# I.T LIMITED

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 999)**

## ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 29 FEBRUARY 2008

- Total revenue of the Group increased by 32.0% to HK$2,021.3 million.
- Total retail sales in Hong Kong increased by 23.2% to HK$1,769.1 million, and comparable store sales increased by 15.7%.
- Total retail sales in Mainland China (included sales of HK$255.1 million of the previous China joint venture for the period from 1 March 2007 to 28 November 2007, which were not consolidated in the Group's accounts) increased by 33.0% to HK$400.7 million, and comparable store sales increased by 28.1%.
- Total net profit of the Group increased by 39.7% to HK$171.0 million.
- China (including Macau and Taiwan) operation achieved breakeven for the full year.
- Proposed final dividend per share was HK8.5 cents. Total dividend (interim dividend plus proposed final dividend) per share was HK10.6 cents, representing an increase of 112% over last year.

The board of directors (the "Board") of I.T Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 29 February 2008, prepared on the basis set out in Note 1, together with the comparative figures for the year ended 28 February 2007, as follows:

## CONSOLIDATED INCOME STATEMENT

***FOR THE YEAR ENDED 29 FEBRUARY 2008***

| | *Note* | **Year ended 29 February 2008** ***HK$'000*** | Year ended 28 February 2007 *HK$'000* |
|---|---|---|---|
| Turnover | 2 | **2,021,283** | 1,530,763 |
| Cost of sales | 4 | **(819,423)** | (640,442) |
| Gross profit | | **1,201,860** | 890,321 |
| Other gains/(losses), net | 3 | **1,900** | (4,395) |
| Operating expenses | 4 | **(1,002,046)** | (749,898) |
| Operating profit | | **201,714** | 136,028 |
| Finance income, net | 5 | **13,590** | 16,010 |
| Share of loss of jointly controlled entities | | **(4,828)** | (3,912) |
| Profit before income tax | | **210,476** | 148,126 |
| Income tax expense | 6 | **(39,505)** | (25,723) |
| Profit for the year | | **170,971** | 122,403 |
| Earnings per share for profit for the year (expressed in HK$ per share) | | | |
| – basic | 8 | **HK$0.16** | HK$0.12 |
| – diluted | 8 | **HK$0.16** | HK$0.12 |
| Dividends | 7 | **119,982** | 51,985 |

## CONSOLIDATED BALANCE SHEET

*AS AT 29 FEBRUARY 2008*

| | Note | **As at 29 February 2008** *HK$'000* | As at 28 February 2007 *HK$'000* |
|---|---|---|---|
| **ASSETS** | | | |
| Non-current assets | | | |
| Furniture and equipment | | **179,850** | 93,191 |
| Intangible assets | | **311,898** | 14,819 |
| Investments in and amounts due from jointly controlled entities | | **21,974** | 83,233 |
| Rental deposits | | **77,424** | 56,352 |
| Deferred income tax assets | | **24,412** | 5,761 |
| Other assets | | **6,030** | 2,330 |
| | | **621,588** | 255,686 |
| Current assets | | | |
| Inventories | | **323,724** | 196,299 |
| Trade and other receivables | 9 | **39,645** | 9,902 |
| Amount due from jointly controlled entities | | **41,080** | 82,437 |
| Prepayments and other deposits | | **98,920** | 81,360 |
| Derivative financial instruments | | **2,539** | 1,883 |
| Pledged bank deposits | | **750** | 750 |
| Cash and cash equivalents | | **424,173** | 364,820 |
| | | **930,831** | 737,451 |
| **LIABILITIES** | | | |
| Current liabilities | | | |
| Short-term bank borrowings | 11 | **(10,000)** | – |
| Trade and bill payables | 10 | **(121,840)** | (66,805) |
| Accruals and other payables | | **(140,200)** | (71,648) |
| Amount due to a jointly controlled entity | | **(15,583)** | – |
| Derivative financial instruments | | **–** | (424) |
| Current income tax liabilities | | **(30,510)** | (19,423) |
| | | **(318,133)** | (158,300) |
| Net current assets | | **612,698** | 579,151 |
| Total assets less current liabilities | | **1,234,286** | 834,837 |
| Non-current liabilities | | | |
| Other payables | | **(8,925)** | (7,585) |
| Deferred income tax liabilities | | **(4,524)** | (499) |
| | | **(13,449)** | (8,084) |
| Net assets | | **1,220,837** | 826,753 |
| **EQUITY** | | | |
| Capital and reserves | | | |
| Share capital | | **115,468** | 103,950 |
| Reserves | | **1,105,369** | 722,803 |
| Total equity | | **1,220,837** | 826,753 |

*NOTES:*

**1. Principal accounting policies**

**Basis of preparation**

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and the Interpretations issued by Hong Kong Institute of Certified Public Accountants. They 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.

The accounting policies and method of computation used in the preparation of the financial statements are consistent with those used in the year ended 28 February 2007 except for the adoption of new and revised HKFRSs and HKASs which are effective for accounting periods beginning on or after 1 March 2007.

The Group has adopted HKFRS 7 "Financial Instruments: Disclosures", and the complementary Amendment to HKAS 1 "Presentation of Financial Statements – Capital Disclosures" which introduced new disclosures relating to financial instruments and capital management, respectively.

(a) The following new interpretations are effective on 1 March 2007 but do not have significant impact to the Group's operations:

- HK(IFRIC) – Int 8, "Scope of HKFRS 2"
- HK(IFRIC) – Int 9, "Reassessment of Embedded Derivatives"
- HK(IFRIC) – Int 10, "Interim Financial Reporting and Impairment"
- HK(IFRIC) – Int 11, "HKFRS 2 – Group and Treasury Share Transfer"

(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 March 2008 or later periods, but the Group has not early adopted them:

- HKAS 1 (Revised), "Presentation of Financial Statements"
- HKAS 23 (Revised), "Borrowing Costs"
- HKAS 27 (Revised), "Consolidated and Separate Financial Statements"
- HKFRS 3 (Revised), "Business Combination"
- HKFRS 8 "Operating Segments"
- HK(IFRIC) – Int 13, "Customer Loyalty Programmes"

(c) Interpretations to existing standards that are not yet effective and not relevant to the Group's operations

The following interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 March 2008 or later periods but are not relevant to the Group's operations:

- HK(IFRIC) – Int 12, "Service Concession Arrangements"
- HK(IFRIC) – Int 14, "HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction"

## 2 Turnover and segment information

*(a) Analysis of revenue by category*

| | **Year ended 29 February 2008** *HK$'000* | Year ended 28 February 2007 *HK$'000* |
|---|---|---|
| Turnover | | |
| – Sales of fashion wears and accessories | **2,017,817** | 1,525,676 |
| – Royalty income | **3,466** | 5,087 |
| | **2,021,283** | 1,530,763 |

*(b) Segment information*

The Group's primary reporting format is business segments. 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.

The Group's secondary reporting format is geographical segments. Its revenue is generated mainly within Hong Kong and Mainland China.

| | **Year ended 29 February 2008** *HK$'000* | Year ended 28 February 2007 *HK$'000* |
|---|---|---|
| **Revenue** | | |
| Hong Kong | **1,840,563** | 1,516,852 |
| Mainland China | **162,338** | – |
| Others | **18,382** | 13,911 |
| | **2,021,283** | 1,530,763 |

Revenue is allocated based on the place in which the customer is located.

| | As at 29 February 2008 *HK$'000* | As at 28 February 2007 *HK$'000* |
|---|---|---|
| **Total assets** | | |
| Hong Kong | **846,351** | 816,434 |
| Mainland China | **631,359** | 156,875 |
| Taiwan | **28,339** | – |
| Others | **10,410** | 2,942 |
| | **1,516,459** | 976,251 |
| Jointly controlled entities | **5,518** | 8,795 |
| Unallocated assets | **30,442** | 8,091 |
| | **1,552,419** | 993,137 |

Segment assets consist primarily of furniture and equipment, intangible assets, inventories, trade and other receivables, derivative financial instruments, and cash and cash equivalents. Unallocated assets comprise deferred taxation and other assets. Total assets are allocated based on where the assets are located. The Group's assets in Taiwan are held by its jointly controlled entity.

| | As at 29 February 2008 *HK$'000* | As at 28 February 2007 *HK$'000* |
|---|---|---|
| **Capital expenditure** | | |
| Hong Kong | **82,941** | 49,517 |
| Mainland China | **362,972** | – |
| Others | **1,880** | – |
| | **447,793** | 49,517 |

Capital expenditure comprises additions to furniture and equipment and intangible assets, including additions resulting from acquisitions through business combinations. Capital expenditure is allocated based on where the assets are located.

## 3 Other gains/(losses), net

| | Year ended 29 February 2008 HK$'000 | Year ended 28 February 2007 HK$'000 |
|---|---|---|
| Derivative financial instruments: forward currency contracts, transactions not qualifying as hedge and ineffective portion of changes in fair values | **1,900** | (60) |
| Write-off of prepaid expenses (i) | **–** | (4,335) |
| | **1,900** | (4,395) |

*Note:*

(i) During the year ended 28 February 2007, the Group decided to terminate a sub-licence agreement which enabled the Group to operate 'Saks Fifth Avenue' retail stores in Mainland China, and in this connection wrote off related costs of approximately HK$4,335,000.

## 4 Expenses by nature

| | Year ended 29 February 2008 HK$'000 | Year ended 28 February 2007 HK$'000 |
|---|---|---|
| Cost of inventories sold | **812,888** | 636,675 |
| Write-downs of inventories to net realisable value | **5,027** | 1,062 |
| Employment costs (including directors' emoluments) | **363,870** | 271,532 |
| Operating lease rentals of premises | | |
| – minimum lease payments | **341,191** | 259,989 |
| – contingent rents | **32,399** | 13,376 |
| Advertising and promotion costs | **26,115** | 19,720 |
| Depreciation of furniture and equipment | **65,396** | 47,068 |
| Loss on disposals of furniture and equipment | **3,649** | 1,329 |
| Licence fees (included in operating expenses) | | |
| – amortisation of licence rights | **8,186** | 8,828 |
| – contingent licence fees | **4,759** | 3,906 |
| Amortisation of franchise contracts and distribution agreements (included in operating expenses) | **443** | – |
| Provision for impairment of receivables | **450** | – |
| Auditor's remuneration | **2,540** | 1,400 |
| Net exchange gains | **(18,082)** | (6,659) |
| Other expenses | **172,638** | 132,114 |
| Total | **1,821,469** | 1,390,340 |
| Representing | | |
| Cost of sales | **819,423** | 640,442 |
| Operating expenses | **1,002,046** | 749,898 |
| | **1,821,469** | 1,390,340 |

## 5 Finance income, net

| | Year ended 29 February 2008 *HK$'000* | Year ended 28 February 2007 *HK$'000* |
|---|---|---|
| Interest income from | | |
| – bank deposits | **8,810** | 9,800 |
| – amounts due from jointly controlled entities (i) | **2,902** | 4,802 |
| – others (i) | **2,705** | 2,028 |
| Finance income | **14,417** | 16,630 |
| Interest expense on | | |
| – bank borrowings wholly repayable within five years | **(312)** | (3) |
| – licence fees payable (i) | **(515)** | (617) |
| Finance costs | **(827)** | (620) |
| Net finance income | **13,590** | 16,010 |

*Note:*

(i) These represent the interests arisen from the amortisation of financial assets and liabilities recognised at amortised cost.

## 6 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% (year ended 28 February 2007: 17.5%) on the estimated assessable profits of the Group's operations in Hong Kong.

Mainland China enterprise income tax has been provided at the applicable rates ranging from 15% to 33% on the profits of the Group's operations in Mainland China, in accordance with the Income Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises.

Macau Complementary (Corporate) Tax has been provided at a fixed rate of 9% on the estimated assessable profit in excess of HK$196,000 (approximately MOP200,000) and below HK$295,000 (approximately MOP300,000) and a fixed rate of 12% on assessable profit in excess of HK$295,000 (approximately MOP300,000).

The amounts of taxation charged/(credited) to the consolidated income statement represent:

| | **Year ended 29 February 2008** *HK$'000* | Year ended 28 February 2007 *HK$'000* |
|---|---|---|
| Current income tax | | |
| – Hong Kong profits tax | **36,706** | 32,879 |
| – Mainland China enterprise income tax | **3,522** | – |
| – Overseas taxation | **25** | – |
| – Overprovision in prior year | **–** | (239) |
| Deferred income tax | **(748)** | (6,917) |
| | **39,505** | 25,723 |

Share of jointly controlled entities' tax charge for the year ended 29 February 2008 of approximately HK$2,736,000 (year ended 28 February 2007: tax credit of HK$828,000) is included in the consolidated income statement as share of loss of jointly controlled entities.

## 7 Dividends

| | **Year ended 29 February 2008** *HK$'000* | Year ended 28 February 2007 *HK$'000* |
|---|---|---|
| Interim, paid, of HK2.1 cents (year ended 28 February 2007: Nil) per ordinary share | **21,834** | – |
| Final, proposed, of HK8.5 cents (year ended 28 February 2007: HK5.0 cents) per ordinary share | **98,148** | 51,985 |
| | **119,982** | 51,985 |

The dividends paid in the year ended 29 February 2008 and year ended 28 February 2007 were HK$73,819,000 (HK5.0 cents per share for final dividend in 2007 and HK2.1 cents per share for interim dividend in 2008) and HK$49,867,000 (HK4.8 cents per share) respectively. The directors recommend the payment of a final dividend of HK8.5 cents per share, totalling HK$98,148,000. Such dividend is to be approved by the shareholders at the upcoming annual general meeting. These financial statements do not reflect this as dividend payable.

## 8 Earnings per share

*Basic*

The calculation of basic earnings per share for the year is based on the consolidated profit attributable to equity holders of the Company and on the weighted average number of ordinary shares in issue during the year.

| | **Year ended 29 February 2008** | Year ended 28 February 2007 |
|---|---|---|
| Profit attributable to equity holders of the Company *(HK$'000)* | **170,971** | 122,403 |
| Weighted average number of ordinary shares in issue *('000)* | **1,067,856** | 1,039,345 |
| Basic earnings per share *(HK$)* | **0.16** | 0.12 |

*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. Shares issuable under the share option schemes are the only dilutive potential ordinary shares. A calculation is made in order 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.

| | **Year ended 29 February 2008** | Year ended 28 February 2007 |
|---|---|---|
| Profit attributable to equity holders of the Company *(HK$'000)* | **170,971** | 122,403 |
| Weighted average number of ordinary shares in issue *('000)* | **1,067,856** | 1,039,345 |
| Adjustments for share options *('000)* | **6,311** | 4,842 |
| Weighted average number of ordinary shares for diluted earnings per share *('000)* | **1,074,167** | 1,044,187 |
| Diluted earnings per share *(HK$)* | **0.16** | 0.12 |

## 9 Trade and other receivables

| | **As at 29 February 2008** | As at 28 February 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Trade receivables | **28,204** | 9,252 |
| Less: provision for impairment of receivables | **(343)** | – |
| Trade receivables, net | **27,861** | 9,252 |
| Other receivables | **28,618** | 650 |
| Less: provision for impairment of receivables | **(16,834)** | – |
| Other receivables, net | **11,784** | 650 |
| Trade and other receivables | **39,645** | 9,902 |

Retail sales are usually paid in cash or by major credit/debit cards. The Group's credit sales are only made to wholesale customers with an appropriate credit history and on credit terms within 30 days. The Directors consider the Group does not have a significant concentration of credit risk. No single customer accounted for more than 1% of the Group's total revenues during the year.

The ageing analysis of trade receivables is as follows:

| | **As at 29 February 2008** | As at 28 February 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| 0 to 30 days | **19,979** | 8,966 |
| 31 to 60 days | **7,858** | 125 |
| 61 to 90 days | **7** | 161 |
| Over 90 days | **17** | – |
| | **27,861** | 9,252 |

## 10 Trade and bill payables

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

| | **As at 29 February 2008** | As at 28 February 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| 0 to 30 days | **86,130** | 53,516 |
| 31 to 60 days | **15,037** | 8,662 |
| 61 to 90 days | **2,972** | 3,086 |
| 91 to 180 days | **8,090** | 1,240 |
| 181 to 365 days | **8,501** | 256 |
| Over 365 days | **1,110** | 45 |
| | **121,840** | 66,805 |

## 11 Borrowings

| | **As at 29 February 2008** | As at 28 February 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Short-term bank borrowings | **10,000** | – |

As at 29 February 2008, short-term bank borrowings were secured and bore interest at Hong Kong Interbank Offered Rate ("HIBOR") plus 1% per annum.

## 12 Business combinations

On 28 November 2007, the Group acquired the remaining 50% of the equity interest in I.T China Limited (formerly known as G.S – i.t Limited), a then jointly controlled entity of the Group, and certain businesses in Mainland China and Macau.

The total purchase consideration including direct costs relating to the acquisition was approximately HK$362,771,000.

After accounting for the fair value of identifiable net assets acquired of approximately HK$105,455,000 (including the identified intangibles of HK$15,300,000 and the corresponding deferred tax liabilities of HK$3,825,000) less the disposal of investment in jointly controlled entity of approximately HK$14,067,000 resulting from the acquisition, the goodwill arisen amounted to approximately HK$271,383,000.

## FINAL DIVIDEND

The Board has resolved to recommend the payment of a final dividend of HK8.5 cents (2007: HK5.0 cents) per share for the year ended 29 February 2008. The final dividend amounting to approximately HK$98,148,000, if approved by the shareholders at the forthcoming annual general meeting to be held on 30 June 2008, is expected to be paid on or around 8 July 2008 to those shareholders whose names appear on the register of members on 30 June 2008.

## MANAGEMENT DISCUSSION & ANALYSIS

### Business Review

*(a) Group*

Total revenue increased by 32.0% to HK$2,021.3 million (2007: HK$1,530.8 million). The significant increase was mainly due to impressive performance of the Hong Kong's retail operation and consolidation of the China operation in the fourth quarter after completion of the buyback of our China joint venture.

*(b) Hong Kong*

Sales from retail operation increased by 23.2% to HK$1,769.1 million (2007: HK$1,435.7 million). 15.7% increase in overall comparable store sales as compared to the year ended 28 February 2007 and 5.6% increase in weighted average of sales footage contributed to the increase in total retail sales.

Retail sales of inhouse brands increased by 47.9% to HK$823.6 million (2007: HK$556.7 million). Due to full year contribution from :CHOCOOLATE and Venilla suite and outstanding performance of http://www.izzue.com, b+ab and 5cm, retail sales of inhouse brands increased at a much faster pace than international brands, and as a result, inhouse brands have surpassed international brands to become the key revenue contributor, accounting for 46.6% of total retail sales.

Retail sales of international brands increased by 12.1% to HK$805.9 million (2007: HK$718.7 million), accounting for 45.6% of total retail sales. Since the Group has decided strategically putting less resources on licensed brands and did not renew the contracts of two brands when they expired end of 2007, licensed brands reported a drop of 13.0% in retail sales to HK$133.2 million (2007: HK$153.1 million).

French Connection (a 50:50 joint venture with French Connection Group PLC) was performing remarkably well, reporting a 26.9% increase in total retail sales and 23.9% increase in comparable store sales.

(c) *Greater China (excluding Hong Kong)*

Before the buyback of our China joint venture was completed at 28 November 2007, the results of the joint venture from 1 March 2007 to 28 November 2007 were equity accounted for as a jointly controlled entity and starting from 29 November 2007 the results of the previous joint venture were consolidated in the Group's accounts.

Total revenue of the Greater China market (included the total revenue of the previous China joint venture for the period from 1 March 2007 to 28 November 2007, which was not consolidated in the Group's accounts) increased by 44.0% to HK$477.4 million (2007: HK$331.6 million). 99% of the revenue were attributable to the Mainland China market.

Mainland China market maintained its high growth momentum, reporting 33.0% increase in total retail sales to HK$400.7 million (2007: HK$301.3 million) and enjoying a comparable store sales growth rate of 28.1%. Inhouse brands and international brands accounted for 38% and 54.8% of total retail sales respectively. Given that inhouse brands accounted for a lower proportion of total retail sales than international brands, and coupled with import tax and value-added tax effect, the overall gross profit margin of the retail operation in China is lower than Hong Kong.

As the worst performer of the Greater China region, Taiwan has finally come back to a monthly breaking even level after an intensive restructuring process involving the closing down 17 out of a total of 25 points of sales (all in department stores) in the beginning of 2007. Taken together with the relatively smaller operation in Macau, the total retail sales of the Greater China market was HK$432.7 million, an increase of 24.8% versus same period last year (2007: 346.7 million).

Franchise business had a moderate growth last year. Number of franchised stores (excluding French Connection stores) increased from 45 as at 28 February 2007 to 48 as at 29 February 2008. The increase in the number of franchised stores would be higher if the Group had not acquired 7 franchised stores back from its previous China joint venture partner (which are now run as self-managed stores).

Revenue of the joint venture with French Connection increased by 82.2% to HK$51.7 million (2007: HK$28.4 million), and the joint venture reported a comparable store sales growth rate of 19.9%. Number of franchised stores increased from 6 as at 28 February 2007 to 7 as at 29 February 2008.

*(d) Overseas*

As at 29 February 2008, the Group had 15 franchised stores outside Hong Kong and Greater China, 5 stores in Saudi Arabia and 10 stores in Thailand. Franchised stores for 5cm are planned to be opened in Australia in the second half of 2008. Negotiation with potential partners to open franchised stores in Singapore and Europe is progressing satisfactorily.

**Gross Profit**

Total gross profit of the Group increased by 35.0% to HK$1,201.9 million (2007: HK$890.3 million). Despite the lower gross profit margin of our Mainland China operation (which was consolidated into the Group's accounts since 29 November 2007), the total gross profit margin of the Group improved from 58.2% for the year ended 28 February 2007 to 59.5% for the year ended 29 February 2008. The improvement was mainly due to higher retail sales contribution from inhouse brands (relative to international brands) and the tightening of our discount policy to strengthen our brand equity across the brands.

**Operating Expenses**

Total operating expenses of the Group increased by 33.6% to HK$1,002.0 million (2007: HK$749.9 million), in line with the increase in total revenue. We managed to maintain the expenses at 49.6% (2007: 49.0%) of the total revenue of the Group.

Given the buoyant retail market in both Hong Kong and Mainland China last year, pressure on rental expenses and staff cost was very high. Average rental per sq. ft. for retail shops in Hong Kong was up by 17.1% during the year. Total rental expenses (including management fee, rates and government rent) of the Group increased by 33.7% while, as a percentage of the total revenue of the Group, maintained at 21.5% (2007: 21.2%). Total staff cost of the Group increased by 34.0%, at a rate similar to the total revenue and represented 18.0% (2007: 17.7%) of the total revenue of the Group. Despite the market competition, we managed to control these 2 key costs and expenses at a rate no faster than the total revenue.

Advertising and promotion expenses increased by 32.4%, representing 1.3% (2007: 1.3%) of the total revenue of the Group. It is expected that more resources would be spent on brand building, particularly in Mainland China where we have a shorter operating history and so advertising and promotion expenses as a percentage of total revenue would increase in the future.

Other miscellaneous expenses (total operating expenses other than rental expenses, staff cost, advertising and promotion expenses and depreciation) increased by 29.7%, and as a percentage of the total revenue of the Group, maintained at 5.6% (2007: 5.7%).

**Operating Profit and Earnings Before Interest, Taxation, Depreciation and Amortisation Expenses and Excluding the Share of Results of Jointly Controlled Entities (EBITDA)**

The operating profit of the Group increased by 48.3% and the operating profit margin of the Group also improved from 8.9% for the year ended 28 February 2007 to 10.0% for the year ended 29 February 2008. The improvement in operating profit margin could be attributable to the improvement in gross profit margin and our effective control of cost.

EBITDA increased by 43.7% from HK$191.9 million for the year ended 28 February 2007 to HK$275.7 million for the year ended 29 February 2008.

**Share of Results of Jointly Controlled Entities**

Before completion of the buyback of our China joint venture at 28 November 2007, jointly controlled entities comprised G.S – i.t Limited (now renamed as I.T China Limited) (the 50:50 joint venture with Glorious Sun Enterprises Limited covering Mainland China, Taiwan and Macau) and FCUK IT Company (the 50:50 joint venture with French Connection Group PLC). After completion of the buyback of our China joint venture, I.T China Limited has become a wholly-owned subsidiary of the Group. So starting from 29 November 2007, the joint venture in Taiwan and the joint ventures with French Connection in the Greater China become the only jointly controlled entities of the Group.

Profit contributed by FCUK IT Company more than tripled as compared to the year ended 28 February 2007. However, the share of loss by I.T China Limited (including the loss of the Taiwan operation) increased despite its remarkable performance and the fact that it was slightly profitable last year. This is because profit in the last quarter was consolidated into the accounts of the Group and was excluded in the share of results of jointly controlled entities. As a result, share of loss of jointly controlled entitles increased from HK$3.9 million for the year ended 28 February 2007 to HK$4.8 million for the year ended 29 February 2008.

**Net Profit**

Given the strong growth in the retail sales in both Hong Kong and Mainland China, continuous improvement in the gross profit margin and cost control, net profit increased by 39.7% to HK$171.0 million (2007: HK$122.4 million).

**Cash Flows**

Net cash generated from operating activities was HK$240.2 million (2007: HK$91.6 million). Net cash used in investing activities was HK$106.6 million (2007: HK$101.8 million), which included HK$94.7 million additions to furniture and equipment. Net cash used in financing activities was HK$76.5 million (2007: HK$49.8 million), which included HK$73.8 million dividend payment to shareholders.

**Inventory**

Inventory turnover days for the Group increased from 97.5 days for the year ended 28 February 2007 to 116.1 days for the year ended 29 February 2008. Inventory turnover days for the China operation was 131.6 days for the year ended 29 February 2008.

**Liquidity and Capital Resources**

As at 29 February 2008, total cash and bank balances amounted to HK$424.9 million (2007: HK$365.6 million) and the total liabilities were HK$331.6 million (2007: HK$166.4 million). As at 29 February 2008, shareholders' equity was HK$1,220.8 million (2007: HK$826.8 million).

As at 29 February 2008, the Group had aggregate banking facilities of approximately HK$448.5 million (2007: HK$339.5 million) for overdrafts, bank loans and trade financing, of which approximately HK$336.5 million (2007: HK$254.4 million) was unutilised. As at 29 February 2008, charges on assets included bank deposit of HK$0.75 million (2007: HK$0.75 million) pledged for letters of guarantee issued by banks in lieu of rental deposits and current assets of approximately HK$219,453,000 of certain subsidiaries (2007: nil). The Group had HK$10.0 million short-term bank borrowings as at 29 February 2008 (2007: nil). The current ratio as at 29 February 2008 was 2.9 (2007: 4.7).

**Contingent Liabilities**

As at 29 February 2008, the Group did not have significant contingent liabilities (2007: nil).

## Use of Proceeds

As at 1 March 2007, the unutilised proceeds from the issuance of new shares by the Company in March 2005, net of listing expenses, were approximately HK$514.9 million. On 30 October 2007, the usage of the unutilised balance of the proceeds was modified to realign with the direction of the Company's developments. For the year ended 29 February 2008, net proceeds were utilised in the following manners:

| | Balance as at 1 March 2007 | Utilised in the period from 1 March 2007 to 30 October 2007 | Modification of usage | Balance as at 30 October 2007 (after modification of usage) | Utilised from 31 October 2007 to 29 February 2008 | Balance as at 29 February 2008 |
|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Expansion of retail network in Hong Kong | 188,461 | (37,361) | (139,400) | 11,700 | (11,700) | – |
| Expansion of retail network in the Greater China | 55,000 | – | 139,400 | 194,400 | (111,742) | 82,658 |
| | 243,461 | (37,361) | – | 206,100 | (123,442) | 82,658 |

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

## Employment, Training and Development

The Company had a total of 2,912 employees as at 29 February 2008 (28 February 2007: 1,428). Training and development courses were regularly organised for employees to enhance both of their specialised technical and product knowledge as well as marketing and sales to general business management skills. The Company offered competitive remuneration packages to its employees, including basic salaries, allowances, insurance and commission/ bonuses. In addition, share options were granted to selected employees based on their individual performances.

## Future Outlook

The most important corporate activity last year was the completion of the buyback of the China joint venture. The ability to fully control our Greater China operation allows the Group to expand, in the fastest growing consumer market in the world, much faster and more flexible than before. For example, we have already secured about 30,000 sq. ft. retail space at the shopping mall of the Venetian Hotel in Macau to open 7 stores in the middle of this year. With a number of new shops planned to open in Shanghai, Beijing, and other key second tier cities, we are confident that we would be able to meet our 3-year target to triple our sales footage to no less than 450,000 sq. ft. in Mainland China, Macau and Taiwan by 2010.

Our Greater China operation has achieved the planned breakeven target last year. This year would be a year of investment and consolidation to lay down a stronger foundation for the exponential growth planned in the future. More resources would be spent on corporate image and product branding as well as the management team would also be strengthened. We would begin to harvest the return of our investment next year and we expect that our China operation would contribute about one-third of the Group's total profit in about 3 years' time.

Another important corporate activity is the proposed formation of a joint venture with Galeries Lafayette to open "Galeries Lafayette" department stores in China and Macau. A memorandum of understanding was signed in December 2007. Efforts are being made to identify a location in Beijing or Macau. The joint venture once established would diversify the Group's business from fashion retail to department store. As it is anticipated that a significant proportion of the department store would be managed by the joint venture for direct sale business, it would provide a different but closely related platform to extend the Group's retail business. Although this joint venture would not have material financial impact on the Group in the financial year ending 28 February 2009, as demonstrated by other operators, there is great potential in department store business and it could become another key revenue contributor of the Group in the future.

The overall retail market in Hong Kong last year was overwhelming. The Group has performed well to beat the market and achieved 23.2% increase in total retail sales. Although market expectation is that the overall growth rate for Hong Kong this year would be softened given the slowing down of US economy and the local financial market, we remain cautiously optimistic of our Hong Kong operation and that it would maintain a double digit growth rate (in mid-teen) in retail sales. Hong Kong would continue to be the Group's core market providing stable revenue and cashflow.

Despite the fact that the Group is operating a multi-brand business model, the management believe that the inhouse brand segment which is more scalable will grow faster than the international brand segment in the coming future in both Hong Kong, Greater China as well as the franchise business in the rest of the world. It is envisaged that inhouse brands (with leading labels such as http://www.izzue.com; b+ab; 5cm and :CHOCOOLATE) will account for about 60 to 70% of the Group total retail sales in 3 years' time. This will have a significant effect on the improvement of the gross profit margin of the Group.

To share the good performance last year with our shareholders, the Board is pleased to raise the full year dividend payout ratio to 70%, paying a final dividend of HK$8.5 cents per share.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Group will be closed from Wednesday, 25 June 2008 to Monday, 30 June 2008, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend and for attending the forthcoming annual general meeting of the Group, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Group's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Room 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:00 p.m. on Tuesday, 24 June 2008.

## COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE PRACTICES AND THE MODEL CODE

In the opinion of the Board, the Company has complied with the Code Provisions in Code of Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 29 February 2008 except for the deviations as mentioned below.

From 23 July to 31 July 2007, the Board had only two Independent Non-executive Directors subsequent to the retirement of Mr. Chan Mo Po, Paul as Independent Non-executive Director of the Company. On 1 August 2007, Dr. Wong Tin Yau, Kelvin was appointed as Independent Non-executive Director of the Company in compliance with Rules 3.10 and 3.11 of the Listing Rules.

The Company is fully aware that in order to reinforce the Directors' 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 (1) 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; and (2) the risk of concentration of power is mitigated by the sharing of the executive management of the business between Mr. Sham Kar Wai and Dr. Lo Wing Yan, William, the Vice Chairman and Managing Director.

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. Upon enquiry by the Company, all Directors have confirmed that, for the year ended 29 February 2008, they have complied with the required standards set out in the Model Code regarding securities transactions by the Directors.

## REVIEW OF FINANCIAL INFORMATION

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Company and discussed auditing, internal control and financial reporting matters including the review of the consolidated financial statements of the Group and the annual report for the year ended 29 February 2008.

The figures in respect of the preliminary announcement of the Group's results for the year ended 29 February 2008 have been agreed by the Company's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

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

There was no purchase, sale or redemption of the Company's listed shares by the Company or any of its subsidiaries during the year ended 29 February 2008.

As at the date of this announcement, the Board comprises Mr. Sham Kar Wai, Dr. Lo Wing Yan, William, J.P. and Mr. Sham Kin Wai as Executive Directors and Mr. Wong Wai Ming, Mr. Francis Goutenmacher and Dr. Wong Tin Yau, Kelvin as Independent Non-executive Directors.

By Order of the Board
**Sham Kar Wai**
*Chairman*

Hong Kong, 14 May 2008