Gross margin also improved from 40.0% to 51.8%, as compared to the corresponding period last year. These excellent results were achieved through appropriate marketing and sales strategies. At the same time, the Group's operating efficiency also improved with its increase in scale of operation, and in particular, its steady increase in points-of-sale.

Revenue from the Group's distribution and retailing business was HK\$30.3 million, recording growth of 15.9% as compared to the same period last year and accounting for about 8.2% of the Group's revenue. This growth was marginalised as a result of certain transitional arrangements in 2006. The Group had begun distributing *Lotto* products in the PRC through its wholly-owned subsidiary, Scienward (Nanjing) Garment Co., Limited ("Scienward (Nanjing)") in December 2005. In line with the Group's business strategy, distribution was progressively shifted from Scienward (Nanjing) to the Group's 50:50 *Lotto* joint venture. As compared to the same period of 2006, when 100% of the distribution results of the *Lotto* products were taken up by the Group, the Group retained only 50% of such operating results during the period under review.



management discussion and analysis

In the first half of 2007, with growing popularity in sports and sports-inspired apparel, the *Lotto* joint venture also achieved outstanding performance. The gross margin improved substantially from 37.7% to 55.1% for the period under review. This improvement was attributable mainly to an increase in directly-managed shops, which usually enjoy higher gross margin.

To increase market share, the Group employed aggressive branding strategies for *Lotto* during the period under review. This included an arrangement for global spokesman Luca Toni, a popular Italian world-cup champion, to visit the PRC and Hong Kong in May, which successfully stimulated strong brand awareness.

Against this backdrop, the Group will continue to expand its sales network in order to capitalise on the increased popularity of sports brought about by the Beijing Olympics 2008, whilst simultaneously aiming for sustainable growth in the sales of each points-of-sale. Through ongoing proactive marketing campaigns, the Group will definitely maintain and sustain its presence in a growing market.

As at 30 June 2007, the *Lotto* joint venture had 80 points-of-sale including 20 directly-managed shops and 60 franchised shops throughout PRC's first and second tier cities. There was a net increase of 15 new points-of-sale during the period under review. Going forward, expansion will continue in line with the joint venture's three-year shop opening schedule.

In line with the change in strategy for *Stonefly* to focus solely on footwear, the performance of the 50:50 *Stonefly* joint venture has improved significantly in its third year. The business has been turned around, moving from a loss in 2006 to breakeven for the period under review. With the shift in emphasis from a combination of apparel and footwear to exclusively footwear, average shop size could be reduced by half, substantially increasing sales per square metre and improving the efficiency and effectiveness of the operation. In light of an increase in wholesale turnover, gross margin dropped slightly from 48.3% to 45.7% as compared to the same period last year.

As at 30 June 2007, the joint venture had 45 points-of-sale, including 23 directly-managed shops and 22 franchised shops throughout the first and second tier cities of the PRC. There was a net increase of 11 new points-of-sale during the period.

The Group's newly established research and development center in Dongguan will facilitate local sourcing. This will greatly enhance the gross margin for *Stonefly* products and allow the Group greater flexibility in offering competitive pricing.

management discussion and analysis

On 1 August 2007, 45 *Sisley* shops, directly managed by Benetton Group, were additionally transferred to the new *Sisley* joint venture. The Group believes these *Sisley* shops will contribute significantly to the revenue of the Group's distribution and retailing business in the second half of 2007.

NEW BUSINESS PARTNERSHIPS

As an experienced multi-brand management specialist for internationally renowned brands, the Group constantly seeks opportunities to foster business growth through mergers, acquisitions and other appropriate ventures.

In March 2007, the Chairman, Mr. Ngok Yan Yu, granted an option to the Group for the acquisition of his interests in the *Sergio Tacchini* business within a period of three years commencing from 24 May 2007. With 40 years of history, *Sergio Tacchini* ("ST") is a prominent sports brand famous for its elegant and stylish sportswear, particularly in tennis related fashion apparel. The right to exercise such an option empowers the Group to globalise its retailing network and exponentially increase growth in all aspects, and to become a brand owner as well.

Simultaneous with the granting of this option, Mr. Ngok Yan Yu also concluded a sourcing agreement with the Group through which the Group was appointed exclusive sourcing agent for all ST products within Asia. This exclusive sourcing arrangement will broaden the Group's revenue base for supply chain services and further stimulate the Group's already accelerated momentum.

In June 2007, the Group entered into an exclusive distribution agreement with Moschino S.p.A ("Moschino"), whereby the Group was granted distribution exclusivity for 10 years in the PRC for various prestigious *Moschino* product lines. In addition to enhancing the Group's brand diversification, this partnership largely upscaled its brand portfolio and earmarks a new chapter in its distribution and retailing business. In the past, the Group achieved distributorship of renowned European brands through the setting up of joint ventures, through which its distribution experience and expertise could be enhanced. That given, the Group's



management discussion and analysis

well-honed luxury product distribution capability is clearly recognized in Europe which made it the exclusive PRC distributor for *Moschino*.

Under this arrangement, the Group will open 30 *Moschino* shops within five years, of which two flagship stores will be launched in Beijing and Shanghai by the end of 2007.

In July 2007, the Group entered into a conditional sale and purchase agreement with Mariella S.r.L. (“Mariella”) for its lease and its conditional purchase of the *Bond Street* business, which completion of purchase is contingent on the irrevocable acceptance of such purchase by Mariella’s creditors. With almost 25 years of history, the brands *Bond Street* and *Bond Street Collection* are characterized by stylish prêt-a-porter collections collaborated with prestigious garment stylists, using Italian fabrics of high-level and from a great span of designs and models. This business was an immediate success especially in the market of high-level sportswear in Italy and various foreign countries. This agreement allows the Group the golden opportunity to further synergize and globalise its retailing network and distribution network both locally and globally. Once this agreement is completed, the Group will immediately become a brand owner of a high-end and established Italian brand.

Going forward, the Group will continue to integrate its two business segments to achieve greater efficiencies and create better synergies to foster design and development of its products. This integration is assured to provide improved benefits for its customers.

AWARDS AND RECOGNITION

On 21 May 2007, the Group was awarded “The 2nd Capital Outstanding China Enterprise Award” by Capital Magazine, one of the leading business magazines in Hong Kong, in recognition of its achievements to bring in international renowned brands to successfully tap China’s burgeoning retail market.



management discussion and analysis

OPERATING EXPENSES

During the period under review, operating profit rose by 33.8% to HK\$68.1 million with operating margin decreasing from 19.4% to 18.5%. The operating margin decrease was attributed to the substantial increase in the Group's administrative expenses.

The Group's distribution and selling expenses surged by 28.9% to HK\$12.9 million, as compared to the corresponding period last year. This increase in distribution and selling expenses (as marginalized as a result of the Group's 2006 transitional arrangements as previously detailed) was principally due to the increase in sales commission and overseas sales and marketing expenses derived from the Group's supply chain services. With more efficient expenditure management and better operating efficiency achieved through increased scale of the Group's operations, the Group's distribution and selling expenses, as a percentage of revenue, recorded a reduction from 3.8% to 3.5%. In line with the Group's strategy to prioritize on sales network build-up and expansion before the launching of any sizeable advertising/promotional campaigns (which launching time should naturally follow the completion of a substantial and sizeable sales network), the Group succeeded to achieve a controlled and mild increase in its distribution and selling expenses for the period under review.

The Group's administrative expenses substantially increased by 57.0% to HK\$55.5 million during the period under review, which, as a percentage of revenue, increased from 13.5% to 15.1%. The substantial increase in administrative expenses was mainly attributable to a newly required charge of share option expenses of about HK\$3.1 million in compliance with the new HKFRS 2 requirements and the increase in listing related and compliance related costs (namely, legal and professional fees). Higher expenses in staff salaries and emoluments also contributed to the increase in the administrative expenses, given more human resources are required to cope with the Group's vast expansion. Additional depreciation in respect of the set up of new back up offices has also increased the Group's administrative expenses during the period.

FINANCE COSTS

Finance costs increased by 48.4% to HK\$14.8 million, as compared to the same period last year. This substantial increase is mainly attributable to a higher level of bank borrowings necessitated to finance the Group's vast expansion.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group's financial positions remained sound during the period under review. As at 30 June 2007, the Group had cash and cash equivalents of HK\$343.6 million, primarily denominated in RMB and HK dollars, (31 December 2006: HK\$238.4 million) and total bank borrowings of HK\$666.5 millions, (31 December 2006: HK\$392.7 million), of which 58.8% constituted short-term bank borrowings and 41.2% constituted long-term bank borrowings. The Group's bank borrowings were primarily denominated in RMB, HK dollars and US dollars. As at 30 June 2007, 21.4%, 57.6%, and 20.4% of the Group's total bank borrowings were denominated in RMB, HK dollars and US dollars respectively, with 14.6% of the total bank borrowings subject to fixed interest rates and 85.4% subject to floating interest rates.

The net gearing ratio (which is calculated on the basis of total bank borrowings (net of cash and cash equivalent) over the total shareholders' equity of the Company) increased from 0.45 as at 31 December 2006 to 0.82 as at 30 June 2007. The current ratio (which is calculated on the basis of current assets over current liabilities) increased from 1.53 as at 31 December 2006 to 1.78 as at 30 June 2007. The high debt gearing ratio as recorded at 30 June 2007 was mainly attributable to the seasonal demand cycle's impact on the Group's working capital increase, which was well supported by bank trading facilities.

The interest coverage, expressed as a multiple of EBITDA over the interest expenses, was 5.14, which level is considered comfortable.

During the period under review, the Group actively managed financial risks and continuously reviewed its financial positions. To maintain a balance between long-term and short-term financings, on 27 April 2007, the Group obtained a 3-year syndicated term loan and revolving credit facility in an aggregate amount of HK\$200 million. The loan bears interest rate of 155 basis points over the HIBOR. The syndicated term loan is repayable in installments over a three years period. The proceeds were designated to be used to finance general working capital and capital expenditure of the Group. In addition, subsequent to the balance sheet date, the Group has issued 23,800,000 new shares at a price of HK\$4.29 each to raise about HK\$99.0 million after deducting all related expenses. The net proceeds were intended to be used for further acquisition opportunities as well as working capital of the Group. With the net proceeds from the issue of new shares, the Group's net gearing ratio and current ratio were significant improved.

management discussion and analysis

FOREIGN EXCHANGE EXPOSURE

The majority of the Group's sales, purchase and operating expenses were denominated in RMB, HK dollars and US dollars. Although the Group has been and will continue to be exposed to foreign currency exchange risks, the Board does not expect future currency fluctuations would materially impact the Group's operations. The Group has adopted no formal hedging policies and no instruments have been applied for foreign currency hedging purposes during the period under review.

CHARGES ON ASSETS

As at 30 June 2007, the Group's bank deposits of about HK\$36.9 million, available-for-sale securities of about HK\$7.6 million, property, plant and equipment with an aggregate net book value of about HK\$119.2 million, and land use rights with an aggregate net book value of about HK\$30.7 million were pledged to secure the general banking facilities and bank borrowings granted to the Group.

CONTINGENT LIABILITIES

As at 30 June 2007, neither the Group nor the Company had any material contingent liabilities.

EMPLOYMENT INFORMATION

As at 30 June 2007, the Group had about 2,580 employees in total, stationed mainly in the PRC, Hong Kong and Europe. The Group's emolument policies, which are reviewed periodically, are linked to the performance of individual employees and are based on salary trends prevailing in the aforesaid regions.

In addition, the Group maintains a share option scheme for the purpose of providing incentives and rewards to eligible participants based on their respective contributions to the Group.



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sergio tacchini. sport ego.

independent review report

TO THE BOARD OF DIRECTORS OF HEMBLY INTERNATIONAL HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 18 to 32 which comprises the condensed consolidated balance sheet of Hembly International Holdings Limited as of 30 June 2007 and the related condensed consolidated income statement, statement of changes in equity and cash flow statement for the six-month period then ended, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

CONCLUSION

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

13 September 2007

results

The board of directors (the “Board”) of Hembly International Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2007 as follows:

condensed consolidated income statement

FOR THE SIX MONTHS ENDED 30 JUNE 2007

	Notes	Six months ended 30 June	
		2007 HK\$'000 (unaudited)	2006 HK\$'000 (unaudited)
Revenue	3	367,351	262,584
Cost of sales		(234,937)	(168,006)
Gross profit		132,414	94,578
Other income		4,166	1,730
Administrative expenses		(55,545)	(35,382)
Distribution and selling expenses		(12,916)	(10,022)
Finance costs	4	(14,782)	(9,960)
Profit before tax	5	53,337	40,944
Income tax expense	6	(7,676)	(4,442)
Profit for the period		45,661	36,502
Attributable to:			
Equity holders of the Company		45,647	34,997
Minority interests		14	1,505
		45,661	36,502
Dividend	8	17,758	–
Earnings per share	9		
– Basic		HK18.01 cents	HK19.44 cents
– Diluted		HK17.96 cents	N/A

condensed consolidated balance sheet

AT 30 JUNE 2007

	Notes	30 June 2007 HK\$'000 (unaudited)	31 December 2006 HK\$'000 (audited)
Non-current assets			
Property, plant and equipment	10	191,513	175,106
Prepaid lease payments		60,945	59,391
Loan to a jointly controlled entity		5,168	5,168
Available-for-sale investments		5,609	5,424
Intangible assets – franchise fee	16	10,492	–
Goodwill		20,800	–
		294,527	245,089
Current assets			
Inventories		168,769	107,315
Trade receivables	11	267,021	187,932
Deposits, prepayments and other receivables		70,692	58,229
Prepaid lease payments		1,246	1,246
Loans to jointly controlled entities		6,596	5,596
Amount due from a minority shareholder	12	–	1,300
Amounts due from jointly controlled entities		10,322	6,112
Available-for-sale investments		1,960	1,960
Tax recoverable		2,843	1,584
Pledged bank deposits		36,926	57,462
Bank deposits with original maturity of more than three months		195,286	150,000
Bank balances and cash		111,373	30,982
		873,034	609,718
Current liabilities			
Trade payables	13	35,426	58,631
Other payables and accruals		30,601	28,802
Loans from shareholders of jointly controlled entities		7,273	6,273
Amounts due to shareholders of jointly controlled entities		8,803	6,682
Taxation payable		15,385	10,459
Obligations under finance leases – due within one year		896	328
Bank borrowings – due within one year	14	379,144	287,871
Bank overdrafts		13,034	76
		490,562	399,122
Net current assets		382,472	210,596
Total assets less current liabilities		676,999	455,685

	Notes	30 June 2007 HK\$'000 (unaudited)	31 December 2006 HK\$'000 (audited)
Non-current liabilities			
Loans from shareholders of jointly controlled entities		5,168	5,168
Obligations under finance leases – due after one year		2,475	596
Bank borrowings – due after one year	14	274,277	104,710
		281,920	110,474
		395,079	345,211
Capital and reserves			
Share capital	15	25,453	25,288
Reserves		369,591	319,902
Equity attributable to equity holders of the Company			
		395,044	345,190
Minority interests		35	21
		395,079	345,211

condensed consolidated statement of changes in equity

FOR THE SIX MONTHS ENDED 30 JUNE 2007

	Attributable to equity holders of the Company											
	Share capital	Share premium	Enterprise expansion reserve	Statutory reserve	Translation reserve	Share option reserve	Special reserve	Asset revaluation reserve	Retained profits	Total	Minority interests	Total
	HK\$'000	HK\$'000	HK\$'000 (Note a)	HK\$'000 (Note b)	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (Note c)	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2006 (audited)	7	31,037	2,015	3,356	2,370	-	3,008	(201)	106,706	148,298	656	148,954
Exchange difference arising on translation of foreign operations	-	-	-	-	(8)	-	-	-	-	(8)	-	(8)
Gain on fair value change of available-for-sale investments	-	-	-	-	-	-	-	12	-	12	-	12
Net income recognised directly in equity	-	-	-	-	(6)	-	-	12	-	4	-	4
Profit for the period	-	-	-	-	-	-	-	-	34,997	34,997	1,505	36,502
Total recognised income (expense) for the period	-	-	-	-	(6)	-	-	12	34,997	35,001	1,505	36,506
Reserve arising from group reorganisation	3,993	-	-	-	-	-	(3,993)	-	-	-	-	-
At 30 June 2006 (unaudited)	4,000	31,037	2,015	3,356	2,362	-	(985)	(189)	141,703	183,299	2,161	185,460
At 1 January 2007 (audited)	25,288	94,496	2,015	7,460	10,958	1,889	30,052	(112)	173,144	345,190	21	345,211
Exchange difference arising on translation of foreign operations	-	-	-	-	14,903	-	-	-	-	14,903	-	14,903
Gain on fair value change of available-for-sale investments	-	-	-	-	-	-	-	185	-	185	-	185
Net income recognised directly in equity	-	-	-	-	14,903	-	-	185	-	15,088	-	15,088
Profit for the period	-	-	-	-	-	-	-	-	45,647	45,647	14	46,661
Total recognised income for the period	-	-	-	-	14,903	-	-	185	45,647	60,735	14	60,749
Recognition of equity settled share based payments	-	-	-	-	-	3,142	-	-	-	3,142	-	3,142
Exercise of share options	165	3,570	-	-	-	-	-	-	-	3,735	-	3,735
Dividend paid	-	-	-	-	-	-	-	-	(17,758)	(17,758)	-	(17,758)
At 30 June 2007 (unaudited)	25,453	98,066	2,015	7,460	25,861	5,031	30,052	73	201,033	395,044	35	395,079

Notes:

- (a) According to the respective Articles of Association, the subsidiaries registered in the People's Republic of China ("PRC") shall make appropriation to the enterprise expansion fund out of profit after taxation based on their statutory financial statements, and the amount and allocation basis are decided by its board of directors annually. The enterprise expansion fund can be used to expand the capital of the PRC subsidiaries.
- (b) The statutory reserve of the Group refers to the PRC statutory reserve fund. Appropriations to such reserve fund are made out of net profit after taxation based on the statutory financial statements of the PRC subsidiaries and the amount should not be less than 10% of the profit after taxation unless the aggregate amount exceeded 50% of registered capital of the relevant PRC subsidiary. The statutory reserve fund can be used to make up prior years' losses of the PRC subsidiary.
- (c) The special reserve includes:
- the difference between the aggregate of the nominal value of share capital of the subsidiaries acquired by Full Prosper Holdings Limited ("Full Prosper") pursuant to a group reorganisation in May 2005 and the nominal value of the share capital issued by Full Prosper as consideration for the acquisition during the year ended 31 December 2005 and;
 - the difference between the aggregate of the nominal value of share capital and share premium of Full Prosper acquired by the Company pursuant to a group reorganisation in June 2006 and the nominal value of the share capital issued by the Company as consideration for the acquisition during the year ended 31 December 2006.

condensed consolidated cash flow statement

FOR THE SIX MONTHS ENDED 30 JUNE 2007

	Six months ended 30 June	
	2007 HK\$'000 (unaudited)	2006 HK\$'000 (unaudited)
NET CASH USED IN OPERATING ACTIVITIES	(103,773)	(63,078)
INVESTING ACTIVITIES		
Increase in bank deposits with original maturity of more than three months	(45,286)	–
Purchase of property, plant and equipment	(14,913)	(14,230)
Decrease (increase) in pledged bank deposits	20,536	(8,475)
Proceeds on disposal of property, plant and equipment	176	1,005
Decrease in amounts due from related companies	–	21,845
Other investing cash flows	(20,390)	947
NET CASH (USED IN) FROM INVESTING ACTIVITIES	(59,877)	1,092
FINANCING ACTIVITIES		
New bank borrowings raised	1,009,672	619,679
Repayment of bank borrowings	(753,815)	(496,558)
Dividend paid	(17,758)	–
Interest paid	(14,782)	(9,960)
Other financing cash flows	4,161	(291)
NET CASH FROM FINANCING ACTIVITIES	227,478	112,870
NET INCREASE IN CASH AND CASH EQUIVALENTS	63,828	50,884
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	3,605	(8)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	30,906	42,761
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	98,339	93,637
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	111,373	105,136
Bank overdrafts	(13,034)	(11,499)
	98,339	93,637

notes to the condensed consolidated financial statements

FOR THE SIX MONTHS ENDED 30 JUNE 2007

1. BASIS OF PREPARATION

Pursuant to a group reorganisation (“Group Reorganisation”) to rationalise the structure of the Group in preparation for the listing of the Company’s shares on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the Company issued shares in exchange for the entire issued share capital of Full Prosper and thereby became the holding company of the Group on 13 June 2006. Details of the Group Reorganisation are set out in the prospectus of the Company dated 30 June 2006. The condensed consolidated financial statements for the period ended 30 June 2006 have been prepared as if the current structure had been in existence during that period.

The shares of the Company have been listed on the Stock Exchange with effect from 13 July 2006.

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) and with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value, as appropriate.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2006 except as described below:

Goodwill

Goodwill arising on an acquisition of an additional interest in a subsidiary represents the excess of the cost of acquisition over the Group’s interest in the carrying amount of the net assets of the relevant subsidiary attributable to the acquired interest at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Intangible assets

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement when the asset is derecognised. Intangible assets with finite useful lives are tested for impairment when there is an indication that an asset may be impaired.

In the current interim period, the Group has applied, for the first time, the following new standard, amendment and interpretations ("new HKFRSs") issued by the HKICPA that are effective for the Group's financial year beginning 1 January 2007. The adoption of the new HKFRSs has had no material effect on the results or financial position of the Group for the current and prior accounting periods. Accordingly, no prior period adjustments have been required.

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

The Group has not earlier applied the new and revised standards or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the results and financial position of the Group.

3. SEGMENT INFORMATION**Period ended 30 June 2007**

	Manufacturing and sales of apparel and accessories HK\$'000	Distribution and retailing of apparel and footwear HK\$'000	Elimination HK\$'000	Total HK\$'000
Revenue				
External sales	337,100	30,251	-	367,351
Inter-segment sales	544	-	(544)	-
Total	337,644	30,251	(544)	367,351

Inter-segment sales are charged at prevailing market rates.

Segment result	72,897	2,307	-	75,204
Unallocated income				2,346
Unallocated corporate expense				(9,431)
Finance costs				(14,782)
				53,337
Profit before tax				(7,676)
Income tax expense				(7,676)
Profit for the period				45,661

Period ended 30 June 2006

	Manufacturing and sales of apparel and accessories HK\$'000	Distribution and retailing of apparel and footwear HK\$'000	Elimination HK\$'000	Total HK\$'000
Revenue				
External sales	236,483	26,101	-	262,584
Inter-segment sales	1,050	-	(1,050)	-
Total	237,533	26,101	(1,050)	262,584

Inter-segment sales are charged at prevailing market rates.

Segment result	50,807	(825)	-	49,982
Unallocated income				1,119
Unallocated corporate expense				(197)
Finance costs				(9,960)
				40,944
Profit before tax				(4,442)
Income tax expense				(4,442)
Profit for the period				36,502

4. FINANCE COSTS

	Six months ended 30 June	
	2007	2006
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Interest on:		
Bank borrowings and overdrafts wholly repayable		
– within five years	14,323	9,714
– over five years	152	148
Obligations under finance leases	122	42
Loans from shareholders of jointly controlled entities	185	56
	14,782	9,960

5. PROFIT BEFORE TAX

	Six months ended 30 June	
	2007	2006
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Profit before tax has been arrived at after charging:		
Depreciation of property, plant and equipment	7,142	4,195
Amortisation of intangible assets – franchise fee	88	–
Amortisation of prepaid lease payment	623	305
Loss on disposal of property, plant and equipment	1	145

6. INCOME TAX EXPENSE

Hong Kong Profits Tax is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used is 17.5% (2006: 17.5%) for the six months ended 30 June 2007.

Taxation arising in other jurisdictions is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used is 12% (2006: 12%) for the six months ended 30 June 2007.

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC, which will change the tax rate from 12% to 25% for certain subsidiaries from 1 January 2008.

	Six months ended 30 June	
	2007 HK\$'000 (unaudited)	2006 HK\$'000 (unaudited)
Current tax:		
Hong Kong	-	200
Other jurisdictions	7,369	4,175
	7,369	4,375
Underprovision in prior years:		
Hong Kong	307	1
Other jurisdictions	-	66
	307	67
	7,676	4,442

7. RESULT FOR THE PERIOD

The Group experiences seasonal fluctuations in its turnover. It has generally recorded higher turnover from May to August when overseas customers normally commence preparations for the launch of new winter collections.

8. DIVIDEND

During the period ended 30 June 2007, a dividend of HK\$0.07 per share (2006: Nil) amounting to approximately HK\$17,758,000 (2006: Nil) was paid to shareholders as the final dividend for 2006.

The Directors have determined that an interim dividend of HK\$0.03 per share (2006: HK\$0.03 per share) should be paid to the shareholders of the Company whose names appear on the register of members on 22 October 2007.

9. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

	Six months ended 30 June	
	2007 HK\$'000 (unaudited)	2006 HK\$'000 (unaudited)
Earnings		
Earnings for the purpose of basic and diluted earnings per share (Profit for the period attributable to equity holders of the Company)	45,647	34,997
<i>Number of shares</i>	'000	'000
Weighted average number of ordinary shares for the purpose of basic earnings per share (note)	253,518	180,000
Effect of dilutive potential ordinary shares for share options	574	
Weighted average number of ordinary shares for the purpose of diluted earnings per share	254,092	

Note: The calculation of the basic earnings per share for the period ended 30 June 2006 is based on the number of ordinary shares in issue of 180,000,000 shares on the assumption that the Group Reorganisation has been effective on 1 January 2006

10. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired approximately HK\$535,000 and HK\$6,907,000 leasehold improvements and buildings, respectively. The Group acquired approximately HK\$1,883,000 and HK\$3,222,000 on plant and machinery and furniture, fixtures and equipment, respectively, for the expansion of its production capacity. In addition, the Group acquired approximately HK\$5,318,000 motor vehicles, in which approximately HK\$3,022,000 was acquired through the inception of financial leases.

11. TRADE RECEIVABLES

The Group allows an average credit period of 60 to 90 days to its trade customers. The following is an aged analysis of trade receivables at the balance sheet date:

	30 June 2007 HK\$'000 (unaudited)	31 December 2006 HK\$'000
0 – 90 days	234,799	178,755
91 – 180 days	27,033	6,700
181 – 360 days	2,642	619
Over 360 days	2,547	1,858
	267,021	187,932

12. AMOUNT DUE FROM A MINORITY SHAREHOLDER

The Group allows a credit period of 90 days for sales made to the minority shareholder. The following is an aged analysis of amount due from a minority shareholder at the balance sheet date:

	30 June 2007 HK\$'000 (unaudited)	31 December 2006 HK\$'000
0 – 90 days	–	1,235
91 – 180 days	–	26
181 – 360 days	–	39
	–	1,300

13. TRADE PAYABLES

The following is an aged analysis of trade payables at the balance sheet date:

	30 June 2007 HK\$'000 (unaudited)	31 December 2006 HK\$'000
0 – 90 days	32,627	54,924
91 – 180 days	2,397	2,535
181 – 360 days	266	731
Over 360 days	136	441
	35,426	58,631

14. BANK BORROWINGS

During the period, the Group raised new bank borrowings, which mainly represent a term loan of HK\$200,000,000, bearing interest at HIBOR plus 1.55% per annum and are payable by instalment over a period of three years until year 2010, to finance the expanding business of the Group.

	30 June 2007 HK\$'000 (unaudited)	31 December 2006 HK\$'000
Bank borrowings are repayable as follows:		
Within one year	379,144	287,871
More than one year, but not exceeding two years	159,102	99,522
More than two years, but not exceeding three years	113,180	2,422
More than three years, but not exceeding four years	874	1,215
More than four years, but not exceeding five years	941	852
More than five years	180	699
	653,421	392,581
Less: Amounts due within one year shown under current liabilities	(379,144)	(287,871)
	274,277	104,710

15. SHARE CAPITAL

	Number of ordinary shares		Amount	
	30 June 2007 HK\$'000	31 December 2006 HK\$'000	30 June 2007 HK\$'000	31 December 2006 HK\$'000
Ordinary shares of HK\$0.1 each:				
Authorised:				
At beginning of period/year	2,000,000,000	1,000,000	200,000	100
Increase during the period/year	-	1,999,000,000	-	199,900
At end of period/year	2,000,000,000	2,000,000,000	200,000	200,000
Issued and fully paid:				
At beginning of period/year	252,880,000	1	25,288	-
Issue of shares upon Group Reorganisation	-	39,999,999	-	4,000
Issue of shares on capitalisation of share premium account	-	140,000,000	-	14,000
Issue of shares upon the placing and public offer	-	70,080,000	-	7,008
Exercise of share options	1,650,000	2,800,000	165	280
At end of period/year	254,530,000	252,880,000	25,453	25,288

During the period, a total of 1,650,000 ordinary shares of the Company were issued upon the exercise of 1,000,000, 550,000 and 100,000 share options at an exercise price of HK\$1.88, HK\$2.90 and HK\$2.60, respectively.

16. CAPITAL AND OTHER COMMITMENTS

	30 June 2007 HK\$'000 (unaudited)	31 December 2006 HK\$'000
Capital commitment contracted for but not provided in respect of acquisition of property, plant and equipment	1,582	643

During the period, the Group entered into a franchise agreement with an independent third party at the amount of approximately HK\$10,625,000 (EUR 1,000,000) for the grant of franchise and distribution rights in the PRC up to May 2017. The Group also committed to open 30 retail shops in the PRC within five years.

17. RELATED PARTY TRANSACTIONS

During the period, the Group entered into the following significant transactions with related parties:

Name of related party	Nature of transactions	Six months ended 30 June	
		2007 HK\$'000 (unaudited)	2006 HK\$'000 (unaudited)
Morgan S.A. +	Sales of apparel	-	28,287
Long Wise (Holdings) Limited +	Service fee paid	888	141
STF (China) Limited *	Sales of apparel and footwear	-	1,050
	Interest income received	185	56
	Management fee income received	345	90
Lotto China Limited *	Rental income received	-	66
	Management income received	345	-
恒賽爾（楊州）服装有限公司 *	Sales of property, plant and equipment	129	-
	Sales of apparel	5,939	-
H4T s.r.l. ("H4T") #	Sales of apparel	5,123	-
M.T.T. Limited *	Management fee income received	79	-

+ The company is a minority shareholder of the Company's subsidiary.

* The company is a jointly controlled entity of the Company.

A director of the Company has beneficial interest in this company.

Stonefly S.P.A., a shareholder of a jointly controlled entity, STF (China) Limited ("STF China"), acts as a joint guarantor with a subsidiary of the Company, Hembly Garment Manufacturing Limited, for bank facility of approximately HK\$18,000,000 and HK\$18,000,000 granted to STF China at 30 June 2007 and 31 December 2006, respectively. The amount utilised by STF China was approximately HK\$15,297,000 and HK\$10,424,000 at 30 June 2007 and 31 December 2006, respectively.

As at 30 June 2007, a related company in which a director of the Company has beneficial interest has granted bank guarantee to a subsidiary of the Company for bank borrowing of approximately HK\$10,360,000 (2006: Nil).

The remuneration of key management personnel, which represented by directors' remuneration, during the period was as follows:

	Six months ended 30 June	
	2007	2006
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Short-term benefits	4,281	1,497
Post-employment benefits	18	12
Share-based payment	427	–
	4,726	1,509

18. EVENTS AFTER THE BALANCE SHEET DATE

- (i) During the period, the Group entered into an agreement to purchase 100% shareholding of an entity at a consideration of approximately HK\$4,250,000 (EUR 400,000). The acquisition has not yet been completed as at the reporting date.
- (ii) In July 2007, the Group entered into a sourcing agreement with H4T where H4T appointed the Group as the exclusive sourcing agent for all products under the brand, *Sergio Tacchini*, in Asia for a period up to 31 December 2008.
- (iii) As at 30 June 2007, a substantial shareholder of the Company, Charm Hero Investments Limited ("Charm Hero"), who held approximately 40.01% shareholding in the Company, entered into (i) a placing and underwriting agreement (the "Placing and Underwriting Agreement"); and (ii) a subscription agreement (the "Subscription Agreement").

Pursuant to the Placing and Underwriting Agreement, Charm Hero agreed to place up to 23,800,000 shares of the Company at a price of HK\$4.29 per share. After the completion of the Placing and Underwriting Agreement, Charm Hero's shareholding in the Company decreased to approximately 30.66%. Afterward, Charm Hero agreed to subscribe for up to 23,800,000 new shares of the Company at a price of HK\$4.29 per share pursuant to the Subscription Agreement. Upon the completion of the Subscription Agreement, Charm Hero's shareholding in the Company then increased from approximately 30.66% to 36.59%.

other information

INTERESTS AND SHORT POSITIONS OF THE DIRECTORS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30 June 2007, the interests or short positions of the Directors in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")) which were 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 Transaction by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules were as follows:

(a) Shares of the Company

Name of director	Capacity	Number of shares held	Approximate percentage of shareholdings
Mr. Ngok Yan Yu	Interest of a controlled corporation	78,029,470 (Note 1)	30.66% (Note 6)
Ms. Tang Chui Yi, Janny	Interest of a spouse	78,029,470 (Note 2)	30.66% (Note 7)
Mr. Lam Hon Keung, Keith	Interest of a controlled corporation	1,594,710 (Note 3)	0.63%
Mr. Marcello Appella	Interest of a controlled corporation	3,588,030 (Note 4)	1.41%
Mr. Je Kin Ming	Interest of a controlled corporation	5,980,050 (Note 5)	2.35%
Mr. Kwan Hung Sang, Francis	Beneficial owner	280,000	0.11%

Notes:

1. These shares were held by Charm Hero Investments Limited (“Charm Hero”), which was wholly owned by Mensun Limited (“Mensun”), which was in turn wholly owned by Mr. Ngok Yan Yu, a controlling shareholder and the chairman of the Company. As such, Mr. Ngok Yan Yu was deemed or taken to be interested in the shares of the Company held by Charm Hero for the purposes of the SFO.
2. Ms. Tang Chui Yi, Janny was an executive director of the Company and the spouse of Mr. Ngok Yan Yu. As such, Ms. Tang Chui Yi, Janny was deemed or taken to be interested in the shares of the Company beneficially owned by Mr. Ngok Yan Yu for the purposes of the SFO.
3. These shares were held by Polybest Group Limited (“Polybest”), which was wholly owned by Mr. Lam Hon Keung, Keith, an executive director of the Company. As such, Mr. Lam Hon Keung, Keith was deemed or taken to be interested in the shares of the Company held by Polybest for the purposes of the SFO.
4. These shares were held by Sycomore Limited (“Sycomore”), which was owned as to 50% by Mr. Marcello Appella, an executive director of the Company, and 50% by Mrs. Maguy, Alice, Juliette, Marie Pujol ep. Appella, the spouse of Mr. Marcello Appella. As such, Mr. Marcello Appella was deemed or taken to be interested in the shares of the Company held by Sycomore for the purposes of the SFO.
5. These shares were held by Capital Way Management Limited (“Capital Way”), which was wholly owned by Walter International Corporation, which was in turn wholly owned by Mr. Je Kin Ming, a non-executive director of the Company. As such, Mr. Je Kin Ming was deemed or taken to be interested in the shares held by Capital Way for the purposes of the SFO.
6. Given the Placing and Subscription (as hereinafter defined under the section headed “Placing of Existing Shares and Subscription of New Shares”) involved a technical and temporary non-compliance of condition (a) of the Facilities (as hereinafter defined under the section headed “Disclosure under Rule 13.18 and 13.21 of Chapter 13 of the Listing Rules”), which witnessed Mr. Ngok Yan Yu’s deemed interest in the shares of the Company to be technically and temporarily reduced to below 35% as at 30 June 2007, please note that the Company has duly received the requisite consent required to exempt such technical and temporary non-compliance of the said condition (a) to facilitate the completion of the Placing and Subscription.
7. Given the Placing and Subscription (as hereinafter defined under the section headed “Placing of Existing Shares and Subscription of New Shares”) involved a technical and temporary non-compliance of condition (a) of the Facilities (as hereinafter defined under the section headed “Disclosure under Rule 13.18 and 13.21 of Chapter 13 of the Listing Rules”), which witnessed Ms. Tang Chui Yi, Janny’s deemed interest in the shares of the Company to be technically and temporarily reduced to below 35% as at 30 June 2007, please note that the Company has duly received the requisite consent required to exempt such technical and temporary non-compliance of the said condition (a) to facilitate the completion of the Placing and Subscription.

(b) Shares of the associated corporations of the Company

Name of director	Name of associated corporation	Capacity	Number of shares held	Approximate percentage of shareholdings
Mr. Ngok Yan Yu	Complete Expert Limited ("Complete Expert")	Trustee	20 (Note 1)	20%
	Charm Hero	Interest of a controlled corporation	2 (Note 2)	100%
Ms. Tang Chui Yi, Janny	Complete Expert	Interest of a spouse	20 (Note 3)	20%
	Charm Hero	Interest of a spouse	2 (Note 3)	100%

Notes:

- Pursuant to a declaration of trust dated 1 September 2004, Mr. Ngok Yan Yu, a controlling shareholder and the chairman of the Company, held 20 shares in Complete Expert, being 20% of its entire issued share capital, in trust for Hembly Garment Manufacturing Limited, an indirect wholly owned subsidiary of the Company.
- Charm Hero was wholly owned by Mensun, which was wholly owned by Mr. Ngok Yan Yu.
- Ms. Tang Chui Yi, Janny was an executive director of the Company and the spouse of Mr. Ngok Yan Yu. As such, Ms. Tang Chui Yi, Janny was deemed or taken to be interested in the shares beneficially owned by Mr. Ngok Yan Yu for the purposes of the SFO.

(c) Share options of the Company

For the period ended 30 June 2007, 100,000 share options granted under the share options scheme of the Company were exercised. Particulars of the share options scheme were set out in note 37 to the consolidated financial statements in the Company's annual report for the year ended 31 December 2006. The interests of the Directors in the share options of the Company are as follows:

Name of director	Number of share options				Exercisable period	Exercise price	Approximate percentage of issued share capital of the Company
	Balance as at 1 January 2007 <i>(Note 1)</i>	Granted during the period	Exercised during the period	Balance as at 30 June 2007			
Mr. Ngok Yan Yu <i>(Note 3)</i>	1,000,000	-	-	1,000,000	14/9/2006 – 13/9/2009	HK\$2.60	0.39%
Ms. Tang Chui Yi, Janny <i>(Note 3)</i>	800,000	-	-	800,000	14/9/2006 – 13/9/2009	HK\$2.60	0.31%
Mr. Lam Hon Keung, Keith	500,000	-	-	500,000	14/9/2006 – 13/9/2009	HK\$2.60	0.20%
Mr. Wong Ming Yeung	500,000	-	100,000	400,000	14/9/2006 – 13/9/2009	HK\$2.60	0.16%
Mr. Antonio Piva	500,000	-	-	500,000	14/9/2006 – 13/9/2009	HK\$2.60	0.20%
Mr. Marcello Appella	500,000	-	-	500,000	14/9/2006 – 13/9/2009	HK\$2.60	0.20%
Mr. Je Kin Ming	500,000	-	-	500,000	14/9/2006 – 13/9/2009	HK\$2.60	0.20%

Notes:

- 1 All of these share options were granted on 14 September 2006 and none of the share options were cancelled or lapsed during the period.
- 2 20% of the share options granted on 14 September 2006 to the Directors would vest on 14 September 2006 and be exercisable from 14 September 2006 to 13 September 2009. Another 30% of the granted share options would vest on 14 September 2007 and be exercisable from 14 September 2007 to 13 September 2009. The remaining 50% of the granted share options would vest on 14 September 2008 and be exercisable from 14 September 2008 to 13 September 2009.
- 3 Ms. Tang Chui Yi, Janny is the spouse of Mr. Ngok Yan Yu. As such, Ms. Tang Chui Yi, Janny and Mr. Ngok Yan Yu were deemed or taken to be interested in the share options of each other for the purposes of the SFO. The aggregate family interest in share options is 1,800,000 which represents approximate 0.7% of the issued share capital of the Company as at 30 June 2007.

Save as disclosed above, as at 30 June 2007, none of the Directors, chief executives of the Company or their associates had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30 June 2007, the following shareholders (other than the Directors or chief executive of the Company whose interests and short positions in the shares or underlying shares of the Company as disclosed above) had interests or short positions in the shares and underlying shares of the Company which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name of shareholders	Capacity	Number of shares held	Approximate percentage of shareholdings
Charm Hero	Beneficial owner	78,029,470	30.66%
Mensun	Interest of a controlled corporation	78,029,470 <i>(Note 1)</i>	30.66%
New World Development Company Limited	Interest of a controlled corporation	30,199,320 <i>(Note 2)</i>	11.86%
Value Partners Limited	Held as investment manager	23,620,420 <i>(Note 3)</i>	9.28%
Ward Ferry Management (BVI) Limited	Held as investment manager	15,222,000 <i>(Note 4)</i>	5.98%
Maintrust Kapitalanlagegesellschaft mbH	Beneficial owner	14,264,000 <i>(Note 5)</i>	5.60%

Notes:

1. These shares of the Company were held by Charm Hero, which was wholly owned by Mensun. As such, Mensun was deemed or taken to be interested in the shares of the Company held by Charm Hero for the purposes of the SFO. Given the Placing and Subscription (as hereinafter defined under the section headed “Placing of Existing Shares and Subscription of New Shares”) involved a technical and temporary non-compliance of condition (a) of the Facilities (as hereinafter defined under the section headed “Disclosure under Rule 13.18 and 13.21 of Chapter 13 of the Listing Rules”), which witnessed the percentage shareholding of these shares of the Company to be technically and temporarily reduced to below 35% as at 30 June 2007, please note that the Company has duly received the requisite consent required to exempt such technical and temporary non-compliance of the said condition (a) to facilitate the completion of the Placing and Subscription.
2. These shares of the Company were held by Smart Fame Holdings Limited, a wholly owned subsidiary of New World Industrial Holdings Limited, which was in turn wholly owned by New World Enterprise Holdings Limited, which was in turn wholly owned by New World Development Company Limited. Therefore, New World Industrial Holdings Limited, New World Enterprise Holdings Limited and New World Development Company Limited were deemed to be beneficially interested in the said shares of the Company held by Smart Fame Holdings Limited for the purposes of the SFO.
3. These shares of the Company were held by Value Partners Limited, which was owned as to approximately 35.65% by Cheah Cheng Hye. As such, Cheah Cheng Hye was deemed or taken to be interested in the shares of the Company held by Value Partners Limited for the purpose of the SFO.
4. These shares of the Company were held by as to 8,222,000 shares by WF Asian Reconnaissance Fund Limited and as to 7,000,000 shares by WF Asian Smaller Companies Fund Limited. Both WF Asian Reconnaissance Fund Limited and WF Asian Smaller Companies Fund Limited were managed by Ward Ferry Management (BVI) Limited in the capacity as investment manager. As such, Ward Ferry Management (BVI) Limited was deemed or taken to be beneficially interested in the shares respectively held by WF Asian Reconnaissance Fund Limited and WF Asian Smaller Companies Fund Limited for the purposes of the SFO.
5. These shares of the Company were held by Maintrust Kapitalanlagegesellschaft mbH.

Save as aforesaid and as disclosed in the “Interests and Short Positions of the Directors in Shares, Underlying Shares and Debentures of the Company and its Associated Corporations” section of this interim report, the Company has not been notified by any person who had any interest or short position in the shares or underlying shares of the Company as at 30 June 2007 which are required to be notified to the Company pursuant to Part XV of the SFO or which are recorded in the register required to be kept by the Company under Section 336 of the SFO.

PLACING OF EXISTING SHARES AND SUBSCRIPTION OF NEW SHARES

On 29 June 2007, the Company has entered into a subscription agreement with Charm Hero for subscription of 23,800,000 of new shares in the Company subject to completion of the placing of 23,800,000 existing shares of the Company under the placing and underwriting agreement which was entered into between Charm Hero and its placing agent. Subsequent to completion of placing of the existing shares of the Company on 6 July 2007 and subscription of new shares of the Company on 13 July 2007 (hereinafter the “Placing and Subscription”), the net proceeds amounted to approximately HK\$99.0 million, after deducting related placing fee, professional fees and all related expenses.

The Company intends to use the net proceeds, as to approximately HK\$40.0 million for further acquisition opportunities and as to the balance of approximately HK\$59.0 million as general working capital of the Group.

DISCLOSURE UNDER RULE 13.18 AND 13.21 OF CHAPTER 13 OF THE LISTING RULES

In compliance with the Rule 13.18 and 13.21 of the Listing Rules, the following disclosures are included in respect of a loan agreement dated 27 March 2007 relating to a term loan and revolving credit facility (the “Facilities”) in an aggregate amount of HK\$200 million (the “Loan Agreement”) made available to the Group. The Loan Agreement includes conditions to the effect that (a) Mr. Ngok Yan Yu and his spouse, Ms. Tang Chui Yi, Janny, shall altogether remain the single largest shareholder of the Company and beneficially own (directly or indirectly) at least an unencumbered 35% of the issued share capital of the Company; (b) Mr. Ngok Yan Yu remain the chairman of the Company; and (c) Mr. Ngok Yan Yu shall be actively involved in the management and business of the Group. A breach of any of the above conditions will constitute an event of default under the Loan Agreement. If such an event of default occurs, all amounts outstanding under the Facilities may become immediately due and payable.

Given the Placing and Subscription involved a technical and temporary non-compliance of condition (a) of the Facilities, please note that the Company has duly received the requisite consent required to exempt such technical and temporary non-compliance of the said condition (a) to facilitate the completion of the Placing and Subscription.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

INTERIM DIVIDEND

The Directors has resolved to declare an interim dividend of HK3.0 cents per share for the six months ended 30 June 2007 (six months ended 30 June 2006: HK3.0 cents), payable on or about Thursday, 1 November 2007, to the shareholders whose names appear on the register of members of the Company on Monday, 22 October 2007.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 16 October 2007 to Monday, 22 October 2007, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all shares transfer documents accompanied with the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited of 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:00 p.m. on Monday, 15 October 2007.

CORPORATE GOVERNANCE PRACTICES

The Board believes that high standards of corporate governance are essential to the success of the Company and is committed to maintain a high level of corporate governance standards and practices. The Company has complied with all the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules during the period.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as its own code for dealing in securities of the Company by the Directors. The Company has made specific enquiries with all its directors regarding any non-compliance with the Model Code, and all Directors confirmed that they had complied with the required standard set out in the Model code for the period.

AUDIT COMMITTEE

The audit committee comprises three independent non-executive directors, namely, Mr. Lo Ming Chi, Charles, Mr. Pao Ping Wing and Mr. Kwan Hung Sang, Francis. Mr. Lo Ming Chi, Charles has been appointed as the chairman of the audit committee.

The audit committee has reviewed the accounting principles and practices adopted by the Group and has also discussed auditing, internal controls and financial reporting matters including the review of the unaudited interim results for the six months ended 30 June 2007 with the management.

In addition, the Group's external auditors performed an independent review of the interim financial information for the six months ended 30 June 2007 in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. The auditors based on their review, concluded that nothing has come to their attention that causes them to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34 "Interim Financial Reporting".

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of this interim report and interim results announcement will be available for inspection during the normal business hours at the principal place of business of the Company at 36/F., No.1 Hung To Road, Kwun Tong, Kowloon, Hong Kong from the date of this interim report to and including 18 October 2007.

On behalf of the Board

Mr. Ngok Yan Yu

Chairman

Hong Kong, 13 September 2007