# I.T

ANNUAL REPORT

05/06

STOCK CODE: 999

I.T LIMITED ANNUAL REPORT 05/06

# TABLE OF CONTENTS

# TREND S

**I.T is well established as a**

# SETTER

in fashion apparel retail market in Hong Kong with stores in the PRC, Taiwan, Macau and Malaysia. The Group has an extensive retail network of more than 300 stores across Greater China with staff around 1,300.

fa

# I.T is not just a ashion icon

# WE ACTUALLY LI

Through the multi-brand and multi-layer business model, we offer a wide range of fashion apparel with

# VE FOR FASHION

different fashion concepts, sold at varying retail price points and targeted at different customer groups.

I.T carries apparel from established and up-and-coming internatio

# Alexa

nal designer's brands, in-house brands and licensed brands. International brands include

# Balenciaga

## Junya Watanabe

## A Bathing Ape

# Maison Martin Margiela

# Miu Miu

## Jil Sander

# nder McQueen

## Tsumori Chisato

## Ann Demeulemeester

# D & G

# Dior Homme

**In-house brands include http://www.
fingercroxx. Licensed brands include
Palmer, MLB, Underground, Hyoma ar
this, the Group has established Frenc
Hong Kong and the PRC through joint
In an attempt to accelerate the expan
the Group formed a joint venture, G.S
with Glorious Sun Enterprises Limitec
in-house and licensed brands. Furthe
another joint venture to expand the o
Taiwan as well.**

izzue.com, b+ab, 5cm and
i.t loves mickey, Arnold
nd Baby Jane. In addition to
ch Connection stores in
ventures with French Connection.
nsion into the PRC,
-i.t Limited (“GSIT”),
d to sell international,
ermore, GSIT entered into
peration to cover

# I.T was listed on the Main Board of The Stock Exchange of Hong Kong Limited on

# 04.03.2005

## Executive Directors

Mr. SHAM Kar Wai
Dr. LO Wing Yan, William, J.P.
Mr. SHAM Kin Wai
Mr. CHAN Wai Mo, Alva

# DIRECTORS

### Non-Executive Director

Dr. YEUNG Chun Kam, Charles S.B.S. J.P.

### Independent Non-Executive Directors

Mr. CHAN Mo Po, Paul
Mr. WONG Wai Ming

### Company Secretary

Mr. CHAN Wai Mo, Alva

### Qualified Accountant

Mr. KWONG Kwok Yu, Gary

### Registered Office

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

### Head Office and Principal Place of Business in Hong Kong

31/F Tower A Southmark
11 Yip Hing Street
Wong Chuk Hang
Hong Kong

### Legal Advisors

Deacons (as to Hong Kong law)
Conyers Dill & Pearman
(as to Bermuda law)

### Auditors

PricewaterhouseCoopers,
Certified Public Accountants

### Principal Bankers

Hang Seng Bank Limited
The Hongkong and Shanghai Banking Corporation Limited
Standard Chartered Bank (Hong Kong) Limited

### Principal Share Registrar

The Bank of Bermuda Limited

### Hong Kong Branch Share Registrar

Computershare Hong Kong Investor Services Limited
1715-16, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong
Tel: 2862-8628

### IR Contact

iPR Ogilvy Limited
Tel: 2136-6185
Fax: 3170-6606
Email: info@iprogilvy.com
or
Miss Josephine Lam
Tel: 3199-1671
Fax: 2237-6771
Email: josephinel@ithk.com

### Corporate Website

www.ithk.com

# I.T POSITI

**Greater China Store Coverage**
(As at 28 February 2006)
Hong Kong 157 stores (including 5 French Connection stores)
The PRC 122 stores (operated by GSIT, 72 stores directly managed and 50 stores operated by franchisees)
Taiwan 23 stores (operated by GSIT)
Malaysia 4 stores (operated by a franchisee)

**Brand Portfolio**
Over 200 International Designer's Labels
Over 10 In-house and Licensed Brands

**Diversified Clientele**
Offering a wide range of fashion apparel at varying retail price points and targeted at different customer groups

**Multi-Brand Mega Store Concept**
Group several brands in a sizable retail location and this strategy applies to both Hong Kong and the PRC markets

# ONING

# MESSAGE FROM THE CHAIRMAN

Dear Stakeholders,

I am delighted to report the annual results of I.T Limited for the fiscal year ended 28 February 2006.

Under our multi-brand, multi-layer business model, we offer apparel with different fashion influences to a wide range of customers with varying spending power. Building on this model, we see tremendous expansion opportunities in all directions.

As a fashion icon and trend setter in the industry, we are a partner of choice in the Greater China region. The demand for high-end luxury products, especially in the PRC, is phenomenal, and I.T will, through co-operating with well-established distributors, up-and-coming international brands and designer labels, further gear up to tap opportunities in the luxury apparel segment and reinforce ourselves as one of the leading distributors in the region.

I.T has been expanding its retail network significantly in Hong Kong and, through GSIT, in the PRC over the past two years. The multi-brand mega store concept has been a success. Such mega stores serve as incubators for our in-house and licensed brands and for up-and-coming international labels and also provide leverage to potential future "spin-offs" for single brand stores. We will continue to replicate this concept and provide a pleasurable ambiance and a variety of fashion apparel to our customers in both regions.

We will continue to enrich our brand portfolio, including launching new in-house and licensed brands, to capture new customer segments.

Facing a wider market going forward, we will expand our distribution network hand-in-hand with our business partners to accelerate the pace of growth. In addition to our directly managed retail outlets, we will leverage on the strengths of our partners to develop the wholesale business through franchising our in-house and/or licensed brands to markets outside Hong Kong and the PRC.

With all the new moves, the year 2006/07 will be a year of cultivation, during which we will set in place a strengthened management team, an extended business network, an ever-increasing brand portfolio and a team of quality staff. Time and resources will be invested to cater for this future growth and to reap the fruits of success in the years to come.

May I take this opportunity to thank our shareholders and customers for their continuous support in I.T. I would also like to thank our business partners and suppliers, our management team and our staff who have grown with us over the years. We will continue to fulfill our mission to shape the fashion scene in Greater China.

**Sham Kar Wai**
Chairman

29 May 2006

# COMPANY FACTSHEET AT A GLANC

| | |
|---|---|
| Listing Date: | 4 March 2005 |
| Stock Code: | 999 |
| Nominal Value: | HK$0.10 per share |
| Market Capitalisation as at 30 May 2006: | HK$1.371 billion |
| Free Float: | Approximately 35% |
| Financial Year: | End of February |

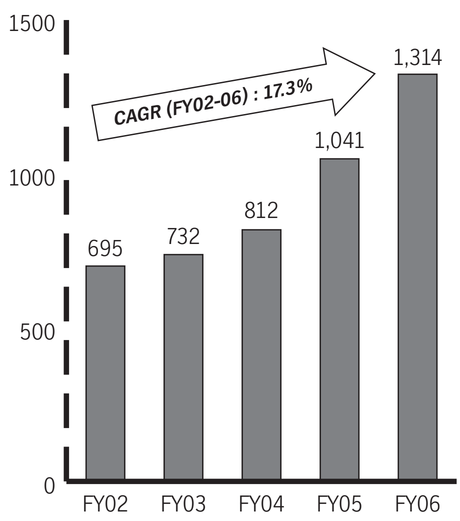
T

CE

# FINANCIAL HIGHLIGHTS

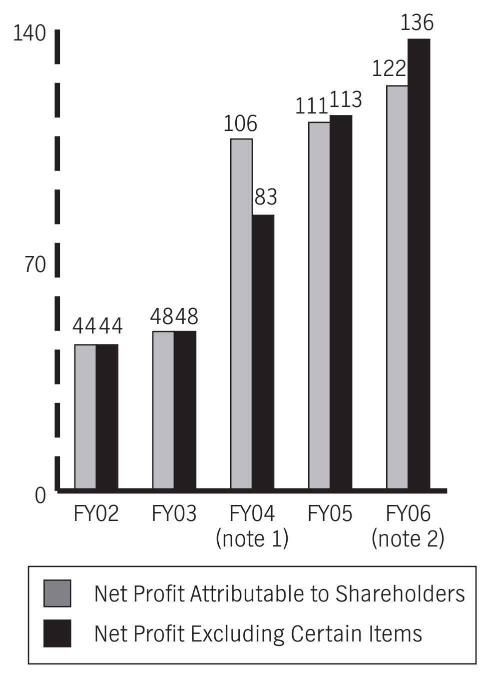
- Sales reached HK$1,314.4 million, increased by 26.3%
- Gross profit was HK$774.2 million, increased by 22.0%
  Due to expansion in wholesale business and shift in product mix, gross profit margin reduced to 58.9% (2005: 60.9%)
  Gross profit margin from retail operation reduced to 61.1% (2005: 62.3%)
- EBITDA was HK$196.8 million, increased by 10.3%
  EBITDA (excluding the share-based compensation) as a percentage of sales was reduced to 15.0% (2005: 17.1%)
- Net profit was HK$122.3 million, increased by 9.8% and EPS was HK$0.12
  Application of new accounting standard has resulted in a share-based compensation of HK$13.9 million charged to income statement
  Excluding the share-based compensation, net profit would have been HK$136.2 million, increased by 20.8%, and EPS would have been HK$0.13
- Sales of apparels from international brands increased by 33.0%, accounted for 44.0% (2005: 41.8%) of sales. Sales of apparels from in-house and licensed brands increased by 18.6%, accounted for 50.7% (2005: 54.0%) of sales
- Net sales footage in Hong Kong (excluding French Connection stores operated by FCUK IT Company, a 50% owned joint venture) increased by 24.6% from 236,000 sq. ft. at 28 February 2005 to 294,000 sq. ft. at 28 February 2006
- Rental expenses as a percentage of sales increased to 21.5% (2005: 20.2%)
- Staff cost (excluding share-based compensation in respect of Pre-IPO share options and share options) as a percentage of sales maintained at 16.5% (2005: 16.4%)
- Other operating overheads (excluding rental expenses, staff costs, share-based compensation and depreciation) as a percentage of sales improved to 6.8% (2005: 7.3%)
- Proposed final dividend was HK4.8 cents per share

**TURNOVER TREND FY02-06 (HK$ MILLION)**




CAGR – Compound Annual Growth Rate

**NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS (HK$ MILLION)**




Certain items referred to:–
Note 1 – a HK$13.3 million write-back on provision of inventory and a gain of HK$9 million on disposal of subsidiaries
Note 2 – a HK$13.9 million share-based compensation

| **Operating Results (In HK$'000)** | **FY06** | **FY05** | **Change(%)** |
|---|---|---|---|
| Sales | 1,314,443 | 1,041,017 | +26.3 |
| Profit Attributable to Shareholders | 122,314 | 111,440 | +9.8 |
| Profit Attributable to Shareholders, Excluding the Share-based Compensation (1) | 136,218 | 112,733 | +20.8 |

| **Financial Position (In HK$'000)** | **FY06** | **FY05** | **Change(%)** |
|---|---|---|---|
| Net Cash (2) | 425,631 | 397,632 | +7.0 |
| Net Current Assets | 546,706 | 483,983 | +13.0 |
| Shareholders' Equity | 747,266 | 599,111 | +24.7 |

| **Per Share Data** | **FY06** | **FY05** | **Change(%)** |
|---|---|---|---|
| EPS–Basic (HK$) | 0.12 | 0.16 | –25.0 |
| EPS–Diluted (HK$) | 0.12 | 0.15 | –20.0 |
| Dividend Per Share (HK cents) | 4.8 | 4.3 | N/A |
| Book Value Per Share (HK$) (3) | 0.72 | 0.60 | +20.0 |

| **Key Statistics** | **FY06** | **FY05** | **Change** |
|---|---|---|---|
| Inventory Turnover (Days) (4) | 84 | 75 | +9 days |
| Capital Expenditure (5) (in HK$ million) | 110.7 | 68.5 | +42.2 |
| Gross Margin on Retail Operation (%) | 61.1 | 62.3 | –1.2 |
| Net Profit Margin (%) (6) | 10.4 | 10.8 | –0.4 |
| Current Ratio (7) | 5.4 | 3.1 | N/A |
| Return on Equity (%) (8) | 18.2 | 28.2 | N/A |

Notes:

1. Application of new accounting standard, HKFRS 2, Share-based Payment, in the year ended 28 February 2006 has resulted in a share-based compensation of HK$13.9 million (2005: HK$1.3 million) charged to income statement.
2. Cash and bank deposits and pledged bank deposits less bank borrowings/loans and convertible note.
3. Book value refers to shareholders' equity.
4. Average of the inventory of the beginning of the year and the end of the year divided by cost of sales times number of days of a year.
5. Additions of furniture and equipment, purchase of intangible assets and additional investment in a jointly controlled entity during the year.
6. Net profit margin is calculated based on adjusted net profit (excluding the HK$13.9 million (2005: HK$1.3 million) share-based compensation) divided by sales during the year.
7. Current assets divided by current liabilities.
8. Net profit for the year divided by average of the shareholders' equity of the beginning of the year and the end of the year.

# I.T IS

# FASHION

## shaping the fashion scene in Greater China

# MANAGEMENT DISCUSSION AND ANALYSIS

## Business Review

The retail environment for the year ended 28 February 2006 was a mixed year. The economy in Hong Kong was recovering, unemployment rate was declining and there were expectations of increased economic activities following the opening of a major theme park in Hong Kong. As a result of the positive economic environment, rent and wages increased. However, the retail sentiment was subsequently undermined by the swift and continued increase in interest rate which is believed to have affected consumer spending power, unfavourable weather and less than expected Mainland travelers to Hong Kong.

In line with its plan, the Company added a total of 58,000 sq. ft. of new sales area during the year ended 28 February 2006. As at 28 February 2006, the Company's total sales area was 294,000 sq. ft. (excluding French Connection stores operated by FCUK IT Company, a 50% owned joint venture), representing an increase of 24.6% compared to the total sales area of 236,000 sq. ft. as at 28 February 2005. Sales from retail operation increased by 23.2% to HK$1,245.4 million for the year ended 28 February 2006 (2005: HK$1,011.3 million).

The "I.T" in Festival Walk and Pacific Place added 9,000 sq. ft. more sales area for the sale of high end international brands. The comparable stores sales of "I.T" recorded a 15.3% growth as compared to the year ended 28 February 2005. Sales of products of international brands increased by 33.0% to HK$578.9 million (2005: HK$435.1 million), which accounted for 44.0% (2005: 41.8%) of total sales. Sales of products of in-house and licensed brands increased by 18.6% to HK$666.5 million (2005: HK$562.1 million), which accounted for 50.7% (2005: 54.0%) of total sales. The percentage shift in the sales of international brands against in-house and licensed brands was mainly attributable to the increase in new sales footage for the international brands. The prolonged increase in interest rate might have also weakened the purchasing power of the in-house and licensed brands customer group. The overall comparable stores sales of the Company decreased by 2.6% as compared to the year ended 28 February 2005.

Gross profit increased by 22.0% to HK$774.2 million in the year ended 28 February 2006 (2005: HK$634.5 million). The gross profit margin of retail operation slightly declined to 61.1% (2005: 62.3%). The decrease in gross profit margin was mainly due to the shift in product mix to international brands, which comparatively have a lower margin than in-house and licensed brands, and a slightly deeper discount being offered from the in-house and licensed brands.

Rental expenses (including rental charge, rented premises management fee, rates and government rent) increased by 34.4% to HK$282.5 million for the year ended 28 February 2006 (2005: HK$210.2 million), which was in line with the increase of weighted average sales area for store in operation during the year. The weighted average sales footage for stores in operation for the year ended 28 February 2006 increased by 35.8% to 273,000 sq. ft. (2005: 201,000 sq. ft.). As a percentage of total sales, rental expenses slightly increased to 21.5% (2005: 20.2%).

Resulting from the increase in sales footage, staff cost (excluding the share-based compensation in respect of Pre-IPO share options and share options) for the year ended 28 February 2006 increased by 27.4% to HK$217.2 million (2005: HK$170.5 million). As a percentage of total sales, staff cost (excluding share-based compensation) was maintained at 16.5% (2005: 16.4%).

Other operating overheads (excluding rental expenses, staff costs, share-based compensation and depreciation) as a percentage of total sales improved to 6.8% (2005: 7.3%).

During the year ended 28 February 2006, share-based compensation of HK$13.9 million (2005: HK$1.3 million) was charged to the income statement. After accounting for the aforementioned share-based compensation, the net profit for the year ended 28 February 2006 was HK$122.3 million (2005: HK$111.4 million), an increase of 9.8%. Excluding the share-based compensation, the net profit of the year ended 28 February 2006 would have increased by 20.8% to HK$136.2 million (2005: HK$112.7 million).

Net sales of G.S-i.t Limited ("GSIT") (50% owned joint venture) increased by 126.8% to HK$210.2 million in the year ended 28 February 2006 (2005: HK$92.7 million), as a result of increased brand recognition of I.T in the PRC market. A total of 60,000 sq. ft. new sales footage was added in the PRC during the year, representing an increase of 48.8% as compared to the previous year. The multi-brand mega store concept was well received by customers and franchisees and therefore GSIT continued to apply this concept in building its distribution network during the year. Out of the 60,000 sq. ft. new sales footage that was added, 46,000 sq. ft. was opened as directly managed multi-brand mega stores. Multi-brand stores housing the Company's in-house/licensed brands were also opened in Shenyang, Nanjing and Macau by franchisees during the year ended 28 February 2006. As at 28 February 2006, GSIT had 122 points of sales (including 11 French Connection stores, operated by a 50% joint venture with French Connection) with a sales footage of 183,000 sq. ft. in the PRC (2005: 93 stores (including one French Connection store) with a sales footage of 123,000 sq. ft.) and 23 stores in Taiwan (2005: 12 stores).

### Operating Profit and Earnings (Excluding the Share-Based Compensation) Before Interest, Taxation, Depreciation and Amortisation Expenses (EBITDA)

EBITDA for the year ended 28 February 2006 increased by 10.3% to HK$196.8 million (2005: HK$178.5 million). Because of the decrease in gross profit margin, EBITDA as a percentage of total sales decreased to 15.0% for the year ended 28 February 2006 (2005: 17.1%).

Operating profit decreased by 0.8% to HK$148.0 million for the year ended 28 February 2006 (2005: HK$149.3 million). Excluding the share-based compensation, operating profit for the year ended 28 February 2006 would have increased by 7.5% to HK$161.9 million (2005: HK$150.6 million).

### Share of Results of Jointly Controlled Entities

Share of profit of jointly controlled entities was HK$4.2 million (2005: loss of HK$8.9 million).

### Cash Flows

Net cash generated from operating activities was HK$137.3 million for the year ended 28 February 2006 (2005: HK$140.2 million). Net cash used for investing activities was HK$134.1 million (2005: HK$162.6 million). For the year ended 28 February 2006, HK$77.1 million (2005: HK$60.5 million) was used for additions to furniture and equipment and HK$41.5 million (2005: HK$42.0 million) was used to finance the operation of jointly controlled entities. Net cash used for financing activities for the year ended 28 February 2006 was HK$140.3 million (2005: net cash inflow of HK$531.0 million), HK$71.4 million was received from issuance of shares for the year ended 28 February 2006, HK$44.6 million of dividends were paid to shareholders and long-term bank loans of HK$145.0 million were repaid.

### Inventory

Inventory turnover days for the year ended 28 February 2006 were 84 days (2005: 75 days). Due to the unfavourable weather and the sluggish retail sentiment, there was a variance to the budgeted sales growth and the inventory turnover days increased.

### Liquidity and Capital Resources

As at 28 February 2006, total cash and bank balances amounted to HK$425.6 million (2005: HK$579.7 million) and the total liabilities were HK$135.8 million (2005: HK$288.7 million). As at 28 February 2006, shareholders' equity was HK$747.3 million (2005: HK$599.1 million).

As at 28 February 2006, the Group had aggregate banking facilities of approximately HK$312.5 million (2005: HK$369.1 million) for overdrafts, bank loans and trade financing, of which approximately HK$235.1 million (2005: HK$122.2 million) was unutilised.

As at 28 February 2006, charges on assets amounted to HK$0.75 million, which was the bank deposit pledged for letters of guarantee issued by banks in lieu of rental deposits (2005: HK$54.9 million, comprising bank deposits of HK$17.8 million and inventories of HK$37.1 million held under trust receipts bank loan arrangements).

The Company had no bank borrowings as at 28 February 2006 (2005: HK$182.1 million). The current ratio as at 28 February 2006 was 5.4 (2005: 3.1).

### Contingent Liabilities

As at 28 February 2006, letters of guarantee issued by banks in lieu of rental deposits amounted to HK$16.6 million (2005: HK$12.2 million).

## Use of Proceeds

The proceeds from the issuance of new shares by the Company in March 2005, net of listing expenses, were approximately HK$514.9 million. For the year ended 28 February 2006, net proceeds were utilised in the following manner:

| | **Per Prospectus** HK$'000 | **Amount Utilised** HK$'000 | **Balance as at 28 February 2006** HK$'000 |
|---|---|---|---|
| Expansion of retail network in Hong Kong | 320,000 | 86,500 | 233,500 |
| Expansion of retail network in the PRC and Taiwan | 90,000 | 20,000 | 70,000 |
| Repayment of bank loans | 95,000 | 95,000 | – |
| Working capital | 9,900 | 9,900 | – |
| | 514,900 | 211,400 | 303,500 |

The unutilised balance was placed as short-term bank deposits in commercial banks in Hong Kong.

## Employment, Training and Development

The Group had a total of 1,283 employees as at 28 February 2006 (2005: 1,279). Training courses were regularly organised for employees to enhance technical and product knowledge as well as to update industry quality standards. The Group offered competitive remuneration packages to its employees, including basic salaries, allowances, insurance and bonuses. In addition, share options were granted based on individual performances.

## Future Outlook

To further enhance the Company's brand portfolio and competitiveness, the Company will continue to introduce attractive and high valued imported brands, such as A Bathing Ape, Beams T and Baby Jane. New in-house brands, marketed within a more affordable price range with strong value for money attributes, are expected to be launched both in Hong Kong and in the PRC in winter 2006, which would further broaden the Company's customer base.

The multi-brand mega store concept has been a successful business model for the Group. It not only provides a pleasurable retail environment and product variety to customers, but also allows such stores to be an anchor tenant within the respective shopping malls or locations which enables the Company to enjoy more competitive rental terms. With the success of mega multi-brands store in apm, Cleveland Street and Festival Walk in Hong Kong and Oriental Plaza in Beijing and Plaza 66 in Shanghai, the Company intends to further refine this concept in Hong Kong, Beijing and Shanghai to set it as a model for other cities in the PRC.

The Board believes that the increase in rental expenses will be moderate although staff costs are expected to increase in the coming years. Despite signs of improvement in the domestic economy, oil prices and interest rates are expected to continue its rising trend. In addition, the supply of suitable retail locations is becoming more limited. Based on these factors, the Company expects to adopt a comparatively moderate expansion pace in Hong Kong for the year ending 28 February 2007. Approximately 30,000 to 40,000 sq. ft. of new sales area is expected to be added in the coming year.

The Company has obtained a Sub-Licence to open and operate the first Saks Fifth Avenue department store in the PRC. Saks Fifth Avenue sells distinctive luxury fashion men's, women's and children's wearing apparel, shoes and accessories, cosmetics and perfume, jewellery, home furnishings, gift items and other high end merchandises. Demand for luxurious products continues to rapidly increase in the PRC. Through the opening and operation of the first Saks Fifth Avenue department store in the PRC, the Company will be able to gear up into the market of distributing well known and luxurious high end international labels in the PRC.

The Company is vigorously expanding its presence in other regions. Three "http://www.izzue.com" stores were opened in Saudi Arabia in April 2006. "http://www.izzue.com" and "5cm" will be launched in Thailand in June 2006. More stores will be opened progressively in these two countries in the coming years. Discussion is underway with other potential franchisees in the South East Asia. The Company believes that a meaningful wholesale business will enhance the overall margin and brand recognition and is therefore dedicated to further expanding its franchising network.

GSIT will continue to expand its presence in the PRC. The distribution network in Beijing will be further strengthened in 2006 and 2007, to capitalise on the anticipated rise in sales as a result of the 2008 Olympics in Beijing. GSIT expects to also extend its direct retail network outside Beijing, Shanghai and Hangzhou, by opening a 10,000 sq. ft. "I.T" in Xian in June 2006 and a 8,000 sq. ft. multi-brand store in Shekou, Shenzhen in July 2006 respectively. Furthermore, GSIT will become the sole distributor of Kenzo, LVMH group, and take over its distribution network in the PRC. At least eight Kenzo free-standing stores/concession counters will be added in GSIT's directly managed distribution network by September 2006. GSIT will aggressively introduce well-established high end international brands and designers' labels to the market and strengthen its brand portfolio as well as its distribution network. Despite the competitiveness of the retail market in Taiwan, GSIT expects to introduce more up-and-coming brands to expand its market share in Taiwan.

# BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGE-MENT TEAM

## Executive Director

**Mr. SHAM Kar Wai**
Aged 39, is an Executive Director, the Chairman and the Chief Executive Officer of the Company. He founded the Group in November 1988 with his brother, Mr. Sham Kin Wai, and is responsible for the overall management and strategic development of the Group. Mr. Sham Kar Wai has over 17 years of experience in the fashion retail industry and has established an extensive network of contacts at international design houses during his time with the Group.

**Dr. LO Wing Yan, William, J.P.**
Aged 45, is an Executive Director, the Vice Chairman, Managing Director and the Chief Financial Officer of the Company since May 2006 and he is responsible for overseeing different management and operational aspects of the Group, including business strategy formulation, corporate development projects such as mergers and acquisitions, financial management and control, media and investor relations, corporate governance enforcement as well as assisting the Chief Executive Officer in various operational and organisation development issues. Dr. Lo was an Independent Non-executive Director of the Company since October 2004. He is also an independent non-executive director of a number of publicly listed companies, including Nam Tai Electronics, Inc., and the Hong Kong Stock Exchange listed Softbank Investment International (Strategic) Ltd., Ocean Grand Chemicals Holdings Ltd., Superdata Software Holdings Ltd., Panorama International Holdings Ltd. and Varitronix International Limited. He holds a Master's degree in Molecular Pharmacology and a Doctorate in Genetic Engineering, both of which are obtained from the University of Cambridge in England. He was also a Commonwealth Scholar, a Croucher Foundation Fellow (H.K.) and a Bye-fellow of Downing College, the University of Cambridge. In 1996, the renowned global organisation World Economic Forum selected Dr. Lo as a "Global Leader for Tomorrow". In 1999, he was appointed as a Justice of the Peace (J.P.) by the Hong Kong SAR Government. In 2003, he was appointed as a Committee Member of Shantou People's Political Consultative Conference. Dr. Lo is an Adjunct Professor of The School of Business of Hong Kong Baptist University and the Faculty Business of Hong Kong Polytechnic University. Before acting as an Executive Director of the Company, Dr. Lo was an executive director of China Unicom Ltd., which is listed on the Stock Exchange of Hong Kong and New York, for four years.

**Mr. SHAM Kin Wai**
Aged 36, is an Executive Director. Since founding the Group with his brother, Mr. Sham Kar Wai, in November 1988, his principal focus has been on merchandising and product design for the Company. As the Chief Creative Officer of the Company, Mr. Sham Kin Wai has over 17 years of experience in the fashion retail industry and is responsible for the creative and aesthetic aspects of the Group's business. He has also been instrumental in creating the interior design concepts for the stores.

**Mr. CHAN Wai Mo, Alva**
Aged 50, is an Executive Director. He joined the Group in March 2003 and is responsible for the Group's operations in the PRC and Taiwan. Mr. Chan has over 13 years of experience in fashion retailing in Asia, of which seven years have been spent on business development in the PRC. Mr. Chan holds a Master's degree in Business Administration from The State University of New York and is a Member of the American Institute of Certified Public Accountants and a Fellow Member of the Hong Kong Institute of Certified Public Accountants. Mr. Chan was an executive director of Esprit Holdings Limited for seven years, and China Resources Enterprise Limited for three years, which are both listed on the Hong Kong Stock Exchange, before joining the Group.

## Non-Executive Director

**Dr. YEUNG Chun Kam, Charles, S.B.S. J.P.**
Aged 59, was appointed a Non-Executive Director in October 2004. Dr. Yeung is also the founder and chairman of the Glorious Sun Group and has over 30 years of experience in the garment industry. He was awarded the "Young Industrialist Award of Hong Kong" in 1991 and was conferred an honorary doctorate degree by the China Textile University in 1993 and an honorary fellow by The Professional Validation Council of Hong Kong Industries in 2002. Dr. Yeung is a Member of the National Committee of the Chinese People's Political Consultative Conference, the Vice-President of China Association of Enterprises with Foreign Investment, the President of Guangdong Chamber of Foreign Investors, the Honorary Permanent Chairman of The Hong Kong General Chamber of Textiles Limited, the President Honoris Causa of Hong Kong Young Industrialists Council. Dr. Yeung is also an advisory professor of the East China University and the Tianjin Polytechnic University and a visiting professor of the Xi'an Institute of Science and Technology in the PRC.

## Independent Non-Executive Directors

**Mr. CHAN Mo Po, Paul**
Aged 51, was appointed an Independent Non-Executive Director in October 2004. Mr. Chan is also the managing director of PCP CPA Limited. Mr. Chan holds both a Bachelor's and a Master's degree in Business Administration from The Chinese University of Hong Kong. He is a practicing Certified Public Accountant in Hong Kong and a fellow member of the Hong Kong Institute of Certified Public Accountants ("HKICPA"), the Association of Chartered Certified Accountants ("ACCA"), the Society of Chinese Accountants and Auditors, the Institute of Chartered Secretaries & Administrators and the Taxation Institute of Hong Kong. Mr. Chan has over 28 years' experience in the accounting and finance field and is currently the President of the HKICPA. He had been a former Chairman of the ACCA-HK and a former member of the World Council of the ACCA in the United Kingdom.

**Mr. WONG Wai Ming**
Aged 48, was appointed an Independent Non-Executive Director in October 2004. Mr. Wong is an executive director and chief executive officer of Roly International Holdings Limited, a company listed on the Singapore Stock Exchange and an executive director of Linmark Group Ltd., a company listed on the Hong Kong Stock Exchange. The principal business of Roly Group is the provision of supply chain management services and distribution of consumer products in the PRC. Mr. Wong is also an independent non-executive director of Lenovo Group Limited and China Unicom Limited, all listed on the Hong Kong Stock Exchange. Mr. Wong is a chartered accountant and holds a Bachelor of Science degree (with Honours) in Management Sciences from the Victoria University of Manchester, the UK.

## Senior Management Team

In order to make the business successful, we treat our staff as the assets of the Group. We also have a very strong senior management team to support the operation of the Group. It comprises the following members:

**Miss NG Yuk Chau**
Aged 38, is the Finance Director. Miss Ng holds a Bachelor of Social Sciences degree from the University of Hong Kong and has 15 years of experience in accounting. She joined the Group in January 1994.

**Mr. KWONG Kwok Yu, Gary**
Aged 42, is the Financial Controller of the Group and the Qualified Accountant of the Company. Mr. Kwong holds a Master's degree in Business Administration from the Open University of Hong Kong and is a Fellow Member of the Association of Chartered Certified Accountants and an Associate Member of the Hong Kong Institute of Certified Public Accountants. He has nearly 20 years of professional experience in accounting and auditing. He joined the Group in October 2000.

**Miss YU, Michaeline**
Aged 39, is the Retail Operation Director. She joined the Group in May 1998 and is responsible for the overall management of the Group's retail operations. Miss Yu holds a Bachelor of Arts degree from the University of California, Berkeley, majoring in Economics, and holds a Master's degree of Pacific International Affairs from the University of California, San Diego. Miss Yu was formerly the retail manager of a number of international fashion retailers and has over 14 years of experience in the fashion retailing industry.

**Miss CHOW Hau Mui**
Aged 37, is the Retail Administration Director. She joined the Group in March 1994 and is responsible for the formulation and review of policies and procedures relating to the Group's retail operations and inventory control. Miss Chow holds a Bachelor of Business degree from Monash University, Australia. She has over 10 years of experience in retail administration.

**Miss LEE Shuk Kuen, Joe**
Aged 35, is the Merchandising Director. She joined the Group in June 1998, and is responsible for buying strategy and the procurement of designer brands for the I.T, i.t and ETE multi-brand stores. Miss Lee has over 10 years of buying experience in the fashion retailing industry.

**Miss LEE Yuen Pik**
Aged 36, is the Brand Director. She joined the Group in May 1996 and is responsible for the design, manufacturing and management of two in-house brands, b+ab and 5cm. Miss Lee holds a Higher Diploma in Fashion and Clothing Technology from the Hong Kong Polytechnic University. Miss Lee has over 10 years of buying and manufacturing experience in the fashion retailing industry.

**Miss CHENG, Deborah**
Aged 35, is the Marketing and Communications Director. She joined the Group in December 1997 and is responsible for promotional and public relations events, advertising and media relationships. She has over 10 years of marketing and public relations experience.

**Miss YU Lai Hung**
Aged 40, is the MIS Director. She joined the Group in August 1997 and is responsible for the design, implementation, support and strategic development of the Group's information technology network. Miss Yu holds a Master's degree in Business Administration from the Open University of Hong Kong and has over 15 years of experience working in information technology.

**Miss TAM Shuk Yi**
Aged 39, is the Human Resources Director. She joined the Group in November 2000 and has overall responsibility for all personnel matters, human resources planning, training and development. Miss Tam holds a Bachelor of Business degree from La Trobe University, majoring in Human Resources Management, and a Master of Science degree with Honours from the National University of Ireland, majoring in Human Resources Management. She has over 10 years of experience in human resources management.

**Miss HO Suk Han, Sophia**
Aged 37, is responsible for corporate compliance and legal work. She joined the Group in May 2005. Miss Ho holds a Master degree in Business Administration from the Open University of Hong Kong and a Bachelor's Degree of Arts (Honour) in Accountancy from the City University of Hong Kong. She has over 15 years of relevant experience and is an associate member of The Hong Kong Institute of Company Secretaries and The Institute of Chartered Secretaries and Administrators in Hong Kong Limited.

**Mr. RAHMAN, Kermid**
Aged 34, is the Business Development Director. He joined the Group in December 2005 and is responsible for franchising and licensing management, strategic business development. Mr. Rahman holds a Diploma in Business Administration from the Institute of Business Administration in United Kingdom. He has over 12 years Asia Pacific experience in apparel industry, encompassing sourcing, licensing, brand management and business development.

**Miss WONG Suk Kwan, Ada**
Aged 49, is the Brand Director. She joined the Group in February 2006 and is responsible for the design, manufacturing and retail management of a new in-house brand. Miss Wong holds an Executive Master of Science degree in Marketing from the City University of New York. Miss Wong had assumed key positions in a number of renowned fashion retailers for 20 years and was an executive director of Esprit Holdings Limited for three years, which is listed on the Hong Kong Stock Exchange.

# I.T HAS
# UNIQU
# BRAND

# A
# E
# D PORTFOLIO

# MULTI-BRAND

# ME

# STORE CONCEPT:

| **Hong Kong** | sq. ft. |
|---|---|
| apm shopping mall | 7,000 |
| Langham Place | 16,000 |
| Cleveland Street | 17,000 |
| "I.T" and "i.t" Silvercord | 19,000 |
| "I.T" and "i.t" Festival Walk | 21,000 |

**The PRC (operated by GSIT)**

| **Beijing** | |
|---|---|
| Oriental Plaza | 22,000 |
| The Gate (to be opened) | 8,000 |
| The Place (to be opened) | 10,000 |
| **Shanghai** | |
| Cloud Nine | 14,000 |
| Plaza 66 | 22,000 |
| Xin Tian Di | 27,000 |

GA

# CORPORATE GOVERNANCE

The Company is committed to implementing good corporate governance practices and emphasising on transparency and accountability to its shareholders and stakeholders. In the opinion of the Board, the Company has applied throughout the year ended 28 February 2006 with the Code on Corporate Governance Practices as set out in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") except for the deviations as mentioned below.

**Board of Directors**

The Board currently comprises seven members, four of them being Executive Directors, one Non-executive Director and two Independent Non-executive Directors. Subsequent to the re-designation of Dr. Lo Wing Yan, William, J.P. to an Executive Director, the Nomination Committee is currently under discussion with potential candidates. It will nominate to the Board and the Board will appoint the appropriate candidate to replace Dr. Lo as the Independent Non-executive Director, member of the Audit Committee and Remuneration Committee. Biographical details of the Directors are set out in *"Biographies of Directors and Senior Management Team"* on pages 33 to 35.

Throughout the year ended 28 February 2006, more than one-third of the Board is Independent Non-executive Directors. They come from diverse business and professional backgrounds and provide expertise advice in an objective manner. The Company has received annual written confirmation of independence from each of the Independent Non-executive Directors and considers that all Independent Non-executive Directors meet the independence guidelines as set out in the Listing Rules.

Non-executive and Independent Non-executive Directors are appointed for a one year specific term. Nomination Committee would review the structure, size and composition (including the skills, knowledge and experience) of the Board and make recommendations to the Board regarding the renewal of service term of the Non-executive and Independent Non-executive Directors. The Non-executive and Independent Non-executive Directors are subject to the re-election provisions laid down in the Company's Bye-laws.

The Company is fully aware that in order to reinforce their respective independence, accountability and responsibility, the role of the Chairman should be separated from that of the Chief Executive Officer. However, Mr. Sham Kar Wai currently holds both positions. The Board believes that vesting the roles of both Chairman and Chief Executive Officer in the same person would allow the Company to be more effective and efficient in developing long term business strategies and execution of business plans. The Board believes that the balance of power and authority is adequately ensured by the operating of the Board which comprises experienced and high caliber individuals with a substantial member thereof being Non-executive Directors.

Under the Company's existing Bye-laws, all Directors, including those appointed for a specific term, are subject to retirement by rotation at least once every three years. In the 2005 Annual General Meeting held on 11 August 2005, the shareholders of the Company passed a resolution amending the Company's Bye-laws in order to comply with this provision. Prior to the amendment, the Chairman of the Board and/or the Managing Director of the Company were/was not, whilst holding such office, subject to retirement by rotation.

The Board has reserved for its decision and consideration issues in relation to strategic developments, substantial acquisitions and disposals, annual and interim results, directors' appointments and significant operational and financial matters. Implementation and execution of Board policies and strategies and daily administrative matters are delegated to the Executive Committee and the senior management team of the Company.

The Board conducts at least four regular Board meetings a year and additional meetings are held as and when required to discuss significant issues. Any material transaction, which involves a conflict of interests for a substantial shareholder or a Director, will be considered and dealt with by the Board at a duly convened Board meeting. Comprehensive information on matters to be discussed at the Board meeting is supplied to the Directors in a timely manner to facilitate discussion and decision-making.

The Board has established four committees, namely the Audit Committee, Remuneration Committee, Nomination Committee and Executive Committee to oversee particular aspects of the Company's affairs. Specific responsibilities of each Committee are described below. Save for the Executive Committee, all Committees are chaired by Independent Non-executive Directors. Executive Committee is comprised of the Chief Executive Officer and one Executive Director from time to time. All committees have defined terms of reference which are of no less exacting terms than those set out in the Code on Corporate Governance Practices of the Listing Rules.

Appropriate liability insurance cover has been arranged since May 2005 to indemnify the Company's Directors for their liabilities arising out of corporate activities. The Company reviews the insurance coverage from time to time to ensure adequate coverage.

**Audit Committee**

The primary responsibility of the Audit Committee is to review the financial reporting process of the Group and its internal control system, and also to oversee the audit process and to perform other duties assigned by the Board. The Audit Committee should be comprised of three members, all Independent Non-executive Directors. Dr. Lo Wing Yan, William, J.P. was a member before his re-designation from an Independent Non-executive Director to an Executive Director of the Company on 24 May 2006. Currently, the Audit Committee is only comprised of two members, namely Mr. Chan Mo Po, Paul as Chairman and Mr. Wong Wai Ming. The Nomination Committee is currently under discussion with potential candidates and will nominate a suitable candidate to the Board to fill the casual vacancy caused by Dr. Lo's re-designation. All Committee members and ex-member possess appropriate professional qualifications, accounting or related financial management expertise as required under the Listing Rules.

The Audit Committee met three times in the year ended 28 February 2006. The Committee has reviewed the audit plans and findings of external auditors, external auditors' independence, the accounting principles and practices of the Group, Listing Rules and statutory compliance, internal controls, risk management and financial reporting matters and made recommendations to the Company to improve the quality of financial information to be disclosed.

### Remuneration Committee

The Remuneration Committee is responsible for reviewing the remuneration packages of Executive Directors and senior management, including bonuses and options granted under the Share Option Scheme, to ensure that such remuneration is reasonable and not excessive. There should be three members in the Remuneration Committee, majority of which are Independent Non-executive Directors. Dr. Lo Wing Yan, William, J.P. was the Chairman and a member before his re-designation from an Independent Non-executive Director to an Executive Director of the Company on 24 May 2006. Currently, the Remuneration Committee is only comprised of two members, namely Mr. Wong Wai Ming and Mr. Sham Kar Wai. The Nomination Committee is currently under discussion with potential candidates and will nominate a suitable candidate to the Board to fill the casual vacancy caused by Dr. Lo's re-designation.

The Remuneration Committee met five times in the year ended 28 February 2006.

Remuneration policy of the Company is to enable the Company to retain and motivate employees (including Executive Directors) to meet corporate objectives. An Executive Director is not allowed to approve his own remuneration. The remuneration package of Executive Director includes basic salary, housing allowance, and discretionary bonus and share option. The directors' fee of Non-executive Directors is subject to annual assessment. Remuneration surveys conducted by independent consultants on companies operating in similar businesses are referred to when the Remuneration Committee is considering the remuneration packages of the Directors.

### Nomination Committee

The Nomination Committee is responsible for selecting Board members and ensuring transparency of the selection process. The Committee should identify individuals suitably qualified to become Board members and make recommendations to the Board on the selection of individuals nominated for directorships. There are three members in the Nomination Committee, Mr. Wong Wai Ming, being an Independent Non-executive Director acts as Chairman, and Mr. Sham Kar Wai and Mr. Chan Wai Mo, Alva are the Committee members. The Nomination Committee held one meeting during the year ended 28 February 2006 to nominate for the reappointment of Non-executive and Independent Non-executive Directors.

### Executive Committee

The Executive Committee was established to approve routine corporate administration matters from time to time delegated by the Board. The Executive Committee is comprised of the Chief Executive Officer and any one Executive Director from time to time. The Committee met 16 times in the year ended 28 February 2006.

Details of Directors' attendance of the Board and Committee meetings held during the year ended 28 February 2006 are set out as follows:–

| | Meeting Attended | | | | |
|---|---|---|---|---|---|
| | Board | Executive Committee | Audit Committee | Remuneration Committee | Nomination Committee |
| ***Executive Directors*** | | | | | |
| Mr. Sham Kar Wai (Note 1) | 5/5 | 16/16 | | 5/5 | 1/1 |
| Dr. Lo Wing Yan, William, J.P. (Note 2) | 5/5 | N/A | 3/3 | 5/5 | |
| Mr. Sham Kin Wai (Note 1) | 2/5 | 15/16 | | | |
| Mr. Chan Wai Mo, Alva | 5/5 | 4/16 | | | 1/1 |
| ***Non-executive Directors*** | | | | | |
| Dr. Yeung Chun Kam, Charles, S.B.S., J.P. | 0/5 | | | | |
| ***Independent Non-executive Directors*** | | | | | |
| Mr. Chan Mo Po, Paul (Note 3) | 5/5 | | 3/3 | | |
| Mr. Wong Wai Ming (Note 4) | 4/5 | | 3/3 | 5/5 | 1/1 |

Note 1: Mr. Sham Kar Wai and Mr. Sham Kin Wai are brothers

Note 2: Dr. Lo Wing Yan, William, J.P. was an Independent Non-executive Director, Chairman and member of Remuneration Committee and member of Audit Committee till 24 May 2006

Note 3: Chairman of Audit Committee

Note 4: Chairman of Nomination Committee

### Accountability and Audit

The Directors acknowledge their responsibility for preparing the financial statements of the Company and ensure that they are prepared in accordance with statutory requirements and applicable accounting standards.

The statements of the external auditors of the Company, PricewaterhouseCoopers, with regard to their reporting responsibilities on the Company's financial statements is set out in "*Auditors' Report*" on page 54.

During the year ended 28 February 2006, the fees paid or payable to PricewaterhouseCoopers were approximately HK$1,160,000 and HK$435,700 for audit services and non-audit services rendered to the Group respectively.

### Internal Control

The Company is committed to the identification, monitoring and management of risks associated with its business activities and has implemented control systems like clearly defined lines of responsibilities, cash management system, treasury and investment appraisal policies, budgeting and monitoring systems for performance measurement for business units, constant review of the Group's performance by the Board, etc. Financial, operational and compliance procedures are reviewed constantly to ensure effectiveness. Management meetings are held as and when required to address irregularities immediately. The Board communicates on a regular basis with the external auditors and the Audit Committee on risk exposure. During the year ended 28 February 2006, the Board has reviewed the effectiveness of the system of internal control of the Company and its subsidiaries.

### Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules for securities transactions by the Directors. Employees who are likely to possess unpublished price-sensitive information of the Company are also subject to compliance with the same terms as the Model Code. Having made specific enquiry, all Directors have confirmed that throughout the year under review they have fully complied with the required standard set out in the Model Code regarding securities transactions by the Directors.

### Investor Relations

The Company adheres to practices that promote and maintain transparency and fair disclosure. Management team communicates with research analysts and institutional investors and attends major investors' conferences and international non-deal road-shows in an on-going manner to provide comprehensive information on the Company's business strategy and developments. The Board meets research analysts and the press after results announcements to ensure ample reporting of the Company's performance. Press releases and webcasts are arranged for timely and non-selective dissemination of corporate news.

To enhance transparency and ease of retrieval of data, the Company is revamping its website to keep the shareholders and the public informed of the Company's latest announcements, publications and presentations.

### Shareholders' Rights

The general meetings of the Company are mediums for shareholders to have direct dialogue with the Board. The Chairman of the Board as well as Committee Chairmen and members are available to answer questions at the shareholders' meetings. External auditors also attend Annual General Meetings to address shareholders' enquiries.

Under the Company's Bye-laws, shareholders have right to demand a poll on any resolution at shareholders' meetings. The Company is committed to follow all statutory procedures as required when poll is taken.

Shareholders can send in their enquiries in writing to the Company Secretary at the Company's business address in Hong Kong. The Board seriously considers shareholders' enquiries and addresses accordingly. No shareholders' enquiry was received during the year ended 28 February 2006.

**zing by zing exhibition presented by I.T**

The exhibition and book launching party was fully supported by I.T, to demonstrate the masterpieces done by the make-up artist — Zing on various celebrities' faces. The exhibition was held on 15 September 2005, at Lee Garden Causeway Bay.

"Hong Kong Cancer Fund's goal is to improve the quality of life for all cancer patients. We aim to empower them with coping skills, to give them courage and hope in order to experience the cancer journey with a positive attitude. It is important people diagnosed with cancer enjoy the beauty of life — Zing's stunning images certainly convey beautiful inspiration."

I.T made a donation of HK$200,000 directly to Hong Kong Cancer Fund for this project. Proceeds from the sale of the book will be donated to Hong Kong Cancer Fund to pay for their free cancer care services.

**Fingercroxx 3rd Anniversary — DREAMS come true Exhibition**

In celebrating the 3rd Anniversary of Fingercroxx (one of the in-house brands of I.T), Fingercroxx lined up with the American streetwear brand - X-Large and co-designed a series of "XL Finger" collection (including trucker cap, tee and military watch). These cross-over items were featured in the photo-shoot with 13 talents and artists, photographed by local renowned Wing Shya. These pictures were displayed in an exhibition named "DREAMS come true Exhibition" being held on 6 October 2005 at EXIT by double-park in Tsimshatsui. To commemorate this event, a mega calendar box-set of these pictures are produced for good cause, with 1/2 of the sales proceeds being donated to AIDS Concern to support their services for the needed.

# REPORT OF THE DIRECTORS

The Directors of I.T Limited (the "Company") have pleasure in submitting their annual report together with the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 28 February 2006.

## PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The Company's subsidiaries are engaged in retailing and trading of fashion wears and accessories. The activities of the subsidiaries are set out in note 17 to the financial statements.

The analysis of the Group's performance for the year by business and geographical segments is set out in note 5 of the financial statements.

## SUBSIDIARIES

Details of the Company's subsidiaries as at 28 February 2006 are set out in note 17 to the financial statements.

## RESULTS AND DIVIDENDS

The results of the Group for the year are set out in the consolidated income statement on page 55.

The Board recommended the payment of a final dividend of HK4.8 cents (2005: HK4.3 cents) per ordinary share, totaling HK$49,867,000 (2005: HK$44,612,000), for the year ended 28 February 2006.

## DONATIONS

Charitable and other donations made by the Group during the year amounted to HK$200,000 (2005: HK$880,000).

## FURNITURE AND EQUIPMENT

Details of the movements in furniture and equipment of the Group are set out in note 15 to the financial statements.

## SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 29 to the financial statements.

## RESERVES

Details of the movements in reserves of the Company during the year are set out in note 30 to the financial statements.

## DISTRIBUTABLE RESERVES

As at 28 February 2006, the Company's reserves available for cash distribution, as computed in accordance with The Companies Act 1981 of Bermuda (as amended), amounted to HK$196,385,000, of which HK$49,867,000 has been proposed as final dividend for the year.

## PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-laws and there was no restriction against such rights under the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

## FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 89 and 90.

## PURCHASE, SALE OR REDEMPTION OF SECURITIES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

## DIRECTORS

The Directors of the Company during the year and up to the date of this report were:

**Executive**
Mr. Sham Kar Wai
Dr. Lo Wing Yan, William, J.P. (appointed as Executive Director on 24 May 2006)
Mr. Sham Kin Wai
Mr. Chan Wai Mo, Alva

**Non-executive**
Dr. Yeung Chun Kam, Charles, S.B.S. J.P.

**Independent Non-executive**
Mr. Chan Mo Po, Paul
Mr. Wong Wai Ming

In accordance with Clauses 87 of the Company's Bye-laws, Mr. Sham Kar Wai and Mr. Wong Wai Ming will retire by rotation at the forthcoming annual general meeting of the Company and, all being eligible, offer themselves for re-election.

The Non-executive and Independent Non-executive Directors were appointed for a one-year term expiring on 18 October 2006. The Company has received from each of its Independent Non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and considers the Independent Non-executive Directors are independent.

## DIRECTORS' SERVICE CONTRACTS

None of the Directors who are proposed for re-election at the forthcoming Annual General Meeting of the Company has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

## DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company, its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## DIRECTORS' EMOLUMENTS

Details of the remuneration of the Directors on a named basis during the year are set out in note 9 to the financial statements.

## REMUNERATION POLICY

Remuneration policy of the Company is reviewed regularly, making reference to market condition and performance of the Company and individual staff (including the Directors). The remuneration policy and remuneration packages of the Executive Directors and senior management are reviewed by the Remuneration Committee which are detailed in the paragraph headed "Remuneration Committee" under the Corporate Governance Report on page 42.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management as at the date of this report are set out on pages 33 to 35.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 28 February 2006, the interests or short positions of the Directors and Chief Executives in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance (the "SFO")), as recorded in the register maintained by the Company under Section 352 of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuer (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) Long positions in the shares of the company**

| Director | Capacity | Number of shares held | Percentage of interest in the Company |
|---|---|---|---|
| Sham Kar Wai | Interest in controlled company and beneficiary of trust (Notes 1 and 2) | 672,075,000 | 64.69% |
| Sham Kin Wai | Interest in controlled company and beneficiary of trust (Notes 2 and 3) | 672,075,000 | 64.69% |

Notes:

(1) Mr. Sham Kar Wai holds 25% of the issued share capital of 3WH Limited. Miss Yau Shuk Ching, Chingmy (spouse of Mr. Sham Kar Wai) also holds 25% of the issued share capital of 3WH Limited. As such, Mr. Sham Kar Wai is deemd to have a controlling interest in 3WH Limited and is therefore deemed to be interested in the interests of 3WH Limited in the Company.

(2) Mr. Sham Kar Wai and Mr. Sham Kin Wai are both beneficiaries of The ABS 2000 Trust, which is an irrevocable discretionary trust. Effective Convey Limited is wholly-owned by Dynamic Vitality Limited, which is in turn wholly-owned by The ABS 2000 Trust. Each of Mr. Sham Kar Wai and Mr. Sham Kin Wai is therefore deemed to be interested in the interests of Effective Convey Limited in the Company.

(3) Mr. Sham Kin Wai holds 50% of the issued share capital of 3WH Limited. Mr. Sham Kin Wai is deemed to have a controlling interest in 3WH Limited and is therefore deemed to be interested in the interests of 3WH Limited in the Company.

**(b) Long positions in the share options of the company**

The interest of the Directors and Chief Executives of the Company in the share options of the Company are detailed in "Share Options" below.

**(c) Long positions in the shares of associated corporations of the company**

| Director | Name of associated corporations | Capacity | Approximate percentage of shareholding |
|---|---|---|---|
| Sham Kar Wai | 3WH Limited | Beneficial owner | 50% |
| | Comfort Yield Limited | Interests in controlled company | 100% |
| | GP (FE) Limited | Interests in controlled company | 100% |
| | Income Team Limited | Interests in controlled company | 100% |
| | izzue.com (Hong Kong) Limited | Interests in controlled company | 100% |
| | Online Profit Limited | Interests in controlled company | 100% |
| | Optimum Performance Limited | Interests in controlled company | 100% |
| | Popbest Limited | Interests in controlled company | 100% |
| | Profit Targets Limited | Interests in controlled company | 100% |
| | Shine Team Development Limited | Interests in controlled company | 100% |
| | Veston Limited | Interests in controlled company | 100% |
| | Weskin Limited | Interests in controlled company | 100% |
| | Yearful (Hong Kong) Limited | Interests in controlled company | 100% |
| | Young Ranger Investment Limited | Interests in controlled company | 100% |
| | Yueon Corporation Limited | Interests in controlled company | 100% |
| | Effective Convey Limited | Beneficiary of trust | 100% |
| | Dynamic Vitality Limited | Beneficiary of trust | 100% |
| Sham Kin Wai | 3WH Limited | Beneficial owner | 50% |
| | Comfort Yield Limited | Interests in controlled company | 100% |
| | GP (FE) Limited | Interests in controlled company | 100% |
| | Income Team Limited | Interests in controlled company | 100% |
| | izzue.com (Hong Kong) Limited | Interests in controlled company | 100% |
| | Online Profit Limited | Interests in controlled company | 100% |
| | Optimum Performance Limited | Interests in controlled company | 100% |
| | Popbest Limited | Interests in controlled company | 100% |
| | Profit Targets Limited | Interests in controlled company | 100% |
| | Shine Team Development Limited | Interests in controlled company | 100% |
| | Veston Limited | Interests in controlled company | 100% |
| | Weskin Limited | Interests in controlled company | 100% |
| | Yearful (Hong Kong) Limited | Interests in controlled company | 100% |
| | Young Ranger Investment Limited | Interests in controlled company | 100% |
| | Yueon Corporation Limited | Interests in controlled company | 100% |
| | Effective Convey Limited | Beneficiary of trust | 100% |
| | Dynamic Vitality Limited | Beneficiary of trust | 100% |

Save as disclosed above, none of the Directors or their associates had any interests and/or short positions in the shares, underlying shares or debentures of the Company or its associated corporations as at 28 February 2006.

## DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Apart from the Pre-IPO Share Options and Share Option Scheme as disclosed in the section headed "Share Options" under this report on page 48, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangements to enable the Directors or their associates to acquire benefits by means of acquisition of shares in, or debenture of, the Company or any body corporate.

## SHARE OPTIONS

(a) On 7 February 2005, the Company granted share options ("Pre-IPO Share Options") to a Director, a consultant and certain employees of the Group to subscribe for an aggregate of 7,200,000 shares in the Company at a price of HK$0.1 per share, exercisable during the period from 4 September 2005 to 7 February 2008.

| | Date of grant | Exercise period | Number of Share Options<br>As at 1 March 2005 | Exercised during the year | Held as at 28 February 2006 |
|---|---|---|---|---|---|
| **Director** | | | | | |
| Chan Wai Mo, Alva | 7 February 2005 | 4 September 2005 to 7 February 2008 | 600,000 | – | 600,000 |
| **Continuous contract employees** | 7 February 2005 | 4 September 2005 to 7 February 2008 | 1,600,000 | (1,400,000) | 200,000 |
| **Consultant** | 7 February 2005 | 4 September 2005 to 7 February 2008 | 5,000,000 | – | 5,000,000 |
| | | | 7,200,000 | (1,400,000) | 5,800,000 |

(b) The Company adopted a share option scheme ("Share Option Scheme") on 3 February 2005, pursuant to which it may grant options to eligible participants as defined in the Share Option Scheme to subscribe for shares in the Company at a price per share of not less than the highest of (i) the nominal value of a share; (ii) the closing price of a share as stated in the daily quotation sheets issued by the Stock Exchange on the date of the offer of the relevant option; and (iii) the average closing price of the shares as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the date of offer. A consideration of HK$1 is payable on acceptance of the grant of options. The maximum number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other scheme adopted by the Group from time to time must not in aggregate exceed 30% of the share capital of the Company in issue from time to time. The Share Option Scheme will remain in force for a period of 10 years up to February 2015.

On 28 April 2005, the Company granted options under the Share Option Scheme to a Director and certain employees of the Group to subscribe for an aggregate of 15,750,000 shares in the Company at a price of HK$2.35 per share, exercisable during the period from 28 April 2005 to 27 April 2008. The closing price of the Company's shares immediately before the date on which the options were granted was HK$2.125.

| | Date of grant | Exercise period | Number of share options<br>Granted during the period | Forfeited during the period | Held as at 28 February 2006 |
|---|---|---|---|---|---|
| **Director** | | | | | |
| Chan Wai Mo, Alva | 28 April 2005 | 28 April 2005 to 27 April 2008 | 3,000,000 | – | 3,000,000 |
| **Continuous contract employees** | 28 April 2005 | 28 April 2005 to 27 April 2008 | 12,750,000 | (800,000) | 11,950,000 |
| | | | 15,750,000 | (800,000) | 14,950,000 |

(c) For the determination of the fair value of the Pre-IPO Share Options and the share options granted under the Share Option Scheme, the Binomial Option Pricing Model was made reference to and taking into account a number of factors such as the exercise price and the life of the options, the market price and volatility of the underlying shares, and the risk-free interest rate for the life of the options. In addition, it requires input of assumptions that have significant sensitivity effects, including the approximation of the stock price at the grant date of the Pre-IPO Share Options, expected stock price volatility, expected dividend, etc. Any changes in the subjectivity input assumptions may materially affect the estimation of the fair value of an option.

The significant inputs into the Binomial Option Pricing Model were as follows:–

| | Pre-IPO Share Options | Option under the Share Option Scheme |
|---|---|---|
| Share price at the grant dated | HK$1.95 | HK$2.1 |
| Exercise price per share | HK$0.1 | HK$2.35 |
| Standard deviation of expected share price returns | 33% | 33% |
| Expected dividend paid out rate | 2.5% | 2.5% |
| Annual risk free rate | 2.15% | 2.79% |

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

As at 28 February 2006, the register kept by the Company under Section 336 of the SFO showed that the following shareholders (other than Directors of the Company) had disclosed to the Company pursuant to Division 2 and 3 of Part XV of the SFO an interest or a short position in the shares or underlying shares of the Company:

| Name | Capacity | Number of shares held | Percentage of interests in the Company |
|---|---|---|---|
| 3WH Limited | Beneficial owner | 336,037,500 | 32.35% |
| Effective Convey Limited (Note 1) | Beneficial owner | 336,037,500 | 32.35% |
| Dynamic Vitality Limited (Note 1) | Interest in corporation | 336,037,500 | 32.35% |
| The ABS 2000 Trust (Notes 1 and 2) | Interest in corporation | 336,037,500 | 32.35% |
| HSBC International Trustee Limited (Note 2) | Interest in corporation | 338,187,500 | 32.55% |

Notes:

1. Effective Convey Limited is a wholly-owned subsidiary of Dynamic Vitality Limited, which is wholly-owned by The ABS 2000 Trust. Each of Dynamic Vitality Limited and The ABS 2000 Trust is therefore deemed interested in the Shares held by Effective Convey Limited.

2. The ABS 2000 Trust was established on 14 September 2000 as an irrevocable discretionary trust for the benefit of Mr. Sham Kar Wai and Mr. Sham Kin Wai, and their respective family members. HSBC International Trustee Limited is the trustee of The ABS 2000 Trust.

## MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

## MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group purchased less than 30% of its goods and services from its five largest suppliers and sold less than 30% of its goods and services to its five largest customers.

## CONNECTED TRANSACTIONS

Significant related party transactions entered by the Group during the year ended 28 February 2006, which do not constitute connected transactions under the Listing Rules, are disclosed in note 34 to the financial statements.

## CONTINUING DISCLOSURE REQUIREMENTS

The Company has made an announcement pursuant to Rule 13.16 of the Listing Rules on 2 August 2005 whereby a wholly-owned subsidiary of the Company by stages made advancements to GSIT, a jointly-controlled company owned as to 50% indirectly by the Company and 50% indirectly by Glorious Sun Enterprises Limited. Pursuant to the assets test under Rule 14.07 of the Listing Rules, the total sum advanced to GSIT exceeded 8% of the total assets of the Company as at 28 February 2005. The circumstances giving rise to such disclosure continued to exist at the year ended 28 February 2006. A summary of significant balance sheet classifications of GSIT is hereby presented.

**G.S-i.t LIMITED**
**SUMMARY OF SIGNIFICANT BALANCE SHEET CLASSIFICATION**
AS AT 28 FEBRUARY 2006

| | **As at 28 February 2006** (unaudited) HK$'000 |
|---|---|
| Non-current assets | 85,080 |
| Current assets | 103,885 |
| Current liabilities | (94,562) |
| Net current assets | 9,323 |
| Total assets less current liabilities | 94,403 |
| Non-current liabilities | |
| Deferred income tax liabilities | (578) |
| Amount due to shareholders | (98,217) |
| | (98,795) |
| Net liabilities | (4,392) |
| Capital and reserves attributable to the company's equity holders | (4,392) |

## PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed amount of public float during the year and up to the date of this report as required under the Listing Rules.

## CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 40 to 43.

## AUDITORS

The financial statements have been audited by PricewaterhouseCoopers who will retire at the forthcoming Annual General Meeting of the Company, and being eligible, offer themselves for re-appointment.

On behalf of the Board

**Chan Wai Mo, Alva**
Company Secretary

Hong Kong, 29 May 2006

I.T

IS

a fa

TREND

ins

a lifesty

MOV

ashion icon

SETTING

spiration

yle

VING FORWARD

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor, Prince's Building
Central, Hong Kong

AUDITORS' REPORT TO THE SHAREHOLDERS OF
I.T LIMITED
(incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 55 to 88 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

## RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with section 90 of the Companies Act 1981 of Bermuda, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the company and the group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

## OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 28 February 2006 and of the group's profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers

**PricewaterhouseCoopers**
Certified Public Accountants

Hong Kong, 29 May 2006

# CONSOLIDATED INCOME STATEMENT

For the year ended 28 February 2006

| | Note | 2006 HK$'000 | 2005 HK$'000 As restated |
|---|---|---|---|
| Sales | 5 | **1,314,443** | 1,041,017 |
| Cost of sales | | **(540,243)** | (406,546) |
| Gross profit | | **774,200** | 634,471 |
| Other gains, net | 6 | **16,384** | 3,407 |
| Operating expenses | | **(642,553)** | (488,597) |
| Operating profit | | **148,031** | 149,281 |
| Finance costs | 10 | **(1,665)** | (3,797) |
| Share of profit/(loss) of jointly controlled entities | | **4,237** | (8,863) |
| Profit before taxation | | **150,603** | 136,621 |
| Income tax expense | 11 | **(28,289)** | (25,181) |
| Profit for the year, attributable to the equity holders of the Company | 12 | **122,314** | 111,440 |
| Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in HK$ per share) | | | |
| – basic | 13 | **HK$0.12** | HK$0.16 |
| – diluted | 13 | **HK$0.12** | HK$0.15 |
| Dividends | 14 | **49,867** | 234,612 |

The notes are an integral part of these financial statements.

# BALANCE SHEETS

As at 28 February 2006

| | Note | Consolidated 2006 HK$'000 | Consolidated 2005 HK$'000 As restated | Company 2006 HK$'000 | Company 2005 HK$'000 As restated |
|---|---|---|---|---|---|
| ASSETS | | | | | |
| Non-current assets | | | | | |
| Furniture and equipment | 15 | **97,237** | 62,043 | **–** | – |
| Intangible assets | 16 | **19,169** | – | **–** | – |
| Investments in and due from subsidiaries | 17 | **–** | – | **522,050** | 183,173 |
| Investments in and due from jointly controlled entities | 18 | **51,699** | 62,150 | **–** | – |
| Rental deposits | 19 | **43,418** | 40,858 | **–** | – |
| Deferred income tax assets | 28 | **576** | 2,642 | **–** | – |
| Other asset | | **1,080** | – | **–** | – |
| | | **213,179** | 167,693 | **522,050** | 183,173 |
| Current assets | | | | | |
| Inventories | 20 | **147,398** | 101,194 | **–** | – |
| Trade receivables | 21 | **6,638** | 9,840 | **–** | – |
| Due from a jointly controlled entity | 18 | **44,557** | – | **–** | – |
| Prepayments, deposits and other receivables | 22 | **45,702** | 29,304 | **538** | 3,669 |
| Pledged bank deposits | 23 & 32 | **750** | 17,750 | **–** | – |
| Cash and cash equivalents | 23 | **424,881** | 561,983 | **214,184** | 463,835 |
| | | **669,926** | 720,071 | **214,722** | 467,504 |
| LIABILITIES | | | | | |
| Current liabilities | | | | | |
| Borrowings | 24 | **–** | (130,461) | **–** | – |
| Trade and bills payables | 25 | **(48,151)** | (40,873) | **–** | – |
| Accruals and other payables | 26 | **(62,739)** | (55,396) | **(38)** | (2,119) |
| Derivative financial instruments | 27 | **(2,430)** | – | **–** | – |
| Current income tax liabilities | | **(9,900)** | (9,358) | **–** | – |
| | | **(123,220)** | (236,088) | **(38)** | (2,119) |
| Net current assets | | **546,706** | 483,983 | **214,684** | 465,385 |
| Total assets less current liabilities | | **759,885** | 651,676 | **736,734** | 648,558 |
| Non-current liabilities | | | | | |
| Borrowings | 24 | **–** | (51,640) | **–** | – |
| Other payables | 26 | **(10,388)** | – | **–** | – |
| Due to subsidiaries | | **–** | – | **–** | (8,508) |
| Deferred income tax liabilities | 28 | **(2,231)** | (925) | **–** | – |
| | | **(12,619)** | (52,565) | **–** | (8,508) |
| Net assets | | **747,266** | 599,111 | **736,734** | 640,050 |
| EQUITY | | | | | |
| Capital and reserves attributable to the Company's equity holders | | | | | |
| Share capital | 29 | **103,890** | 100,000 | **103,890** | 100,000 |
| Reserves | 30 | **643,376** | 499,111 | **632,844** | 540,050 |
| Total equity | | **747,266** | 599,111 | **736,734** | 640,050 |

**SHAM KAR WAI**
Chairman

**LO WING YAN, WILLIAM**
Vice Chairman

The notes are an integral part of these financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 28 February 2006

| | Note | Attributable to equity holders of the Company | | |
|---|---|---|---|---|
| | | Share capital | Reserves | Total |
| | | HK$'000 | HK$'000 | HK$'000 |
| Balance at 1 March 2004 | | 8 | 191,520 | 191,528 |
| Profit for the year | 30 | – | 111,440 | 111,440 |
| Issue of shares upon conversion of convertible note | 30 | 16 | 31,179 | 31,195 |
| Issue of shares of a subsidiary prior to the Reorganisation | | 132 | – | 132 |
| Effect of the Reorganisation | 2.1 | 44 | (44) | – |
| Capitalisation of share premium account | 29 & 30 | 74,800 | (74,800) | – |
| Issue of shares for cash | 29 & 30 | 25,000 | 462,500 | 487,500 |
| Share issue costs | 30 | – | (33,977) | (33,977) |
| Share option schemes | | | | |
| – value of employment services | 30 | – | 1,293 | 1,293 |
| Dividend of a subsidiary prior to the Reorganisation | | – | (190,000) | (190,000) |
| Balance at 28 February 2005 | | 100,000 | 499,111 | 599,111 |
| Balance at 1 March 2005 | | 100,000 | 499,111 | 599,111 |
| Opening adjustment for the adoption of HKAS 39 | 2.2 | – | (13,145) | (13,145) |
| Balance at 1 March 2005, after opening adjustment | | 100,000 | 485,966 | 585,966 |
| Net expense recognised directly in equity | | | | |
| – cash flow hedges | 30 | – | (1,735) | (1,735) |
| Profit for the year | | – | 122,314 | 122,314 |
| Total recognised income for the year | | – | 120,579 | 120,579 |
| Proceeds from issue of shares in connection with the Listing | 29 & 30 | 3,750 | 69,375 | 73,125 |
| Proceeds from issue of shares under a share option scheme exercised | 29 | 140 | – | 140 |
| Share issue costs | 30 | – | (1,836) | (1,836) |
| Share option schemes | | | | |
| – value of employment services | 30 | – | 13,904 | 13,904 |
| Dividend | | – | (44,612) | (44,612) |
| | | 3,890 | 36,831 | 40,721 |
| Balance at 28 February 2006 | | 103,890 | 643,376 | 747,266 |

The notes are an integral part of these financial statements.

# CONSOLIDATED CASH FLOW STATEMENT

For the year ended 28 February 2006

| | Note | 2006<br>HK$'000 | 2005<br>HK$'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated from operations | 31(a) | **162,628** | 168,454 |
| Interest paid | | **(969)** | (3,797) |
| Income tax paid | | **(24,400)** | (25,450) |
| Income tax refunded | | **25** | 956 |
| Net cash generated from operating activities | | **137,284** | 140,163 |
| **Cash flows from investing activities** | | | |
| Purchase of furniture and equipment | | **(77,134)** | (60,540) |
| Purchase of intangible assets | | **(29,524)** | – |
| Proceeds from disposal of furniture and equipment | 31(b) | **–** | 17 |
| Net cash inflow in respect of acquisition of a subsidiary | | **–** | 2,361 |
| Investments in a jointly controlled entity | | **(4,000)** | (8,000) |
| Increase in amounts due from jointly controlled entities | | **(37,473)** | (33,993) |
| Increase in amounts due from directors | | **–** | (9,785) |
| Decrease in amounts due from related parties | | **–** | 40 |
| Increase in amounts due from related companies | | **–** | (52,743) |
| Interest received | | **14,059** | 38 |
| Net cash used in investing activities | | **(134,072)** | (162,605) |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of shares | | **73,265** | 487,500 |
| Share issue costs | | **(3,866)** | (31,947) |
| Proceeds from long-term bank borrowings | | **–** | 150,000 |
| Repayments of long-term bank borrowings | | **(145,000)** | (26,000) |
| Net (decrease)/increase in trust receipts import bank loans | | **(37,075)** | 36,632 |
| Dividends paid | | **(44,612)** | (68,192) |
| Decrease/(Increase) in pledged bank deposits | | **17,000** | (17,000) |
| Net cash (used in)/generated from financing activities | | **(140,288)** | 530,993 |
| **Net (decrease)/increase in cash and cash equivalents** | | **(137,076)** | 508,551 |
| Cash and cash equivalents, beginning of the year | | **561,957** | 53,406 |
| **Cash and cash equivalents, end of the year** | 31(c) | **424,881** | 561,957 |

The notes are an integral part of these financial statements.

## 1 GENERAL INFORMATION

I.T Limited ("the Company") is an investment holding company and its subsidiaries (together with the Company are collectively referred to as "the Group") are principally engaged in the sales of fashion wears and accessories.

The Company was incorporated in Bermuda on 18 October 2004 as an exempted company with limited liability under the Companies Act 1981 of Bermuda. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.

The Company has its listing on The Stock Exchange of Hong Kong Limited ("the Stock Exchange").

These financial statements are presented in Hong Kong dollars ("HK$"), unless otherwise stated.

These financial statements have been approved for issue by the Board of Directors on 29 May 2006.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### 2.1 BASIS OF PRESENTATION

On 5 February 2005, the Company acquired the entire issued share capital of ithk holdings limited, a company incorporated in the British Virgin Islands, through a share exchange ("the Reorganisation") and consequently became the holding company of the subsidiaries as set out in Note 17, except for Amwell Development Limited, which was incorporated subsequent to the Reorganisation. The Reorganisation involved companies under common control, and the Company and its subsidiaries resulting from the Reorganisation are regarded as a continuing group. Accordingly, the Reorganisation has been accounted for on the basis of merger accounting, under which the consolidated financial statements have been prepared as if the Company had been the holding company of the other companies comprising the Group throughout the year ended 28 February 2005, rather than from the date on which the Reorganisation was completed.

### 2.2 BASIS OF PREPARATION

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

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Although these estimates are based on management's best knowledge of events and actions, actual results ultimately may differ from those estimates.

**The adoption of new/revised HKFRS**

For the year ended 28 February 2006, the Group adopted the new/revised standards of HKFRS below, which are relevant to its operations. The 2005 comparatives have been amended 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 16 | Property, Plant and Equipment |
| HKAS 17 | Leases |
| 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 31 | Interests in Joint Ventures |
| HKAS 32 | Financial Instruments: Disclosures and Presentation |
| HKAS 33 | Earnings per Share |
| HKAS 36 | Impairment of 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-Int 15 | Operating Leases–Incentives |
| HKFRS 2 | Share-based Payments |
| HKFRS 3 | Business Combinations |

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.2 BASIS OF PREPARATION (continued)

**The adoption of new/revised HKFRS** (continued)

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 16, 17, 21, 23, 24, 27, 31, 33, 36, 38 and HKAS-Int 15 and HKFRS 3 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 jointly controlled entities and other disclosures;

– HKASs 2, 7, 8, 10, 16, 17, 23, 27, 31, 33, 36, 38 and HKAS-Int 15 and HKFRS 3 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; and

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

The adoption of HKASs 32, 39 and 39 (Amendment) has resulted in a change in the accounting policy relating to the recognition, measurement and classification of financial instruments. It has also resulted in the recognition of derivative financial instruments at fair value and the change in the recognition and measurement of hedging activities.

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. Until 28 February 2005, the provision of share options to employees did not result in an expense in the income statements. Effective on 1 March 2005, the Group expenses the cost of share options in the income statement. As a transitional provision, the cost of share options granted after 7 November 2002 and had not yet vested on 1 March 2005 was expensed retrospectively in the income statement of the respective periods.

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

– HKAS 39 – does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous SSAP 24 "Accounting for investments in securities" to hedge relationships for the 2005 comparative information. The adjustments required for the accounting differences between SSAP 24 and HKAS 39, where appropriate, are determined and recognised at 1 March 2005;

– HKAS-Int 15 – does not require the recognition of incentives for leases beginning before 1 March 2005;

– HKFRS 2 – only retrospective application for all equity instruments granted after 7 November 2002 and not vested at 1 March 2005; and

– HKFRS 3 – prospectively after the adoption date.

(i) The adoption of HKFRS 2 resulted in:

| | **2006**<br>**HK$'000** | 2005<br>HK$'000 |
|---|---|---|
| Increase in share-based compensation reserves | **15,197** | 1,293 |
| Decrease in retained profits | **15,197** | 1,293 |
| Increase in employment costs | **13,904** | 1,293 |
| Decrease in basic earnings per share (expressed in HK$) | **0.013** | 0.002 |
| Decrease in diluted earnings per share (expressed in HK$) | **0.013** | 0.002 |

There was no impact on opening retained profits at 1 March 2004 from the adoption of HKFRS 2.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.2 BASIS OF PREPARATION (continued)

**The adoption of new/revised HKFRS** (continued)

(ii) The adoption of HKASs 39 and 39 (Amendment) resulted in a decrease in retained profits at 1 March 2005 by approximately HK$13,145,000 and the details of the adjustments to the consolidated balance sheet as at 28 February 2006 are as follows:

| | 2006 HK$'000 |
|---|---|
| Decrease in rental deposits | 3,824 |
| Increase in prepayments | 3,776 |
| Decrease in amounts due from jointly controlled entities | 11,604 |
| Increase in inventories | 422 |
| Increase in derivative financial instruments liabilities | 2,430 |
| Decrease in other payables | 1,070 |
| Decrease in retained profits | 10,855 |
| Increase in hedging reserve | 1,735 |

**Standards, interpretations and amendments to published standards that are not yet effective**

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 March 2006 or later periods as described below, as follows:

| New/revised HKFRS | Effective date | Description |
|---|---|---|
| HKAS 1 (Amendment) | 1 March 2007 | Capital Disclosure |
| HKAS 19 (Amendment) | 1 March 2006 | Actuarial gains and losses, group plans and disclosures |
| HKAS 21 (Amendment) | 1 March 2006 | Net investment in a foreign operation |
| HKAS 39 & HKFRS 4 (Amendments) | 1 March 2006 | Financial guarantee contracts |
| HKAS 39 (Amendment) | 1 March 2006 | Cash flow hedge accounting of forecast intragroup transactions |
| HKAS 39 (Amendment) | 1 March 2006 | The fair value option |
| HKFRS 6 | 1 March 2006 | Exploration for and Evaluation of Mineral Resources |
| HKFRS 7 | 1 March 2007 | Financial instruments: Disclosures |
| HKFRS-Int 4 | 1 March 2006 | Determining whether an arrangement contains a lease |
| HKFRS-Int 5 | 1 March 2006 | Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds |
| HK(IFRIC)-Int 6 | 1 March 2006 | Liabilities arising from participating in a specific market – waste electrical and electronic equipment |
| HK(IFRIC)-Int 7 | 1 March 2006 | Applying the restatement approach under HKAS 29 financial reporting in hyperinflationary economies |

The Group has not early adopted these new/revised HKFRSs. The Group has started considering the potential impact of these HKFRSs. Based on preliminary assessment, the Group believes that the following new/revised HKFRSs are relevant to the Group's operation:

- HKAS 39 (Amendment), The Fair Value Option (effective from 1 March 2006) – This amendment changes the definition of financial instruments classified at fair value through profit or loss and restricts the ability to designate financial instruments as part of this category. The Group believes that this amendment should not have a significant impact on the classification of financial instruments, as the Group should be able to comply with the amended criteria for the designation of financial instruments at fair value through profit or loss. The Group will apply this amendment from 1 March 2006.

- HKAS 39 and HKFRS 4 (Amendments), Financial Guarantee Contracts (effective from 1 March 2006) – This amendment requires issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, to be initially recognised at their fair value, and subsequently measured at the higher of (a) the unamortised balance of the related fees received and deferred, and (b) the expenditure required to settle the commitment at the balance sheet date. There is no financial guarantee contract issued at group level. For guarantees provided by the Company for banking facilities granted to subsidiaries, the Company shall adopt this amendment from 1 March 2006. The Group believes that adoption of this amendment should have no significant impact to the Company's financial statements.

- HKAS 1, Presentation of Financial Statements – Capital Disclosures (effective from 1 March 2007) – The amendment to HKAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Group assessed the impact of amendment to HKAS 1 and considered that the main additional disclosures will be the capital disclosures required by the amendment of HKAS 1. The Group will apply the amendment to HKAS 1 from 1 March 2007.

- HKFRS-Int 4, Determining whether an Arrangement contains a Lease (effective from 1 March 2006) – HKFRS-Int 4 requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement. It requires an assessment of whether: (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets ("the asset"); and (b) the arrangement conveys a right to use the asset. Management is currently assessing the impact of HKFRS-Int 4 on the Group's operations.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.3 CONSOLIDATION

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 28 February.

#### (a) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of an impairment of the asset transferred.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses, if any. The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

#### (b) Jointly controlled entities

A jointly controlled entity is a joint venture that involves the establishment of a corporation, partnership or other entity in which each venturer has an interest. The entity operates in the same way as other entities, except that a contractual arrangement between the venturers establishes joint control over the economic activity of the entity.

Investments in jointly controlled entities are accounted for by the equity method of accounting and are initially recognised at cost. The Group's share of its jointly controlled entities' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investments. When the Group's share of losses in a jointly controlled entity equals or exceeds its interest in the jointly controlled entity, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the jointly controlled entity.

Unrealised gains on transactions between the Group and its jointly controlled entities are eliminated to the extent of the Group's interests in the jointly controlled entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

### 2.4 SEGMENT REPORTING

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

### 2.5 FOREIGN CURRENCY TRANSLATION

#### (a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Hong Kong dollar ("HK$"), which is the Company's functional and presentation currency.

#### (b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.6 FURNITURE AND EQUIPMENT

Furniture and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the period in which they are incurred.

Depreciation of furniture and equipment is calculated using the straight-line method to allocate cost to their residual values over their estimated useful lives, as follows:

| | |
|---|---|
| Leasehold improvements | 4 years or over the unexpired period of the lease, whichever is shorter |
| Furniture and equipment | 4 years |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.8).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

### 2.7 INTANGIBLE ASSETS

Intangible assets represent licence right, which is stated at historical cost less accumulated amortisation and accumulated impairment losses, if any. Historical cost comprises the capitalised present values of the fixed minimum periodic payments to be made in subsequent years in respect of the acquisition of the licence right.

Licence right is amortised over the licence period on a basis that reflects the pattern in which the licence's future economic benefits are expected to be consumed by the Group.

### 2.8 IMPAIRMENT OF NON-FINANCIAL ASSETS

Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

### 2.9 LOANS AND RECEIVABLES

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months and in this case they are classified as non-current assets.

Loans and receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment, if any. The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.10 ACCOUNTING FOR DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transactions (cash flow hedges).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

**(i) Cash flow hedges**

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within "other gains/losses".

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit or loss (for instance when the forecast purchase that is hedged takes place). The gain or loss relating to the effective portion of forward foreign exchange contracts hedging import purchases is recognised in the income statement within "cost of sales". However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) or a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

**(ii) Derivatives that do not qualify for hedge accounting**

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement within "other gains/losses".

### 2.11 INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method of costing and comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Costs of inventories include the transfer from equity of any gains/losses on qualifying cash flow hedges relating to purchases of inventories.

### 2.12 TRADE AND OTHER RECEIVABLES

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment, if any. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that receivables are impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement within operating expenses.

### 2.13 LICENCE FEE PAYABLE

Licence fee payable in respect of the acquisition of licence right is initially recognised at fair value, which represents the present values of the fixed minimum periodic payments to be made in subsequent years. It is subsequently stated at amortised cost using the effective interest method less amounts paid. Changes in estimates of the expected cash flows are recognised in the income statement. The revised expected cash flows are discounted using the original effective interest rate to arrive at the carrying amount of the liability.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.14 SHARE CAPITAL

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any Group company purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

### 2.15 BORROWINGS

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

### 2.16 CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

### 2.17 DEFERRED INCOME TAX

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and jointly controlled entities, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

### 2.18 EMPLOYEE BENEFITS

#### (i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date. Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

#### (ii) Pension obligations

The Group has a defined contribution plan. The Group pays contributions to trustee-administered pension fund on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employment costs when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

#### (iii) Bonus plans

The Group recognises a liability and an expense for bonuses. It recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.18 EMPLOYEE BENEFITS (continued)

#### (iv) Share-based payments

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

### 2.19 PROVISIONS

Provisions for environmental restoration, restructuring costs and legal claims are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

### 2.20 REVENUE RECOGNITION

Revenue comprises the fair value of the consideration received or receivable for the sale of goods. Revenue is shown, net of value-added tax, returns, rebates and discounts. Revenue is recognised as follows:

#### (a) Sales of goods

Sales of goods are recognised when the Group entity has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

Retail sales are usually paid in cash or by credit/debit cards. The recorded revenue is the gross amount of sale, including credit card fees payable for the transaction. Such fees are included in operating expenses.

#### (b) Royalty income

Royalty income is recognised on an accruals basis in accordance with the substance of the relevant agreements.

#### (c) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income.

Sales of coupons is deferred and recognised as income upon utilisation of the related coupons.

### 2.21 OPERATING LEASES (AS THE LESSEE)

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed in the income statement on a straight-line basis over the period of the lease.

### 2.22 DIVIDEND DISTRIBUTION

Dividend distribution to the Company's shareholders is recognised as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholders.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.23 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

The Group does not recognise liabilities for financial guarantees at inception, but perform a liability adequacy test at each balance sheet date by comparing its net liability regarding the financial guarantee with the amount that would be required if the financial guarantee would result in a present legal or constructive obligation. If the liability is less than its present legal or constructive obligation amount, the entire difference is recognised in the income statement immediately. As at 28 February 2006, no additional liability is recognised for outstanding financial guarantees.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group. Contingent assets are not recognised but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

## 3 FINANCIAL RISK MANAGEMENT

### 3.1 FINANCIAL RISK FACTORS

The Group's activities expose it to a variety of financial risks: foreign exchange risk, credit risk, liquidity risk and cash flow interest rate risk.

Management regularly monitors the financial risks of the Group and uses derivative financial instruments to hedge certain foreign exchange risk exposures. Because of the simplicity of the financial structure and the current operations of the Group, no other hedging activities are undertaken by management.

**(a) Foreign exchange risk**

The Group is exposed to foreign exchange risk arising from the exposure of various currency against Hong Kong dollar. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in operations in Mainland China.

To manage their foreign exchange risk arising from certain future commercial transactions and recognised liabilities, entities in the Group use forward currency exchange contracts, transacted with external financial institutions. Foreign exchange risk arises when future commercial transactions or recognised liabilities are denominated in a currency that is not the entity's functional currency.

The Group's risk management policy is to hedge between 80% and 100% of anticipated transactions (mainly import purchases) in each major currency for the subsequent season. The projected purchases in each major currency qualify as 'highly probable' forecast transactions for hedge accounting purposes.

The Group has certain investments in operations in Mainland China, whose net assets are denominated in Chinese Renminbi. Chinese Renminbi is not a freely convertible currency in the international market and its exchange rate is determined by the People's Bank of China.

**(b) Credit risk**

The Group has no significant concentrations of credit risk. Retail sales are usually paid in cash or by major credit/debit cards. Derivative counter parties and cash transactions are limited to high-credit-quality financial institutions. The Group has policies that limit the amount of credit exposure to any financial institution.

**(c) Liquidity risk**

Prudent liquidity risk management implies maintaining sufficient cash, and the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, the Group's management aims to maintain flexibility in funding by keeping committed credit lines available.

**(d) Cash flow and fair value interest rate risk**

As the Group has no significant interest-bearing assets and liabilities, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

## 3 FINANCIAL RISK MANAGEMENT (continued)

### 3.2 FAIR VALUE ESTIMATION

The fair values of forward currency contracts are determined using quoted forward exchange rates at the balance sheet date.

The nominal value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

## 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

**(a) Useful lives and residual values of furniture and equipment**

The Group's management determines the estimated useful lives, residual values and related depreciation charges for its furniture and equipment. This estimate is based on the historical experience of the actual useful lives of furniture and equipment of similar nature and functions. It could change significantly as a result of any future management determination of shop relocation or renovation. Management will increase the depreciation charge where useful lives are less than previously estimated lives. Actual economic lives may differ from estimated useful lives; actual residual values may differ from estimated residual values. Periodic review could result in a change in depreciable lives and residual values and therefore depreciation expense in the future periods.

**(b) Write-downs of inventories to net realisable value**

Net realisable value of inventories is the estimated selling prices in the ordinary course of business, less estimated selling expenses. These estimates are based on the current market condition and the historical experience of selling products of similar nature. It could change significantly as a result of change in customer taste and competitor actions in response to severe industry cycle. Management reassesses these estimates at each balance sheet date.

**(c) Impairment of non-financial assets**

Non-financial assets, including furniture and equipment and intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts have been determined based on value-in-use calculation or market valuations. These calculations require use of judgements and estimates.

**(d) Deferred taxation**

Deferred income tax assets relating to certain temporary differences and tax losses are recognised as management considers it is likely that future taxable profits will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimates, such differences will impact the recognition of deferred income tax assets and income tax charges in the period in which such estimates have been changed.

**(e) Employee benefits–share-based payments**

The determination of the fair value of the share options granted requires estimates in determining the expected volatility of the share price, the dividends expected on the shares, the risk-free interest rate for the life of the option and the number of share options that are expected to become exercisable. Where the outcome of the number of options that are exercisable is different, such difference will impact the income statement in the subsequent remaining vesting period of the relevant share options.

## 5 SEGMENT INFORMATION

### (a) Analysis of sales by category:

| | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| Sales of fashion wears and accessories | **1,310,600** | 1,039,926 |
| Royalty income | **3,843** | – |
| Consultancy fees | **–** | 1,091 |
| | **1,314,443** | 1,041,017 |

### (b) Segment information

No segment analysis for business segment is presented as the Group principally operates in one business segment, which was the sales of fashion wears and accessories.

No segment analysis for geographical segment is presented as substantially all of the Group's sales, operating results, assets and liabilities were located in Hong Kong.

## 6 OTHER GAINS, NET

| | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| Interest income | | |
| – bank deposits | **14,059** | 3,407 |
| – loans and receivables | **2,598** | – |
| Derivative financial instruments: forward currency contracts, transactions not qualifying as hedge and ineffective portion of changes in fair values | **(273)** | – |
| | **16,384** | 3,407 |

## 7 EXPENSES BY NATURE

Expenses included in cost of sales and operating expenses are analysed as follows:

| | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| Charging | | |
| Cost of inventories sold | **532,802** | 396,342 |
| Write-downs of inventories to net realisable value | **3,177** | 7,697 |
| Employment costs (including directors' emoluments) (Note 8) | **231,130** | 171,820 |
| Operating lease rentals of premises | | |
| – minimum lease payments | **223,550** | 165,605 |
| – contingent rents | **13,670** | 13,435 |
| Advertising and promotion costs | **9,853** | 10,959 |
| Depreciation of furniture and equipment | **41,452** | 31,520 |
| Loss on disposal of furniture and equipment | **488** | – |
| Licence fee | | |
| – amortisation of licence right | **10,355** | – |
| – contingent licence fee | **5,387** | 7,144 |
| Auditors' remuneration | **1,160** | 815 |
| Crediting | | |
| Net exchange gains | **4,643** | 4,398 |
| Gain on disposal of furniture and equipment | **–** | 3 |

## 8 EMPLOYMENT COSTS, INCLUDING DIRECTORS' EMOLUMENTS

| | **2006** | 2005 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Salaries, commission and allowances | **207,758** | 163,348 |
| Bonuses | **–** | 2,041 |
| Pension costs – employer's contributions to a defined contribution plan and provision for long-service payments | **9,090** | 4,856 |
| Share option costs | **13,904** | 1,293 |
| Staff welfare and benefits | **378** | 282 |
| | **231,130** | 171,820 |

### (a) Pension – defined contribution plan

The Group has arranged for its employees to join the Hong Kong Mandatory Provident Fund Scheme ("the MPF Scheme"), a defined contribution scheme managed by an independent trustee. Under the MPF Scheme, each of the Group and its employees make monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation. Both the employer's and the employees' contributions are subject to a cap of HK$1,000 per month and thereafter contributions are voluntary.

During the year ended 28 February 2006, the amount of the Group's employer contributions to the MPF Scheme was approximately HK$9,090,000 (2005: HK$6,779,000).

## 9 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

### (a) Directors' emoluments

The remuneration of every Director of the Company for the year ended 28 February 2006 is set out below:

| **Name of Director** | **Fees** | **Salaries** | **Other benefits (i)** | **Employer's contribution to pension scheme** | **Total** |
|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Mr. Sham Kar Wai | – | 4,355 | 960 | 12 | 5,327 |
| Mr. Sham Kin Wai | – | 3,187 | 530 | 12 | 3,729 |
| Mr. Chan Wai Mo, Alva | 67 | 880 | 1,465 | 12 | 2,424 |
| Dr. Yeung Chun Kam, Charles | 67 | – | – | – | 67 |
| Mr. Chan Mo Po, Paul | 67 | – | – | – | 67 |
| Dr. Lo Wing Yan, William | 67 | – | – | – | 67 |
| Mr. Wong Wai Ming | 67 | – | – | – | 67 |
| | 335 | 8,422 | 2,955 | 36 | 11,748 |

The remuneration of every Director of the Company for the year ended 28 February 2005 is set out below:

| **Name of Director** | **Fees** | **Salaries** | **Other benefits (i)** | **Employer's contribution to pension scheme** | **Total** |
|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Mr. Sham Kar Wai | – | 4,020 | 960 | 11 | 4,991 |
| Mr. Sham Kin Wai | – | 3,480 | – | 11 | 3,491 |
| Mr. Chan Wai Mo, Alva | 55 | – | 108 | – | 163 |
| Dr. Yeung Chun Kam, Charles | 55 | – | – | – | 55 |
| Mr. Chan Mo Po, Paul | 55 | – | – | – | 55 |
| Dr. Lo Wing Yan, William | 55 | – | – | – | 55 |
| Mr. Wong Wai Ming | 55 | – | – | – | 55 |
| | 275 | 7,500 | 1,068 | 22 | 8,865 |

Note:

(i) Other benefits include housing allowance, and the amortisation to the income statement of the fair value of Pre-IPO Share Options and share options under the Share Option Scheme measured at the respective grant dates, regardless of whether the share options would be exercised or not.

None of the directors waived any emoluments during the year (2005: Nil).

## 9 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (continued)

### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2005: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2005: three) individuals are as follows:

| | 2006<br>HK$'000 | 2005<br>HK$'000 |
|---|---|---|
| Salaries | **1,632** | 2,295 |
| Other benefits (i) | **1,124** | 1,131 |
| Employer's contribution to pension scheme | **51** | 36 |
| | **2,807** | 3,462 |

Note:

(i) Other benefits include housing allowance and the amortisation to the income statement of the fair value of Pre-IPO Share Options and share options under the Share Option Scheme measured at the respective grant dates, regardless of whether the share options would be exercised or not.

The emoluments of the remaining two (2005: three) individuals fell within the following bands:

| | 2006 | 2005 |
|---|---|---|
| Nil – HK$1,000,000 | **–** | 1 |
| HK$1,000,001 – HK$1,500,000 | **2** | 2 |
| | **2** | 3 |

**(c)** No emolument was paid to the directors of the Company or the five highest individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

## 10 FINANCE COSTS

| | 2006<br>HK$'000 | 2005<br>HK$'000 |
|---|---|---|
| Interest expense | | |
| – bank borrowings wholly repayable within five years | **969** | 2,547 |
| – convertible notes | **–** | 1,250 |
| – financial liabilities | **696** | – |
| | **1,665** | 3,797 |

## 11 INCOME TAX EXPENSE

The Company is exempted from taxation in Bermuda until March 2016. The Company's subsidiaries established in the British Virgin Islands are incorporated under the International Business Companies Acts of the British Virgin Islands and, accordingly, are exempted from British Virgin Islands income taxes. Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits of the Group's operations in Hong Kong.

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

| | 2006<br>HK$'000 | 2005<br>HK$'000 |
|---|---|---|
| Current income tax | | |
| – Hong Kong profits tax | **24,917** | 26,172 |
| Deferred income tax (Note 28) | **3,372** | (991) |
| | **28,289** | 25,181 |

## 11 INCOME TAX EXPENSE (continued)

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the profits tax rate in Hong Kong, where the Group principally operates in, as follows:

| | 2006<br>HK$'000 | 2005<br>HK$'000 |
|---|---|---|
| Profit before taxation | **150,603** | 136,621 |
| Adjustment: share of (profit)/loss of jointly controlled entities | **(4,237)** | 8,863 |
| | **146,366** | 145,484 |
| Calculated at a tax rate of 17.5% (2005: 17.5%) | **25,614** | 25,460 |
| Income not subject to tax | **(2,843)** | (596) |
| Expenses not deductible for tax purposes | **5,518** | 607 |
| Recognition of previously unrecognised tax losses | **–** | (290) |
| Tax expense | **28,289** | 25,181 |

## 12 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of HK$55,963,000 (2005: HK$48,354,000).

## 13 EARNINGS PER SHARE

**Basic**

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

| | 2006<br>HK$'000 | 2005<br>HK$'000 |
|---|---|---|
| Profit attributable to equity holders of the Company | **122,314** | 111,440 |
| Weighted average number of ordinary shares in issue ('000) | **1,035,466** | 703,930 |
| Basic earnings per share (HK$ per share) | **0.12** | 0.16 |

**Diluted**

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: convertible notes (for the year ended 28 February 2005) and share options (for the years ended 28 February 2006 and 2005). The convertible notes are assumed to have been converted into ordinary shares and the net profit is adjusted to eliminate the interest expense less the tax effect. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average daily quoted market share price of the Company's shares) based on the monetary value of the subscription rights attached to the outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

| | 2006<br>HK$'000 | 2005<br>HK$'000 |
|---|---|---|
| Profit attributable to equity holders of the Company | **122,314** | 111,440 |
| Interest expense on convertible notes, net of tax | **–** | 1,250 |
| Profit used to determine diluted earnings per share | **122,314** | 112,690 |
| Weighted average number of ordinary shares in issue ('000) | **1,035,466** | 703,930 |
| Adjustments for | | |
| – share options ('000) | **5,362** | – |
| – assumed conversion of convertible notes ('000) | **–** | 47,148 |
| Weighted average number of ordinary shares for diluted earnings per share ('000) | **1,040,828** | 751,078 |
| Diluted earnings per share (HK$ per share) | **0.12** | 0.15 |

## 14 DIVIDENDS

| | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| Interim, paid | – | 190,000 |
| Final, proposed, of HK4.8 cents (2005: HK4.3 cents) per ordinary share | 49,867 | 44,612 |
| | 49,867 | 234,612 |

During the year ended 28 February 2005, dividend of HK$190,000,000 represented dividend paid by ithk holdings limited, a wholly owned subsidiary, out of its retained profits to its then shareholders before the Reorganisation (see Note 2.1). Approximately HK$121,808,000 of such dividends was settled by offsetting amounts due from a director of ithk holdings limited and certain related parties at the instructions of the relevant shareholders.

A dividend in respect of the year ended 28 February 2006 of HK4.8 cents per share, amounting to a total dividend of HK$49,867,000 is to be proposed for approval at the upcoming Annual General Meeting in July 2006. These financial statements do not reflect this dividend payable.

## 15 FURNITURE AND EQUIPMENT

| | Leasehold improvements HK$'000 | Furniture and equipment HK$'000 | Total HK$'000 |
|---|---|---|---|
| **At 1 March 2004** | | | |
| Cost | 76,133 | 13,981 | 90,114 |
| Accumulated depreciation | (49,053) | (8,324) | (57,377) |
| Net book amount | 27,080 | 5,657 | 32,737 |
| **Year ended 28 February 2005** | | | |
| Opening net book amount | 27,080 | 5,657 | 32,737 |
| Additions | 55,721 | 4,819 | 60,540 |
| Acquisition of a subsidiary | 268 | 32 | 300 |
| Disposals | (2) | (12) | (14) |
| Depreciation | (28,654) | (2,866) | (31,520) |
| Closing net book amount | 54,413 | 7,630 | 62,043 |
| **At 28 February 2005** | | | |
| Cost | 132,120 | 18,816 | 150,936 |
| Accumulated depreciation | (77,707) | (11,186) | (88,893) |
| Net book amount | 54,413 | 7,630 | 62,043 |
| **Year ended 28 February 2006** | | | |
| Opening net book amount | 54,413 | 7,630 | 62,043 |
| Additions | 56,461 | 20,673 | 77,134 |
| Disposals | (459) | (29) | (488) |
| Depreciation | (36,636) | (4,816) | (41,452) |
| Closing net book amount | 73,779 | 23,458 | 97,237 |
| **At 28 February 2006** | | | |
| Cost | 178,727 | 38,819 | 217,546 |
| Accumulated depreciation | (104,948) | (15,361) | (120,309) |
| Net book amount | 73,779 | 23,458 | 97,237 |

Depreciation expense of HK$41,452,000 (2005: HK$31,520,000) has been included in operating expenses.

## 16 INTANGIBLE ASSETS

Intangible assets represent licence right on branded products.

| | HK$'000 |
|---|---|
| **At 1 March 2004 and 28 February 2005** | |
| Cost | – |
| Accumulated amortisation | – |
| Net book amount | – |
| **Year ended 28 February 2006** | |
| Opening net book amount | – |
| Additions | 29,524 |
| Amortisation | (10,355) |
| Closing net book amount | 19,169 |
| **At 28 February 2006** | |
| Cost | 29,524 |
| Accumulated amortisation | (10,355) |
| Net book amount | 19,169 |

Amortisation of licence right of HK$10,355,000 (2005: Nil) has been included in operating expenses.

## 17 INVESTMENTS IN AND DUE FROM SUBSIDIARIES – COMPANY

| | **2006 HK$'000** | 2005 HK$'000 |
|---|---|---|
| Unlisted investments, at cost | **136,880** | 136,880 |
| Due from subsidiaries | **385,170** | 46,293 |
| | **522,050** | 183,173 |

(a) Details of the subsidiaries as at 28 February 2006 are as follows:

| **Name** | **Place of incorporation and operations** | **Issued and fully paid capital** | **Percentage of equity interest attributable to the Group (i)** | **Principal activities** |
|---|---|---|---|---|
| Amwell Development Limited | Hong Kong | HK$300,000 | 100% | Holding leases |
| b+ab (bvi) limited | British Virgin Islands | US$1 | 100% | Investment holding |
| b&ab Limited | Hong Kong | HK$500,000 | 100% | Retail of fashion wears and accessories |
| Blossom Glory Limited | Hong Kong | HK$300,000 | 100% | Retail of fashion wears and accessories |
| Century Team Corporation Limited | Hong Kong | HK$2 | 100% | Investment holding |
| Cheerful Joyce Limited | Hong Kong | HK$2 | 100% | Holding leases |
| Cheersway Development Limited | Hong Kong | HK$2 | 100% | Holding leases |
| Cheerwood Limited | Hong Kong | HK$2 | 100% | Holding leases |
| Double Park Limited | Hong Kong | HK$500,000 | 100% | Retail of fashion wears and accessories |

## 17 INVESTMENTS IN AND DUE FROM SUBSIDIARIES – COMPANY (continued)

| Name | Place of incorporation and operations | Issued and fully paid capital | Percentage of equity interest attributable to the Group (i) | Principal activities |
|---|---|---|---|---|
| Elegance Source Limited | Hong Kong | HK$2 | 100% | Retail of fashion wears and accessories |
| Elegant Century Enterprises Limited | Hong Kong | HK$500,000 | 100% | Holding leases |
| Enwell Limited | Hong Kong | HK$2 | 100% | Holding leases |
| Good Praise Limited | Hong Kong | HK$2 | 100% | Inactive |
| i.t apparels Limited | Hong Kong | HK$500,000 | 100% | Retail and trading of fashion wears and accessories |
| I.T. CHINA (B.V.I.) LIMITED | British Virgin Islands | US$1 | 100% | Investment holding |
| I.T Licensing Limited (previously known as Visionage Limited) | Hong Kong | HK$1 | 100% | Inactive |
| I.T Distribution Limited (previously known as Wasin Limited) | Hong Kong | HK$2 | 100% | Trading of fashion wears and accessories |
| ithk associates limited | British Virgin Islands | US$1 | 100% | Investment holding |
| ithk investments limited | British Virgin Islands | US$1 | 100% | Investment holding |
| ithk holdings limited | British Virgin Islands | US$20,000 | 100% | Investment holding |
| ithk tm limited | British Virgin Islands | US$1 | 100% | Holding trademarks |
| Izzue Limited | Hong Kong | HK$300,000 | 100% | Retail of fashion wears and accessories |
| izzue (bvi) limited | British Virgin Islands | US$1 | 100% | Investment holding |
| Jandix Limited | Hong Kong | HK$2 | 100% | Retail of fashion wears and accessories |
| Janport Limited | Hong Kong | HK$1 | 100% | Holding leases |
| Jetchance Limited | Hong Kong | HK$2 | 100% | Retail of fashion wears and accessories |
| Joyful Fair Limited | Hong Kong | HK$2 | 100% | Investment holding |
| Kenchart Investments Limited | Hong Kong | HK$300,000 | 100% | Retail of fashion wears and accessories |
| King Chart Limited | Hong Kong | HK$10,000 | 100% | Retail of fashion wears and accessories |
| Legend Grace International Limited | Hong Kong | HK$2 | 100% | Retail of fashion wears and accessories |
| Rainbow Hope Investment Limited | Hong Kong | HK$2 | 100% | Holding leases |
| Regent Cheer Limited | Hong Kong | HK$2 | 100% | Holding leases |
| Sanjose Limited | Hong Kong | HK$2 | 100% | Investment holding |

## 17 INVESTMENTS IN AND DUE FROM SUBSIDIARIES – COMPANY (continued)

| Name | Place of incorporation and operations | Issued and fully paid capital | Percentage of equity interest attributable to the Group (i) | Principal activities |
|---|---|---|---|---|
| Sunport Holdings Limited | Hong Kong | HK$2 | 100% | Investment holding |
| Top Honour Corporation Limited | Hong Kong | HK$4,000,000 | 100% | Retail of fashion wears and accessories |
| Tower Group International (HK) Limited | Hong Kong | HK$300,000 | 100% | Inactive |
| Turbo Corporation Limited | Hong Kong | HK$2 | 100% | Holding leases |

Note:–

(i) The shares of ithk holdings limited are held directly by the Company. The shares of the other subsidiaries are held indirectly.

(b) Due from subsidiaries

The amounts due from subsidiaries are unsecured, non-interest bearing and without pre-determined repayment terms.

## 18 INVESTMENTS IN AND DUE FROM JOINTLY CONTROLLED ENTITIES

| | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| Share of net assets | **14,095** | 5,858 |
| Due from jointly controlled entities | **82,161** | 56,292 |
| | **96,256** | 62,150 |
| Less: current portion of due from jointly controlled entities | **(44,557)** | – |
| | **51,699** | 62,150 |

**(a) Share of net assets of jointly controlled entities**

| | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| Beginning of the year | **5,858** | 7,573 |
| Share of results of jointly controlled entities | | |
| – profit/(loss) before taxation | **3,515** | (8,863) |
| – taxation | **722** | – |
| Capital injection | **4,000** | 8,000 |
| Disposal of a jointly controlled entity | **–** | (852) |
| End of the year | **14,095** | 5,858 |

The Group's aggregated share of the revenues, results, assets and liabilities of its jointly controlled entities is as follows:

| | Revenues HK$'000 | Profit/(Loss) HK$'000 | Assets HK$'000 | Liabilities HK$'000 |
|---|---|---|---|---|
| 2006 | 140,692 | 4,237 | 113,707 | (99,612) |
| 2005 | 62,989 | (8,863) | 77,067 | (71,209) |

## 18 INVESTMENTS IN AND DUE FROM JOINTLY CONTROLLED ENTITIES (continued)

### (a) Share of net assets of jointly controlled entities (continued)

Details of the principal jointly controlled entities as at 28 February 2006 are as follows:

| Name | Place of incorporation and operations | Issued and fully paid capital | Percentage of equity interest attributable to the Group indirectly | Principal activities |
|---|---|---|---|---|
| FCUK IT Company | Hong Kong | HK$40,000,000 | 50% | Retail of fashion wears and accessories |
| G.S – i.t Limited | Hong Kong | HK$2 | 50% | Investment holding |

### (b) Due from jointly controlled entities

Amounts due from jointly controlled entities of HK$37,604,000 (2005: HK$56,292,000) are unsecured, non-interest bearing and not repayable within one year. These amounts due from jointly controlled entities are carried at amortised costs using the effective interest rate of 3.0% per annum. As at 28 February 2006, the carrying amounts of these amounts due from jointly controlled entities approximate their fair values.

The remaining balance due from a jointly controlled entity of HK$44,557,000 (2005: Nil) is unsecured, non-interest bearing and repayable on demand.

**(c)** There are no contingent liabilities relating to the Group's investments in the jointly controlled entities, and no contingent liabilities of the jointly controlled entities themselves.

## 19 RENTAL DEPOSITS

Rental deposits are carried at amortised costs using the effective interest rate of 3.0% per annum. As at 28 February 2006, the carrying amounts of rental deposits approximate their fair values.

## 20 INVENTORIES

| | **2006 HK$'000** | 2005 HK$'000 |
|---|---|---|
| Fashion wears and accessories | **147,398** | 101,194 |

As at 28 February 2005, the carrying amount of inventories that was secured for trust receipts import bank loan arrangements amounted to approximately HK$37,075,000 (see Note 24).

## 21 TRADE RECEIVABLES

The Group's sales are mainly in cash or credit/debit cards. The Group grants to a limited number of corporate customers credit periods generally ranging from 30 to 60 days. As at 28 February 2006, all trade receivables were aged between 0 and 90 days (2005: between 0 and 90 days).

The carrying amounts of trade receivables approximate their fair values.

## 22 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | **Consolidated** | | **Company** | |
|---|---|---|---|---|
| | **2006 HK$'000** | 2005 HK$'000 | **2006 HK$'000** | 2005 HK$'000 |
| Prepayments | **22,298** | 10,326 | **–** | – |
| Rental and utility deposits | **23,024** | 14,906 | **–** | – |
| Other receivables | **380** | 4,072 | **538** | 3,669 |
| | **45,702** | 29,304 | **538** | 3,669 |

The carrying amounts of deposits and other receivables approximate their fair values.

## 23 PLEDGED BANK DEPOSITS, CASH AND CASH EQUIVALENTS

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Pledged bank deposits | **750** | 17,750 | **–** | – |
| Cash at bank and in hand | **119,238** | 543,897 | **306** | 463,835 |
| Short-term bank deposits | **305,643** | 18,086 | **213,878** | – |
| | **425,631** | 579,733 | **214,184** | 463,835 |

The effective interest rate on short-term bank deposits was 2.97% (2005: 0.84%) per annum; these deposits have an average maturity of 15 (2005: 33) days.

Pledged bank deposits, cash and cash equivalents are denominated in the following currencies:

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Hong Kong dollar | **403,568** | 573,232 | **214,184** | 463,835 |
| Euros | **19,250** | 2,760 | **–** | – |
| US dollar | **523** | 2,721 | **–** | – |
| Pound sterling | **895** | 36 | **–** | – |
| Japanese yen | **1,395** | 984 | **–** | – |
| | **425,631** | 579,733 | **214,184** | 463,835 |

## 24 BORROWINGS

| | **2006** | 2005 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Current | | |
| Bank overdrafts | **–** | 26 |
| Trust receipts import bank loans | **–** | 37,075 |
| Long-term bank borrowings, repayable within one year | **–** | 93,360 |
| | **–** | 130,461 |
| Non-current | | |
| Long-term bank borrowings, repayable between one and two years | **–** | 26,640 |
| Long-term bank borrowings, repayable between two and five years | **–** | 25,000 |
| | **–** | 51,640 |
| Total borrowings | **–** | 182,101 |

The effective interest rates at the balance sheet date were as follows:

| | **2006** | 2005 |
|---|---|---|
| Bank overdrafts | **–** | 5.50% |
| Trust receipts import bank loans | **–** | 4.46% |
| Long-term bank borrowings | **–** | 3.46% |

The carrying amounts of the Group's borrowings approximated their fair values.

The Group's borrowings were denominated in Hong Kong dollars.

Details of the Group's banking facilities are set out in Note 32.

## 25 TRADE AND BILLS PAYABLES

The ageing analysis of trade and bills payables is as follows:

| | 2006<br>HK$'000 | 2005<br>HK$'000 |
|---|---|---|
| 0 to 30 days | **41,543** | 38,051 |
| 31 to 60 days | **4,883** | 2,342 |
| 61 to 90 days | **529** | 324 |
| 91 to 180 days | **852** | 110 |
| 181 to 365 days | **256** | 38 |
| Over 365 days | **88** | 8 |
| | **48,151** | 40,873 |

## 26 ACCRUALS AND OTHER PAYABLES

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2006<br>HK$'000 | 2005<br>HK$'000 | 2006<br>HK$'000 | 2005<br>HK$'000 |
| Unutilised coupon | **2,040** | 1,584 | **–** | – |
| Accruals | | | | |
| – Rental premises | **33,394** | 26,908 | **–** | – |
| – Employment costs | **10,941** | 13,997 | **–** | – |
| – Others | **8,963** | 10,315 | **38** | 2,119 |
| Licence fee payable | **15,718** | – | **–** | – |
| Other payables | **2,071** | 2,592 | **–** | – |
| | **73,127** | 55,396 | **38** | 2,119 |
| Less non-current portion: Licence fee payable | **(10,388)** | – | **–** | – |
| | **62,739** | 55,396 | **38** | 2,119 |

Licence fee payable is recognised based on a discount rate equal to the Group's weighted average borrowing rate of 4% per annum at the date of inception of such an obligation.

The carrying amounts of payables approximate their fair values.

## 27 DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments represented forward currency contracts designated as cash flow hedges. Gains and losses in equity on forward currency contracts as at 28 February 2006 will be released to the income statement at various dates between six months to one year from that date.

## 28 DEFERRED INCOME TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

| | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| Deferred income tax assets: | | |
| – Deferred income tax assets to be recovered after more than 12 months | **124** | 493 |
| – Deferred income tax assets to be recovered within 12 months | **452** | 2,149 |
| | **576** | 2,642 |
| Deferred income tax liabilities: | | |
| – Deferred income tax liabilities to be settled after more than 12 months | **(2,231)** | (925) |
| | **(1,655)** | 1,717 |

The movements on the net deferred income tax (liabilities)/assets accounts are as follows:

| | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| At beginning of the year | **1,717** | 726 |
| Recognised in the income statement (Note 11) | **(3,372)** | 991 |
| At end of the year | **(1,655)** | 1,717 |

Deferred income tax assets are recognised for tax losses carry forward to the extent that realisation of the related tax benefit through the future taxable profits is probable. Such tax loss has no expiry date. As at 28 February 2006, the Group has no material unrecognised tax losses to carry forward against future taxable income.

The movements in deferred tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) are as follows:

**Deferred tax liabilities**

| | Accelerated tax depreciation | |
|---|---|---|
| | 2006 HK$'000 | 2005 HK$'000 |
| At beginning of the year | **(1,520)** | (338) |
| Recognised in the income statement | **(718)** | (1,182) |
| At end of the year | **(2,238)** | (1,520) |

**Deferred tax assets**

| | Decelerated tax depreciation | | Tax losses | | Total | |
|---|---|---|---|---|---|---|
| | 2006 HK$'000 | 2005 HK$'000 | 2006 HK$'000 | 2005 HK$'000 | 2006 HK$'000 | 2005 HK$'000 |
| At beginning of the year | **2,706** | 864 | **531** | 200 | **3,237** | 1,064 |
| Recognised in the income statement | **(2,209)** | 1,842 | **(445)** | 331 | **(2,654)** | 2,173 |
| At end of the year | **497** | 2,706 | **86** | 531 | **583** | 3,237 |

## 29 SHARE CAPITAL

Movements were:

| | Note | **Number of shares** '000 | **Nominal value** HK$'000 |
|---|---|---|---|
| Authorised: | | | |
| **At 18 October 2004 (date of incorporation)** | | | |
| Ordinary shares of HK$1 each upon incorporation | (i) | 100 | 100 |
| Subdivision of shares | (iii) | 900 | – |
| Ordinary shares of HK$0.1 each | | 1,000 | 100 |
| Increase in authorised share capital | (iv) | 2,999,000 | 299,900 |
| **At 28 February 2005 and 28 February 2006** | | | |
| Ordinary shares of HK$0.1 each | | 3,000,000 | 300,000 |
| Issued and fully paid: | | | |
| **At 18 October 2004 (date of incorporation)** | | | |
| Ordinary shares of HK$1 each allotted and issued nil paid | (ii) | 100 | – |
| Subdivision of shares | (iii) | 900 | – |
| Ordinary shares of HK$0.1 each | | 1,000 | – |
| On acquisition of ithk holdings limited | | | |
| – nil paid shares credited as fully paid | (v) | – | 100 |
| – consideration shares issued | (v) | 1,000 | 100 |
| Capitalisation of share premium account | (vi) | 748,000 | 74,800 |
| New issue of shares | (vii) | 250,000 | 25,000 |
| **At 28 February 2005** | | | |
| Ordinary shares of HK$0.1 each | | 1,000,000 | 100,000 |
| New issue of shares | (viii) | 37,500 | 3,750 |
| Share option scheme | | | |
| – issue of shares | (ix) | 1,400 | 140 |
| **At 28 February 2006** | | | |
| Ordinary shares of HK$0.1 each | | 1,038,900 | 103,890 |

Notes:–

(i) On 18 October 2004 (date of incorporation), the authorised share capital of the Company was HK$100,000, divided into 100,000 ordinary shares of HK$1 each.

(ii) On 19 October 2004, 100,000 ordinary shares of HK$1 each were allotted and issued as nil paid.

(iii) On 3 February 2005, the Company subdivided all its issued shares of HK$1 each into ten shares of HK$0.1 each.

(iv) On 3 February 2005, the authorised share capital of the Company was increased from HK$100,000 to HK$300,000,000, by the creation of additional 2,999,000,000 shares of HK$0.1 each.

(v) On 5 February 2005, the Company:

- credited as fully paid at par value of HK$0.1 each 1,000,000 ordinary shares, which were previously allotted and issued as nil paid; and
- further allotted and issued 1,000,000 ordinary shares of the Company, credited as fully paid at par value of HK$0.1 each,

as consideration of and in exchange for the entire issued share capital of ithk holdings limited in connection with the Reorganisation (see Note 2.1).

(vi) On 5 February 2005, 748,000,000 ordinary shares of the Company were allotted and issued, credited as fully paid at par value of HK$0.1 each to the then existing shareholders of the Company in proportion to their respective shareholdings, by the capitalisation of HK$74,800,000 from the share premium account. Such allotment and capitalisation were conditional on the share premium account being credited as a result of the new shares issued in connection with the listing of the Company's shares on The Stock Exchange of Hong Kong Limited ("the Listing") as described in (vii) below.

(vii) On 28 February 2005, the Company issued 250,000,000 ordinary shares of HK$0.1 each at HK$1.95 per share in connection with the Listing, and raised gross proceeds of approximately HK$487,500,000.

(viii) On 26 March 2005, the Company issued 37,500,000 ordinary shares of HK$0.1 each at HK$1.95 per share under an over-allotment arrangement in connection with the Listing, and raised gross proceeds of HK$73,125,000.

(ix) In September 2005, the Company issued 1,400,000 ordinary shares of HK$0.1 each at HK$0.1 per share upon the exercise of certain Pre-IPO Share Options (see below).

## 29 SHARE CAPITAL (continued)

### Share options

(a) On 7 February 2005, the Company granted Pre-IPO Share Options to a director and certain employees (including a consultant) of the Group to subscribe for an aggregate of 7,200,000 shares in the Company at a price of HK$0.1 per share, exercisable during the period from 4 September 2005 to 7 February 2008.

Movements in the number of Pre-IPO Share Options and the exercise prices of the related Pre-IPO Share Options are as follows:

| | **2006** | | 2005 | |
|---|---|---|---|---|
| | **Exercise price per share HK$** | **Options '000** | Exercise price per share HK$ | Options '000 |
| At beginning of the year | **0.1** | **7,200** | – | – |
| Granted | **–** | **–** | 0.1 | 7,200 |
| Exercised | **0.1** | **(1,400)** | – | – |
| At end of the year | **0.1** | **5,800** | 0.1 | 7,200 |

The fair value of Pre-IPO Share Options granted on 7 February 2005 determined using the Binomial Option Pricing Model was approximately HK$1.71 per share option, totalling approximately HK$12,338,000.

(b) The Company adopted a share option scheme ("Share Option Scheme") on 3 February 2005, pursuant to which it may grant options to eligible participants as defined in the Share Option Scheme to subscribe for shares in the Company at a price per share of not less than the highest of (i) the nominal value of a share; (ii) the closing price of a share as stated in the daily quotation sheets issued by The Stock Exchange of Hong Kong Limited on the date of the offer of the relevant option; and (iii) the average closing price of the shares as stated in the daily quotation sheets issued by The Stock Exchange of Hong Kong Limited for the five business days immediately preceding the date of offer. A consideration of HK$1 is payable on acceptance of the grant of options. The maximum number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other scheme to be adopted by the Company from time to time must not in aggregate exceed 30% of the share capital of the Company in issue from time to time. The Share Option Scheme will remain in force for a period of 10 years up to February 2015.

On 28 April 2005, the Company granted options under the Share Option Scheme to a director and certain employees of the Group to subscribe for an aggregate of 15,750,000 shares in the Company at a price of HK$2.35 per share, exercisable during the period from 28 April 2005 to 27 April 2008.

Movements in the number of options under the Share Option Scheme and the exercise prices of the related share options are as follows:

| | **2006** | |
|---|---|---|
| | **Exercise price per share HK$** | **Options '000** |
| At beginning of the year | **–** | – |
| Granted | **2.35** | 15,750 |
| Forfeited | **2.35** | (800) |
| At end of the year | **2.35** | 14,950 |

The fair value of options granted on 28 April 2005 determined using the Binomial Option Pricing Model was approximately HK$0.18 per share option, totalling approximately HK$2,859,000.

## 29 SHARE CAPITAL (continued)

**Share options** (continued)

(c) The significant inputs into the Binomial Option Pricing Model were as follows:

| | Pre-IPO Share Options | Options under the Share Option Scheme |
|---|---|---|
| Share price at the grant date | **HK$1.95** | HK$2.10 |
| Exercise price per share | **HK$0.10** | HK$2.35 |
| Standard deviation of expected share price returns | **33.00%** | 33.00% |
| Expected life of options | **3 years** | 1.6 years |
| Expected dividend paid out rate | **2.50%** | 2.50% |
| Annual risk free rate | **2.15%** | 2.79% |

## 30 RESERVES

**(a) Group**

| | Share premium HK$'000 | Share-based compensation reserves HK$'000 | Capital reserve (i) HK$'000 | Retained profits HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| Balance at 1 March 2004 | – | – | 1,202 | 190,318 | 191,520 |
| Profit for the year | – | – | – | 111,440 | 111,440 |
| Effect of the Reorganisation (Note 2.1) | – | – | 31,135 | – | 31,135 |
| Capitalisation of share premium account (Note 29(vi)) | (74,800) | – | – | – | (74,800) |
| Issue of shares in connection with the Listing (Note 29(vii)) | 462,500 | – | – | – | 462,500 |
| Share issue costs | (33,977) | – | – | – | (33,977) |
| Share option schemes | | | | | |
| – value of employment services | – | 1,293 | – | – | 1,293 |
| Dividend of a subsidiary | – | – | – | (190,000) | (190,000) |
| Balance at 28 February 2005 | 353,723 | 1,293 | 32,337 | 111,758 | 499,111 |
| Representing – | | | | | |
| 2005 Final dividend proposed | | | | 44,612 | |
| Others | | | | 67,146 | |
| | | | | 111,758 | |
| Analysed by – | | | | | |
| Company and subsidiaries | 353,723 | 1,293 | 32,337 | 121,900 | 509,253 |
| Jointly controlled entities | – | – | – | (10,142) | (10,142) |
| Balance at 28 February 2005 | 353,723 | 1,293 | 32,337 | 111,758 | 499,111 |

## 30 RESERVES (continued)

### (a) Group (continued)

| | Share premium HK$'000 | Share-based compensation reserves HK$'000 | Capital reserve (i) HK$'000 | Hedging reserve HK$'000 | Retained profits HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| Balance at 1 March 2005, as previously reported | 353,723 | – | 32,337 | – | 113,051 | 499,111 |
| Share option schemes | | | | | | |
| – value of employment services | – | 1,293 | – | – | (1,293) | – |
| Balance at 1 March 2005, as restated | 353,723 | 1,293 | 32,337 | – | 111,758 | 499,111 |
| Opening adjustment for the adoption of HKAS 39 | – | – | – | – | (13,145) | (13,145) |
| Balance at 1 March 2005, after opening adjustment | 353,723 | 1,293 | 32,337 | – | 98,613 | 485,966 |
| Profit for the year | – | – | – | – | 122,314 | 122,314 |
| Cash flow hedge | | | | | | |
| – fair value losses | – | – | – | (2,430) | – | (2,430) |
| – transfers to income statement | – | – | – | 273 | – | 273 |
| – transfers to inventories | – | – | – | 422 | – | 422 |
| Issue of shares in connection with the Listing (Note 29(viii)) | 69,375 | – | – | – | – | 69,375 |
| Share issue costs | (1,836) | – | – | – | – | (1,836) |
| Share option schemes | | | | | | |
| – value of employment services | – | 13,904 | – | – | – | 13,904 |
| Exercise of share options | 2,399 | (2,399) | – | – | – | – |
| Dividend | – | – | – | – | (44,612) | (44,612) |
| Balance at 28 February 2006 | 423,661 | 12,798 | 32,337 | (1,735) | 176,315 | 643,376 |
| Representing – | | | | | | |
| 2006 Final dividend proposed | | | | | 49,867 | |
| Others | | | | | 126,448 | |
| | | | | | 176,315 | |
| Analysed by – | | | | | | |
| Company and subsidiaries | 423,661 | 12,798 | 32,337 | (1,735) | 182,220 | 649,281 |
| Jointly controlled entities | – | – | – | – | (5,905) | (5,905) |
| Balance at 28 February 2006 | 423,661 | 12,798 | 32,337 | (1,735) | 176,315 | 643,376 |

## 30 RESERVES (continued)

### (b) Company

| | Share premium HK$'000 | Share-based compensation reserves HK$'000 | Contributed surplus (ii) HK$'000 | Retained profits HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| Balance at 1 March 2004 | – | – | – | – | – |
| Profit for the year | – | – | – | 48,354 | 48,354 |
| Capitalisation in paying up nil paid shares (Note 29(v)) | – | – | (100) | – | (100) |
| Effect of the Reorganisation (Note 2.1) | – | – | 136,780 | – | 136,780 |
| Capitalisation of share premium account (Note 29(vi)) | (74,800) | – | – | – | (74,800) |
| Issue of shares in connection with the Listing (Note 29(vii)) | 462,500 | – | – | – | 462,500 |
| Share issue costs | (33,977) | – | – | – | (33,977) |
| Share option schemes – value of employment services | – | 1,293 | – | – | 1,293 |
| Balance at 28 February 2005 | 353,723 | 1,293 | 136,680 | 48,354 | 540,050 |
| Representing – | | | | | |
| 2005 Final dividend proposed | | | | 44,612 | |
| Others | | | | 3,742 | |
| | | | | 48,354 | |
| Balance at 1 March 2005, as previously reported | 353,723 | – | 136,680 | 48,354 | 538,757 |
| Share option schemes – value of employment services | – | 1,293 | – | – | 1,293 |
| Balance at 1 March 2005, as restated | 353,723 | 1,293 | 136,680 | 48,354 | 540,050 |
| Profit for the year | – | – | – | 55,963 | 55,963 |
| Issue of shares in connection with the Listing (Note 29(viii)) | 69,375 | – | – | – | 69,375 |
| Share issue costs | (1,836) | – | – | – | (1,836) |
| Share option schemes – value of employment services | – | 13,904 | – | – | 13,904 |
| Exercise of share options | 2,399 | (2,399) | – | – | – |
| Dividend | – | – | – | (44,612) | (44,612) |
| Balance at 28 February 2006 | 423,661 | 12,798 | 136,680 | 59,705 | 632,844 |
| Representing – | | | | | |
| 2006 Final dividend proposed | | | | 49,867 | |
| Others | | | | 9,838 | |
| | | | | 59,705 | |

Notes:–

(i) Capital reserve of the Group represents (a) the difference between the nominal value of the shares of subsidiaries acquired pursuant to a group reorganisation effected on 8 March 2000 over the nominal value of the share capital of ithk holdings limited issued in exchange therefor, (b) the difference between the nominal value of shares of ithk holdings limited acquired pursuant to the Reorganisation (see Note 2.1) over the nominal value of the share capital of the Company issued in exchange therefor, and (c) the share premium of ithk holdings limited arising from the conversion of convertible notes before the Reorganisation.

(ii) Contributed surplus of the Company represents the difference between the costs of investments in subsidiaries acquired pursuant to the Reorganisation (see Note 2.1) over the nominal value of the share capital of the Company issued in exchange therefor.

## 31 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

### (a) Cash generated from operations

| | 2006<br>HK$'000 | 2005<br>HK$'000 |
|---|---|---|
| Profit for the year | **122,314** | 111,440 |
| Adjustments for: | | |
| – Income tax expense | **28,289** | 25,181 |
| – Interest expense | **1,665** | 3,797 |
| – Interest income | **(16,657)** | (3,407) |
| – Share of (profit)/loss of jointly controlled entities | **(4,237)** | 8,863 |
| – Depreciation of furniture and equipment | **41,452** | 31,520 |
| – Amortisation of intangible assets | **10,355** | – |
| – Fair value loss on derivative financial instruments | **273** | – |
| – Loss/(Gain) on disposal of furniture and equipment | **488** | (3) |
| – Share option costs | **13,904** | 1,293 |
| | **197,846** | 178,684 |
| Changes in workings capital: | | |
| – Increase in rental deposits | **(1,503)** | (11,030) |
| – Increase in other asset | **(1,080)** | – |
| – Increase in inventories | **(45,782)** | (33,873) |
| – Decrease/(Increase) in trade receivables | **3,202** | (1,128) |
| – Increase in prepayments, deposits and other receivables | **(16,398)** | (12,039) |
| – Increase in trade and bills payables | **7,278** | 16,170 |
| – Increase in accruals and other payables | **19,065** | 31,670 |
| Cash generated from operations | **162,628** | 168,454 |

**(b)** In the cash flow statement, proceeds from disposal of furniture and equipment comprises:

| | 2006<br>HK$'000 | 2005<br>HK$'000 |
|---|---|---|
| Net book value (Note 15) | **488** | 14 |
| (Loss)/Gain on disposal of furniture and equipment | **(488)** | 3 |
| Proceeds from disposal of furniture and equipment | **–** | 17 |

**(c)** Analysis of cash and cash equivalents:

| | 2006<br>HK$'000 | 2005<br>HK$'000 |
|---|---|---|
| Cash and bank deposits | **424,881** | 561,983 |
| Bank overdrafts | **–** | (26) |
| | **424,881** | 561,957 |

## 32 BANKING FACILITIES AND PLEDGE OF ASSETS

As at 28 February 2006, the Group had aggregate banking facilities of approximately HK$312,500,000 (2005: HK$369,127,000) for overdrafts, bank loans and trade financing, of which approximately HK$235,063,000 (2005: HK$122,197,000) was unutilised as at the same date. These facilities were secured by:

(i) the Group's bank deposits of HK$750,000 (2005: HK$17,750,000);

(ii) the Group's inventories held under trust receipts import bank loan arrangements (see Note 20); and

(iii) corporate guarantees provided by the Company and certain subsidiaries.

In addition, the Group has agreed with certain banks to comply with certain restrictive financial covenants.

## 33 COMMITMENTS AND CONTINGENT LIABILITIES

### (a) Operating lease commitments

The Group leases various retail shops, offices and warehouses under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights. The future aggregate minimal lease payments are as follows:

| | **2006** **HK$'000** | 2005 HK$'000 |
|---|---|---|
| Not later than one year | **220,077** | 183,799 |
| Later than one year and not later than five year | **265,482** | 231,630 |
| Later than five years | **4,637** | 1,660 |
| | **490,196** | 417,089 |

The above lease commitments only include commitments for basic rentals, and do not include commitments for additional rental payable (contingent rents), if any, which are to be determined generally by applying pre-determined percentages to future sales less the basic rentals of the respective leases, as it is not possible to determine in advance the amount of such additional rentals.

### (b) Contingent liabilities

| | **2006** **HK$'000** | 2005 HK$'000 |
|---|---|---|
| Letters of guarantee issued by banks in lieu of rental deposits | **16,660** | 12,204 |
| Corporate guarantees in respect of bank loans granted by banks to certain related companies | **–** | 31,200 |
| | **16,660** | 43,404 |

The Company's Directors and the Group's management anticipate that no material liabilities will arise from the above bank and other guarantees which arose in the ordinary course of business.

### (c) Forward foreign currency exchange contracts

As at 28 February 2006, the Group has commitment in respect of outstanding forward currency exchange contracts to buy Japanese yen, Pound sterling and Euros, to hedge against foreign exchange risk exposures relating to firm purchase orders of fashion wears and accessories and certain outstanding payables denominated in those currencies, as follows:

| | **2006** **HK$'000** | 2005 HK$'000 |
|---|---|---|
| Forward currency exchange contracts | **75,650** | 57,320 |

## 34 RELATED PARTY TRANSACTIONS

The Group is controlled by Effective Convey Limited (incorporated in the British Virgin Islands) and 3WH Limited (incorporated in Hong Kong), each of which owns 32.35% of the Company's shares as at 28 February 2006.

(a) Details of significant transactions with related parties are:

| | **2006** **HK$'000** | 2005 HK$'000 |
|---|---|---|
| Sales of fashion wears and accessories to a jointly controlled entity | **47,970** | 9,793 |
| Royalty income earned from a jointly controlled entity | **3,843** | – |
| Reimbursement of operating expenses by jointly controlled entities | **4,563** | 2,888 |

## 34 RELATED PARTY TRANSACTIONS (continued)

(b) Key management compensation:

| | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| Fees | **67** | 55 |
| Salaries and allowances | **17,062** | 15,377 |
| Bonuses | **–** | 943 |
| Pension costs–employer's contributions to a defined contribution plan | **348** | 292 |
| Share option costs | **5,426** | 395 |
| Staff welfare and benefits | **2,656** | 2,055 |
| | **25,559** | 19,117 |

(c) During the year ended 28 February 2006, 3,000,000 options under the Share Option Scheme were granted to a director of the Company to subscribe for 3,000,000 ordinary shares in the Company at an exercise price of HK$2.35 per share (see Note 29(b)). During the year ended 28 February 2005, 600,000 Pre-IPO Share Options were granted to a director of the Company to subscribe for 600,000 ordinary shares in the Company at an exercise price of HK$0.1 per share (see Note 29(a)).

# FIVE YEAR FINANCIAL SUMMARY

## CONSOLIDATED INCOME STATEMENT

| | **Year ended 28 February 2006 HK$'000** | Year ended 28 February 2005 HK$'000 As restated | Year ended 29 February 2004 HK$'000 | Year ended 28 February 2003 HK$'000 | Year ended 28 February 2002 HK$'000 |
|---|---|---|---|---|---|
| Turnover | **1,314,443** | 1,041,017 | 812,168 | 731,983 | 695,051 |
| Cost of sales | **(540,243)** | (406,546) | (326,571) | (316,280) | (310,804) |
| Gross profit | **774,200** | 634,471 | 485,597 | 415,703 | 384,247 |
| Other gains, net | **16,384** | 3,407 | 128 | 215 | 216 |
| Operating expenses | **(642,553)** | (488,597) | (361,684) | (344,441) | (318,236) |
| Operating profit | **148,031** | 149,281 | 124,041 | 71,477 | 66,227 |
| Finance costs | **(1,665)** | (3,797) | (4,298) | (9,863) | (11,772) |
| Share of profit /(loss) of jointly controlled entities | **4,237** | (8,863) | (1,792) | 110 | (276) |
| Gain on disposal of subsidiaries | **–** | – | 9,012 | – | – |
| Profit before taxation | **150,603** | 136,621 | 126,963 | 61,724 | 54,179 |
| Income tax expense | **(28,289)** | (25,181) | (21,373) | (13,770) | (10,310) |
| Profit for the year, attributable to equity holders of the Company | **122,314** | 111,440 | 105,590 | 47,954 | 43,869 |
| Dividends | **49,867** | 234,612 | 20,000 | 20,000 | 20,000 |

**CONSOLIDATED BALANCE SHEETS**

| | **As at 28 February 2006 HK$'000** | As at 28 February 2005 HK$'000 | As at 29 February 2004 HK$'000 | As at 28 February 2003 HK$'000 | As at 28 February 2002 HK$'000 |
|---|---|---|---|---|---|
| ASSETS | | | | | |
| Non-current assets | | | | | |
| Furniture and equipment | **97,237** | 62,043 | 32,737 | 20,001 | 38,878 |
| Intangible assets | **19,169** | – | – | – | – |
| Investments in and due from jointly controlled entities | **51,699** | 62,150 | 33,503 | 2,497 | 2,215 |
| Rental deposits | **43,418** | 40,858 | 29,139 | 17,185 | 24,281 |
| Due from related companies | **–** | – | 51,221 | 23,601 | 35,369 |
| Deferred income tax assets | **576** | 2,642 | 904 | 1,172 | 354 |
| Other assets | **1,080** | – | – | – | – |
| | **213,179** | 167,693 | 147,504 | 64,456 | 101,097 |
| Current assets | | | | | |
| Inventories | **147,398** | 101,194 | 66,216 | 53,189 | 55,027 |
| Trade receivables | **6,638** | 9,840 | 8,622 | 2,737 | 2,814 |
| Due from a joinly controlled entity | **44,557** | – | – | – | – |
| Prepayments, deposits and other receivables | **45,702** | 29,304 | 13,685 | 17,063 | 6,544 |
| Due from directors | **–** | – | 17,927 | 30,734 | 15,445 |
| Due from related parties | **–** | – | 40 | – | – |
| Pledged bank deposits | **750** | 17,750 | 750 | 5,220 | 5,162 |
| Cash and cash equivalents | **424,881** | 561,983 | 53,406 | 75,832 | 34,026 |
| | **669,926** | 720,071 | 160,646 | 184,775 | 119,018 |
| LIABILITIES | | | | | |
| Current liabilities | | | | | |
| Borrowings | **–** | (130,461) | (21,443) | (65,221) | (10,254) |
| Trade and bills payables | **(48,151)** | (40,873) | (24,662) | (30,479) | (27,890) |
| Accruals and other payables | **(62,739)** | (55,396) | (21,464) | (19,595) | (24,530) |
| Derivative financial instruments | **(2,430)** | – | – | – | – |
| Current income tax liabilities | **(9,900)** | (9,358) | (7,680) | (7,962) | (5,081) |
| Dividend payable | **–** | – | (10,000) | (20,000) | – |
| | **(123,220)** | (236,088) | (85,249) | (143,257) | (67,755) |
| Net current assets | **546,706** | 483,983 | 75,397 | 41,518 | 51,263 |
| Total assets less current liabilities | **759,885** | 651,676 | 222,901 | 105,974 | 152,360 |
| Non-current liabilities | | | | | |
| Borrowings | **–** | (51,640) | (31,195) | – | (53,034) |
| Other payables | **(10,388)** | – | – | – | – |
| Deferred income tax liabilities | **(2,231)** | (925) | (178) | (47) | (1,342) |
| | **(12,619)** | (52,565) | (31,373) | (47) | (54,376) |
| Net assets | **747,266** | 599,111 | 191,528 | 105,927 | 97,984 |
| EQUITY | | | | | |
| Capital and reserves attributable to the Company's equity holders | | | | | |
| Share capital | **103,890** | 100,000 | 8 | 8 | 8 |
| Reserves | **643,376** | 499,111 | 191,520 | 105,919 | 97,976 |
| Total equity | **747,266** | 599,111 | 191,528 | 105,927 | 97,984 |

Note: The results of the Group for the years ended 28 February 2002, 28 February 2003 and 29 February 2004 and its assets and liabilities were extracted from the Company's Prospectus dated 22 February 2005, which also set out the details of the basis of presentation of the combined financial statements. The results of the Group for the year ended 28 February 2005 and its assets and liabilities as at 28 February 2005 are set out on pages 55 and 56 respectively, of this annual report and are presented on the basis set out in Note 2.1 to the financial statements.