MIRABELL INTERNATIONAL HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

Interim Report 2005~2006

CORPORATE INFORMATION

Board of Directors

Executive Directors

Tang Wai Lam
(Chairman and Managing Director)
Tang Keung Lam
(Vice-Chairman and Deputy Managing Director)
Ng Man Kit, Lawrence
(Deputy Managing Director)
Chung Chun Wah

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
Tang Keung Lam

Company Secretary

Leung Yiu Fai, Kelvin

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

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

Stock Code

1179

Hong Kong Branch Share Registrar

Abacus Share Registrars Limited
Ground Floor
Bank of East Asia Harbour View Centre
56 Gloucester Road
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 financial information of the Company and its subsidiaries (the "Group") for the six months ended 31 August 2005 (the "period under review"), which was reviewed by the Audit Committee of the Company.

CONDENSED CONSOLIDATED INCOME STATEMENT

		Unaudited Six months ended 31 August	
		2005	2004 (restated)
	Notes	***HK$'000***	*HK$'000*
Turnover	*3*	**403,410**	340,741
Cost of sales		**(163,485)**	(142,081)
Gross profit		**239,925**	198,660
Other revenue	*3*	**2,144**	2,837
Other operating income		**1,830**	1,704
Distribution and selling costs		**(167,893)**	(136,531)
Administrative expenses		**(47,058)**	(38,367)
Other operating expenses		**(946)**	(171)
Operating profit	*4*	**28,002**	28,132
Finance costs	*5*	**(1,072)**	(512)
Share of profit of an associate		**6,351**	15,605
Profit before taxation		**33,281**	43,225
Taxation	*6*	**(3,083)**	(3,284)
Profit attributable to shareholders		**30,198**	39,941
Dividends	*7*	**33,089**	6,363
Basic earnings per share	*8*	**11.9 cents**	15.7 cents

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	**Unaudited 31 August 2005 HK$'000**	Audited 28 February 2005 (restated) HK$'000
Non-current assets			
Property, plant and equipment	9	**38,843**	33,932
Investment properties		**53,448**	61,448
Leasehold land and land use rights		**16,700**	17,704
Intangible assets		**1,000**	2,000
Interest in an associate		**99,753**	93,339
Rental deposits paid		**34,914**	30,687
Non-current deposits	10	**10,702**	10,702
Deferred tax assets		**2,363**	2,535
		257,723	252,347
Current assets			
Inventories	11	**177,575**	135,022
Trade receivables	12	**59,864**	72,228
Other receivables, deposits and prepayments		**33,388**	22,139
Taxation recoverable		**35**	1,029
Cash and cash equivalents		**75,800**	86,357
		346,662	316,775
Current liabilities			
Trade payables	13	**52,961**	52,273
Other payables and accrued charges		**52,079**	58,325
Taxation payable		**5,607**	4,576
Borrowings		**57,731**	31,084
Derivative financial instruments		**264**	–
		168,642	146,258
Net current assets		**178,020**	170,517
Total assets less current liabilities		**435,743**	422,864

CONDENSED CONSOLIDATED BALANCE SHEET (continued)

	Notes	Unaudited 31 August 2005 HK$'000	Audited 28 February 2005 (restated) HK$'000
Non-current liabilities			
Derivative financial instruments		**84**	–
Deferred tax liabilities		**1,569**	1,546
		1,653	1,546
Net assets		**434,090**	421,318
Equity			
Share capital	*14*	**25,453**	25,453
Other reserves		**110,621**	110,986
Retained earnings			
– Dividends declared after the balance sheet date	*7*	**33,089**	16,799
– Others		**264,927**	268,080
Shareholders' funds		**434,090**	421,318

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Unaudited Six months ended 31 August	
	2005	2004
	HK$'000	*HK$'000*
Net cash (outflow)/inflow from operating activities	**(14,530)**	21,694
Net cash outflow from investing activities	**(5,403)**	(6,724)
Net cash inflow/(outflow) from financing	**9,848**	(9,694)
(Decrease)/increase in cash and cash equivalents	**(10,085)**	5,276
Cash and cash equivalents as at 1 March	**86,357**	96,135
Effect of foreign exchange rate changes	**(472)**	–
Cash and cash equivalents as at 31 August	**75,800**	101,411

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited Six months ended 31 August	
	2005	2004 (restated)
	HK$'000	*HK$'000*
Total equity as at 1 March, as previously reported	**435,890**	374,166
Effect of the adoption of HKASs 16 and 17	**(14,572)**	(6,365)
Opening adjustment for the adoption of HKAS 39	**(262)**	–
Total equity as at 1 March, as restated	**421,056**	367,801
Translation differences arising from translation of the accounts of foreign subsidiaries and an associate	**(365)**	(63)
Net expense recognised directly in equity	**(365)**	(63)
Profit for the period	**30,198**	39,941
Dividends	**(16,799)**	(16,035)
	13,399	23,906
Total equity as at 31 August	**434,090**	391,644

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1. Basis of preparation and accounting policies

This unaudited condensed consolidated financial information has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

This condensed consolidated financial information should be read in conjunction with the 2004/2005 annual financial statements.

The accounting policies and methods of computation used in the preparation of this condensed consolidated financial information are consistent with those used in the annual financial statements for the year ended 28 February 2005 except that the Group has changed certain of its accounting policies, mainly following its adoption of new/revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRS") which are effective for accounting periods commencing on or after 1 January 2005.

This interim financial information has been prepared in accordance with those HKFRS standards and interpretations issued and effective as at the time of preparing this information (November 2005). The HKFRS standards and interpretations which will be applicable at 28 February 2006, including those which will be applicable on an optional basis, are not known with certainty at the time of preparing this interim financial information.

The changes to the Group's principal accounting policies and the effect of adopting these new policies are set out in note 2 below.

2. Changes in accounting policies

During the year ending 28 February 2006, the Group adopted the new HKFRS below, which are relevant to its operations. The 2004/2005 comparatives have been restated as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HKAS-Int 15	Operating Leases – Incentives
HKAS-Int 21	Income Taxes – Recovery of Revalued Non-Depreciated Assets

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 12, 14, 16, 18, 19, 21, 23, 24, 27, 28, 33, 37, HKFRS 2 and HKAS-Int 15 did not result in substantial changes to the Group's accounting policies. In summary:

– HKAS 1 has affected the presentation of share of net after-tax results of an associate and other disclosures.

– HKASs 2, 7, 8, 10, 12, 14, 16, 18, 19, 23, 27, 28, 33, 37, HKFRS 2 and HKAS-Int 15 had no material effect on the Group's policies.

– HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group entities have the same functional currency as the presentation currency for respective entity financial statements.

– HKAS 24 has affected the identification of related parties and some other related-party disclosures.

2. Changes in accounting policies (continued)

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land and land use rights from property, plant and equipment to operating leases. The up-front prepayments made for the leasehold land and land use rights are expensed in the income statement on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the income statement. In prior years, interests in land and buildings other than investment properties were stated at fair value, and separate values were not attributed to land and buildings.

The adoption of HKASs 32 and 39 has resulted in the recognition of derivative financial instruments at fair value.

The adoption of revised HKAS 40 has resulted in a change in the accounting policy for investment properties. The changes in fair values of the investment properties are recorded in the income statement as part of other operating income. In prior years, the increases in fair value were credited to the investment properties revaluation reserve. Decreases in fair value were first set off against increases on earlier valuations on a portfolio basis and thereafter expensed in the income statement.

The adoption of revised HKAS-Int 21 has resulted in a change in the accounting policy relating to the measurement of deferred tax liabilities arising from the revaluation of investment properties. Such deferred tax liabilities are measured on the basis of tax consequences that would follow from recovery of the carrying amount of that asset through use. In prior years, the carrying amount of that asset was expected to be recovered through sale.

The adoption of HKFRS 3, HKAS 36 and HKAS 38 has resulted in a change in the accounting policy for goodwill. Until 28 February 2005, goodwill was:

– amortised on a straight line basis over its estimated useful life of 15 years; and

– assessed for an indication of impairment at each balance sheet date.

In accordance with the provisions of HKFRS 3:

– the Group ceased amortisation of goodwill from 1 March 2005;

– accumulated amortisation as at 28 February 2005 has been eliminated with a corresponding decrease in the cost of goodwill; and

– from the year ending 28 February 2006 onwards, goodwill is tested annually for impairment, as well as when there is indication of impairment.

The Group has reassessed the useful lives of its intangible assets in accordance with the provisions of HKAS 38. No adjustment was resulted from this reassessment.

2. Changes in accounting policies (continued)

All relevant changes in the accounting policies have been made in accordance with the transition provisions in the respective standards. All standards adopted by the Group require retrospective application other than:

– HKAS 39 – does not permit recognising, derecognising or measuring financial assets and liabilities in accordance with this standard on a retrospective basis; and

– HKFRS 3 – prospectively after 1 March 2005.

Apart from the adoption of new HKFRS, the Group has adopted the cost model of HKAS 16 for buildings other than investment properties. Buildings are carried at cost less accumulated depreciation and accumulated impairment. The Company believes that the change in accounting policy has resulted in a more appropriate presentation of the buildings of the Group. The new accounting policy has been adopted retrospectively.

Effect of changes in the accounting policies on consolidated income statement

	Effect of adopting					
	HKAS 1	**HKAS 16 & HKAS 17**	**HKAS 32 & HKAS 39**	**HKFRS 3, HKAS 36 & HKAS 38**	**HKAS 40**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Six months ended 31 August 2005						
(Decrease)/increase in share of profit of an associate	(1,517)	–	–	578	–	(939)
Decrease in other operating income	–	–	(86)	–	–	(86)
Increase in distribution and selling costs	–	(190)	–	–	–	(190)
Decrease in administrative expenses	–	7	–	–	–	7
Decrease/(increase) in taxation	1,517	(19)	–	–	–	1,498
(Decrease)/increase in profit attributable to shareholders	–	(202)	(86)	578	–	290
(Decrease)/increase in basic earnings per share	–	(0.1 cent)	(0.0 cent)	0.2 cent	–	0.1 cent

2. Changes in accounting policies (continued)

Effect of changes in the accounting policies on consolidated income statement (continued)

	Effect of adopting					
	HKAS 1	**HKAS 16 & HKAS 17**	**HKAS 32 & HKAS 39**	**HKFRS 3, HKAS 36 & HKAS 38**	**HKAS 40**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Six months ended 31 August 2004						
Decrease in share of profit of an associate	(1,606)	–	–	–	–	(1,606)
Increase in distribution and selling costs	–	(394)	–	–	–	(394)
Increase in administrative expenses	–	(60)	–	–	–	(60)
Decrease/(increase) in taxation	1,606	(19)	–	–	–	1,587
Decrease in profit attributable to shareholders	–	(473)	–	–	–	(473)
Decrease in basic earnings per share	–	(0.2 cent)	–	–	–	(0.2 cent)
Year ended 28 February 2005						
Decrease in share of profit of an associate	(3,605)	–	–	–	–	(3,605)
(Decrease)/increase in other operating income	–	(1,063)	–	–	1,700	637
Increase in distribution and selling costs	–	(787)	–	–	–	(787)
Increase in administrative expenses	–	(120)	–	–	–	(120)
Decrease/(increase) in taxation	3,605	104	–	–	(90)	3,619
(Decrease)/increase in profit attributable to shareholders	–	(1,866)	–	–	1,610	(256)
(Decrease)/increase in basic earnings per share	–	(0.7 cent)	–	–	0.6 cent	(0.1 cent)

2. Changes in accounting policies (continued)

Effect of changes in the accounting policies on consolidated balance sheet

	Effect of adopting					
	HKAS 1	HKAS 16 & HKAS 17	HKAS 32 & HKAS 39	HKFRS 3, HKAS 36 & HKAS 38	HKAS 40	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at 31 August 2005						
Increase/(decrease) in non-current assets						
Property, plant and equipment	(53,448)	(34,161)	–	–	–	(87,609)
Investment properties	53,448	–	–	–	–	53,448
Leasehold land and land use rights	–	16,700	–	–	–	16,700
Interests in an associate	–	–	–	578	–	578
Deferred tax assets	–	53	–	–	–	53
	–	(17,408)	–	578	–	(16,830)
Increase in current assets						
Other receivables, deposits and prepayments	–	2,005	–	–	–	2,005
Increase in current liabilities						
Derivative financial instruments	–	–	264	–	–	264
Increase/(decrease) in non-current liabilities						
Deferred tax liabilities	–	(629)	–	–	–	(629)
Derivative financial instruments	–	–	84	–	–	84
	–	(629)	84	–	–	(545)
Increase/(decrease) in equity						
Investment properties revaluation reserve	–	–	–	–	(11,772)	(11,772)
Other properties revaluation reserve	–	(12,047)	–	–	–	(12,047)
Retained earnings	–	(2,727)	(348)	578	11,772	9,275
	–	(14,774)	(348)	578	–	(14,544)

2. Changes in accounting policies (continued)

Effect of changes in the accounting policies on consolidated balance sheet (continued)

	Effect of adopting					
	HKAS 1	**HKAS 16 & HKAS 17**	**HKAS 32 & HKAS 39**	**HKFRS 3, HKAS 36 & HKAS 38**	**HKAS 40**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at 28 February 2005						
Increase/(decrease) in non-current assets						
Property, plant and equipment	(61,448)	(34,982)	–	–	–	(96,430)
Investment properties	61,448	–	–	–	–	61,448
Leasehold land and land use rights	–	17,704	–	–	–	17,704
Deferred tax assets	–	49	–	–	–	49
	–	(17,229)	–	–	–	(17,229)
Increase in current assets						
Other receivables, deposits and prepayments	–	2,005	–	–	–	2,005
Decrease in non-current liabilities						
Deferred tax liabilities	–	(652)	–	–	–	(652)
Increase/(decrease) in equity						
Investment properties revaluation reserve	–	–	–	–	(13,682)	(13,682)
Other properties revaluation reserve	–	(12,047)	–	–	–	(12,047)
Retained earnings	–	(2,525)	–	–	13,682	11,157
	–	(14,572)	–	–	–	(14,572)
As at 1 March 2005 (equity only)						
Increase/(decrease) in equity						
Investment properties revaluation reserve	–	–	–	–	(13,682)	(13,682)
Other properties revaluation reserve	–	(12,047)	–	–	–	(12,047)
Retained earnings	–	(2,525)	(262)	–	13,682	10,895
	–	(14,572)	(262)	–	–	(14,834)

3. 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	
	2005	2004
	HK$'000	*HK$'000*
Turnover		
Sales of goods	**403,410**	340,741
Other revenue		
Royalty income	**1,764**	1,492
Interest income	**378**	134
Rental income	**–**	1,209
Others	**2**	2
	2,144	2,837
Total revenue	**405,554**	343,578

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 Turnover Six months ended 31 August		Unaudited Operating profit/(loss) Six months ended 31 August	
	2005	2004	**2005**	2004 (restated)
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Principal markets:				
Hong Kong and Macau	**295,151**	266,569	**23,639**	16,070
Mainland China	**103,878**	74,172	**6,220**	12,062
Taiwan	**4,381**	–	**(1,857)**	–
	403,410	340,741	**28,002**	28,132

4. Operating profit

	Unaudited Six months ended 31 August 2005 HK$'000	2004 (restated) HK$'000
Operating profit is stated after charging/ (crediting) the following:		
Cost of inventories	**162,821**	137,751
Depreciation of property, plant and equipment	**8,808**	6,567
Amortisation of up-front prepayments for leasehold land and land use rights	**1,003**	1,003
Loss on disposal of property, plant and equipment	**39**	157
Loss on disposal of an investment property	**66**	–
Amortisation of intangible assets (included in administrative expenses)	**1,000**	1,000
Royalty income	**(1,764)**	(1,492)
Interest income	**(378)**	(134)
Rental income	**–**	(1,209)

5. Finance costs

	Unaudited Six months ended 31 August 2005 HKD'000	2004 HKD'000
Interest on bank loans and overdrafts	**1,072**	512

6. Taxation

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profit for the six months ended 31 August 2005. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

	Unaudited Six months ended 31 August	
	2005	2004 (restated)
	HK$'000	*HK$'000*
Current taxation		
– Hong Kong profits tax	**635**	2,306
– Overseas taxation	**2,253**	959
Deferred taxation relating to the origination and reversal of temporary differences	**195**	19
	3,083	3,284

Share of taxation of an associate for the six months ended 31 August 2005 of HK$1,517,000 (2004: HK$1,606,000) is included in the income statement as share of profit of an associate.

7. Dividends

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

	Unaudited Six months ended 31 August	
	2005	2004
	HK$'000	*HK$'000*
2005/2006 interim dividend of HK3.0 cents (2004/2005: HK2.5 cents) per ordinary share	**7,636**	6,363
Special dividend of HK10.0 cents per ordinary share *(note 17)*	**25,453**	–
	33,089	6,363

The dividends declared after the balance sheet date have not been recognised as a liability at the balance sheet date.

7. Dividends (continued)

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

	Unaudited Six months ended 31 August	
	2005	2004
	HK$'000	*HK$'000*
2004/2005 final dividend, paid, of HK6.6 cents (2003/2004: HK6.3 cents) per ordinary share	**16,799**	16,035

8. Basic earnings per share

The calculation of basic earnings per share is based on the Group's unaudited consolidated profit attributable to shareholders of HK$30,198,000 (2004: HK$39,941,000 (restated)) and the weighted average number of 254,530,000 (2004: 254,530,000) ordinary shares in issue during the period.

There is no diluted earnings per share since the Company has no dilutive potential ordinary share.

9. Property, plant and equipment

During the six months ended 31 August 2005, items of property, plant and equipment with a cost of HK$13,715,000 (2004: HK$6,858,000) were acquired and items of property, plant and equipment with a net book value of HK$40,000 (2004: HK$157,000) were disposed of by the Group. Such disposal resulted in a loss of HK$39,000 (2004: HK$157,000).

10. Non-current deposits

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

11. Inventories

	Unaudited 31 August 2005	Audited 28 February 2005
	HK$'000	*HK$'000*
Raw materials	**4,168**	3,183
Work in progress	**649**	668
Finished goods	**172,758**	131,171
	177,575	135,022

12. 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 2005, the ageing analysis of the trade receivables was as follows:

	Unaudited 31 August 2005 *HK$'000*	Audited 28 February 2005 *HK$'000*
0 – 30 days	**57,936**	68,137
31 – 60 days	**1,190**	1,594
61 – 90 days	**525**	803
Over 90 days	**213**	1,694
	59,864	72,228

13. Trade payables

As at 31 August 2005, the ageing analysis of the trade payables was as follows:

	Unaudited 31 August 2005 *HK$'000*	Audited 28 February 2005 *HK$'000*
0 – 30 days	**47,733**	44,397
31 – 60 days	**1,474**	987
61 – 90 days	**442**	1,210
Over 90 days	**3,312**	5,679
	52,961	52,273

14. Share capital

	Ordinary shares of HK$0.1 each	
	No. of shares	*HK$'000*
Authorised:		
As at 28 February 2005 and 31 August 2005	1,000,000,000	100,000
Issued and fully paid:		
As at 28 February 2005 and 31 August 2005	254,530,000	25,453

15. Contingent liabilities

Save as disclosed in note 16(c), there is no material change in the Group's contingent liabilities since the last annual balance sheet date.

16. Related party transactions

(a) Significant related party transactions, which were carried out in the normal course of the Group's business are as follows:

	Unaudited Six months ended 31 August	
	2005	2004
	HK$'000	*HK$'000*
Purchases from related companies	**202**	9

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 Investments Limited, an associate of the Group. Purchases from these two related 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) Amounts due to related companies, included in trade payables, are as follows:

	Unaudited 31 August 2005	Audited 28 February 2005
	HK$'000	*HK$'000*
Lai Wah Footwear Trading Limited	**10**	163
Lai Kong Footwear (Shenzhen) Company Limited	**–**	107
	10	270

The outstanding balances with related companies are unsecured, interest free and have no fixed terms of repayments.

(c) As at 31 August 2005, the Group had given guarantees in relation to general banking facilities granted to Lai Wah Footwear Trading Limited and Staccato Footwear Company Limited, subsidiaries of Best Quality Investments Limited as at 31 August 2005, amounting to HK$68,400,000 (28 February 2005: HK$61,800,000). They mainly represent the Group's then pro-rated share of the guarantees granted in accordance with its interest in Best Quality Investments Limited. As at 31 August 2005, HK$13,585,000 (28 February 2005: HK$8,212,000) of these banking facilities were utilised.

17. Events after the balance sheet date

Best Quality Investments Limited ("Best Quality"), a company incorporated in Samoa, is a Group's associate in which the Group holds 30% interests. On 12 September 2005, Belle International Holdings Limited ("Belle International") issued new redeemable ordinary shares to companies owned by certain persons with expertise in retail management in the PRC and institutional investors. As a result of the new issue, the equity interest of Best Quality in Belle International has been diluted from 100% to approximately 20%.

Lai Wah Footwear Trading Limited and Staccato Footwear Company Limited are subsidiaries of Belle International as at 12 September 2005. The Company has been informed that Belle International and its subsidiaries (the "Belle Group") intend to negotiate with banks to reduce the amount of such guarantees as disclosed in note 16(c) so that they will only represent the Group's indirect percentage interest in the Belle Group after the new issue of shares by Belle International.

On 12 September 2005, Best Quality declared a dividend, which was paid on 13 September 2005. The Company paid a special dividend of HK10.0 cents per ordinary share (note 7) on 26 October 2005 after consideration of, among other things, the dividend of HK$54,000,000 received from Best Quality.

MANAGEMENT DISCUSSION AND ANALYSIS

The turnover of the Group increased by 18.39% to HK$403.41 million whereas the profit attributable to shareholders decreased by 24.39% to HK$30.20 million, compared with the corresponding period last year. During the period under review, the increase in gross profit was offset by the increase in operating expenses. As a result, the operating profit was approximately level with that of the corresponding period last year. The decrease in the profit attributable to shareholders was mainly due to the decrease in the share of profit of an associate.

(a) Hong Kong and Macau market

During the period under review, the economy of Hong Kong has been improving indicated by the soaring property and stock markets. With the further relaxation of the Individual Visit Scheme by the PRC government, the local retail market has been greatly boosted. Besides, drop in unemployment rate and reviving property and stock markets have improved the overall consumption sentiment in the local market.

The development of wholesale business is a vital part of the Group's operating strategy. During the period under review, the wholesale business achieved a promising result. In addition to reducing purchase costs and increasing gross profit, the wholesale operation could provide a synergy effect to the Group in terms of further strengthening the product mix, brand development and promotion. 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; the exclusive footwear distributor of the U.S. brand of Harley-Davidson in Hong Kong as well as the exclusive footwear and apparel distributor of the U.S. brand of K•Swiss in the Mainland China.

During the period under review, the Group took full advantage of strengths and market recognition of our brands, Mirabell, Joy & Peace, Geox, Fiorucci and Inshoesnet, to provide our customers with high quality and trendy products and successfully accomplished an elevation in the high-end brand position in the marketplace. The Group achieved a steady growth in the turnover and operating profit in the local market. The turnover and operating profit increased to HK$295.15 million and HK$23.64 million, respectively. At the end of October 2005, the Group operated 96 retail outlets in Hong Kong and Macau.

(b) Mainland China market

The booming economy in the Mainland China and the increasing gross national income have generated great demand for trendy and high quality products. During the period under review, the Group actively expanded the Mainland China business by opening additional retail outlets and strived for increasing the market share. To capture the huge business opportunities, the Group has been expanding the market coverage of our retail outlets to second tier cities. For store opening in new regions, initial set up costs as well as advertisement costs arisen from increased marketing and promotion activities are particularly high. Consequently, the operating profit recorded a decrease during the period under review.

The turnover of the Mainland China market increased to HK$103.88 million whereas the operating profit decreased to HK$6.22 million.

The Group has been actively developing the Mainland China market for years and has established 159 retail outlets at the end of October 2005 located in Shenzhen, Guangzhou, Shanghai, Beijing, Tianjin, Dalian, Chengdu, Chongqing, Zhuhai, Xi'an, Wuhan, Wuxi, Ningbo, Dongguan, Harbin, Shijiazhuang and Panyu under the brands of Mirabell, Joy & Peace, Innet, Caterpillar, Merrell, K•Swiss and Fiorucci. In addition, there were 68 franchised retail outlets under the brand of Joy & Peace.

(c) Taiwan market

The Group opened the first Fiorucci retail outlet in Taiwan in April 2005. At the end of October 2005, we had 9 Fiorucci retail outlets in Taiwan. The initial market response is encouraging. The management will review the expansion plan from time to time.

(d) Associate of the Group

Best Quality Investments Limited ("Best Quality"), a company incorporated in Samoa, is a Group's associate in which the Group holds 30% interests. On 12 September 2005, Belle International Holdings Limited ("Belle International") issued new redeemable ordinary shares to companies owned by certain persons with expertise in retail management in the PRC and institutional investors. As a result of the new issue, the equity interest of Best Quality in Belle International has been diluted from 100% to approximately 20%. On the same day, Best Quality declared a dividend, which was paid on 13 September 2005. The Company paid a special dividend of HK10.0 cents per ordinary share on 26 October 2005 after consideration of, among other things, the dividend of HK$54 million received from Best Quality. The Group had given guarantees in relation to general banking facilities granted to certain subsidiaries of Belle International. They mainly represent the Group's then pro-rated share of the guarantees granted in accordance with its interest in Best Quality. The Company has been informed that Belle International and its subsidiaries (the "Belle Group") intend to negotiate with banks to reduce the amount of such guarantees so that they will only represent the Group's indirect percentage interest in the Belle Group after the new issue of shares by Belle International.

(e) Prospects

Despite the recent interest rate rises and oil price volatility, the economy of Hong Kong further improves progressively and consumer confidence remains high. The opening of Hong Kong Disneyland in September 2005 attracts more tourists and stimulates the entire economy of Hong Kong particularly in the tourism and retail sectors. However, the increases in rental and salary expenses in the Hong Kong and Macau market pose high pressure and great challenge to retailers. The management is of the view that the rentals in tourist areas have reached an unreasonable level and believes such level could not be maintained persistently. We expect the rentals in tourist areas will commence going down to a reasonable level from the mid of 2006. The Group will cautiously review the expansion pace and tighten cost controls aiming at achieving steady business growth in the local market.

(e) Prospects (continued)

The continuous economic growth in the Mainland China boosts the demand for trendy and high quality products. With the keen competition in the Mainland China, the management will closely monitor the market response and take cautious steps in growing the business. After the last year's rapid growth in the number of retail outlets in the Mainland China, the Group would slow down slightly the expansion pace and focus on store performance improvement and cost controls to enhance operating profit advancement. Apart from the retail business, the Group will further develop the wholesale business in the Mainland China shortly by signing distribution agreements with the retailers in major cities of the Mainland China.

To cope with the market response and assess business opportunities and potential of assorted brands of the Group, the management plans to further expand the business in Taiwan.

Looking ahead, the Group will focus on increasing market share in the highly competitive Greater China region. The management plans to strengthen the retail networks in the Mainland China and Taiwan as a major drive for business expansion. The Group will continue to strive for improvements in all business areas so as to further increase our competitive advantage in the marketplace. In light of the positive economic outlook in the Greater China region, the management is cautiously optimistic about the business performance of the Group in the second half of the financial year.

LIQUIDITY AND FINANCIAL RESOURCES

Working capital of the Group increased from HK$170.52 million (restated) to HK$178.02 million as at the end of the period under review, and the current ratio and quick ratio remained at a steady level of 2.06 and 1.00 times, respectively.

The inventory balance as at 31 August 2005 amounted to HK$177.58 million. Compared with the inventory balance of HK$135.02 million as at 28 February 2005, an increase was recorded. As at 31 August 2005, the Group had bank balances and cash of HK$75.80 million and outstanding bank borrowings of HK$57.73 million. During the period under review, the Group raised new short-term bank loans of HK$68.35 million for the financing of working capital and short-term bank loans of HK$41.70 million were settled.

LIQUIDITY AND FINANCIAL RESOURCES (continued)

As at 31 August 2005, the gearing ratio of the Group was 0.13 (28 February 2005: 0.07 (restated)) which was calculated on the Group's total borrowings of HK$57.73 million (28 February 2005: HK$31.08 million) and the shareholders' funds of HK$434.09 million (28 February 2005: HK$421.32 million (restated)).

TREASURY POLICIES

The Group continued to adopt a conservative approach to financial risk management. The Group's borrowings were in Hong Kong dollars and Renminbi and were arranged on a floating rate basis. As at 31 August 2005, the Group had two previously signed foreign exchange contracts with expiry dates in September 2005 and September 2006, respectively to hedge with potential revaluation of Renminbi. Except these two foreign exchange contracts, 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 2005, the net book values of leasehold land and buildings pledged as security amounted to approximately HK$11.09 million (28 February 2005: HK$11.32 million (restated)).

HUMAN RESOURCES

As at 31 August 2005, the Group had a total of 1,877 employees. The Group offers a competitive remuneration package to its employees, including insurance and medical benefits. In addition, discretionary bonus 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 2005, 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

	Number of ordinary shares of HK$0.1 each beneficially held		
Name of Director	**Personal interests**	**Other interests**	**Total**
Mr Tang Wai Lam	6,000,000	130,575,000 *(note (i))*	136,575,000
Mr Tang Keung Lam	6,000,000	130,575,000 *(note (ii))*	136,575,000
Mr Ng Man Kit, Lawrence	12,150,000	–	12,150,000
Mr Chung Chun Wah	2,604,000	–	2,604,000

Notes:

(i) 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.

(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 referred to in note (i) above.

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

(b) Shares in Mirabell Footwear Limited

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

Save as disclosed above:

(i) As at 31 August 2005, 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 2005, 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.

	Number of ordinary shares of HK$0.1 each beneficially held			
Name	**Beneficial interests**	**Interest of controlled corporation**	**Other interests**	**Total**
Tang's Enterprises Limited *(note (vi))*	122,400,000	–	–	122,400,000
Rich Land Property Limited *(note (vi))*	8,175,000	122,400,000 *(note (i))*	–	130,575,000
Kinlington Agents Limited *(note (vi))*	8,175,000	122,400,000 *(note (i))*	–	130,575,000
Mosman Associates Limited	8,175,000	122,400,000 *(note (i))*	–	130,575,000
Madam Tso Lai Kuen	6,000,000	–	130,575,000 *(note (ii))*	136,575,000
Strath Fiduciaries Limited	–	155,100,000 *(note (iii))*	–	155,100,000
Value Partners Limited	–	–	15,290,000 *(note (iv))*	15,290,000
Mr Cheah Cheng Hye	–	15,290,000 *(note (v))*	–	15,290,000

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 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.

SUBSTANTIAL SHAREHOLDERS (continued)

(iii) 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.

(iv) These shares were held by Value Partners Limited in the capacity of investment manager.

(v) These represented the same block of shares held by Value Partners Limited, which was controlled by Mr Cheah Cheng Hye.

(vi) Mr Tang Wai Lam and Mr Tang Keung Lam are directors of Tang's Enterprises Limited, Rich Land Property Limited and Kinlington Agents Limited.

Save as disclosed above, as at 31 August 2005, 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 "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 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;

SHARE OPTION SCHEME (continued)

(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 Scheme and any other share option schemes of the Company (excluding, for this purpose, options lapsed in accordance with the terms of the 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 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 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.

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.

SHARE OPTION SCHEME (continued)

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 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.

No options under the Scheme were outstanding at the beginning or at the end of the period under review, and no options under the Scheme were granted, exercised, cancelled or lapsed during the period under review.

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.

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 every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. Non-executive directors of the Company were not appointed for a specific term. In accordance with the Articles of Association of the Company, at each annual general meeting, a specified proportion of the directors (other than the Managing Director) for the time being shall retire from office by rotation. To ensure stricter compliance with the code provisions, relevant amendments to the Articles of Association of the Company will be proposed to the shareholders of the Company for approval.

Code Provision B.1.1 stipulates that issuers should establish a remuneration committee with specific written terms of reference which deal clearly with its authority and duties. A remuneration committee was formed on 17 October 2005 with terms of reference no less exacting than those stipulated in the code provisions of the CG Code.

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. One meeting was held during the period under review.

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 2005. 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. 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 two executive directors, namely Mr Tang Wai Lam and Mr Tang Keung Lam.

SPECIAL AND INTERIM DIVIDENDS

The Board declared on 28 September 2005 a special dividend of HK10.0 cents per ordinary share for the year ending 28 February 2006 and the special dividend was paid on 26 October 2005. Details of the special dividend are set out in note 17 to the condensed consolidated interim financial information.

The Board has resolved to declare an interim dividend in respect of the financial year ending 28 February 2006 of HK3.0 cents (2005: HK2.5 cents) per ordinary share. The interim dividend will be paid on 16 December 2005 to members whose names appear on the Register of Members of the Company on 9 December 2005.

CLOSURE OF REGISTER

The Register of Members of the Company will be closed from 7 December 2005 to 9 December 2005, 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 Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong no later than 4:00 p.m. on 6 December 2005.

On behalf of the Board
TANG WAI LAM
Chairman

Hong Kong, 21 November 2005