MIRABELL INTERNATIONAL HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 1179)

ANNOUNCEMENT OF RESULTS
FOR THE YEAR ENDED 28 FEBRUARY 2006

RESULTS

The board of directors is pleased to announce the audited consolidated results of Mirabell International Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 28 February 2006, together with the comparative figures for the previous year, as follows:

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 28 FEBRUARY 2006

	Note	**2006** *HK$'000*	2005 *HK$'000* *(As restated)*
Turnover	*2*	**866,238**	747,839
Cost of sales		**(360,385)**	(308,713)
Gross profit		**505,853**	439,126
Other revenue	*2*	**4,614**	5,182
Distribution and selling costs		**(359,541)**	(298,081)
Administrative expenses		**(99,751)**	(87,006)
Other operating income, net		**3,321**	5,847
Operating profit	*3*	**54,496**	65,068
Finance costs	*4*	**(2,321)**	(1,221)
Share of profit of an associate		**19,713**	20,157
Profit before taxation		**71,888**	84,004
Taxation	*5*	**(6,391)**	(7,865)
Profit for the year attributable to equity holders of the Company		**65,497**	76,139
Dividends	*6*	**47,088**	23,162
Basic earnings per share	*7*	**25.7 cents**	29.9 cents
Diluted earnings per share	*7*	**25.7 cents**	29.9 cents

CONSOLIDATED BALANCE SHEET
AS AT 28 FEBRUARY 2006

	Note	2006 HK$'000	2005 HK$'000 (As restated)
Non-current assets			
Property, plant and equipment		**41,251**	33,932
Investment properties		**53,448**	61,448
Leasehold land and land use rights		**17,704**	19,709
Intangible assets		**13,321**	2,000
Interest in an associate		**59,343**	93,339
Rental deposits		**29,727**	30,687
Non-current deposits		**10,702**	10,702
Deferred tax assets		**7,965**	2,535
		233,461	254,352
Current assets			
Inventories	*8*	**154,148**	135,022
Trade receivables	*9*	**70,231**	72,228
Other receivables, deposits and prepayments		**30,010**	20,134
Taxation recoverable		**1,687**	1,029
Cash and cash equivalents		**114,891**	86,357
Derivative financial instruments		**80**	–
		371,047	314,770
Current liabilities			
Trade payables	*10*	**42,234**	52,273
Other payables and accrued charges		**60,384**	58,325
Taxation payable		**6,565**	4,576
Short-term bank borrowings		**47,817**	31,084
		157,000	146,258
Net current assets		**214,047**	168,512
Total assets less current liabilities		**447,508**	422,864
Non-current liabilities			
Other non-current liabilities		**8,107**	–
Deferred tax liabilities		**1,338**	1,546
		9,445	1,546
Net assets		**438,063**	421,318
Equity			
Share capital		**25,453**	25,453
Other reserves		**112,384**	110,986
Retained earnings			
– Proposed final dividends		**13,999**	16,799
– Others		**286,227**	268,080
Total equity		**438,063**	421,318

Notes:

1. **Significant accounting policies**

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative financial instruments) at fair value through profit and loss and investments properties, which are carried at fair value.

The adoption of new/revised HKFRS

During the year ended 28 February 2006, the Group adopted the new/revised standards and interpretations of 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: Disclosure 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 39 (Amendment)	Transition and Initial Recognition of Financial Assets and Financial Liabilities
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
HK-Int 4	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases

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, HKAS-Int 15 and HK-Int 4 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, HKAS-Int 15 and HK-Int 4 have no material effect on the Group's policies.

– HKAS 21 has 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.

– 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. 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, 39 and 39 (Amendment) 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 ended 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.

All relevant changes in the accounting policies have been made in accordance with the transition provisions in respective standards. All standards adopted by the Group required 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;

- HKAS-Int 15 – does not require the recognition of incentives for leases beginning before 1 March 2006; 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. In prior years, they were stated at valuation. 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*
For the year ended 28 February 2006						
(Decrease)/increase in share of profit of an associate	**(1,601)**	**–**	**–**	**1,155**	**–**	**(446)**
Increase in other operating income	**–**	**–**	**80**	**–**	**–**	**80**
Increase in distribution and selling costs	**–**	**(380)**	**–**	**–**	**–**	**(380)**
Decrease in administrative expenses	**–**	**14**	**–**	**–**	**–**	**14**
Decrease in taxation	**1,601**	**241**	**–**	**–**	**–**	**1,842**
(Decrease)/increase in profit attributable to equity holders of the Company	**–**	**(125)**	**80**	**1,155**	**–**	**1,110**
(Decrease)/increase in basic earnings per share	**–**	**(0.0 cent)**	**0.0 cent**	**0.5 cent**	**–**	**0.4 cent**

			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*
For the 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 equity holders of the Company	–	(1,866)	–	–	1,610	(256)
(Decrease)/increase in basic earnings per share	–	(0.7 cent)	–	–	0.6 cent	(0.1 cent)

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 28 February 2006						
(Decrease)/increase in non-current assets						
Property, plant and equipment	**(53,448)**	**(33,341)**	**–**	**–**	**–**	**(86,789)**
Investment properties	**53,448**	**–**	**–**	**–**	**–**	**53,448**
Leasehold land and land use rights	**–**	**17,704**	**–**	**–**	**–**	**17,704**
Interest in an associate	**–**	**–**	**–**	**1,155**	**–**	**1,155**
Deferred tax assets	**–**	**196**	**–**	**–**	**–**	**196**
	–	**(15,441)**	**–**	**1,155**	**–**	**(14,286)**
Increase in current assets						
Derivative financial instruments	**–**	**–**	**80**	**–**	**–**	**80**
Decrease in non-current liabilities						
Deferred tax liabilities	**–**	**(744)**	**–**	**–**	**–**	**(744)**
(Decrease)/increase in equity						
Investment properties revaluation reserve	**–**	**–**	**–**	**–**	**(11,772)**	**(11,772)**
Other properties revaluation reserve	**–**	**(12,046)**	**–**	**–**	**–**	**(12,046)**
Retained earnings	**–**	**(2,651)**	**80**	**1,155**	**11,772**	**10,356**
	–	**(14,697)**	**80**	**1,155**	**–**	**(13,462)**

	HKAS 1 *HK$'000*	HKAS 16 & HKAS 17 *HK$'000*	Effect of adopting HKAS 32 & HKAS 39 *HK$'000*	HKFRS 3, HKAS 36 & HKAS 38 *HK$'000*	HKAS 40 *HK$'000*	Total *HK$'000*
As at 28 February 2005						
(Decrease)/increase 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	–	19,709	–	–	–	19,709
Deferred tax assets	–	49	–	–	–	49
	–	(15,224)	–	–	–	(15,224)
Decrease in non-current liabilities						
Deferred tax liabilities	–	(652)	–	–	–	(652)
(Decrease)/increase 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)

	HKAS 1 *HK$'000*	HKAS 16 & HKAS 17 *HK$'000*	Effect of adopting HKAS 32 & HKAS 39 *HK$'000*	HKFRS 3, HKAS 36 & HKAS 38 *HK$'000*	HKAS 40 *HK$'000*	Total *HK$'000*
As at 1 March 2005						
(Decrease)/increase 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	–	19,709	–	–	–	19,709
Deferred tax assets	–	49	–	–	–	49
Derivative financial instruments	–	–	19	–	–	19
	–	(15,224)	19	–	–	(15,205)
(Decrease)/increase in non-current liabilities						
Deferred tax liabilities	–	(652)	–	–	–	(652)
Derivative financial instruments	–	–	281	–	–	281
	–	(652)	281	–	–	(371)
(Decrease)/increase 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)

2. Turnover, revenue and segment information

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

	2006 *HK$'000*	2005 *HK$'000*
Turnover		
Sales of goods	**866,238**	747,839
Other revenue		
Royalty income	**3,694**	3,402
Interest income	**917**	402
Rental income	**–**	1,375
Others	**3**	3
	4,614	5,182
Total revenue	**870,852**	753,021

The Group has only one single business segment which is the sales of footwear through retailing, wholesaling and manufacturing. Accordingly, the segment information for this sole business segment is equivalent to the consolidated figures.

Geographical segment analysis

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 during the year.

	Hong Kong and Macau 2006 *HK$'000*	**Mainland China 2006** *HK$'000*	**Taiwan 2006** *HK$'000*	**Total 2006** *HK$'000*
Total gross segment sales	**746,034**	**276,520**	**11,847**	**1,034,401**
Inter-segment sales	**(147,708)**	**(20,455)**	**–**	**(168,163)**
	598,326	**256,065**	**11,847**	**866,238**
Segment results	**36,418**	**23,231**	**(5,153)**	**54,496**
Finance costs				**(2,321)**
Share of profit of an associate	**–**	**19,713**	**–**	**19,713**
Profit before taxation				**71,888**
Taxation				**(6,391)**
Profit for the year attributable to equity holders of the Company				**65,497**
Segment assets	**311,575**	**228,720**	**(4,782)**	**535,513**
Interest in an associate	**–**	**59,343**	**–**	**59,343**
Taxation recoverable				**1,687**
Deferred tax assets				**7,965**
Total assets				**604,508**
Segment liabilities	**83,477**	**74,403**	**662**	**158,542**
Taxation payable				**6,565**
Deferred tax liabilities				**1,338**
Total liabilities				**166,445**
Capital expenditure	**20,328**	**18,652**	**5,488**	**44,468**
Depreciation	**9,717**	**7,866**	**1,130**	**18,713**
Amortisation charge	**8,435**	**332**	**–**	**8,767**

	Hong Kong and Macau 2005 *HK$'000* *(As restated)*	Mainland China 2005 *HK$'000* *(As restated)*	Total 2005 *HK$'000* *(As restated)*
Total gross segment sales	686,839	208,400	895,239
Inter-segment sales	(133,647)	(13,753)	(147,400)
	553,192	194,647	747,839
Segment results	36,050	29,018	65,068
Finance costs			(1,221)
Share of profit of an associate	–	20,157	20,157
Profit before taxation			84,004
Taxation			(7,865)
Profit for the year attributable to equity holders of the Company			76,139
Segment assets	284,797	187,422	472,219
Interest in an associate	–	93,339	93,339
Taxation recoverable			1,029
Deferred tax assets			2,535
Total assets			569,122
Segment liabilities	90,400	51,282	141,682
Taxation payable			4,576
Deferred tax liabilities			1,546
Total liabilities			147,804
Capital expenditure	9,885	6,637	16,522
Depreciation	8,297	4,776	13,073
Amortisation charge	3,673	332	4,005

3. Operating profit

	2006 ***HK$'000***	2005 *HK$'000*
Operating profit is stated after charging/(crediting) the following:		
Depreciation of property, plant and equipment	**18,713**	13,073
Amortisation of prepaid operating lease payment	**2,005**	2,005
Amortisation of intangible assets		
– included in cost of sales	**4,762**	–
– included in administrative expenses	**2,000**	2,000
Loss on disposal of property, plant and equipment	**391**	99
Loss on disposal of an investment property	**66**	–
Staff costs (including directors' emoluments):		
– Wages, salaries and allowances	**137,274**	112,486
– Pension costs	**4,143**	3,660
Provision for inventory obsolenscence	**598**	5,333
Operating leases rental in respect of leasehold land and buildings, including contingent rental expenses of HK$54,082,000 (2005: HK$44,822,000)	**203,632**	169,043
Outgoings in respect of investment properties	**144**	158
Auditors' remuneration	**1,219**	930
Net exchange gains	**(2,157)**	(117)
Fair value gains of investment properties	**–**	(1,700)

4. Finance costs

	2006 ***HK$'000***	2005 *HK$'000*
Interest on bank loans and overdrafts	**2,321**	1,221

5. **Taxation**

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

The amount of taxation charged to the consolidated income statement represents:

	2006	2005
	HK$'000	*HK$'000*
Current taxation		
– Hong Kong profits tax	**6,790**	5,029
– Overseas taxation	**6,271**	3,862
– Over-provision in prior years	**(1,032)**	(2,260)
Deferred taxation relating to the origination and reversal of temporary differences	**(5,638)**	1,234
Taxation charge	**6,391**	7,865

6. **Dividends**

	2006	2005
	HK$'000	*HK$'000*
Interim, paid, of HK3.0 cents (2005: HK2.5 cents) per ordinary share	**7,636**	6,363
Special, paid, of HK10.0 cents per ordinary share	**25,453**	–
Final, proposed, of HK5.5 cents (2005: HK6.6 cents) per ordinary share	**13,999**	16,799
	47,088	23,162

At a meeting held on 26 June 2006, the directors proposed a final dividend of HK5.5 cents per ordinary share. This proposed dividend is not reflected as a dividend payable in these financial statements.

7. **Basic and diluted earnings per share**

The calculation of basic and diluted earnings per share is based on the Group's profit attributable to equity holders of HK$65,497,000 (2005: HK$76,139,000 (restated)) and the weighted average number of 254,530,000 (2005: 254,530,000) ordinary shares in issue during the year.

The Company has no dilutive potential ordinary share.

8. **Inventories**

	Group	
	2006	2005
	HK$'000	*HK$'000*
Raw materials	**4,317**	3,183
Work in progress	**124**	668
Finished goods	**149,707**	131,171
	154,148	135,022

The cost of inventories recognised as expense and included in cost of sales amounted to HK$337,484,000 (2005: HK$288,273,000).

9. **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 28 February 2006, the ageing analysis of the trade receivables was as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
0 – 30 days	**68,265**	68,137
31 – 60 days	**1,372**	1,594
61 – 90 days	**149**	803
Over 90 days	**445**	1,694
	70,231	72,228

10. **Trade payables**

As at 28 February 2006, the ageing analysis of the trade payables was as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
0 – 30 days	**37,668**	44,397
31 – 60 days	**477**	987
61 – 90 days	**172**	1,210
Over 90 days	**3,917**	5,679
	42,234	52,273

11. **Events after the balance sheet date**

On 3 April 2006, share options with rights to subscribe for a total of 21,520,000 shares of the Company at a subscription price of HK$2.875 per share were granted to certain directors and employees of the Group. All of the options granted have vesting periods of one to four years and shall expire on 2 April 2012 or 2 April 2014.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

During the year, the Group recorded a turnover of HK$866.24 million, representing an increase of 15.83%, compared with last year. The profit attributable to equity holders of the Company decreased by 13.98% to HK$65.50 million.

The Hong Kong and Macau market

During the year, 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 government of the Mainland China, 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. Compared with last year, the turnover increased by 8.16% to HK$598.33 million and the gross profit margin maintained at the same level.

The management is constantly reviewing and evaluating the profitability, tactical planning and market share of our retail network. Although we put great effort to bargain with the landlords to minimize the rental costs, the unavoidable increase in rental costs gradually eroded our profit margin. In addition, the Group was also confronted with profit margin squeeze as a result of higher staff costs. Nonetheless, the increased gross profit coupled with the implementation of tight cost control policies, the operating profit slightly increased by 1.02% to HK$36.42 million, compared with last year.

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

During the year, the Group achieved a satisfactory growth in the turnover and operating profit in the local market. At the end of May 2006, the Group operated 103 retail outlets in Hong Kong and Macau under the brands of Mirabell, Joy & Peace, Fiorucci, Inshoesnet and Geox.

The Mainland China market

The continuous economic growth in the Mainland China together with the improvement in living standards of residents boost a demand for trendy and high quality footwear products. In addition, the government of the Mainland China has adopted various policies to encourage and stimulate the local consumption, the management believes that the room for growth is enormous.

In the first half financial year, the Group dynamically explored the market by opening numerous retail outlets in the second tier cities of the Mainland China. Because our brand awareness and recognition was not strong enough in the second tier cities, operating costs particularly marketing, promotion and distribution correspondingly increased. In addition, most of the shop decoration costs for retail outlets located in department stores and shopping malls have been depreciated over one year. Consequently, the depreciation expenses for new shops were particularly high for the first year of operation.

After the rapid growth in the number of retail outlets, the Group slowed down slightly the expansion pace and focused on store performance improvement and cost controls to enhance operating profit advancement in the second half financial year. The Group implemented various policies in order to improve operational effectiveness and efficiency. The management ceased the operations of some non-performing retail outlets and opened more counters at well-positioned department stores where turnover rent shall be paid. In addition, the management further tightened cost controls. The overall performance of the Mainland China business had greatly improved in the second half financial year.

During the year, competition in the retail market of the Mainland China had become increasingly severe, forcing the department stores to introduce various types of promotion discounts, which had greatly affected our gross profit.

Compared with last year, the turnover increased by 31.55% to HK$256.07 million, whereas the operating profit decreased by 19.94% to HK$23.23 million. At the end of May 2006, the Group operated 172 retail outlets in Shenzhen, Guangzhou, Shanghai, Beijing, Tianjin, Dalian, Chengdu, Chongqing, Zhuhai, Xi'an, Wuhan, Wuxi, Ningbo, Dongguan, Harbin, Shijiazhuang, Panyu and Shenyang under the brands of Mirabell, Joy & Peace, Fiorucci, Innet, Caterpillar, Merrell and K•Swiss. In addition, there were 72 franchised retail outlets under the brand of Joy & Peace.

The Taiwan market

The first year operation in Taiwan incurred an operating loss of HK$5.15 million. The management has grasped the local footwear market information and invaluable experience in doing retail business there. The management is cautiously planning future business strategies particularly brand awareness and recognition, marketing and promotion campaign, product development and network expansion. At the end of May 2006, the Group operated 13 retail outlets under the brand of Fiorucci.

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% interest. 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 Mainland China and institutional investors. As a result of the new issue, the equity interest of Best Quality in Belle International was 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 cents per share on 26 October 2005 after consideration of, among other things, the dividend of HK$54 million received from Best Quality. The Company provides guarantees in relation to general banking facilities granted to certain subsidiaries of Belle International (the "Belle Group").

Outlook

The year of 2006 has been designated as "Discovery Hong Kong Year" by the Hong Kong Tourist Board, which would devote substantial efforts to boosting tourism to Hong Kong. In addition, a number of tourism projects are coming in the local market in the near future including a new cable system on Lantau Island, several casino and hotel projects in Macau and Macau Fisherman's Wharf. We believe that the increasing number of the Mainland China and oversea tourists visiting to the region will further stimulate the local consumption market.

Notwithstanding the keen competition in the retail market of the Mainland China in recent years, the management truly believes that there is still a huge potential for business development. The management will closely monitor the market response and take cautious steps in growing the business. Having laid down a solid foundation in the Mainland China, the management expects to enter a new stage of growth in the retail business in the coming year.

Looking ahead, the management will continue to reinforce the brand development, pursue continuous quality improvement of products as well as increase operational effectiveness and efficiency. The Group will focus on increasing market share in the Greater China and plan to strengthen the retail networks in the Mainland 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. We will maintain a dynamic approach to the operation and development of the Group's business to face the future challenge. 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 coming year.

Liquidity and Financial Resources

Working capital of the Group increased from HK$168.51 million (restated) to HK$214.05 million, and the current ratio and quick ratio remained at a steady level of 2.36 and 1.38 times, respectively.

The inventory balance as at 28 February 2006 amounted to HK$154.15 million. Compared with the inventory balance of HK$135.02 million as at 28 February 2005, an increase was recorded. As at 28 February 2006, the Group had bank balances and cash of HK$114.89 million and outstanding bank borrowings of HK$47.82 million. During the year, the Group raised new short-term bank loans of HK$88.60 million for the financing of working capital and short-term bank loans of HK$72.53 million were settled.

As at 28 February 2006, the gearing ratio of the Group was 0.11 (2005: 0.07) which was calculated on the Group's total borrowings of HK$47.82 million (2005: HK$31.08 million) and the total equity of HK$438.06 million (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 28 February 2006, the Group had a previously signed foreign exchange contract with an expiry date in September 2006 to hedge with potential revaluation of Renminbi. Except this foreign exchange contract, no other financial instrument has been employed. The Group's treasury management policy is not to engage in any highly leveraged or speculative derivative products. With low gearing ratio and sound financial position, the management believes that the Group is well placed to avail itself to future expansion and investment opportunities.

Charge on Assets

As at 28 February 2006, there was no group assets pledged as security (2005: net book value of fixed assets amounting to HK$11.32 million (restated)).

Contingent Liabilities

As at 28 February 2006, the Group had contingent liabilities amounting to HK$31.33 million (2005: HK$61.80 million) in respect of guarantees issued for general banking facilities, of which HK$10.64 million (2005: HK$8.21 million) were utilised, granted to the Belle Group. As at 28 February 2006, part of these guarantees was in proportion to the Group's then indirect percentage interest in the Belle Group, and the remaining guarantees, which mainly represented the Group's then indirect interest in the Belle Group prior to Belle International's issue of new redeemable ordinary shares on 12 September 2005, were being negotiated with banks for reduction. In May 2006, the contingent liabilities in respect of the guarantees of such banking facilities amounted to HK$13.39 million.

Human Resources

As at 28 February 2006, the Group had a total of 2,023 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.

DEALINGS IN THE COMPANY'S LISTED SHARES

The Company did not redeem any of the Company's shares during the year. Neither the Company nor any of its subsidiaries had purchased or sold any of the Company's share during the year.

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 Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited, with certain deviations as mentioned below, throughout the year.

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.

Code Provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election. Code Provision A.4.2 stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment, and that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. Non-executive directors of the Company were not appointed for a specific term. In accordance with the Articles of Association of the Company, any Directors appointed to fill a casual vacancy shall hold office only until the next following annual general meeting. The Articles of Association of the Company also stipulate that 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.

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.

REVIEW OF ACCOUNTS

The Audit Committee has reviewed with directors the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters, including a review of the annual results, related to the preparation of the 2005/2006 annual report.

The figures in respect of this preliminary announcement of the Group's results for the year ended 28 February 2006 have been agreed by the Group's auditors, PricewaterhouseCoopers, to the amounts set out in the Group's consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

DIVIDENDS

The board of directors has resolved to recommend a final dividend of HK5.5 cents per share which, subject to the approval of shareholders, will be paid on 4 August 2006 to shareholders whose names appear on the Register of Members of the Company on 28 July 2006. This together with the special dividend of HK10 cents per share paid on 26 October 2005 and the interim dividend of HK3 cents per share paid on 16 December 2005 will make a total dividend of HK18.5 cents per share for the year.

CLOSURE OF REGISTER

The Register of Members of the Company will be closed from 25 July 2006 to 28 July 2006, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Abacus Share Registrars Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong no later than 4:00 p.m. on 24 July 2006.

By Order of the Board
Tang Wai Lam
Chairman

Hong Kong, 26 June 2006

As at the date of this announcement, the Company's executive directors are Mr Tang Wai Lam, Mr Ng Man Kit, Lawrence and Mr Chung Chun Wah; independent non-executive directors are Mr Lee Kin Sang, Mr Chan Ka Sing, Tommy and Mr Ng Chun Chuen, David; non-executive director is Mr Lee Kwan Hung.

"Please also refer to the published version of this announcement in The Standard."