



MIRABELL INTERNATIONAL HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)



Interim Report 2006~2007

Stock Code : 1179

CORPORATE INFORMATION

Board of Directors

Executive Directors

Tang Wai Lam
(*Chairman and Managing Director*)
Ng Man Kit, Lawrence
(*Deputy Managing Director*)
Chung Chun Wah
Leung Kelvin Yiu Fai
(appointed on 1 August 2006)

Non-executive Directors

Lee Kwan Hung
Lee Kin Sang*
Chan Ka Sing, Tommy*
Ng Chun Chuen, David*
* *Independent Non-executive Director*

Audit Committee

Lee Kin Sang (*Chairman*)
Chan Ka Sing, Tommy
Ng Chun Chuen, David

Remuneration Committee

Chan Ka Sing, Tommy (*Chairman*)
Lee Kin Sang
Ng Chun Chuen, David
Tang Wai Lam

Qualified Accountant

Leung Kelvin Yiu Fai

Company Secretary

Leung Kelvin Yiu Fai

Registered Office

Ugland House
South Church Street
P.O. Box 309
George Town, Grand Cayman
Cayman Islands
British West Indies

Head Office and Principal Place of Business

8/F, Wyler Centre, Phase II
200 Tai Lin Pai Road
Kwai Chung
New Territories
Hong Kong

Stock Code

1179

Website

www.mirabell.com.hk

Legal Advisors

Woo, Kwan, Lee & Lo
27/F, Jardine House
1 Connaught Place
Central
Hong Kong

Auditors

PricewaterhouseCoopers
Certified Public Accountants
22/F, Prince's Building
Central
Hong Kong

Principal Share Registrar

Bank of Bermuda (Cayman) Limited
P.O. Box 513 G.T.
Strathvale House
North Church Street
George Town, Grand Cayman
Cayman Islands
British West Indies

Hong Kong Branch Share Registrar

Abacus Share Registrars Limited
26/F, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

Principal Bankers

Hang Seng Bank Limited
DBS Bank (Hong Kong) Limited

UNAUDITED INTERIM RESULTS

The board of directors (the “Board”) of Mirabell International Holdings Limited (the “Company”) is pleased to present the interim report and unaudited condensed consolidated interim financial information of the Company and its subsidiaries (the “Group”) for the six months ended 31 August 2006 (the “period under review”), which was reviewed by the Audit Committee of the Company.

CONDENSED CONSOLIDATED INCOME STATEMENT

		Unaudited Six months ended 31 August	
	<i>Note</i>	2006 HK\$'000	2005 HK\$'000
Turnover	4	418,312	403,410
Cost of sales		(170,414)	(163,485)
Gross profit		247,898	239,925
Other revenue	4	2,558	2,144
Distribution and selling costs		(186,273)	(167,893)
Administrative expenses		(50,222)	(47,058)
Other operating income, net		1,055	884
Operating profit	5	15,016	28,002
Finance costs	6	(1,056)	(1,072)
Share of profit of an associate	7	57,800	6,351
Profit before taxation		71,760	33,281
Taxation	8	(1,774)	(3,083)
Profit attributable to equity holders of the Company		69,986	30,198
Dividends	9	3,818	33,089
Basic earnings per share	10	27.5 cents	11.9 cents
Diluted earnings per share	10	27.5 cents	11.9 cents

CONDENSED CONSOLIDATED BALANCE SHEET

	Note	Unaudited 31 August 2006 HK\$'000	Audited 28 February 2006 HK\$'000
Non-current assets			
Property, plant and equipment	11	41,909	41,251
Investment properties		53,448	53,448
Leasehold land and land use rights		16,700	17,704
Intangible assets		10,714	13,321
Interest in an associate	7	343,429	59,343
Rental deposits		31,875	29,727
Non-current deposits	12	10,702	10,702
Deferred tax assets		8,612	7,965
		517,389	233,461
Current assets			
Inventories	13	181,524	154,148
Trade receivables	14	71,615	70,231
Other receivables, deposits and prepayments		31,748	30,010
Taxation recoverable		3,445	1,687
Cash and cash equivalents		97,806	114,891
Derivative financial instruments		–	80
		386,138	371,047
Current liabilities			
Trade payables	15	55,457	42,234
Other payables and accrued charges		50,021	60,384
Taxation payable		6,294	6,565
Short-term bank borrowings		58,012	47,817
Derivative financial instruments		331	–
		170,115	157,000
Net current assets		216,023	214,047
Total assets less current liabilities		733,412	447,508

CONDENSED CONSOLIDATED BALANCE SHEET (continued)

	Note	Unaudited 31 August 2006 HK\$'000	Audited 28 February 2006 HK\$'000
Non-current liabilities			
Other non-current liabilities		6,889	8,107
Deferred tax liabilities		1,510	1,338
		8,399	9,445
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Net assets		725,013	438,063
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Equity			
Share capital	16	25,453	25,453
Other reserves		343,347	112,384
Retained earnings			
– Dividends declared after the balance sheet date	9	3,818	13,999
– Others		352,395	286,227
		725,013	438,063
Total equity		725,013	438,063
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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Unaudited	
		Six months ended	
		31 August	
	<i>Note</i>	2006	2005
		HK\$'000	<i>HK\$'000</i>
Total equity as at 1 March		438,063	421,056
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Share of investment reserve of an associate	7	226,722	–
Translation differences arising on translation of the accounts of foreign subsidiaries and an associate		199	(365)
<hr/>			
Net income/(expense) recognised directly in equity		226,921	(365)
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Profit for the period		69,986	30,198
Share options granted to directors and employees		4,042	–
Dividends	9	(13,999)	(16,799)
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		60,029	13,399
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Total equity as at 31 August		725,013	434,090

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Unaudited	
	Six months ended	
	31 August	
	2006	2005
	HK\$'000	<i>HK\$'000</i>
Net cash outflow from operating activities	(1,919)	(14,530)
Net cash outflow from investing activities	(11,322)	(5,403)
Net cash (outflow)/inflow from financing	(4,163)	9,848
Decrease in cash and cash equivalents	(17,404)	(10,085)
Cash and cash equivalents as at 1 March	114,891	86,357
Effect of foreign exchange rate changes	319	(472)
Cash and cash equivalents as at 31 August	97,806	75,800

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1. General information

Mirabell International Holdings Limited (the “Company”) and its subsidiaries (collectively, the “Group”) are principally engaged in the retailing, wholesaling and manufacturing of footwear.

The Company is a limited liability company incorporated in the Cayman Islands. The principal place of business is at 8/F, Wyler Centre, Phase II, 200 Tai Lin Pai Road, Kwai Chung, New Territories, Hong Kong.

The Company’s shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited.

This unaudited condensed consolidated interim financial information was approved for issue by the Board of Directors on 21 November 2006.

2. Basis of preparation

This unaudited condensed consolidated interim financial information has been prepared in accordance with HKAS 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants.

This unaudited condensed consolidated interim financial information should be read in conjunction with the 2005/2006 annual financial statements.

3. Accounting policies

The accounting policies and methods of computation used in the preparation of this unaudited condensed consolidated interim financial information are consistent with those used in the annual financial statements for the year ended 28 February 2006 except for the adoption of amendments to standards and an interpretation which are effective for the year ending 28 February 2007 as set out below:

HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKFRS Interpretation 4	Determining whether an Arrangement contains a Lease

The adoption of the above amendments to standards and interpretation did not result in substantial changes to the Group’s accounting policies.

The Group has not early adopted any new standards, amendments to standards or interpretations that have been issued but are not effective for the year ending 28 February 2007. The Group has already commenced an assessment of their impact but is not yet in a position to state whether they would have a significant impact on its results of operations and financial position.

4. Turnover, revenue and segmental information

The Group is principally engaged in retailing, wholesaling and manufacturing of footwear. Revenues recognised during the period are as follows:

	Unaudited Six months ended 31 August	
	2006 HK\$'000	2005 HK\$'000
Turnover		
Sales of goods	418,312	403,410
<hr style="border-top: 1px dashed black;"/>		
Other revenue		
Royalty income	1,980	1,764
Interest income	576	378
Others	2	2
	2,558	2,144
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Total revenue	420,870	405,554

The Group has only one single business segment which is the sales of footwear through retailing, wholesaling and manufacturing. Accordingly, no business segmental information is shown.

An analysis of the Group's turnover and contribution to the operating profit by geographical segments is as follows:

	Unaudited Six months ended 31 August 2006			
	Hong Kong and Macau HK\$'000	Mainland China HK\$'000	Taiwan HK\$'000	Total HK\$'000
Total gross segment sales	367,984	132,847	10,380	511,211
Inter-segment sales	(85,196)	(7,703)	–	(92,899)
	282,788	125,144	10,380	418,312
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Segment results	10,412	7,290	(2,686)	15,016

4. Turnover, revenue and segmental information (continued)

	Unaudited Six months ended 31 August 2005			
	Hong Kong and Macau HK\$'000	Mainland China HK\$'000	Taiwan HK\$'000	Total HK\$'000
Total gross segment sales	394,637	110,765	4,381	509,783
Inter-segment sales	(99,486)	(6,887)	–	(106,373)
	295,151	103,878	4,381	403,410
Segment results	23,639	6,220	(1,857)	28,002

5. Operating profit

	Unaudited Six months ended 31 August	
	2006 HK\$'000	2005 HK\$'000
Operating profit is stated after charging the following:		
Depreciation of property, plant and equipment	11,064	8,808
Amortisation of prepaid operating lease payment	1,003	1,003
Amortisation of intangible assets		
– included in cost of sales	2,607	2,381
– included in administrative expenses	–	1,000
Loss on disposal of property, plant and equipment	206	39
Loss on disposal of an investment property	–	66
Fair value loss on forward foreign exchange contracts	411	86
Share options granted to directors and employees (Note 17)	4,042	–

6. Finance costs

	Unaudited Six months ended 31 August	
	2006 HK\$'000	2005 HK\$'000
Interest on bank loans and overdrafts	1,056	1,072

7. Associate

Best Quality Investments Limited (“Best Quality”), a company incorporated in Samoa, is the Group’s associate in which the Group holds 30% interests. The Company has been informed that on 1 September 2006, Belle International Holdings Limited (“Belle International”) issued new shares to a company owned by Mr Tang Yiu, who is a cousin of Mr Tang Wai Lam, a director of the Company, as consideration for acquisition of another company owned by Mr Tang Yiu which carries on the business of retailing of sportswear in the PRC. Moreover, the Company has also been informed that such acquisition and issue of new shares were the result of commercial negotiations between Belle International and Mr Tang Yiu by reference to the valuation of Belle International and the company being acquired respectively as at 30 June 2006. Based on the unaudited financial information of Best Quality as at 1 July 2006, the Group’s share of Best Quality’s deemed gain in connection therewith amounted to approximately HK\$33,804,000 which have been reflected in the share of profit of an associate, and the Group’s share of Best Quality’s investment reserve amounted to approximately HK\$226,722,000 which have been reflected in the share of investment reserve of an associate. Best Quality’s equity interest in Belle International has been diluted from approximately 20.3% to approximately 17.7%. Accordingly, the Company’s attributable interest in Belle International has been diluted to approximately 5.3%.

(a) Share of profit of an associate

	Unaudited Six months ended 31 August	
	2006 HK\$’000	2005 HK\$’000
Share of profit	23,996	6,351
Share of deemed gain	33,804	–
	<hr/>	
Share of profit of an associate	57,800	6,351

(b) Interest in an associate

	Unaudited 31 August 2006 HK\$’000	Audited 28 February 2006 HK\$’000
Share of share capital, share premium and retained earnings	106,307	48,943
Share of investment reserve	226,722	–
	<hr/>	
Share of net assets	333,029	48,943
Goodwill on acquisition of an associate	10,400	10,400
	<hr/>	
Interest in an associate	343,429	59,343

7. Associate (continued)

As Belle International has ceased to be accounted for as an associate in the consolidated financial statements of Best Quality, the consolidated profits or losses of Belle International cease to be equity accounted for in the consolidated financial statements of Best Quality, but any dividends distributed by Belle International to Best Quality are reflected in the consolidated financial statements of Best Quality, which are in turn equity accounted for in the consolidated financial statements of the Company as Best Quality continues to be an associate of the Company.

8. Taxation

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profit for the six months ended 31 August 2006. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the geographical areas in which the Group operates.

	Unaudited Six months ended 31 August	
	2006 HK\$'000	2005 HK\$'000
Current taxation		
– Hong Kong profits tax	662	635
– Overseas taxation	1,587	2,253
Deferred taxation relating to the origination and reversal of temporary differences	(475)	195
Taxation charge	1,774	3,083

9. Dividends

- (a) Interim and special dividends declared after the balance sheet date of the interim period:

	Unaudited Six months ended 31 August	
	2006 HK\$'000	2005 HK\$'000
2006/2007 interim dividend of HK1.5 cents (2005/2006: HK3.0 cents) per ordinary share	3,818	7,636
2005/2006 special dividend of HK10.0 cents per ordinary share	–	25,453
	3,818	33,089

Dividends declared after the balance sheet date are not reflected as dividends payable in this unaudited condensed consolidated interim financial information.

- (b) Final dividend in respect of the previous financial year, approved and paid during the interim period:

	Unaudited Six months ended 31 August	
	2006 HK\$'000	2005 HK\$'000
2005/2006 final dividend, paid, of HK5.5 cents (2004/2005: HK6.6 cents) per ordinary share	13,999	16,799

10. Basic and diluted earnings per share

The calculation of basic and diluted earnings per share is based on the Group's unaudited profit attributable to equity holders of HK\$69,986,000 (2005: HK\$30,198,000) and the weighted average number of 254,530,000 (2005: 254,530,000) ordinary shares in issue during the period under review.

The Company has no dilutive potential ordinary share as the share options granted as disclosed in Note 17 did not have a dilutive effect during the period under review.

11. Property, plant and equipment

During the period under review, items of property, plant and equipment with a cost of HK\$11,899,000 (2005: HK\$13,715,000) were acquired and items of property, plant and equipment with a net book value of HK\$207,000 (2005: HK\$40,000) were disposed of by the Group. Such disposal resulted in a loss of HK\$206,000 (2005: HK\$39,000).

12. Non-current deposits

Non-current deposits represent deposits paid for the acquisition of properties.

13. Inventories

	Unaudited 31 August 2006 HK\$'000	Audited 28 February 2006 HK\$'000
Raw materials	3,834	4,317
Work in progress	125	124
Finished goods	177,565	149,707
	181,524	154,148

The cost of inventories recognised as expense and included in cost of sales amounted to HK\$158,862,000 (2005: HK\$162,821,000).

14. Trade receivables

Other than cash and credit card sales, the majority of the Group's credit sales is on a credit term of 30 – 60 days. As at 31 August 2006, the ageing analysis of the trade receivables was as follows:

	Unaudited 31 August 2006 HK\$'000	Audited 28 February 2006 HK\$'000
0 – 30 days	59,130	68,265
31 – 60 days	3,109	1,372
61 – 90 days	4,252	149
Over 90 days	5,124	445
	71,615	70,231

15. Trade payables

As at 31 August 2006, the ageing analysis of the trade payables was as follows:

	Unaudited 31 August 2006 HK\$'000	Audited 28 February 2006 HK\$'000
0 – 30 days	51,774	37,668
31 – 60 days	847	477
61 – 90 days	635	172
Over 90 days	2,201	3,917
	55,457	42,234

16. Share capital

	Ordinary shares of HK\$0.1 each	
	<i>No. of shares</i>	<i>HK\$'000</i>
Authorised:		
As at 28 February 2006 and 31 August 2006	1,000,000,000	100,000
Issued and fully paid:		
As at 28 February 2006 and 31 August 2006	254,530,000	25,453

17. Share option scheme

On 3 April 2006, share options were granted to certain directors and employees of the Group pursuant to the Company's share option scheme, which was approved by the shareholders of the Company on 29 December 2004. As at 31 August 2006, share options with rights to subscribe for a total of 21,300,000 shares of the Company at a subscription price of HK\$2.875 per share subject to vesting periods of one, two, three or four years were outstanding. The share options granted shall expire on 2 April 2012 or 2 April 2014.

The fair value of the services received in exchange for the grant of the options is recognised as an expense. The total amounts to be expensed over the respective vesting periods are determined by reference to the fair value of the options granted.

18. Contingent liabilities

As at 31 August 2006, the Group had given a guarantee amounting to HK\$9,430,000 (28 February 2006: guarantees amounting to HK\$31,330,000) in relation to the banking facilities granted to a subsidiary of Belle International, which represented the Group's pro-rated share of the guarantee given in respect of such banking facilities in accordance with its indirect percentage interest in Belle International. As at 31 August 2006, HK\$1,597,000 (28 February 2006: HK\$10,636,000) were granted to and utilised by that subsidiary of Belle International. This guarantee has been released as at the reporting date.

19. Related party transactions

(a) Purchases

	Unaudited Six months ended 31 August	
	2006 HK\$'000	2005 HK\$'000
Purchases from related companies	–	202

During the six months ended 31 August 2005, Lai Wah Footwear Trading Limited and Lai Kong Footwear (Shenzhen) Company Limited were subsidiaries of Best Quality, the associate of the Group. Purchases from these two companies were conducted in the normal course of business at prices and terms in accordance with the terms mutually agreed by the respective parties.

(b) Key management compensation

	Unaudited Six months ended 31 August	
	2006 HK\$'000	2005 HK\$'000
Fees	144	130
Basic salaries and allowances	1,687	2,472
Bonuses	731	1,812
Pension scheme contributions	19	24
Share options	1,313	–
	3,894	4,438

MANAGEMENT DISCUSSION AND ANALYSIS

The turnover of the Group increased by 3.69% to HK\$418,312,000 whereas the profit attributable to equity holders of the Company increased by 131.76% to HK\$69,986,000, compared with the corresponding period last year. During the period under review, in spite of a decrease in the operating profit, a surge in the share of profit of an associate has ultimately led to an increase in the profit attributable to equity holders of the Company.

(a) Hong Kong and Macau market

During the period under review, the Group was faced with unfavourable economic and operating conditions. Interest rate hikes, rising oil price and the World Cup held in June are believed to have affected consumer sentiment. In the meantime, the number of visitors from the Mainland China was less than expected while the rental and salary costs increased. Consequently, the turnover and operating profit of the local retail business dropped, compared with the corresponding period last year.

Because of the keen competition in the marketplace, the wholesale business recorded decreases in the turnover and operating profit during the period under review. At present, we are the exclusive footwear distributor of the U.S. brands of Caterpillar, Merrell, Royal Elastics and Sebago in Hong Kong, Macau and the Mainland China, and the Italian brand of Geox in Hong Kong and Macau; the exclusive footwear, bags and apparel distributor of the U.K. brand of Gola in Hong Kong, Macau and the Mainland China; and the exclusive footwear distributor of the U.S. brand of Harley-Davidson in Hong Kong.

The turnover decreased 4.19% to HK\$282,788,000 whereas the operating profit decreased 55.95% to HK\$10,412,000 in the Hong Kong and Macau market. At the end of October 2006, the Group operated 104 retail outlets in Hong Kong and Macau under the brands of Mirabell, Joy & Peace, Fiorucci, Inshoesnet and Geox.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

(b) Mainland China market

During the period under review, the business of the Group is well-positioned to benefit from the Mainland China's continued growing economy. With a view to focusing on existing store performance improvement, the Group slightly slowed down its store expansion pace. The management maintained a very tight cost control in order to increase the operating profit and placed the greatest effort to strengthen the Group's competitiveness in the marketplace. The turnover increased 20.47% to HK\$125,144,000 whereas the operating profit increased 17.20% to HK\$7,290,000 in the Mainland China market.

The Group has been actively developing the Mainland China market for years and has established 179 retail outlets at the end of October 2006 located in Shenzhen, Guangzhou, Shanghai, Beijing, Tianjin, Dalian, Chengdu, Chongqing, Zhuhai, Xi'an, Wuhan, Wuxi, Dongguan, Harbin, Shijiazhuang, Panyu and Shenyang under the brands of Mirabell, Joy & Peace, Innet, Caterpillar, Merrell, Fiorucci and Kokopelli. In addition, there were 80 franchised retail outlets under the brand of Joy & Peace.

(c) Taiwan market

During the period under review, notwithstanding the turnover increased 136.93% to HK\$10,380,000, market conditions were extremely tough and worsened by the weak consumer sentiment, an operating loss of HK\$2,686,000 was recorded in the Taiwan market. At the end of October 2006, the Group operated 17 retail outlets under the brand of Fiorucci in Taiwan.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

(d) Associate of the Group

Best Quality Investments Limited, a company incorporated in Samoa, is the Group's associate in which the Group holds 30% interests. During the period under review, the share of profit of an associate greatly increased to HK\$57,800,000.

(e) Prospects

The decrease in unemployment rate together with increases in salaries and consumer purchasing power are favourable to our business in the local market. The number of visitors from the Mainland China continues to grow steadily although the growth rate is not as significant as that of last year. In fact, a lot of visitors from Mainland China travel to Hong Kong and Macau throughout the year instead of coming mainly in long holidays. The management is of the view that the recovery of the local economy will sustain to propel future growth in our business.

While consolidating our business in Hong Kong and Macau, we will increase our penetration in the Mainland China market. The Group will continue to pursue the progressive expansion plan into the Mainland China market aiming at exploring market potential from sustained economic growth momentum. The management will adopt pragmatic expansion strategies at a manageable pace of growth. The Mainland China business is anticipated to have a forward leap in the near future.

We are confident that our various merchandising and branding initiatives will help differentiate our brands from the competitors and increase our competitive advantage. The footwear products of Kokopelli, which is a self-developed brand, have been sold in the Mirabell retail outlets in Hong Kong, Macau and the Mainland China for a long time. In September 2006, the first stand alone Kokopelli retail store was opened in Guangzhou. The initial market response is encouraging. After having established solid market recognition and brand awareness, the management will embark on opening new Kokopelli stores in the Mainland China.

The economy in Taiwan continues to be sluggish. As the outlook for the market remains uncertain, the management will pay full attention to the existing store performance improvement in the near future.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

(e) Prospects (continued)

In order to provide a solid foothold for further business expansion, the management is placing more emphasis on product development, marketing and securing exclusive distribution rights for international brands to build a stronger product portfolio. In the meantime, for the purposes of building up effective and efficient information systems with the capability to manage lots of business information and to response to ever-increasing customer demand and market competition, the Group is planning to upgrade the IT infrastructure in order to further improve our operations, merchandising and inventory management.

Although the Group is faced with a highly competitive business environment, the management is cautious yet optimistic about the performance of the Group in the second half of the year.

LIQUIDITY AND FINANCIAL RESOURCES

Working capital of the Group increased from HK\$214,047,000 to HK\$216,023,000 as at 31 August 2006, and the current ratio and quick ratio remained at a steady level of 2.27 and 1.20 times, respectively.

The inventory balance as at 31 August 2006 amounted to HK\$181,524,000. Compared with the inventory balance of HK\$154,148,000 as at 28 February 2006, an increase was recorded. As at 31 August 2006, the Group had bank balances and cash of HK\$97,806,000 and outstanding bank borrowings of HK\$58,012,000. During the period under review, the Group raised new short-term bank loans of HK\$28,910,000 for the financing of working capital and short-term bank loans of HK\$19,074,000 were settled.

LIQUIDITY AND FINANCIAL RESOURCES (continued)

As at 31 August 2006, the gearing ratio of the Group was 0.08 (28 February 2006: 0.11) which was calculated on the Group's total borrowings of HK\$58,012,000 (28 February 2006: HK\$47,817,000) and the total equity of HK\$725,013,000 (28 February 2006: HK\$438,063,000).

TREASURY POLICIES

The Group continued to adopt a conservative approach to financial risk management. The Group's borrowings were mainly in Hong Kong dollars and Renminbi and were arranged on a floating rate basis. As at 31 August 2006, the Group had a previously signed foreign exchange contract with an expiry date in September 2006 to hedge with potential revaluation of Renminbi. Except this foreign exchange contract, no other financial instrument has been employed. The Group's treasury management policy is not to engage in any highly leveraged or speculative derivative products.

With low gearing ratio and sound financial position, the management believes that the Group is well placed to avail itself to future expansion and investment opportunities.

CHARGE ON ASSETS

As at 31 August 2006, the net book values of fixed assets pledged as security for certain banking facilities available to the Group amounted to approximately HK\$10,626,000 (28 February 2006: HK\$10,856,000).

HUMAN RESOURCES

As at 31 August 2006, the Group had a total of 2,119 employees. The Group offers a competitive remuneration package to its employees, including insurance and medical benefits. In addition, discretionary bonus and share options may be granted to eligible employees based on the Group's performance and individual performance.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 August 2006, the interests and short positions of the directors of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

(a) Shares in the Company

Name of Director	Number of shares/underlying shares beneficially held		
	Personal interests		Other interests
	Ordinary shares of HK\$0.1 each	Underlying shares (note (i))	
Mr Tang Wai Lam	6,000,000	–	130,575,000 (note (ii))
Mr Ng Man Kit, Lawrence	12,094,000	2,000,000	–
Mr Chung Chun Wah	2,604,000	2,000,000	–
Mr Leung Kelvin Yiu Fai	–	1,300,000	–
Mr Lee Kwan Hung	–	500,000	–
Mr Lee Kin Sang	–	500,000	–
Mr Chan Ka Sing, Tommy	–	500,000	–
Mr Ng Chun Chuen, David	–	250,000	–

Notes:

- (i) Underlying shares are shares options granted to the directors of the Company pursuant to the share option scheme of the Company and details of which are set out on pages 24 to 28.
- (ii) Of these 130,575,000 shares, 8,175,000 shares were held by Rich Land Property Limited, which was wholly owned by a discretionary trust, the founder of which was Mr Tang Wai Lam. The other 122,400,000 shares were held by Tang's Enterprises Limited, which was owned by Rich Land Property Limited, Kinlington Agents Limited and Mosman Associates Limited as to one-third each.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (continued)

(b) Shares in Mirabell Footwear Limited

<u>Name of Director</u>	<u>Number of non-voting deferred shares of HK\$100 each in a subsidiary of the Company, Mirabell Footwear Limited, beneficially held personally</u>
Mr Tang Wai Lam	6,561
Mr Chung Chun Wah	477

Save as disclosed above:

- (i) As at 31 August 2006, none of the directors or chief executives (including their spouses and children under 18 years of age) of the Company had any interest in, or had been granted, or exercised, any rights to subscribe for the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the SFO).
- (ii) At no time during the period under review was the Company or its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 31 August 2006, the following persons (other than the directors of the Company) had 5% or more interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO.

Name	Number of ordinary shares of HK\$0.1 each beneficially held			Total
	Beneficial interests	Interest of controlled corporation	Other interests	
Tang's Enterprises Limited <i>(note (vii))</i>	122,400,000	–	–	122,400,000
Rich Land Property Limited <i>(note (vii))</i>	8,175,000	122,400,000 <i>(note (i))</i>	–	130,575,000
Kinlington Agents Limited <i>(note (vii))</i>	8,175,000	122,400,000 <i>(note (i))</i>	–	130,575,000
Mosman Associates Limited	8,175,000	122,400,000 <i>(note (i))</i>	–	130,575,000
Mr Tang Keung Lam	6,000,000	–	130,575,000 <i>(note (ii))</i>	136,575,000
Madam Tso Lai Kuen	6,000,000	–	130,575,000 <i>(note (iii))</i>	136,575,000
Strath Fiduciaries Limited	–	155,100,000 <i>(note (iv))</i>	–	155,100,000
Value Partners Limited	–	–	15,224,000 <i>(note (v))</i>	15,224,000
Mr Cheah Cheng Hye	–	15,224,000 <i>(note (vi))</i>	–	15,224,000

SUBSTANTIAL SHAREHOLDERS (continued)

Notes:

- (i) These represented the same block of 122,400,000 shares held by Tang's Enterprises Limited, which was owned by Rich Land Property Limited, Kinlington Agents Limited and Mosman Associates Limited as to one-third each.
- (ii) Of these 130,575,000 shares, 8,175,000 shares were held by Kinlington Agents Limited, which was wholly owned by a discretionary trust, the founder of which was Mr Tang Keung Lam. The other 122,400,000 shares represented the same block of shares held by Tang's Enterprises Limited.
- (iii) Of these 130,575,000 shares, 8,175,000 shares were held by Mosman Associates Limited, which was wholly owned by a discretionary trust, the founder of which was Madam Tso Lai Kuen. The other 122,400,000 shares represented the same block of shares held by Tang's Enterprises Limited.
- (iv) These represented the same block of 122,400,000 shares held by Tang's Enterprises Limited and the three blocks of shares of 8,175,000 each beneficially held by Rich Land Property Limited, Kinlington Agents Limited and Mosman Associates Limited respectively plus 8,175,000 shares beneficially held by Simple Message Limited. Since Rich Land Property Limited, Kinlington Agents Limited, Mosman Associates Limited and Simple Message Limited were wholly owned on trust by Strath Fiduciaries Limited, Strath Fiduciaries Limited was deemed to be interested in the shares in which those companies were interested or deemed to be interested under the SFO.
- (v) These shares were held by Value Partners Limited in the capacity of investment manager.
- (vi) These represented the same block of shares held by Value Partners Limited, which was controlled by Mr Cheah Cheng Hye.
- (vii) Mr Tang Wai Lam is a director of Tang's Enterprises Limited, Rich Land Property Limited and Kinlington Agents Limited.

Save as disclosed above, as at 31 August 2006, no other person was recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO as having 5% or more interests and short positions in the shares and underlying shares of the Company.

SHARE OPTION SCHEME

The purpose of the share option scheme of the Company (the "Share Option Scheme") is to provide the Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to the participants for their contributions and/or potential contributions to the Group and for such other purposes as the Board may approve from time to time.

The participants of the Share Option Scheme are:

- (i) any executive or non-executive directors including independent non-executive directors or any employees (whether full-time or part-time) of the Group;
- (ii) any discretionary objects of a discretionary trust established by any employees, executive or non-executive directors of the Group;
- (iii) any consultants, professional and other advisers to the Group (or persons, firms or companies proposed to be appointed for providing such services);
- (iv) any chief executives of the Company; and
- (v) any associates of director or chief executive of the Company,

provided that the Board may have absolute discretion to determine whether or not one falls within the above categories.

The total number of shares of the Company ("Shares") which may be issued upon exercise of all options under the Share Option Scheme and any other share option schemes of the Company (excluding, for this purpose, options lapsed in accordance with the terms of the Share Option Scheme and any other share option schemes) must not in aggregate exceed 10% of Shares in issue at 29 December 2004, the date of adoption of the Share Option Scheme, unless a fresh approval of the shareholders is obtained. As at the date of this interim report, the total number of Shares available for issue under the Share Option Scheme is 25,453,000, which represents 10% of the issued share capital of the Company as at the date of this interim report.

The total number of Shares issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the total number of Shares in issue. Any further grant of options in excess of such limit must be separately approved by the shareholders of the Company in general meeting with such participant and his associates abstaining from voting.

SHARE OPTION SCHEME (continued)

The Board shall be entitled at any time within 10 years after 29 December 2004 to make an offer of the grant of an option. The period during which an option may be exercised is determined by the Board, which shall not be longer than 10 years from the date upon which the option is granted unless otherwise determined by the Board and specified in the offer letter at the time of the offer of the grant of the option, there is no minimum period for which an option must be held before it can be exercised.

The amount payable on acceptance of the option is HK\$1.00 to be received by the Company within a period of 28 days from the date upon which the offer is made, provided that no such offer shall be open for acceptance after the 10th anniversary from 29 December 2004. Such remittance shall in no circumstances be refundable. The full amount of the exercise price for the subscription of Shares has to be paid upon exercise of an option.

The subscription price in respect of each Share issued pursuant to the exercise of options granted shall be a price solely determined by the Board and notified to a participant and shall be at least the highest of:

- (a) the closing price of Shares as stated in the Stock Exchange's daily quotations sheet on the offer date, which must be a business day;
- (b) a price being the average of the closing prices of Shares as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the offer date; and
- (c) the nominal value of a Share.

The Share Option Scheme was approved by the shareholders of the Company on 29 December 2004 and has a life of 10 years until 28 December 2014, but any options then outstanding will continue to be exercisable.

On 3 April 2006, share options were granted to certain directors and employees of the Group pursuant to the Share Option Scheme. As at 31 August 2006, share options with rights to subscribe for a total of 21,300,000 Shares at a subscription price of HK\$2.875 per share subject to vesting periods of one, two, three or four years were outstanding. The share options granted shall expire on 2 April 2012 or 2 April 2014.

SHARE OPTION SCHEME (continued)

Movements in the number of share options previously granted are set out below:

Eligible person	Number of share options				Balance as at 31 August 2006	Exercise price per share HK\$	Date of grant (DD/MM/YYYY)	Exercisable period (DD/MM/YYYY)
	Balance as at 1 March 2006	Granted during the six months ended 31 August 2006	Exercised during the six months ended 31 August 2006	Cancelled/Lapsed during the six months ended 31 August 2006				
Director Mr Ng Man Kit, Lawrence	-	600,000	-	-	600,000	2.875	03/04/2006	03/04/2007 – 02/04/2012
	-	600,000	-	-	600,000	2.875	03/04/2006	03/04/2008 – 02/04/2012
	-	800,000	-	-	800,000	2.875	03/04/2006	03/04/2009 – 02/04/2012
	-	2,000,000	-	-	2,000,000			
Mr Chung Chun Wah	-	600,000	-	-	600,000	2.875	03/04/2006	03/04/2007 – 02/04/2012
	-	600,000	-	-	600,000	2.875	03/04/2006	03/04/2008 – 02/04/2012
	-	800,000	-	-	800,000	2.875	03/04/2006	03/04/2009 – 02/04/2012
	-	2,000,000	-	-	2,000,000			
Mr Leung Kelvin Yiu Fai	-	320,000	-	-	320,000	2.875	03/04/2006	03/04/2007 – 02/04/2014
	-	320,000	-	-	320,000	2.875	03/04/2006	03/04/2008 – 02/04/2014
	-	320,000	-	-	320,000	2.875	03/04/2006	03/04/2009 – 02/04/2014
	-	340,000	-	-	340,000	2.875	03/04/2006	03/04/2010 – 02/04/2014
-	1,300,000	-	-	1,300,000				
Mr Lee Kwan Hung	-	160,000	-	-	160,000	2.875	03/04/2006	03/04/2007 – 02/04/2014
	-	160,000	-	-	160,000	2.875	03/04/2006	03/04/2008 – 02/04/2014
	-	180,000	-	-	180,000	2.875	03/04/2006	03/04/2009 – 02/04/2014
	-	500,000	-	-	500,000			

SHARE OPTION SCHEME (continued)

Eligible person	Number of share options				Balance as at 31 August 2006	Exercise price per share HK\$	Date of grant (DD/MM/YYYY)	Exercisable period (DD/MM/YYYY)
	Balance as at 1 March 2006	Granted during the six months ended 31 August 2006	Exercised during the six months ended 31 August 2006	Cancelled/ Lapsed during the six months ended 31 August 2006				
Mr Lee Kin Sang	-	160,000	-	-	160,000	2.875	03/04/2006	03/04/2007 – 02/04/2014
	-	160,000	-	-	160,000	2.875	03/04/2006	03/04/2008 – 02/04/2014
	-	180,000	-	-	180,000	2.875	03/04/2006	03/04/2009 – 02/04/2014
	-	500,000	-	-	500,000			
Mr Chan Ka Sing, Tommy	-	160,000	-	-	160,000	2.875	03/04/2006	03/04/2007 – 02/04/2014
	-	160,000	-	-	160,000	2.875	03/04/2006	03/04/2008 – 02/04/2014
	-	180,000	-	-	180,000	2.875	03/04/2006	03/04/2009 – 02/04/2014
	-	500,000	-	-	500,000			
Mr Ng Chun Chuen, David	-	80,000	-	-	80,000	2.875	03/04/2006	03/04/2007 – 02/04/2014
	-	80,000	-	-	80,000	2.875	03/04/2006	03/04/2008 – 02/04/2014
	-	90,000	-	-	90,000	2.875	03/04/2006	03/04/2009 – 02/04/2014
	-	250,000	-	-	250,000			
Employees (note (i))	-	4,300,000	-	(70,000)	4,230,000	2.875	03/04/2006	03/04/2007 – 02/04/2014
	-	4,300,000	-	(70,000)	4,230,000	2.875	03/04/2006	03/04/2008 – 02/04/2014
	-	4,470,000	-	(80,000)	4,390,000	2.875	03/04/2006	03/04/2009 – 02/04/2014
	-	1,400,000	-	-	1,400,000	2.875	03/04/2006	03/04/2010 – 02/04/2014
	-	14,470,000	-	(220,000)	14,250,000			
Total	-	21,520,000	-	(220,000)	21,300,000			

SHARE OPTION SCHEME (continued)

Notes:

- (i) Employees working under employment contracts that are regarded as “continuous contracts” for the purposes of the Employment Ordinance of Hong Kong.
- (ii) The closing price of the Share immediately before the date on which the share options were granted was HK\$2.875.
- (iii) The Company adopts the binomial model for estimating the fair value of share options issued under the Share Option Scheme. The model is one of the commonly used models to estimate the fair value of a share option which can be exercised before the expiry of the option period.

Significant assumptions are used in the binomial model to estimate the value of a share option, taking into account the following factors:

- Risk-free interest rate – the yields of Hong Kong Exchange Fund Notes
- Expected volatility – the historical volatility of the Share during the 5 years immediately before the date on which the share options were granted, and the expected volatility for the retail industry
- Expected dividend yields – the historical dividend yields of the Company

The value of a share option varies with different variables of certain subjective assumptions. Any change in variables so adopted may materially affect the estimation of the fair value of a share option.

The total value of the share options granted on 3 April 2006 was approximately HK\$17,286,000 according to the binomial model, and is expensed over the respective vesting periods.

DEALINGS IN THE COMPANY’S LISTED SHARES

The Company did not redeem any of the Company’s shares during the period under review. Neither the Company nor any of its subsidiaries had purchased or sold any of the Company’s shares during the period under review.

CORPORATE GOVERNANCE

The Company is committed to building and maintaining high standards of corporate governance. The Company has complied with the code provisions set out in the Code on Corporate Governance Practices (the “CG Code”) contained in Appendix 14 of the Listing Rules, with certain deviations as mentioned below, throughout the period under review.

CORPORATE GOVERNANCE (continued)

Code Provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Both roles of the Company are at present performed by Mr Tang Wai Lam holding the positions of Chairman and Managing Director. The Board believes that such appointment has served and is serving the Group well by providing unified leadership and direction and allowing corporate strategies to be developed and implemented more effectively. There is a strong independent element on the Board, which can exercise independent judgement and ensure a balance of power and authority. Throughout the period under review, independent non-executive directors represent more than one-third of the Board and executive directors do not comprise a majority of the Board.

Code Provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election. Code Provision A.4.2 stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment, and that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. Details of the deviations were set out in the Corporate Governance Report of the 2005/2006 Annual Report. To ensure stricter compliance with the CG Code, relevant amendments to the Articles of Association were proposed to and approved by shareholders at the Annual General Meeting held on 28 July 2006 (the "2006 AGM"). Following shareholders' resolution passed at the 2006 AGM and the effectiveness of the amendments to the Articles of Association, save as the term of appointment of non-executive directors, the Company fully complies with Code Provisions A.4.1 and A.4.2.

CODE OF CONDUCT REGARDING DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in the Model Code. Following a specific enquiry, each of the directors confirmed that he complied with the code of conduct regarding directors' securities transactions throughout the period under review.

AUDIT COMMITTEE

The Audit Committee provides an important link between the Board and the Company's auditors in matters coming within the scope of the group audit. It also reviews the effectiveness of the external audit and of internal control and risk evaluation. The Audit Committee comprises three independent non-executive directors, namely Mr Lee Kin Sang, Mr Chan Ka Sing, Tommy and Mr Ng Chun Chuen, David, none of them is a former partner of the Company's existing auditing firm.

AUDIT COMMITTEE (continued)

The Audit Committee has reviewed with directors the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited condensed consolidated interim financial information for the six months ended 31 August 2006. It has also reviewed the compliance with the CG Code by the Company.

REMUNERATION COMMITTEE

The Remuneration Committee makes recommendations to the Board on the policy and structure of the Company for all remuneration of directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration. The Remuneration Committee comprises three independent non-executive directors, namely Mr Chan Ka Sing, Tommy, Mr Lee Kin Sang and Mr Ng Chun Chuen, David and an executive director, namely Mr Tang Wai Lam.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend in respect of the financial year ending 28 February 2007 of HK1.5 cents (2006: HK3.0 cents) per ordinary share. The interim dividend will be paid on 18 December 2006 to members whose names appear on the Register of Members of the Company on 11 December 2006.

CLOSURE OF REGISTER

The Register of Members of the Company will be closed from 7 December 2006 to 11 December 2006, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch Share Registrar, Abacus Share Registrars Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong no later than 4:00 p.m. on 6 December 2006.

On behalf of the Board

TANG WAI LAM

Chairman

Hong Kong, 21 November 2006