

BOSSINI INTERNATIONAL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock code: 592)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2006

FINANCIAL RESULTS

The board of directors (the "Board") of **Bossini International Holdings Limited** (the "Company") announces the unaudited consolidated results of the Company and its subsidiaries (the "Group" or "Bossini") for the six months ended 30 September 2006, together with the comparative figures for the corresponding period in 2005, as follows:

Condensed consolidated income statement

	Notes	Six months ended 30 September	
		2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Revenue	2	969,982	997,055
Cost of sales		<u>(505,801)</u>	<u>(518,507)</u>
Gross profit		464,181	478,548
Other income and gains	3	5,271	5,559
Selling and distribution costs		<u>(328,197)</u>	<u>(306,257)</u>
Administrative expenses		<u>(106,277)</u>	<u>(99,203)</u>
Other operating expenses		<u>(16,382)</u>	<u>(17,306)</u>
Profit from operating activities		18,596	61,341
Finance costs	4	<u>-</u>	<u>(89)</u>
Profit before tax	5	18,596	61,252
Tax	6	<u>(12,184)</u>	<u>(16,042)</u>
Profit for the period attributable to equity holders		<u>6,412</u>	<u>45,210</u>
Dividend per share	7	<u>-</u>	<u>HK1.80 cents</u>
Earnings per share attributable to ordinary equity holders	8		
Basic		<u>HK0.41 cent</u>	<u>HK2.88 cents</u>
Diluted		<u>HK0.40 cent</u>	<u>HK2.80 cents</u>

Condensed consolidated balance sheet

		At 30 September 2006 (Unaudited) HK\$'000	At 31 March 2006 (Audited) HK\$'000
	Notes		
Non-current assets			
Property, plant and equipment		157,597	153,334
Trademark		1,164	1,164
Deferred tax assets		2,847	2,672
Deposits paid		56,336	48,849
Bank deposits		<u>15,600</u>	<u>15,600</u>
Total non-current assets		<u>233,544</u>	<u>221,619</u>
Current assets			
Inventories		348,238	253,591
Debtors	9	62,142	55,664
Bills receivable		13,355	11,973
Deposits paid		22,880	30,442
Prepayments and other receivables		69,625	57,621
Derivative financial instruments		1,783	998
Tax recoverable		36	35
Pledged bank deposits		774	787
Cash and cash equivalents		<u>156,034</u>	<u>227,513</u>
Total current assets		<u>674,867</u>	<u>638,624</u>
Current liabilities			
Trade creditors and accruals	10	201,724	196,038
Bills payable		37,320	22,243
Tax payable		38,345	28,531
Due to related companies		22,127	23,573
Derivative financial instruments		674	1,153
Interest-bearing bank loans		<u>39,640</u>	<u>-</u>
Total current liabilities		<u>339,830</u>	<u>271,538</u>
Net current assets		<u>335,037</u>	<u>367,086</u>
Total assets less current liabilities		568,581	588,705
Non-current liabilities			
Provisions		1,075	583
Deferred tax liabilities		<u>717</u>	<u>701</u>
Total non-current liabilities		<u>1,792</u>	<u>1,284</u>
Net assets		<u>566,789</u>	<u>587,421</u>
Equity			
Issued capital		156,891	156,891
Reserves		409,898	402,290
Proposed dividend		<u>-</u>	<u>28,240</u>
Total equity		<u>566,789</u>	<u>587,421</u>

Notes to the condensed financial statements:

1. Basis of preparation and changes in accounting policies

These condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim financial reporting” issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The accounting policies and basis of preparation adopted in the preparation of the interim financial statements are the same as those used in the annual financial statements for the year ended 31 March 2006, except in relation to the following revised Hong Kong Financial Reporting Standards (“HKFRSs”, which also include HKASs and Interpretations) that affect the Group and are adopted for the first time for the current period’s financial statements:

HKAS 21 Amendment	Net Investment in Foreign Operation
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

The adoption of the above revised HKFRSs has no material impact on the accounting policies of the Group and the methods of computation in the Group’s condensed consolidated financial statements.

Inventories

With proven sales track record of the products and the recovery of economic conditions in general for the regions in which the Group has operations over the past few years, the Group has revised its estimates relating to inventory provision policy during the period under review. If the old inventory provision policy were used for the current period, an additional provision of approximately HK\$6.1 million would have been made to write-down the carrying amounts of inventories.

2. Segment information

An analysis of the Group’s revenue and profit/(loss) by business segment is not presented as the Group’s revenue and results are predominantly derived from retailing and distribution of garments.

An analysis of the Group’s revenue and profit/(loss) by geographical segment for the six months ended 30 September 2006, together with the comparative figures for the corresponding period in 2005, is as follows:

	Hong Kong		Mainland China		Taiwan		Singapore & Malaysia		Consolidated	
	2006 (Unaudited) HK\$’000	2005 (Unaudited) HK\$’000	2006 (Unaudited) HK\$’000	2005 (Unaudited) HK\$’000	2006 (Unaudited) HK\$’000	2005 (Unaudited) HK\$’000	2006 (Unaudited) HK\$’000	2005 (Unaudited) HK\$’000	2006 (Unaudited) HK\$’000	2005 (Unaudited) HK\$’000
Segment revenue										
Sales to external customers	511,685	524,196	201,629	214,720	167,054	165,962	89,614	92,177	969,982	997,055
Other income and gains	1,417	633	315	530	1,081	1,634	33	11	2,846	2,808
Total	513,102	524,829	201,944	215,250	168,135	167,596	89,647	92,188	972,828	999,863
Segment results	52,269	57,617	(12,617)	253	(20,899)	(6,025)	(2,582)	6,745	16,171	58,590
Interest income									2,425	2,751
Profit from operating activities									18,596	61,341
Finance costs									-	(89)
Profit before tax									18,596	61,252
Tax									(12,184)	(16,042)
Profit for the period									6,412	45,210

3. Other income and gains

	Six months ended 30 September	
	2006 (Unaudited) HK\$’000	2005 (Unaudited) HK\$’000
Interest income	2,425	2,751
Royalty income	19	62
Gross rental income	989	1,190
Others	1,838	1,556
	5,271	5,559

4. Finance costs

	Six months ended 30 September	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest on bank loans and overdrafts wholly repayable within five years	<u>-</u>	<u>89</u>

5. Profit before tax

The Group's profit before tax is arrived at after charging/(crediting):

	Six months ended 30 September	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Inventory provision	15,029	20,162
Depreciation	28,290	25,570
Fair value gains of derivative instruments - transactions not qualifying as hedges, net	<u>(1,216)</u>	<u>(4,394)</u>

6. Tax

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits arising in Hong Kong during the six months ended 30 September 2006. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Six months ended 30 September	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current - Hong Kong		
Charge for the period	9,269	11,398
Current - Elsewhere		
Charge for the period	3,090	5,372
Overprovision in prior periods	-	(29)
Deferred	<u>(175)</u>	<u>(699)</u>
Total tax charge for the period	<u>12,184</u>	<u>16,042</u>

7. Dividends

	Six months ended 30 September	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interim dividend - Nil (2005: HK1.8 cents per ordinary share)	<u>-</u>	<u>28,240</u>

8. Earnings per share attributable to ordinary equity holders

The calculation of basic earnings per share is based on the profit attributable to ordinary equity holders for the six months ended 30 September 2006 of HK\$6,412,000 (2005: HK\$45,210,000) and 1,568,911,394 (2005: 1,568,911,394) ordinary shares in issue during the period.

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity holders for the six months ended 30 September 2006 of HK\$6,412,000 (2005: HK\$45,210,000). The number of ordinary shares used in the calculation is the 1,568,911,394 (2005: 1,568,911,394) ordinary shares in issue during the period, as used in the basic earnings per share calculation and the weighted average number of 32,047,785 (2005: 46,569,788) ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

9. Debtors

Other than cash and credit card sales, the Group normally grants credit periods of up to 60 days to its trade customers.

An aged analysis of trade debtors as at the balance sheet date, based on the invoice date, is as follows:

	At 30 September 2006 (Unaudited) HK\$'000	At 31 March 2006 (Audited) HK\$'000
0 to 30 days	41,127	45,364
31 to 60 days	13,322	8,097
61 to 90 days	5,597	1,250
Over 90 days	<u>2,096</u>	<u>953</u>
	<u>62,142</u>	<u>55,664</u>

10. Trade creditors and accruals

Included in trade creditors and accruals is a trade creditors balance of HK\$80,392,000 (31 March 2006: HK\$61,402,000).

An aged analysis of trade creditors as at the balance sheet date, based on the invoice date, is as follows:

	At 30 September 2006 (Unaudited) HK\$'000	At 31 March 2006 (Audited) HK\$'000
0 to 30 days	63,575	52,800
31 to 60 days	8,476	6,223
61 to 90 days	3,150	1,969
Over 90 days	<u>5,191</u>	<u>410</u>
	<u>80,392</u>	<u>61,402</u>

INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend (2005: HK1.8 cents per ordinary share) for the period.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Performance

During the period under review, the market competition continued to intensify. An increased number of new entrants and a vast variety of choices for casual wear products undermined the Group's competitive edge in both Hong Kong and other core markets.

Notwithstanding this, the Group's value-for-money products were well received in the export markets. The export franchising business recorded satisfactory growth during the period under review.

The Group's consolidated revenue in the period under review declined by 3% to approximately HK\$970.0 million when compared to the same period last year (2005: HK\$997.1 million). Gross profit of the Group decreased by 3%, amounting to HK\$464.2 million (2005: HK\$478.5 million). The Group maintained the gross margin at 48%, similar to the level of the same period for last year (2005: 48%). Operating profit amounted to HK\$18.6 million, down by 70% as compared with that of the same period for last year (2005: HK\$61.3 million). Operating margin was 2%, representing a decrease of 4 percentage points as compared with that of the same period for last year (2005: 6%). Profit for the period attributable to equity holders recorded a negative growth of 86% at approximately HK\$6.4 million (2005: HK\$45.2 million).

Operating Efficiencies

Affected by the highly competitive retailing environment, same store sales declined by 9% (2005: flat growth) during the six months ended 30 September 2006. Net retail sales per sq. ft. reduced by 11% year-on-year to HK\$2,400 (2005: HK\$2,700).

The Group's operating expenses for the six months ended 30 September 2006 increased by 7% to HK\$451 million (2005: HK\$423 million), which accounted for 46% of the total revenue of the Group (2005: 42%). The rise in operating expenses was mainly due to the increase in rental and staff cost.

The Group has been diverting resources to strengthen its internal IT infrastructure, and the implementation of various systems is in progress. The Group anticipates that it will start realizing the benefits from these new systems and improved workflow in the next fiscal year.

Operating Cost Analysis

For the six months ended 30 September

	2006		2005		Change
	HK\$ million	% of total revenue	HK\$ million	% of total revenue	
Revenue	970	100%	997	100%	-3%
Selling and distribution costs	328	34%	306	30%	+7%
Administrative expenses	106	11%	99	10%	+7%
Other operating expenses	17	1%	18	2%	-5%
Total operating expenses	451	46%	423	42%	+7%

Business Review

Network Expansion

During the six months ended 30 September 2006, the Group opened a total of 18 new outlets, and the total number of outlets worldwide covering more than 20 countries reached 1,086 as at 30 September 2006 (2005: 959). Of these, 552 were directly managed outlets (2005: 493), while 534 were franchised outlets (2005: 466).

Geographically, the Group had 366 directly managed and 239 franchised outlets in Mainland China, 113 directly managed outlets in Taiwan, 8 directly managed outlets in Malaysia, 28 directly managed outlets in Singapore, 37 directly managed outlets in Hong Kong and 295 franchised outlets in 19 other countries, mainly in the Middle East and Southeast Asia. The Group also established a footprint in India. The total retail floor space of the Group increased by 7% to 653,900 sq. ft. (30 September 2005: 613,800 sq. ft.) as at 30 September 2006.

Brand Development

During the six months ended 30 September 2006, the Group appointed a renowned international designer to lead a comprehensive brand revamp program by injecting revolutionary shop décor concept to provide more enjoyable shopping experience. The Group also continued to carry out a variety of marketing activities and promotions such as the “Little Models Contest” and the Sesame Street in-store events, which received good market responses and effectively helped promote the brand image and market awareness of the Group.

Review of Operations

Regional performance analysis

	Hong Kong			Mainland China			Taiwan			Singapore			Malaysia			Total		
	2006	2005	Change	2006	2005	Change	2006	2005	Change	2006	2005	Change	2006	2005	Change	2006	2005	Change
For the six months ended 30 September																		
Retail																		
Net retail sales (in HK\$ million)	342	371	-8%	139	147	-5%	167	166	+1%	86	92	-7%	4	-	n/a	738	776	-5%
Operating profit/(loss) (in HK\$ million)	8	29	-72%	(19)	(10)	-90%	(20)	(6)	-233%	(2)	7	-129%	(1)	-	n/a	(34)	20	-270%
Operating margin (%)	2%	8%	-6% pts	-14%	-7%	-7% pts	-12%	-4%	-8% pts	-2%	8%	-10% pts	-25%	n/a	n/a	-5%	3%	-8% pts
Retail floor area (sq. ft.) (a)	131,600	112,300	+17%	309,500	312,400	-1%	173,600	156,600	+11%	30,200	31,400	-4%	9,000	1,100	718%	653,900	613,800	+7%
Net sales per sq. ft. (in HK\$) (b)	5,700	6,700	-15%	900	1,000	-10%	1,900	2,400	-21%	5,700	6,100	-7%	1,200	n/a	n/a	2,400	2,700	-11%
Same store sales growth (c)	-6%	-3%	-3% pts	-9%	+3%	-12% pts	-15%	-6%	-9% pts	-12%	+8%	-20% pts	n/a	n/a	n/a	-9%	0%	-9% pts
No. of outlets	37	33	+4	366	332	+34	113	99	+14	28	28	0	8	1	+7	552	493	+59
Franchise																		
Sales (in HK\$ million)	158	142	+11%	47	52	-10%	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	205	194	+6%
Operating profit (in HK\$ million)	47	42	+12%	5	11	-55%	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	52	53	-2%
Operating margin (%)	30%	30%	0% pt	11%	21%	-10% pts	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	25%	27%	-2% pts
No. of outlets	295	232	+63	239	234	+5	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	534	466	+68
Regional total																		
Sales (in HK\$ million)	511	524	-2%	202	215	-6%	167	166	+1%	86	92	-7%	4	-	n/a	970	997	-3%
Operating profit/(loss) (in HK\$ million)	54	59	-8%	(12)	1	-1,300%	(20)	(6)	-233%	(2)	7	-129%	(1)	-	n/a	19	61	-70%
Operating margin (%)	11%	11%	0% pt	-6%	0%	-6% pts	-12%	-4%	-8% pts	-2%	8%	-10% pts	-25%	n/a	n/a	2%	6%	-4% pts
No. of outlets	37(d)	33(d)	+4	605	566	+39	113	99	+14	28	28	0	8	1	+7	1,086	959	+127

Consolidated

Notes:

- As at 30 September
- On weighted average basis
- Some store sales growth is the comparison of sales of the same stores having full month operations in comparable periods
- No. of export/franchised outlets is not included

Key Operations Breakdown and Analyses

The Group operates on a global platform, with core markets located in Hong Kong, Mainland China, Taiwan and Singapore. During the period under review, Hong Kong remained the major source of income for the Group, representing 53% of its consolidated revenue, followed by Mainland China, Taiwan and Singapore, which accounted for 21%, 17% and 9%, respectively, of the Group's consolidated revenue.

Hong Kong

For the six months ended 30 September 2006, total revenue generated from Hong Kong amounted to HK\$511 million (2005: HK\$524 million), representing a decrease of 2% when compared with that of the same period last year. The retail and export franchising businesses were the major sources of revenue, and accounted for 36% and 16%, respectively (2005: 37% and 14%), of the Group's total revenue. The overall operating profit in Hong Kong decreased by 8% to HK\$54 million (2005: HK\$59 million), while operating margin was maintained at 11% (2005: 11%).

Market competition in the retail industry, especially in the apparel sector, continued to be keen in the period under review. The operating environment was marked by an increase in the number of competitors and a surge in supply of similar apparel and casual wear products, thereby reducing the Group's product competitiveness. Additional operational challenges relating to rising rental and staff costs also imposed pressure on the profitability of the Group.

In light of the difficulties faced in the retail operating environment, the Group adopted a pragmatic expansion approach. It added 4 directly managed outlets in Hong Kong in the six months under review, bringing the total number of outlets to 37 as at 30 September 2006 (2005: 33) and the total retail floor area to 131,600 sq. ft. (2005: 112,300 sq. ft.), representing a 17% year-on-year increase. Retail sales decreased by 8% to HK\$342 million (2005: HK\$371 million), while same store sales decreased by 6% (2005: 3% negative growth) during the review period. Operating profit of the Hong Kong retail market declined 72% to HK\$8 million (2005: HK\$29 million) with an operating margin of 2% (2005: 8%).

Despite the lackluster performance of the retail business in Hong Kong, the export franchising business maintained satisfactory growth. The Group opened 32 additional franchised outlets during the six months ended 30 September 2006, bringing the total number to 295 (2005: 232). Revenue for export franchising rose by 11% year-on-year to HK\$158 million (2005: HK\$142 million). Operating profit increased by 12% to HK\$47 million (2005: HK\$42 million), while the operating margin of 30% was maintained at last year's level (2005: 30%). The Middle East market continued to be the major source of export franchising sales with the addition of 8 outlets during the past six months. The Group commenced export franchising business and established 14 outlets in 11 cities in India during the period under review.

Mainland China

The Mainland China market, which is the second largest contributor to the Group's revenue, was less than promising in terms of profitability in the six months under review. The Group's directly managed outlets cover nine first-tier cities and its franchisees now sell "bossini" and "sparkle" brands in more than 100 second- and third-tier cities. The Group has offered a higher-end "bossini style" product line to capture the opportunities in the mid to upper market segment in Mainland China and the response has been encouraging.

The Group's Mainland China operation encountered a down-turn in sales and profitability in the first half of 2006/07 and thus deliberately slowed down the pace of its network expansion. The total number of directly managed outlets and franchised outlets increased modestly to 366 (2005: 332) and 239 (2005: 234), respectively, bringing the total number to 605 (2005: 566). Total retail floor area decreased to 309,500 sq. ft. (2005: 312,400 sq. ft.).

For the directly managed network, 247 (2005: 212) were "bossini" outlets and 119 (2005: 120) were "sparkle" outlets. For the franchise network, 184 (2005: 184) were "bossini" outlets and 55 (2005: 50) were "sparkle" outlets.

During the period under view, the market saw a substantial increase in apparel supply and a fast penetration of local players, which intensified competition in the mass casual wear sector. This, coupled with the decline in the Group's product competitiveness, has resulted in a weaker-than-expected performance of the Group's Mainland China operation for first half of the year, with a sales decrease of 6% year-on-year to HK\$202 million (2005: HK\$215 million).

Sales from directly managed outlets and franchised outlets dropped 5% and 10% to HK\$139 million (2005: HK\$147 million) and HK\$47 million (2005: HK\$52 million) respectively, and accounted for 14% (2005: 15%) and 5% (2005: 5%), respectively of the Group's consolidated revenue for the period under review. Same store sales for the retail business in Mainland China recorded a negative growth of 9% (2005: 3% positive growth).

The Group recorded an operating loss of HK\$12 million for the six months ended 30 September 2006 (2005: HK\$1 million operating profit) in Mainland China. Operating margin was negative 6% (2005: 0%).

Taiwan

Poor economic performance combined with the political instability continued to hamper consumers' purchasing power and confidence during the period under review, resulting in an extremely competitive market condition. The Group opened one directly managed outlet during the period under review, increasing the total number to 113 (2005: 99). Total retail floor area increased to 173,600 sq. ft. (2005: 156,600 sq. ft.).

Sales in Taiwan recorded a stable revenue of HK\$167 million (2005: HK\$166 million), but same store sales dropped by 15% (2005: drop of 6%). Operating loss amounted to HK\$20 million (2005: HK\$6 million).

Singapore

The Singapore market was highly competitive and saturated. The Group's performance in this market was also affected by the reduction in its product competitiveness. As at 30 September 2006, the total number of directly managed outlets was maintained at 28 (2005: 28), while the total retail floor area decreased by 4% to 30,200 sq. ft. (2005: 31,400 sq. ft.).

For the six months ended 30 September 2006, retail sales in Singapore declined 7% year-on-year to HK\$86 million (2005: HK\$92 million) while same store sales dropped 12% (2005: 8% growth). The Group recorded an operating loss of HK\$2 million for the period under review (2005: HK\$7 million operating profit) with negative operating margin of 2% (2005: 8% positive margin).

Malaysia

For the period under review, the Malaysia operation had a consistent and stable performance with 8 directly managed outlets (2005: 1) in operation.

Change of Inventory Provision Policy

The Group revised its inventory provision policy during the period under review. If the old inventory provision policy were applied for the current period, profit for the period attributable to equity holders would be HK\$5.7 million less. The Group anticipates that this revision of inventory policy will facilitate better inventory and margin management.

Liquidity and Financial Resources

As at 30 September 2006, the Group's cash and bank balances amounted to HK\$172 million (31 March 2006: HK\$244 million), after the payment of a final dividend of HK\$28.2 million in September 2006 for the last fiscal year. The Group's current ratio stood at a healthy level of 1.99 (31 March 2006: 2.35) and the total liabilities to equity ratio was 60% (31 March 2006: 46%). The Group had bank borrowings of HK\$40 million (31 March 2006: nil) payable within one year.

The Group managed its inventories at a stable level and had improved its inventory turnover[#] to 66 days for the period under review as compared with 72 days for the same period ended 30 September 2005 (31 March 2006: 42 days). Return on equity ratio decreased to 2% (31 March 2006: 18%).

Inventory held at 30 September 2006 divided by annualized revenue times 365 days

Contingent Liabilities

During the period under review, the Group had no material changes in contingent liabilities since 31 March 2006.

Human Capital

As at 30 September 2006, the Group employed 4,300 full-time staff (2005: 4,300) or equivalent in Hong Kong, Macau, Mainland China, Taiwan, Singapore and Malaysia. It employs a performance-based remuneration system and offers benefits such as insurance, retirement schemes, share option scheme, as well as discretionary performance bonuses.

Outlook

Going forward, with a number of measures in place to strengthen internal management, enrich product design and offering, enhance brand image and to provide a unique shopping experience, the Board is cautious yet optimistic about the Group's future development in the medium- to long-term. The Group will continue to maintain a pragmatic expansion strategy with a strong emphasis on profitability and efficiency. It targets to open 20 outlets net in the second half of this fiscal year, which include the addition of 3 retail outlets in Hong Kong, 25 franchised outlets for the export business, 2 retail outlets in Singapore and 2 retail outlets in Malaysia, and the reduction of 1 retail outlet and 3 franchised outlets in Mainland China as well as 8 retail outlets in Taiwan.

The outlook for the Hong Kong retail sector in the second half of this fiscal year looks mixed with both opportunities and challenges. Achieving sustainable growth for both top and bottom lines has always been a key objective of the Group. It will try its utmost to implement proactive strategies to strengthen its product competitiveness and enhance its brand image.

The Group has been receiving good market response to its branding and promotional initiatives. It will continue to ride on this successful formula to further enhance the brand image and its market awareness through a variety of marketing activities, campaigns and events.

On the product front, the Group plans to allocate more resources by adding experienced designers to design and maintain the existing "basic" and "easy to carry" styles with an appropriate but not excessive touch of fashion, so as to pave the way for broader and deeper penetration into the mass market. To further enrich its product portfolio in order to fulfill its customers' demand and diversify revenue streams, the Group will also extend and revitalize its product lines with new and innovative product designs and functional fabrics. In the next fiscal year, the Group will increase the frequency of product launches from 8 collections to 12 collections per annum, to stimulate consumption desire with new product launch every month.

Striving for excellence in maintaining its leading position in the chosen market segment, the Group will roll out a comprehensive brand revamp program, which comprises an injection of a revolutionary shop décor concept to provide a brand-new shopping environment and experience for customers. An outlet in Mong Kok will be expanded and re-constructed as a four-storey flagship store which is scheduled to be opened around end of this fiscal year. The new concept will be replicated subsequently and progressively in other regions to complement the new brand-building direction.

With cost effectiveness and operating efficiencies set as its priorities, the Group is investing HK\$23 million in international information technology systems to keep in pace with worldwide development. These include the implementations of a world-class financial management system and a warehouse management system, and an upgrade of the point-of-sales system that will enhance internal operations and workflow, inventory management, merchandise planning, logistics controls and forecasting, laying a solid foundation for the Group's long-term growth. The Group will also shorten the production cycle by fostering closer collaboration with suppliers. Synergies from these integrated systems will enable the Group to respond quicker to market changes and demands, the benefits of which are expected to be realized in the next fiscal year.

The Group will continue to exercise caution in capturing any synergistic expansion opportunities in new markets. It plans to enter Korea and Syria in the next fiscal year. The export franchising business is expected to continue to be a stable earnings contributor, benefiting from the Group's culture and practices to develop win-win collaboration with its franchisees and business partners.

The Group plans to launch its first flagship store in the Mainland China to refresh its brand image in alignment with the brand revamp program in Hong Kong. Although the Mainland China market is vibrant, the Group will closely monitor the developments in the retail sector in Mainland China and adjust its pace of development. Improvement measures will be implemented for the "bossini" and "sparkle" brands to enhance their competitiveness with a view to restoring profitability to the Group. Products under "bossini style" introduced by a newly formed design team have received encouraging market response and are expected to bring a positive impact to the business in Mainland China in the near future. The Group is optimistic and believes that there will be an up-turning point for this market soon.

Taiwan's retail market is expected to remain sluggish due to political instability. The Group will maintain its existing strategies and minimize outlet expansion in Taiwan in the second half of 2006/07. With appropriate consolidation of its existing network, the Group anticipates considerable improvements for its Taiwan operation in the near future.

The Group is optimistic about its steady growth in the Singapore market and will keep abreast of market trends by reviewing its business from time to time and making adjustments wherever necessary. The Group believes that it will achieve a turnaround in this market in the second half of 2006/07.

Going forward, the Group's growth momentum will be largely driven by organic growth, mainly through market expansion and productivity enhancements, with businesses in export franchising and Mainland China as its growth engines. The Group remains positive about the medium- to long-term growth potential.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

AUDIT COMMITTEE

The Company has an audit committee which was established in compliance with Rule 3.21 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. It has formulated its written terms of reference in accordance with the provisions set out in Appendix 14 – Code on Corporate Governance Practices (the "CG Code") of the Listing Rules. The audit committee has reviewed the unaudited interim financial results for the six months ended 30 September 2006. The audit committee comprises four Independent Non-executive Directors of the Company, namely Ms. LEUNG Mei Han, Mr. Raymond LEE Man Chun, Mr. WONG Wai Kay and Prof. SIN Yat Ming.

CODE ON CORPORATE GOVERNANCE PRACTICES

Pursuant to the special resolution passed at the annual general meeting of the Company held on 28 August 2006 to amend the bye-laws of the Company to effect that, including but not limited to, every Director (other than any Director holding office as Chairman or Managing Director), including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years.

The Company was in compliance with the code provisions as set out in the CG Code during the six months ended 30 September 2006, except for the following deviations:

- a. The Company does not have a separate Chairman and Chief Executive Officer and Mr. LAW Ka Sing currently holds both positions. The Board considers that the present structure provides the Group with strong and consistent leadership and allows for more effective planning and execution of long-term business strategies. It also enables the Group to make and implement decisions promptly and efficiently to the best benefit of the Group and its shareholders.

- b. The Chairman and the Chief Executive Officer of the Company are not subject to retirement by rotation. The Board considers that the continuity of the Chairman and Chief Executive Officer of the Company and his leadership are crucial in maintaining the stability of the Group's business operations.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as the Company's code of conduct for dealings in securities of the Company by the Directors. Based on specific enquiry of the Company's Directors, the Directors have complied with the required standard set out in the Model Code, throughout the accounting period covered by the interim report.

PUBLICATION OF INTERIM REPORT ON THE STOCK EXCHANGE'S WEBSITE

2006/07 interim report of the Company containing all the information required by the Listing Rules will be published on the website of The Stock Exchange of Hong Kong Limited and despatched to shareholders in due course.

By Order of the Board
LAW Ka Sing
Chairman

Hong Kong, 7 December 2006

As at the date of this announcement, the Board comprises three Executive Directors, namely Mr. LAW Ka Sing, Ms. CHAN So Kuen and Mr. Kenny YEUNG Kam Tai and four Independent Non-executive Directors, namely Ms. LEUNG Mei Han, Mr. Raymond LEE Man Chun, Mr. WONG Wai Kay and Prof. SIN Yat Ming.

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