



MIRABELL INTERNATIONAL HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)



Interim Report 2007-2008

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

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
26/F, Jardine House
1 Connaught Place
Central
Hong Kong

Auditor

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

Tricor Abacus 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 (collectively, the “Group”) for the six months ended 31 August 2007 (the “period under review”), which was reviewed by the Audit Committee of the Company.

CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	Unaudited Six months ended 31 August	
		2007 HK\$'000	2006 HK\$'000
Turnover	4	454,006	418,312
Cost of sales		(174,108)	(170,414)
Gross profit		279,898	247,898
Other income	4	4,319	2,558
Other gains, net	5	1,192	586
Distribution and selling costs		(200,509)	(186,273)
Administrative expenses		(54,989)	(49,753)
Realisation of available-for-sale financial assets reserve	11	29,911	15,016
		264,471	–
Operating profit	6	294,382	15,016
Finance costs	7	(277)	(1,056)
Share of profit of an associate	8	3,114,519	57,800
Profit before income tax		3,408,624	71,760
Income tax expense	9	(3,949)	(1,774)
Profit attributable to equity holders of the Company		3,404,675	69,986
Earnings per share (expressed in HK cents per share)			
– Basic	10	1,311.8 cents	27.5 cents
– Diluted	10	1,257.3 cents	27.5 cents
Appropriation			
– Cash dividend	11	6,558	3,818
– Distribution in specie	11	3,459,654	–

CONDENSED CONSOLIDATED BALANCE SHEET

		Unaudited 31 August 2007 HK\$'000	Audited 28 February 2007 HK\$'000
	<i>Note</i>		
Non-current assets			
Property, plant and equipment	12	34,937	39,638
Investment properties		56,460	56,460
Leasehold land and land use rights		14,694	15,697
Intangible assets		12,314	14,905
Interest in an associate	8	427	864,389
Rental deposits		28,310	24,735
Deferred income tax assets		9,915	9,900
Available-for-sale financial assets		22,577	–
		179,634	1,025,724
Current assets			
Inventories	13	224,509	182,052
Trade receivables	14	61,452	80,646
Other receivables, deposits and prepayments		31,319	49,008
Taxation recoverable		3,756	3,770
Cash and cash equivalents		160,979	108,246
		482,015	423,722
Current liabilities			
Trade payables	15	59,225	48,666
Other payables and accrued charges		64,082	69,420
Taxation payable		9,144	8,814
Short-term bank borrowings		–	25,008
		132,451	151,908
Net current assets		349,564	271,814
Total assets less current liabilities		529,198	1,297,538

CONDENSED CONSOLIDATED BALANCE SHEET (continued)

	Note	Unaudited 31 August 2007 HK\$'000	Audited 28 February 2007 HK\$'000
Non-current liabilities			
Other non-current liabilities		8,923	11,514
Deferred income tax liabilities		1,697	1,697
		10,620	13,211
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Net assets		518,578	1,284,327
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Equity			
Share capital	16	26,232	25,453
Other reserves		159,455	871,003
Retained earnings			
– Cash dividends declared after the balance sheet date	11	6,558	–
– Others		326,333	387,871
		518,578	1,284,327
Total equity		518,578	1,284,327
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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Unaudited	
		Six months ended	
		31 August	
Note	2007	2006	
	HK\$'000	HK\$'000	
Total equity as at 1 March	1,284,327	438,063	
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Share of (realisation of)/increase in available-for-sale financial assets reserve of an associate	8 (747,481)	226,722	
Fair value gain on available-for-sale financial assets	1,053	–	
Currency translation differences	1,998	199	
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Net (expense)/income recognised directly in equity	(744,430)	226,921	
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Profit for the period	3,404,675	69,986	
Share option scheme			
– Value of services	5,798	4,042	
– Proceeds from shares issued upon exercise of options	27,862	–	
Appropriation			
– Cash dividend	11 –	(13,999)	
– Distribution in specie	11 (3,459,654)	–	
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	(21,319)	60,029	
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Total equity as at 31 August	518,578	725,013	

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Unaudited	
	Six months ended	
	31 August	
	2007	2006
	HK\$'000	<i>HK\$'000</i>
Net cash inflow/(outflow) from operating activities	41,106	(1,919)
Net cash inflow/(outflow) from investing activities	14,937	(11,322)
Net cash outflow from financing activities	(4,177)	(4,163)
Increase/(decrease) in cash and cash equivalents	51,866	(17,404)
Cash and cash equivalents as at 1 March	108,246	114,891
Effect of foreign exchange rate changes	867	319
Cash and cash equivalents as at 31 August	160,979	97,806

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1. General information

Mirabell International Holdings Limited and its subsidiaries 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 22 November 2007.

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 2006/2007 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 2007 except for the adoption of a new standard, an amendment to a standard and interpretations which are effective for the year ending 29 February 2008 as set out below:

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 <i>Financial Reporting in Hyperinflationary Economies</i>
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
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions

The adoption of the above new standard, amendment to a standard and interpretations 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 29 February 2008. 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, other income and segment information

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

	Unaudited Six months ended 31 August	
	2007 HK\$'000	2006 HK\$'000
Turnover		
Sales of goods	454,006	418,312
<hr style="border-top: 1px dashed black;"/>		
Other income		
Royalty income	3,386	1,980
Interest income	931	576
Others	2	2
	4,319	2,558
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Total	458,325	420,870

Primary reporting format – geographical segments

The Group's business operates in three main geographical areas, namely the Hong Kong and Macau market, the Mainland China market and the Taiwan market.

An analysis of the Group's turnover and segment results by geographical segments is as follows:

	Unaudited Six months ended 31 August 2007			
	Hong Kong and Macau HK\$'000	Mainland China HK\$'000	Taiwan HK\$'000	Total HK\$'000
Gross segment sales	395,211	149,491	11,586	556,288
Inter-segment sales	(94,559)	(7,723)	–	(102,282)
	300,652	141,768	11,586	454,006
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Segment results	281,114	14,627	(1,359)	294,382

4. Turnover, other income and segment information (continued)

Primary reporting format – geographical segments (continued)

	Unaudited Six months ended 31 August 2006			
	Hong Kong and Macau	Mainland China	Taiwan	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
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
Segment results	10,412	7,290	(2,686)	15,016

Secondary reporting format – business segments

The Group's principal activities are retailing, wholesaling and manufacturing of footwear. No business segment information has been prepared by the Group for the six months ended 31 August 2006 and 2007 as less than 10% of the Group's turnover and results are attributable to wholesaling and manufacturing.

5. Other gains, net

	Unaudited Six months ended 31 August	
	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Exchange gains	1,192	997
Fair value loss on derivative financial instruments	–	(411)
	1,192	586

6. Operating profit

	Unaudited Six months ended 31 August	
	2007 HK\$'000	2006 HK\$'000
Operating profit is stated after charging the following:		
Depreciation of property, plant and equipment	11,775	11,064
Amortisation of leasehold land and land use rights	1,003	1,003
Amortisation of intangible assets	2,591	2,607
Loss on disposal of property, plant and equipment	62	206
Share-based payments in relation to share options granted to directors and employees (Note 17)	5,798	4,042

7. Finance costs

	Unaudited Six months ended 31 August	
	2007 HK\$'000	2006 HK\$'000
Interest on bank loans and overdrafts	277	1,056

8. Associate

Movements of interest in an associate are as follows:

	Unaudited Six months ended 31 August	
	2007 HK\$'000	2006 HK\$'000
As at 1 March	864,389	59,343
Exchange differences	–	(436)
Cash dividend received	(21,000)	–
Distribution in specie received	(3,210,000)	–
Share of profit	3,114,519	57,800
Share of (realisation of)/increase in available-for-sale financial assets reserve	(747,481)	226,722
As at 31 August	427	343,429

8. Associate (continued)

Best Quality Investments Limited (“Best Quality”), a company incorporated in Samoa, is the Group’s associate in which the Group holds 30% interest.

On 1 May 2007, Best Quality declared an interim cash dividend, which was paid on 8 June 2007. The cash dividend of HK\$21,000,000 was received by the Group.

On 18 June 2007, Best Quality declared a distribution in specie of all the 1,250,000,000 shares in Belle International Holdings Limited (“Belle Shares”) held by it to its shareholders, pursuant to which the Group has received 375,000,000 Belle Shares. Upon such distribution in specie by Best Quality, the Group has derived a profit of approximately HK\$3,093,092,000 therefrom, representing the share of realisation of the cumulative gain on the increase in fair value of available-for-sale financial assets held by an associate.

9. Income tax expense

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 17.5%) on the estimated assessable profit for the six months ended 31 August 2007. Taxation on overseas profits has been calculated on the estimated assessable profit for the period under review at the rates of taxation prevailing in the geographical areas in which the Group operates.

	Unaudited Six months ended 31 August	
	2007 HK\$'000	2006 HK\$'000
Current income tax		
– Hong Kong profits tax	2,275	662
– Overseas taxation	1,689	1,587
Deferred income tax	(15)	(475)
Income tax expense	3,949	1,774

10. Earnings per share

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period under review.

	Unaudited Six months ended 31 August	
	2007	2006
Profit attributable to equity holders of the Company (HK\$'000)	3,404,675	69,986
Weighted average number of ordinary shares in issue	259,540,000	254,530,000
Basic earnings per share (HK cents per share)	1,311.8	27.5

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares: share options. For the share options, a calculation is made in order to determine the number of shares that could have been acquired at fair value (determined as the average six-month market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	Unaudited Six months ended 31 August	
	2007	2006
Profit attributable to equity holders of the Company (HK\$'000)	3,404,675	69,986
Weighted average number of ordinary shares in issue	259,540,000	254,530,000
Adjustments for share options	11,250,000	-
Weighted average number of ordinary shares for diluted earnings per share	270,790,000	254,530,000
Diluted earnings per share (HK cents per share)	1,257.3	27.5

11. Appropriation

(a) Cash dividends

Interim cash dividend declared after the balance sheet date of the interim period:

	Unaudited Six months ended 31 August	
	2007 HK\$'000	2006 HK\$'000
2007/2008 interim cash dividend of HK2.5 cents (2006/2007: HK1.5 cents) per ordinary share	6,558	3,818

The cash dividend declared after the balance sheet date is not reflected as dividend payable in this unaudited condensed consolidated interim financial information.

Final cash dividend in respect of the previous financial year, approved and paid during the interim period:

	Unaudited Six months ended 31 August	
	2007 HK\$'000	2006 HK\$'000
2006/2007 final cash dividend, paid, of Nil (2005/2006: HK5.5 cents) per ordinary share	–	13,999

(b) Distribution in specie

After having obtained approval of the shareholders in the annual general meeting held on 27 July 2007, the Company distributed in specie of 71 Belle Shares for every 50 shares of the Company ("Shares") in each holding of the Shares of the Company's shareholders. The making of the distribution in specie by the Company has resulted in the consolidated net asset value of the Group decreasing by approximately HK\$3,459,654,000, which was equal to the then fair value of approximately HK\$3,453,023,000 of the Belle Shares distributed pursuant thereto and related stamp duty of approximately HK\$6,631,000. Upon such distribution in specie by the Company, the Group has derived a profit of approximately HK\$264,471,000 therefrom, representing the realisation of the cumulative gain on the increase in fair value of available-for-sale financial assets.

12. Property, plant and equipment

During the period under review, items of property, plant and equipment with a cost of HK\$6,995,000 (2006: HK\$11,899,000) were acquired and items of property, plant and equipment with a net book value of HK\$64,000 (2006: HK\$207,000) were disposed of by the Group. Such disposal resulted in a loss of HK\$62,000 (2006: HK\$206,000).

13. Inventories

	Unaudited 31 August 2007 HK\$'000	Audited 28 February 2007 HK\$'000
Raw materials	1,473	2,873
Work in progress	372	420
Finished goods	255,866	211,660
	257,711	214,953
Less: Provision for inventories	(33,202)	(32,901)
	224,509	182,052

The cost of inventories recognised as expense and included in cost of sales amounted to approximately HK\$164,370,000 (2006: HK\$158,862,000).

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 2007, the ageing analysis of trade receivables was as follows:

	Unaudited 31 August 2007 HK\$'000	Audited 28 February 2007 HK\$'000
0 – 30 days	49,930	66,785
31 – 60 days	4,850	2,540
61 – 90 days	781	1,638
Over 90 days	5,891	9,683
	61,452	80,646

15. Trade payables

As at 31 August 2007, the ageing analysis of trade payables was as follows:

	Unaudited 31 August 2007 HK\$'000	Audited 28 February 2007 HK\$'000
0 – 30 days	50,850	29,367
31 – 60 days	2,518	4,929
61 – 90 days	562	2,220
Over 90 days	5,295	12,150
	59,225	48,666

16. Share capital

	Ordinary shares of HK\$0.1 each	
	<i>No. of shares</i>	<i>HK\$'000</i>
Authorised:		
As at 28 February 2007 and 31 August 2007	1,000,000,000	100,000
Issued and fully paid:		
As at 1 March 2007	254,530,000	25,453
Issue of shares upon exercise of share options	7,790,000	779
As at 31 August 2007	262,320,000	26,232

All the new ordinary shares issued by the Company in the period under review rank pari passu with the then existing shares of the Company in all respects.

17. Share option scheme

On 3 April 2006 and 6 March 2007, 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 2007, share options with rights to subscribe for a total of 16,420,000 shares of the Company were outstanding. The share options granted shall expire on 2 April 2012 or 2 April 2014.

A summary of the share option scheme and details of the movement in the share options of the Company during the period under review are set out on pages 24 to 28.

The fair value of the services received in exchange for the grant of the options is expensed over the respective vesting periods according to the vesting conditions. An amount of approximately HK\$5,798,000 (2006: HK\$4,042,000) was charged as employee benefit expenses during the period under review.

18. Contingent liabilities

As at 31 August 2007, the Group did not have any contingent liabilities (28 February 2007: Nil).

19. Related party transactions

Key management compensation

	Unaudited	
	Six months ended	
	31 August	
	2007	2006
	HK\$'000	<i>HK\$'000</i>
Salaries and other short-term employee benefits	3,776	2,562
Employer's contributions to pension scheme	24	19
Share-based payments	942	1,313
	<hr/>	
	4,742	3,894

MANAGEMENT DISCUSSION AND ANALYSIS

During the period under review, the Group recorded a turnover of HK\$454,006,000, representing an increase of 8.53%, compared with the corresponding period last year. As a result of the increases in operating profit and share of profit of an associate, the profit attributable to equity holders of the Company increased to HK\$3,404,675,000.

(a) The Hong Kong and Macau market

Customer spending in the local market has been stimulated by the improved economic atmosphere and the booming stock market. Besides, our efforts in brand building and customer satisfaction improvement have been proven to be successful. These have brought fruitful results to the Hong Kong and Macau market during the period under review.

The wholesale business recorded a decrease in the turnover during the period under review owing to the fierce competition. At present, we are the exclusive footwear distributor of the US 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, as well as the exclusive footwear, bags and apparel distributor of the UK brand of Gola in Hong Kong, Macau and the Mainland China.

In addition, the Group realised the cumulated gain of approximately HK\$264,471,000 on the increase in fair value of available-for-sale financial assets held by the Group during the period under review.

The turnover increased to HK\$300,652,000 whereas the operating profit increased to HK\$281,114,000 in the Hong Kong and Macau market. At the end of October 2007, the Group operated 105 retail outlets in Hong Kong and Macau under the brands of Mirabell, Joy & Peace, Fiorucci, Inshoesnet and Geox.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

(b) The Mainland China market

To cope with the rise in operating costs, in particular the rental expenses resulted from promotional activities organised by department stores and shopping malls, the Group has endeavoured to control the costs, and negotiated with the operators of department stores and shopping malls from time to time to further optimise the locations of the outlets operated by the Group. During the period under review, the turnover of the Mainland China market increased to HK\$141,768,000 whereas the operating profit increased to HK\$14,627,000.

At the end of October 2007, the Group operated 207 retail outlets in Shenzhen, Guangzhou, Shanghai, Beijing, Tianjin, Dalian, Chengdu, Chongqing, Zhuhai, Xi'an, Wuhan, Wuxi, Dongguan, Harbin, Shijiazhuang, Panyu, Shenyang, Foshan, Hangzhou, Nanjing, Changsha, Kunming, Wenzhou, Changzhou and Ningbo under the brands of Mirabell, Joy & Peace, Innet, Caterpillar, Merrell, Fiorucci and Kokopelli. In addition, there were 133 franchised retail outlets under the brand of Joy & Peace.

(c) The Taiwan market

Despite the continuing weak customer sentiment in the Taiwan market, the turnover during the period under review increased to HK\$11,586,000 as a result of various brand awareness programmes. Besides, the operating loss decreased to HK\$1,359,000. At the end of October 2007, the Group operated 17 retail outlets under the brand of Fiorucci in Taiwan.

(d) Associate of the Group and distribution in specie

Best Quality Investments Limited ("Best Quality"), a company incorporated in Samoa, is the Group's associate in which the Group holds 30% interest.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

(d) Associate of the Group and distribution in specie (continued)

During the period under review, Best Quality declared an interim cash dividend of which the Group received HK\$21,000,000. In addition, Best Quality declared a distribution in specie of all the 1,250,000,000 shares in Belle International Holdings Limited ("Belle Shares") held by it to its shareholders, pursuant to which the Group has received 375,000,000 Belle Shares. Upon such distribution in specie by Best Quality, the Group has derived a profit of approximately HK\$3,093,092,000 therefrom, representing the share of the realisation of the cumulative gain on the increase in fair value of available-for-sale financial assets held by an associate. After having obtained approval of the shareholders in the annual general meeting held on 27 July 2007, the Company distributed in specie of 71 Belle Shares for every 50 shares of the Company ("Shares") in each holding of the Shares of the Company's shareholders. The making of the distribution in specie by the Company has resulted in the consolidated net asset value of the Group decreasing by approximately HK\$3,459,654,000, which was equal to the then fair value of the Belle Shares distributed pursuant thereto and related stamp duty. The Company currently intends to dispose in an orderly manner of the 2,505,600 Belle Shares remaining after the distribution in specie by the Company.

(e) Prospects

The economy of the Greater China has continued to show strong growth. We believe that consumer sentiment will continue to improve thanks to the rising incomes, the decreasing unemployment rate and the buoyant stock market. Looking forward, the management is of the view that the robust consumption will support our business. On the other hand, there are challenges ahead in the second half of the year. We shall maintain our efforts in controlling the rising operating costs, in particular the rental and staff costs.

We are confident that our multi-brand business model meets the demand of customers of various sectors. This model also lets us take up more selling space at department stores and shopping malls and be offered more favourable terms.

To further enhance our competitive advantage, we expect to obtain more exclusive distribution rights of internationally branded products in the Greater China. In addition, the upgrading of the existing management information systems and information technology infrastructure is progressing satisfactorily. We believe that this upgrading project will provide us with more timely and comprehensive information at both operational and strategic levels in the near future.

All in all, the management is confident that the Group is able to manage the future challenges and is cautiously optimistic on the performance in the second half of the year.

LIQUIDITY AND FINANCIAL RESOURCES

Working capital of the Group increased from HK\$271,814,000 to HK\$349,564,000 as at 31 August 2007, and the current ratio and quick ratio were 3.64 and 1.94 times, respectively.

The inventory balance as at 31 August 2007 amounted to HK\$224,509,000. Compared with the inventory balance of HK\$182,052,000 as at 28 February 2007, an increase was recorded. As at 31 August 2007, the Group had bank balances and cash of HK\$160,979,000 and did not have any outstanding bank borrowings. During the period under review, the Group raised new short-term bank loans of HK\$8,964,000 for the financing of working capital and short-term bank loans of HK\$34,372,000 were settled.

As at 31 August 2007, the gearing ratio of the Group was 0.00 (28 February 2007: 0.02) which was calculated on the Group's total borrowings of HK\$Nil (28 February 2007: HK\$25,008,000) and the total equity of HK\$518,578,000 (28 February 2007: HK\$1,284,327,000).

TREASURY POLICIES

The Group continues to adopt a conservative approach to financial risk management. The Group's borrowings are mainly in Hong Kong dollars and Renminbi and are arranged on a floating rate basis. As at 31 August 2007, the Group did not employ any financial instrument. 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 2007, the net book values of land and buildings pledged as security for certain banking facilities available to the Group amounted to approximately HK\$10,165,000 (28 February 2007: HK\$10,396,000).

HUMAN RESOURCES

As at 31 August 2007, the Group had a total of 2,014 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 2007, 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 to 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			Total
	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))	136,575,000
Mr Ng Man Kit, Lawrence	12,750,000	1,400,000	50,000 (note (iii))	14,200,000
Mr Chung Chun Wah	902,000	1,400,000	158,000 (note (iv))	2,460,000
Mr Leung Kelvin Yiu Fai	–	980,000	–	980,000
Mr Lee Kwan Hung	–	340,000	–	340,000
Mr Lee Kin Sang	–	340,000	–	340,000
Mr Chan Ka Sing, Tommy	–	340,000	–	340,000
Mr Ng Chun Chuen, David	–	170,000	–	170,000

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.
- (iii) These 50,000 shares were held by Madam Wong Lee Ling, Cathy, the spouse of Mr Ng Man Kit, Lawrence.
- (iv) These 158,000 shares were held by Madam Cheung Suk Yee, the spouse of Mr Chung Chun Wah.

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 2007, 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 2007, 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 (v))</i>	122,400,000	–	–	122,400,000
Rich Land Property Limited <i>(note (v))</i>	8,175,000	122,400,000 <i>(note (i))</i>	–	130,575,000
Kinlington Agents Limited <i>(note (v))</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	–	146,925,000 <i>(note (iv))</i>	–	146,925,000

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. Since Rich Land Property Limited, Kinlington Agents Limited and Mosman Associates 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) 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 2007, 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 27 July 2007, the date on which a fresh approval of the shareholders was obtained after the adoption of the Share Option Scheme on 29 December 2004, unless another 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 26,232,000, 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.

As at 31 August 2007, share options with rights to subscribe for a total of 16,420,000 Shares were outstanding. The share options granted shall expire on 2 April 2012 or 2 April 2014.

SHARE OPTION SCHEME (continued)

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

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

SHARE OPTION SCHEME (continued)

Eligible person	Number of underlying Shares				Balance as at 31 August 2007	Exercise price per share HK\$	Date of grant (DD/MM/YYYY)	Exercisable period (DD/MM/YYYY)
	Balance as at 1 March 2007	Granted during the six months ended 31 August 2007 (note (i))	Exercised during the six months ended 31 August 2007 (note (ii))	Lapsed during the six months ended 31 August 2007				
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	-	(160,000)	-	340,000			
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	-	(160,000)	-	340,000			
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	-	(80,000)	-	170,000			
Employees (note (iv))	3,900,000	-	(3,900,000)	-	-	2.875	03/04/2006	03/04/2007 – 02/04/2014
	3,900,000	-	-	(370,000)	3,530,000	2.875	03/04/2006	03/04/2008 – 02/04/2014
	4,030,000	-	-	(380,000)	3,650,000	2.875	03/04/2006	03/04/2009 – 02/04/2014
	1,400,000	-	-	(300,000)	1,100,000	2.875	03/04/2006	03/04/2010 – 02/04/2014
	-	1,810,000	(1,810,000)	-	-	5.896	06/03/2007	03/04/2007 – 02/04/2014
	-	1,510,000	-	(80,000)	1,430,000	5.896	06/03/2007	03/04/2008 – 02/04/2014
	-	1,520,000	-	(80,000)	1,440,000	5.896	06/03/2007	03/04/2009 – 02/04/2014
	-	300,000	-	-	300,000	5.896	06/03/2007	03/04/2010 – 02/04/2014
	13,230,000	5,140,000	(5,710,000)	(1,210,000)	11,450,000			
Total	20,280,000	5,140,000	(7,790,000)	(1,210,000)	16,420,000			

SHARE OPTION SCHEME (continued)

Notes:

- (i) On 6 March 2007, share options with rights to subscribe for a total of 5,140,000 Shares were granted to certain employees with an exercise price set at HK\$5.896 per share.

The closing price of the Share immediately before 6 March 2007 was HK\$5.390 per share.

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 7 years immediately before the date on which the share options were granted
- Expected dividend yields – the historical dividend yields of the Company

Binomial model is subject to certain fundamental limitations because of the subjective nature of and uncertainty relating to the assumptions and inputs to the model as well as certain inherent limitations of the model itself. Any changes in the above assumptions or inputs may materially affect the fair value estimation.

The total value of the share options granted on 6 March 2007, estimated to be approximately HK\$7,000,000, is expensed with that of the share options granted on 3 April 2006 over the respective vesting periods according to the vesting conditions.

- (ii) The weighted average closing price of the Shares immediately before the dates on which the share options were exercised during the period under review was HK\$9.288 per share.
- (iii) No share options granted under the Share Option Scheme were cancelled during the period under review.
- (iv) Employees working under employment contracts that are regarded as “continuous contracts” for the purposes of the Employment Ordinance of Hong Kong.

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 to the Listing Rules, with certain deviations as mentioned below, throughout the period under review.

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. The non-executive directors of the Company were appointed before the effectiveness of the CG Code and were not appointed for a specific term, but are subject to retirement by rotation at least once every three years.

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, save as mentioned below.

In respect of the purchase of 46,000 shares of the Company by Madam Wong Lee Ling, Cathy ("Madam Wong"), the spouse of Mr Ng Man Kit, Lawrence ("Mr Ng") who is a director of the Company, on 18 June 2007, Rules A and B of the Model Code have not been complied with. In respect of the purchase of 4,000 shares of the Company by Madam Wong on 17 July 2007, Rule B of the Model Code has not been complied with. Mr Ng disclosed his deemed interests immediately after such dealings came into his attention. To address the non-compliance, the Company Secretary has re-explained to all of the directors of the Company the requirements set out in the Model Code.

AUDIT COMMITTEE

The Audit Committee provides an important link between the Board and the Company's auditor 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.

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 2007. 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 29 February 2008 of HK2.5 cents (28 February 2007: HK1.5 cents) per ordinary share. The interim dividend will be paid on 19 December 2007 to members whose names appear on the Register of Members of the Company on 12 December 2007.

CLOSURE OF REGISTER

The Register of Members of the Company will be closed from 10 December 2007 to 12 December 2007, 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, Tricor Abacus Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong no later than 4:00 p.m. on 7 December 2007.

On behalf of the Board
TANG WAI LAM
Chairman

Hong Kong, 22 November 2007