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TRENDS

I.T is well established as a

SETTER

in fashion apparel retail market in Hong Kong with stores in the PRC, Taiwan and Malaysia. The Group has an extensive retail network extending to 238 stores across Greater China with staff exceeding 1,200.

fa

**I.T is not
just a
fashion icon**

WE ACTUALLY LIVE

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

VE FOR FASHION

h 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 international

T

COMME des GARÇONS

Ann D

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

SUMORI CHISATO

Martin Margiela ① ⑥ ⑩ ⑭

S COMME des GARÇONS

Cabane de ZUCCa

Beams Boy

emeulemeester

Anna Sui

Cacharel

A.P.C.

Raf Simons

In-house brands include <http://www.fingercroxx.com>. Licensed brands include Palmer, MLB, Underground, Hyoma and this, the Group has established fcuks in PRC. In an attempt to accelerate the e Group entered into a joint venture agreement (G.S-i.t) to sell international, in-house furthermore, G.S-i.t entered into another operation to cover Taiwan as well.

**izzue.com, b + a b, 5cm and
i.t loves mickey, Arnold
and Baby Jane. In addition to
stores in Hong Kong and the
expansion into the PRC, the
agreement with Glorious Sun
and licensed brands. Fur-
ther joint venture to expand the**

**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
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
Dr. LO Wing Yan, William, J.P.
Mr. WONG Wai Ming

Company Secretary

Mr. CHAN Wai Mo, Alva

Group Financial Controller

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)
Fangda Partners (as to PRC law)

Auditors

PricewaterhouseCoopers,
Certified Public Accountants

Principal Bankers

Hang Seng Bank Limited
The Hongkong and Shanghai
Banking Corporation Limited

Principal Share Registrar

The Bank of Bermuda Limited

Hong Kong Branch Share Registrar

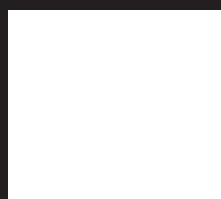
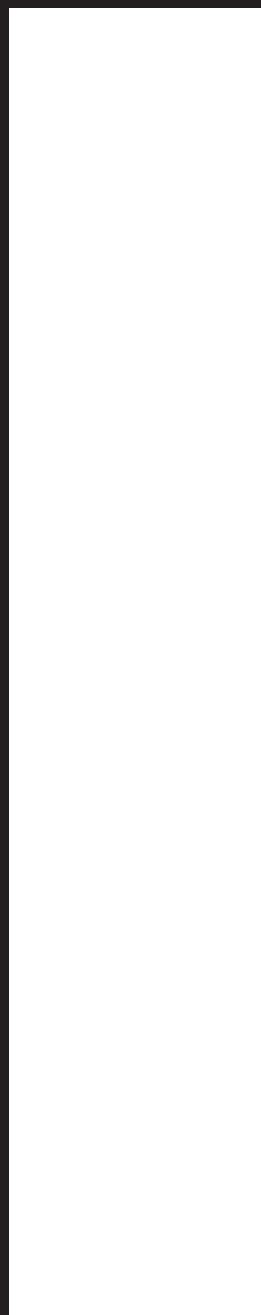
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Corporate Website

www.ithk.com



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TREND

ins
a lifesty
MOV

fashion icon

SETTING

inspiration

style

MOVING FORWARD

I.T POSITI

Greater China Store Coverage

(As at 28 February 2005)
 Hong Kong 129 stores (including 5 fcuk stores)
 PRC 93 stores (operated by G.S-i.t)
 Taiwan 12 stores (operated by G.S-i.t)
 Malaysia 4 stores (operated by franchisees)

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

Mega Store Concept

Group several brands in a sizable retail location and this strategy applies to both Hong Kong and the PRC markets

Turnover By Type

| | FY04/05 Change(%) |
|--------------------------|-------------------|
| International Brands | + 23.9 |
| In-house/Licensed Brands | + 33.6 |

Turnover by Brand

| | FY04/05 Change(%) |
|---|-------------------|
| http://www.izzue.com | + 27.3 |
| b + a b | + 24.9 |
| 5cm | + 52.8 |
| Tsumori Chisato | + 34.8 |
| fcuk | + 787.4 |
| double-park | + 22.3 |
| ETE | + 31.2 |

ONING

MESSAGE FROM THE CHAIRMAN

I am pleased to report the annual results for the financial year ended 28 February 2005.

I.T was born out of a passion for fashion; a passion that underpins all that we do today. Since our founding in 1988, the business had grown from a small family business to a corporation listed on The Stock Exchange of Hong Kong Limited. We see a lot of potential opportunities to grow in the Greater China region. The listing enabled us to have better resources and a solid platform for the growth of the business.

The multi-brand, multi-layer business model provides us with tremendous opportunities in expanding our business. With the focus of fashion-conscious customers, our mega store concept enables us to 'cluster' our brands to form an attractive multi-brand shopping environment in Hong Kong and the PRC. From a financial perspective, this 'cluster' strategy provides bargaining power to the Group in selecting the most appropriate retail locations and terms. Furthermore, this mega store concept makes a much stronger impact to the customers particularly in the market where brand awareness is still developing. The PRC is a very good example.

I.T currently carries more than 200 international designer's labels and will continue to explore the market for talented and up-coming international brands. Leveraging on our strong fashion sense, we will continue to develop our own in-house and licensed brands to offer a full range of products of different styles and at different price points.

I would like to take this opportunity to thank our shareholders and investors for their support to I.T. I would also like to thank our business partners, customers, management team and particularly our staff members who have grown with us in the past 17 years of our history. We will continue to make I.T a trend setter in fashion and will surely take part in shaping the fashion scene in Greater China.

Sham Kar Wai

Chairman
1 June 2005

COMPANY FACTSHEET AT A GLANCE

| | |
|---|--------------------|
| Listing Date: | 4 March 2005 |
| Stock Code: | 999 |
| Nominal Value: | HK\$0.10 per share |
| Market Capitalisation as at 31 May 2005: | HK\$2.075 billion |
| Free Float: | Approximately 35% |
| Financial Year: | End of February |

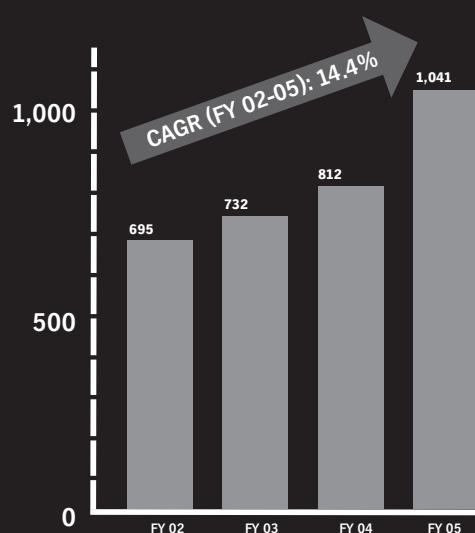
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FINANCIAL HIGHLIGHTS

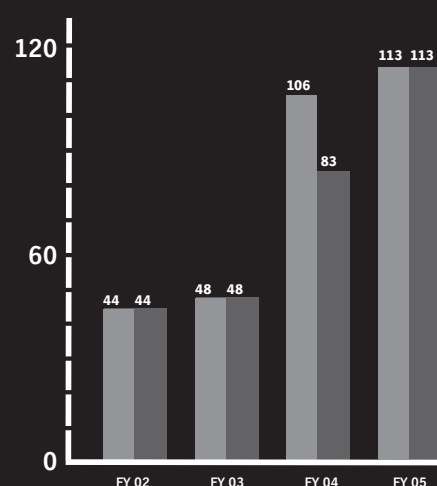
The Group's turnover reached HK\$1,041.0 million with net profit at HK\$112.7 million for the year ended 28 February 2005. As a result of the improvement in Hong Kong's economy, the Group added approximately 79,000 sq.ft. sales footage in fiscal year 2005 for both existing brands and newly introduced brands. The increase in the sales footage allowed the Group to capture additional market shares and to reach more potential customers in Hong Kong. Furthermore, the newly introduced international designer's labels enabled the Group to expand its brand portfolio and to uphold I.T.'s fashion icon status.

- Turnover reached HK\$1,041.0 million, up 28.2%
- Gross margin improved to 60.9%
- Net profit attributable to shareholders recorded HK\$112.7 million, up 6.8%
- Net profit attributable to shareholders (excluding certain items as stated in note 1) grew from HK\$83.3 million in fiscal year 2004 to HK\$112.7 million in fiscal year 2005, up 35.3%
- Sales of apparel from international brands increased by 23.9%, accounting for 41.8% of turnover
- Sales of apparel from in-house/licensed brands increased by 33.6%, accounting for 54.0% of turnover
- Net sales footage (fcuk stores included) increased 79,000 sq.ft. from 178,000 sq.ft. in fiscal year 2004 to 257,000 sq.ft. in fiscal year 2005, up 44.4%
- Earnings per share was HK\$0.16
- Return on equity was 28.5%
- Net cash position reached almost HK\$400 million
- Proposed final dividend: HK4.3 cents per share

TURNOVER TREND FY 02-05 (HK\$ MILLION)



NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS (HK\$ MILLION)



- Net Profit Attributable to Shareholders
- Net Profit Excluding Certain Items

Note: Certain items comprised a HK\$13.3 million write-back on provision of inventory and a gain of HK\$9 million on disposal of subsidiaries in fiscal year 2004.

| Operating Results (In HK\$'000) | FY05 | FY04 | Change(%) |
|--|-------------|-------------|------------------|
| Turnover | 1,041,017 | 812, 168 | +28.2 |
| Profit Attributable to Shareholders | 112,733 | 105, 590 | +6.8 |
| Profit Excluding Certain Items (1) | 112,733 | 83,297 | +35.3 |

| Financial Position (In HK\$'000) | FY05 | FY04 | Change(%) |
|---|-------------|-------------|------------------|
| Net Cash Inflow from Operating Activities | 140,201 | 46,661 | +200.5 |
| Net Cash (2) | 397,632 | 1,518 | +26,094.5 |
| Net Current Assets | 483,983 | 75,397 | +541.9 |
| Shareholders' Equity | 599,111 | 191,528 | +212.8 |

| Per Share Data | FY05 | FY04 | Change(%) |
|---------------------------------|-------------|-------------|------------------|
| EPS - Basic (HK\$) | 0.16 | 0.16 | — |
| EPS - Diluted (HK\$) | 0.15 | 0.15 | — |
| Dividend Per Share (HK cents) | 4.3 | N/A | N/A |
| Book Value Per Share (HK\$) (3) | 0.60 | N/A | N/A |

| Key Statistics | FY05 | FY04 | Change |
|-------------------------------|-------------|-------------|---------------|
| Inventory Turnover (Days) (4) | 75 | 67 | + 8 days |
| Capital Expenditure (5) | 68.5 | 37.1 | + 84.6% |
| Gross Margin (%) (6) | 60.9 | 58.2 | + 2.7% |
| Net Profit Margin (%) (7) | 10.8 | 10.3 | + 0.5% |
| Current Ratio (8) | 3.1 | 1.9 | + 63.2% |
| Return on Equity (%) (9) | 28.5 | 71.0 | - 42.5% |

Notes:

1. Fiscal year 2004 profit presented does not take into account of a HK\$13.3 million write-back on provision of inventory and a gain of HK\$9 million on disposal of subsidiaries in fiscal year 2004.
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 during the year.
5. Additions of fixed assets and additional investment in a jointly controlled entity during the year.
6. Fiscal year 2004 gross margin is calculated based on adjusted gross profit (excluding the HK\$13.3 million write-back on provision of inventory) divided by turnover during the year.
7. Fiscal year 2004 net profit margin is calculated based on adjusted net profit (excluding the HK\$13.3 million write-back on provision of inventory and the gain of HK\$9 million on disposal of subsidiaries) divided by turnover during the year.
8. Current assets divided by current liabilities.
9. Net profit during the year divided by average of the shareholders' equity of the beginning of the year and the end of the year.

IT IS

FASHION

shaping the fashion scene in Greater China

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

As the fashion trend setter in Hong Kong and increasingly in Greater China, I.T carries over 200 international brands, 10 in-house brands and licensed brands. The Group opened 40 new stores to facilitate the newly introduced brands in fiscal year 2005. As at 28 February 2005, the Group had a total of 129 stores (including 5 stores owned by a jointly controlled entity formed with French Connection UK) in Hong Kong, 93 stores in the PRC and 12 stores in Taiwan through G.S-i.t (a joint venture with Glorious Sun of which the Group has 50% interest) and 4 stores in Malaysia (through franchisees).

The Group's gross profit margin maintained at around 60% for fiscal year 2004 and 2005.

The number of stores increased from 88 in fiscal year 2004 to 124 in fiscal year 2005. Despite an increase in absolute amount, our operating expenses still maintained at a range of 45% to 47% of the turnover. The Group's rental costs (comprising rental expenses, building management fees and rates) and employment costs to total turnover remained at a stable level of approximately 20% and 16% respectively.

The Group had substantial investments in fashion apparel and accessories inventories. Changes in fashion trends and customer tastes for fashion may cause the value of these inventories to change. Inventory was reported at HK\$66.2 million as at 29 February 2004 and HK\$101.2 million as at 28 February 2005. The increase was primarily due to the increase in the number of stores and the preparation for new stores opened in March and April 2005.

Liquidity and Financial Resources

As at 28 February 2005, net cash balance (cash and bank deposits and pledged bank deposits net of bank borrowings and convertible note) of the Group increased to HK\$397.6 million from HK\$1.5 million as at 29 February 2004. Net cash inflow from operating activities increased by 200.2% to HK\$140.2 million in fiscal year 2005 (2004: HK\$46.7 million). The Group spent HK\$60.5 million in fiscal year 2005 (2004: HK\$29.1 million) on capital expenditure for new shop openings, upgrading existing shops and enhancing its information technology system.

Normal operations are well supported as the Group had aggregate banking facilities of approximately HK\$369.1 million for overdrafts, bank loans and trade financing, of which approximately HK\$122.2 million was unutilised as at 28 February 2005.

As at 28 February 2005, charges on assets amounted to 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) to cover banking facilities in the ordinary course of business.

As at 28 February 2005, the Group had long-term bank loans amounted to HK\$145.0 million, of which HK\$93.0 million will be repaid within one year and the remaining HK\$52.0 million will be repaid in the second to fifth year. The Group repaid HK\$26.0 million long-term bank loans in fiscal year 2005. These long-term bank loans bore interest at the best lending rate offered by the bank less 2.5% per annum or HIBOR plus 2.5% per annum. All banking facilities and bank loans are denominated in Hong Kong dollars.

As at 28 February 2005, gearing ratio (expressed as a percentage of interest bearing external borrowings over shareholders' funds) of the Group was 30.4% (2004: 27.5%), while the current ratio (current assets divided by current liabilities) was 3.1 (2004: 1.9).

Foreign Exchange Risk Management

The Group entered into foreign exchange forward contracts with reputable financial institutions to hedge against currency fluctuation arising from firm purchase orders of fashion apparels and accessories and certain outstanding payables denominated in foreign currencies. As at 28 February 2005, the Group had commitment in respect of outstanding forward foreign currency exchange contracts to buy Japanese Yen and Euros which amounted to HK\$57.3 million (2004: Nil).

Apart from the above, most of the Group's assets, liabilities, revenues and payments are in Hong Kong dollars. Therefore, we consider our risk to foreign exchange rate fluctuations is low.

Contingent Liabilities

Other than the letter of guarantee issued by banks in lieu of cash rental deposits which amounted to HK\$12.2 million in the ordinary course of business and corporate guarantees in respect of bank loans granted by banks to certain related companies amounted to HK\$31.2 million which were released subsequent to 28 February 2005, the Group had no material contingent liabilities or off balance sheet obligations as at 28 February 2005.

Employment, Training and Development

The Group had a total of 1,279 employees as at 28 February 2005 (2004: 831). Training courses were organised regularly for employees to enhance technical and product knowledge as well as the industry quality standards. The Group offers competitive remuneration packages to its employees, including basic salaries, allowances, insurance and bonuses. In addition, share options are granted based on the individual's performance.

Future Outlook

The Board believes that the overall retail environment in Hong Kong has been improving. The grand opening of Disneyland in September 2005 would definitely attract more tourists and further stimulate the entire Hong Kong economy.

We would continue to expand our retail network by adding more sales footage, both in Hong Kong and the PRC. During the first quarter of fiscal year 2006, we have already added 14,000 sq. ft. in Hong Kong and 6,300 sq. ft. in the PRC.

To strengthen ourselves as a trend setter, we are actively bringing in well established international brands such as Alexander McQueen, Anna Sui, Balenciaga, Beams Boy, Cacharel, D&G, Earth Music & Ecology and Jil Sander. We would also expedite our licensed brand expansion by adding Baby Jane and etc. Meanwhile, our in-house brands are well recognised and are key drivers in the PRC and Taiwan market expansion.

Our store strategy is to establish mega stores and multi-brand stores. This enables us to 'cluster' the stores to form an attractive shopping environment. This cluster effect allows us to better position our network in controlling rental costs.

The performance of G.S-i.t in the PRC is promising. Our i.t flagship store was opened in Oriental Plaza, Beijing, in December 2004 occupying 21,000 sq. ft. and is well received. Same concept would be applied in Shanghai and other major cities in the PRC. A new mega store was opened in Shanghai Plaza 66 in early June this year, occupying 23,000 sq.ft..

In respect of the above, the Board expects the Group's turnover and net profit to reach another new height in fiscal year 2006.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT TEAM

Executive Director

Mr. SHAM Kar Wai

Aged 38, 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 16 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.

Mr. SHAM Kin Wai

Aged 35, 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 16 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 49, 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 12 years of experience in fashion retailing in Asia, of which six 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 Stock Exchange, before joining the Group.

Non-Executive Director

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

Aged 58, 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 50, was appointed an Independent Non-Executive Director in October 2004. Mr. Chan is also the managing partner of Paul Chan & Partners, Certified Public Accountants. 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 Association of Chartered Certified Accountants (‘ACCA’), the Hong Kong Institute of Certified Public Accountants (‘HKICPA’), the Society of Chinese Accountants and Auditors, the Institute of Chartered Secretaries & Administrators, the Taxation Institute of Hong Kong and the Hong Kong Institute of Company Secretaries, and a member of the Macau Society of Certified Practising Accountants. Mr. Chan has over 27 years’ experience in the accounting and finance field and is currently the vice 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.

Dr. LO Wing Yan, William, J.P.

Aged 44, was appointed an Independent Non-Executive Director in October 2004. Dr. Lo is also an executive director of China Unicom Limited, a company listed on both the Hong Kong Stock Exchange and the New York Stock Exchange. He is also a non-executive director of a number of publicly listed companies, including Nam Tai Electronics, Inc., and the Stock Exchange listed Softbank Investment International (Strategic) Ltd., Ocean Grand Chemicals Holdings Ltd., Superdata Software Holdings Ltd., Capital Publications Limited, 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 and a Bye-fellow of Downing College, the University of Cambridge. In 1996, the Davos-based 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 the Hong Kong Baptist University. Dr. Lo has over 12 years of senior management experience.

Mr. WONG Wai Ming

Aged 47, was appointed an Independent Non-Executive Director in October 2004. Mr. Wong is the chief executive officer of Roly International Holdings Limited, a company listed on the Singapore Stock Exchange. Mr. Wong is a chartered accountant and holds a Bachelor of Science degree from the University of Manchester, Institute of Science and Technology in the United Kingdom and he has over 14 years’ experience in banking.

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 37, is the Finance Director. Miss Ng holds a Bachelor of Social Sciences degree from the University of Hong Kong and has 14 years of experience in accounting and auditing. She joined the Group in January 1994.

Mr. KWONG Kwok Yu

Aged 41, is the Financial Controller of the Group and the Qualified Accountant of the Company. Mr. Kwong is a Fellow Member of the Association of Chartered Certified Accountants and an Associate Member of the Hong Kong Institute of Certified Public Accountants, with over 18 years of professional experience in accounting and auditing. He joined the Group in October 2000.

Miss YU, Michaeline

Aged 38, 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 13 years of experience in the fashion retailing industry.

Miss CHOW Hau Mui

Aged 36, 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 34, 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 35, 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 34, 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 39, 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 38, 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.

NEW BRAND

**Anna Sui/ Alexander McQueen/ Balenciaga/ Beams Boy/
Cacharel/ D&G/ Earth Music & Ecology/ Jil Sander**

OS

**I.T HAS
UNIQUE
BRAND**

A E D PORTFOLIO

M

E

STORE CONCEPT:

**Langham Place,
Cleveland Street and
apm shopping mall**

GA

CORPORATE GOVERNANCE

The Company is committed to implementing good corporate governance practices and has established an Audit Committee, a Remuneration Committee and a Nomination Committee. The Company intends to comply with all the Code Provisions in the Corporate Governance Code and is actively considering how the Code Provisions should be implemented, however the roles of CEO and Chairman will not be segregated.

Audit Committee

The primary duty of the Audit Committee is to review the financial reporting process of the Group and its internal control systems, and also to oversee the audit process and to perform other duties assigned by the Board. All members of the Audit Committee are Independent Non-Executive Directors as follows:

Mr. CHAN Mo Po, Paul (Chairman)
Dr. LO Wing Yan, William J.P.
Mr. WONG Wai Ming

Nomination Committee

The Nomination Committee is responsible for selecting Board members and ensuring transparency of the selection process of Board members. The members of the Nomination Committee comprise:

Mr. WONG Wai Ming (Chairman)
Mr. SHAM Kar Wai
Mr. CHAN Wai Mo, Alva

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. The members of the Remuneration Committee comprise:

Dr. LO Wing Yan, William J.P. (Chairman)
Mr. SHAM Kar Wai
Mr. WONG Wai Ming

SOCIAL RESPONSIBILITIES

PROJECT HOPE 2004

A charity auction was held in April 2004 to raise funds for Project Hope. Ms Maggie Cheung, the Brand Image Creative Director of <http://www.izzue.com>, has designed a graphic tee for auction through a theme of 'Let's go to School'. The net proceed of RMB 200,000 was donated to Project Hope to build a school in Shanxi Province in the PRC. The school is currently under construction and it is expected to be opened in September 2005. The school is expected to accommodate 200 students and 10 teachers. The majority of the students come from poverty-stricken families with household income of less than RMB 700 a year.

AIDs Concern

fcuk/I.T was the title sponsor of a charity party held on 30 November 2004 to raise funds for the AIDs Concern Organisation. Donations were made in the form of cash and products of fcuk T-shirts.

LIVE IT REAL — T-shirt Print Design Contest 2004/5

The Group has received over 1,800 entries for the T-shirt Print Design Contest in 2004. The design of the T-shirts from the champion, 1st runner up and 2nd runner up are being produced and sold in selected <http://www.izzue.com> stores in Hong Kong, the PRC and Taiwan. The net proceeds will be donated to different art schools in Greater China to provide additional resources and to encourage more students to express their artistic talents.

REPORT OF THE DIRECTORS

The directors of I.T Limited (the "Company") have pleasure in submitting their annual report together with the audited accounts of the Company and its subsidiaries (the "Group") for the year ended 28 February 2005.

GROUP REORGANISATION AND LISTING

The Company was incorporated in Bermuda on 18 October 2004 as an exempted company with limited liability under the Companies Act 1981 of Bermuda. 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 now comprising the Group.

The Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 4 March 2005 (the "Listing").

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 14 to the accounts.

The analysis of the Group's performance for the year by business and geographical segments is set out in note 3 of the accounts.

RESULTS AND DIVIDENDS

The results of the Group for the year are set out in the consolidated profit and loss account on page 57.

During the year ended 28 February 2005, dividends of HK\$190,000,000 (2004: HK\$20,000,000) were paid by ithk holdings limited out of its retained profits to its then shareholders before the Reorganisation.

The Board of Directors recommended the payment of a final dividend of HK4.3 cents per ordinary share, totalling HK\$44,612,000, for the year ended 28 February 2005. Such dividend represented HK\$43,000,000 for the 1,000,000,000 shares issued and outstanding as at 28 February 2005 and an additional amount of approximately HK\$1,612,000 for the shares issued in March 2005 under the over-allotment arrangement in connection with the Listing.

DONATIONS

Charitable and other donations made by the Group during the year amounted to HK\$880,000.

FIXED ASSETS

Details of the movements in fixed assets of the Group are set out in note 13 to the accounts.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 25 to the accounts.

RESERVES

Details of movements in reserves of the Company and the Group during the year are set out in note 27 to the accounts.

DISTRIBUTABLE RESERVES

As at 28 February 2005, the Company's reserves available for cash distribution, as computed in accordance with The Companies Act 1981 of Bermuda (as amended), amounted to HK\$185,034,000, of which HK\$44,612,000 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 four financial years is set out on pages 85 and 86.

REPORT OF THE DIRECTORS (Continued)

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 | (appointed on 19 October 2004) |
| Mr. Sham Kin Wai | (appointed on 19 October 2004) |
| Mr. Chan Wai Mo, Alva | (appointed on 19 October 2004) |

Non-executive

| | |
|---------------------------------------|--------------------------------|
| Dr. Yeung Chun Kam <i>S.B.S. J.P.</i> | (appointed on 19 October 2004) |
|---------------------------------------|--------------------------------|

Independent non-executive

| | |
|--------------------------------------|--------------------------------|
| Mr. Chan Mo Po, Paul | (appointed on 19 October 2004) |
| Dr. Lo Wing Yan, William <i>J.P.</i> | (appointed on 19 October 2004) |
| Mr. Wong Wai Ming | (appointed on 19 October 2004) |

In accordance with Clause 87 of the Company's bye-laws, Mr. Sham Kin Wai and Mr. Chan Wai Mo, Alva will retire at the forthcoming annual general meeting of the Company and, 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 2005.

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.

REPORT OF THE DIRECTORS (Continued)

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 2005, no register under Section 352 of the Securities and Futures Ordinance ("SFO") was maintained by the Company.

As at the date of this report, 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 SFO), as recorded in the register maintained by the Company under Section 352 of the SFO or as notified to the Company 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 | 64.78% |
| Sham Kin Wai | Interest in controlled company and beneficiary of trust (Notes 2 and 3) | 672,075,000 | 64.78% |

Notes:

- (1) Mr. Sham Kar Wai holds 25% of the issued share capital of 3WH Limited. Ms. 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 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.
- (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 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.

Saved as disclosed above, 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 Company's directors or their associates to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

(b) Long positions in share options of the Company

The interests of the directors and chief executives of the Company in the share options of the Company are detailed in "Share Options" below.

REPORT OF THE DIRECTORS (Continued)

(c) Long positions in the shares of associated corporations of the Company

| Director | Name of associated corporations | Capacity | Approximate percentage of interest in the Company |
|--------------|---------------------------------|---------------------------------|---|
| 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 nor their associated corporations had any interests and/or short positions in the shares, underlying shares or debentures of the Company or its associated corporations as at the date of this report.

REPORT OF THE DIRECTORS (Continued)

SHARE OPTIONS

- (a) On 7 February 2005, the Company granted 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.

Movements of the outstanding Pre-IPO Share Options during the year ended 28 February 2005 were:

| | Date of grant | Exercise period | Number of share options | | |
|-----------------------------------|-----------------|--|-------------------------|----------------------------|--------------------------------|
| | | | As at 1 March 2004 | Granted during the year | Held as at 28 February 2005 |
| Director | | | | | |
| Chan Wai Mo, Alva | 7 February 2005 | 4 September 2005 to 7 February 2008 | — | 600,000 | 600,000 |
| Employees & consultant | | | | | |
| | 7 February 2005 | 4 September 2005 to 7 February 2008 | — | 6,600,000 | 6,600,000 |
| | | | <u>—</u> | <u>7,200,000</u> | <u>7,200,000</u> |

- (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 one 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.

During the year ended 28 February 2005, no option was granted by the Company under the Share Option Scheme.

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.

| | Date of grant | Exercise period | Number of share options held as at the date of this report |
|-------------------|---------------|--------------------------------|--|
| Director | | | |
| Chan Wai Mo, Alva | 28 April 2005 | 28 April 2005 to 27 April 2008 | 3,000,000 |
| Employees | | | |
| | 28 April 2005 | 28 April 2005 to 27 April 2008 | <u>12,750,000</u> |
| | | | <u>15,750,000</u> |

REPORT OF THE DIRECTORS (Continued)

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

As at 28 February 2005, no register under Section 336 of the SFO was maintained by the Company.

As at the date of this report, 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, underlying shares and debentures of the Company:

| Name | Capacity | Number of shares held | Percentage of interest in the Company |
|---|-------------------------|-----------------------|---------------------------------------|
| 3WH Limited | Beneficial owner | 336,037,500 | 32.39% |
| Effective Convey Limited (Note 1) | Beneficial owner | 336,037,500 | 32.39% |
| Dynamic Vitality Limited (Note 1) | Interest in corporation | 336,037,500 | 32.39% |
| The ABS 2000 Trust (Notes 1 and 2) | Interest in corporation | 336,037,500 | 32.39% |
| HSBC International Trustee Limited (Note 2) | Interest in corporation | 338,150,000 | 32.59% |

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 of the Company 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 2005, which do not constitute connected transactions under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Main Board") ("Listing Rules"), are disclosed in note 32 to the accounts.

SUBSEQUENT EVENT

Subsequent to 28 February 2005, 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 approximately HK\$73,125,000.

AUDITORS

The accounts 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, 1 June 2005

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**IN-HOUSE/LICENSED BRANDS
CONTRIBUTED 36.0% IN FY02 TO**

36.0%

in FY05

Licensed brands

CONTRIBUTION FROM 0% IN FY02 TO

10.6%

in FY05

AUDITORS' REPORT



羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong
Telephone (852) 2289 8888
Facsimile (852) 2810 9888
www.pwchk.com

TO THE SHAREHOLDERS OF
I.T LIMITED
(incorporated in Bermuda with limited liability)

We have audited the accounts on pages 57 to 84 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 accounts which give a true and fair view. In preparing accounts 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 accounts 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 Statements of Auditing Standards 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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, 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 accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the accounts give a true and fair view of the state of affairs of the company and the group as at 28 February 2005 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
Certified Public Accountants
Hong Kong, 1 June 2005

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 28 February 2005

| | Note | 2005 HK\$'000 | 2004 HK\$'000 |
|--|------|------------------|------------------|
| Turnover | 3 | 1,041,017 | 812,168 |
| Cost of sales | | <u>(406,546)</u> | <u>(326,571)</u> |
| Gross profit | | 634,471 | 485,597 |
| Other revenue | 3 | 3,407 | 128 |
| Operating expenses | | <u>(487,304)</u> | <u>(361,684)</u> |
| Operating profit | 4 | 150,574 | 124,041 |
| Finance costs | 5 | (3,797) | (4,298) |
| Share of loss of jointly controlled entities | | (8,863) | (1,792) |
| Gain on disposal of subsidiaries | 6 | <u>—</u> | <u>9,012</u> |
| Profit before taxation | | 137,914 | 126,963 |
| Taxation | 9 | <u>(25,181)</u> | <u>(21,373)</u> |
| Profit attributable to shareholders | 10 | <u>112,733</u> | <u>105,590</u> |
| Dividends | 11 | <u>234,612</u> | <u>20,000</u> |
| Earnings per share | | | |
| — basic | 12 | <u>HK\$0.16</u> | <u>HK\$0.16</u> |
| — diluted | 12 | <u>HK\$0.15</u> | <u>HK\$0.15</u> |

BALANCE SHEETS

As at 28 February 2005

| | Note | Consolidated | | Company |
|--|------|------------------|------------------|------------------|
| | | 2005 HK\$'000 | 2004 HK\$'000 | 2005 HK\$'000 |
| Non-current assets | | | | |
| Fixed assets | 13 | 62,043 | 32,737 | — |
| Investments in subsidiaries | 14 | — | — | 181,880 |
| Investments in jointly controlled entities | 15 | 62,150 | 33,503 | — |
| Rental deposits | | 40,858 | 29,139 | — |
| Due from related companies | 32 | — | 51,221 | — |
| Deferred tax assets | 24 | 2,642 | 904 | — |
| Total non-current assets | | 167,693 | 147,504 | 181,880 |
| Current assets | | | | |
| Inventories | 16 | 101,194 | 66,216 | — |
| Accounts receivable | 17 | 9,840 | 8,622 | — |
| Prepayments, deposits and other receivables | 18 | 29,304 | 13,685 | 3,669 |
| Due from directors | 32 | — | 17,927 | — |
| Due from related parties | 32 | — | 40 | — |
| Pledged bank deposits | 31 | 17,750 | 750 | — |
| Cash and bank deposits | | 561,983 | 53,406 | 463,835 |
| Total current assets | | 720,071 | 160,646 | 467,504 |
| Current liabilities | | | | |
| Short-term bank borrowings | 19 | (37,101) | (443) | — |
| Long-term bank loans, current portion | 20 | (93,360) | (21,000) | — |
| Accounts and bills payable | 22 | (40,873) | (24,662) | — |
| Accruals and other payables | 23 | (55,396) | (21,464) | (2,119) |
| Taxation payable | | (9,358) | (7,680) | — |
| Dividend payable | | — | (10,000) | — |
| Total current liabilities | | (236,088) | (85,249) | (2,119) |
| Net current assets | | 483,983 | 75,397 | 465,385 |
| Total assets less current liabilities | | 651,676 | 222,901 | 647,265 |
| Non-current liabilities | | | | |
| Long-term bank loans | 20 | (51,640) | — | — |
| Due to subsidiaries | 32 | — | — | (8,508) |
| Convertible note | 21 | — | (31,195) | — |
| Deferred taxation | 24 | (925) | (178) | — |
| Total non-current liabilities | | (52,565) | (31,373) | (8,508) |
| Net assets | | 599,111 | 191,528 | 638,757 |
| Representing | | | | |
| Share capital | 25 | 100,000 | 8 | 100,000 |
| Reserves | 27 | 499,111 | 191,520 | 538,757 |
| Shareholders' equity | | 599,111 | 191,528 | 638,757 |

SHAM KAR WAI
Chairman

CHAN WAI MO, ALVA
Executive Director

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 28 February 2005

| | Note | 2005 HK\$'000 | 2004 HK\$'000 |
|---|-------|------------------|------------------|
| Operating activities | | | |
| Net cash inflow generated from operations | 28(a) | 168,454 | 91,266 |
| Interest received | | 38 | 128 |
| Interest paid | | (3,797) | (23,477) |
| Hong Kong profits tax paid | | (25,450) | (21,377) |
| Hong Kong profits tax refunded | | 956 | 121 |
| Net cash inflow from operating activities | | 140,201 | 46,661 |
| Investing activities | | | |
| Additions of fixed assets | | (60,540) | (29,115) |
| Proceeds from disposal of fixed assets | | 17 | 344 |
| Net cash outflow in respect of disposal/deemed disposal of subsidiaries | 28(c) | — | (2,766) |
| Net cash inflow in respect of acquisition of a subsidiary | 28(d) | 2,361 | — |
| Investment in a jointly controlled entity | | (8,000) | (8,000) |
| Increase in amounts due from jointly controlled entities | | (33,993) | (484) |
| Increase in amounts due from directors | | (9,785) | (17,193) |
| Decrease/(Increase) in amounts due from related parties | | 40 | (40) |
| Increase in amounts due from related companies | | (52,743) | (27,620) |
| Translation adjustments | | — | 1 |
| Net cash outflow from investing activities | | (162,643) | (84,873) |
| Net cash outflow before financing activities | | (22,442) | (38,212) |
| Financing activities | | | |
| Proceeds from issue of shares | 28(b) | 487,500 | — |
| Share issuance costs | | (31,947) | — |
| New long-term bank loans | | 150,000 | 34,720 |
| Repayment of long-term bank loans | | (26,000) | (9,000) |
| Increase/(Decrease) in trust receipts bank loans | | 36,632 | (4,960) |
| Repayment of other loan | | — | (170) |
| Issuance of convertible note | | — | 39,000 |
| Redemption/Repayment of convertible note | | — | (48,274) |
| Dividends paid | | (68,192) | — |
| (Increase)/Decrease in pledged bank deposits | | (17,000) | 4,470 |
| Net cash inflow from financing activities | | 530,993 | 15,786 |
| Increase/(Decrease) in cash and cash equivalents | | 508,551 | (22,426) |
| Cash and cash equivalents, beginning of year | | 53,406 | 75,832 |
| Cash and cash equivalents, end of year | 28(f) | 561,957 | 53,406 |

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 28 February 2005

| | Note | 2005 HK\$'000 | 2004 HK\$'000 |
|---|---------|------------------|------------------|
| Balance as at beginning of year | | 191,528 | 105,927 |
| Profit attributable to shareholders | 27 | 112,733 | 105,590 |
| Translation adjustments | 27 | — | 1 |
| Reserves transferred to profit and loss account upon disposal of subsidiaries | 27 | — | 10 |
| Issue of shares upon conversion of convertible note | 21 | 31,195 | — |
| Issue of shares for cash | 25 & 27 | 487,500 | — |
| Share issuance costs | 27 | (33,977) | — |
| Issue of shares of a subsidiary | | 132 | — |
| Dividends | | <u>(190,000)</u> | <u>(20,000)</u> |
| Balance as at end of year | | <u>599,111</u> | <u>191,528</u> |

NOTES TO THE ACCOUNTS

1. GROUP REORGANISATION AND BASIS OF PRESENTATION

I.T Limited ("the Company") was incorporated in Bermuda on 18 October 2004 as an exempted company with limited liability under the Companies Act 1981 of Bermuda.

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 14. The Reorganisation involved companies under common control, and the Company and its subsidiaries (collectively "the Group") 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 accounts 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. The comparative figures as at and for the year ended 29 February 2004 have been presented on the same basis.

No balance sheet of the Company as at 29 February 2004 is presented as the Company was incorporated subsequent to that date.

2. PRINCIPAL ACCOUNTING POLICIES

Principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). They have been prepared under the historical cost convention.

(b) Recently issued accounting standards

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs"), which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in its accounts for the year ended 28 February 2005. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have significant impact on its results of operations and financial positions.

(c) Basis of consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries, together with the Group's share of post-acquisition results and reserves of its jointly controlled entities under the equity method of accounting. The results of subsidiaries and jointly controlled entities acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, as appropriate.

Any significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on disposal of subsidiary represents the difference between the proceeds of the disposal and the Group's share of its net assets together with any unamortised goodwill or negative goodwill and any related cumulative foreign currency translation adjustments.

(d) Subsidiaries

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies, to appoint or remove the majority of the members of the board of directors, or to cast majority votes at the meetings of the board of directors.

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

(e) Jointly controlled entities

A jointly controlled entity is a joint venture whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

The consolidated profit and loss account includes the Group's share of the results of jointly controlled entities for the year, and the consolidated balance sheet includes the Group's share of the net assets of the jointly controlled entities.

NOTES TO THE ACCOUNTS (Continued)

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(f) Fixed assets

(i) Depreciation

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Major expenditures on modifications and betterments of fixed assets which will increase their future economic benefits are capitalised, while expenditures on maintenance and repairs of fixed assets are expensed when incurred. Fixed assets are depreciated at rates sufficient to write off their cost less accumulated impairment losses and estimated residual value over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

| | |
|-------------------------|---|
| Leasehold improvements | 25% or over the unexpired period of the lease, whichever is shorter |
| Furniture and equipment | 25% |

(ii) Impairment and gain or loss on sale

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that the fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

The gain and loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

(g) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated based on 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. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses. Provision is made for obsolete, slow-moving or defective items where appropriate.

(h) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision, if any.

(i) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligations, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(j) Deferred taxation

Deferred taxation 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 accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred 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 taxation 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 can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

NOTES TO THE ACCOUNTS (Continued)

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(k) Revenue recognition

Revenue is recognised when the outcome of a transaction can be measured reliably and when it is probable that the economic benefits associated with a transaction will flow to the Group. Revenue is recognised on the following bases:

(i) Sales revenue

Sales revenue, representing the net invoiced value after allowances for returns and discounts, is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered and title has passed.

(ii) Consignment fee

Consignment fee is recognised when the related merchandise is sold.

(iii) Royalty fee

Royalty fee is recognised on an accrual basis in accordance with the terms of the underlying agreements.

(iv) Consultancy fee

Consultancy fee is recognised when the related services are rendered.

(v) Interest income

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and at the interest rates applicable.

(l) Advertising and promotion costs

Costs for advertising and promotion are expensed as incurred.

(m) 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's contributions to the defined contribution retirement scheme are expensed as incurred.

(iii) Equity compensation benefits

Share options are granted to eligible participants. No compensation cost is recognised in the profit and loss account. When the options are exercised, the proceeds received net of any transaction costs are credited to share capital (nominal value) and share premium.

(n) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. All other borrowing costs are charged to the profit and loss account in the period in which they are incurred.

(o) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

NOTES TO THE ACCOUNTS (Continued)

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(p) 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 accounts. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

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 accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(q) Currency translation

Individual companies within the Group maintain their books and records in the primary currencies of their respective operations ("functional currencies"). In the accounts of the individual companies, transactions in other currencies during the period are translated into the functional currencies at the applicable rates of exchange prevailing at the time of the transactions; monetary assets and liabilities denominated in other currencies are translated into the respective functional currencies at the applicable rates of exchange in effect at the balance sheet date. Exchange gains and losses are dealt with in the profit and loss account of the individual companies.

The Group prepares consolidated accounts in Hong Kong dollars. For the purpose of consolidation, all the assets and liabilities of subsidiaries with functional currencies other than Hong Kong dollars are translated into Hong Kong dollars at the applicable rates of exchange in effect at the balance sheet date; all income and expense items are translated at the applicable average exchange rates during the year. Exchange differences arising from such translation are dealt with as movements of cumulative foreign currency translation adjustments.

Forward foreign currency exchange contracts which are entered into as a hedge against specific and firm foreign currency exposures aiming to limit the Group's exposure to both favourable and unfavourable movements of the exchange rates to a pre-determined amount, are designated as hedged contracts. For these contracts, no exchange gains or losses are recognised during the contract period and any exchange gains or losses, together with the premium or discount on such contracts, are included in the measurement of the hedged transactions. Other forward foreign currency exchange contracts are considered to be speculative and the related exchange gains and losses are recognised in the profit and loss account as they arise.

(r) Segment reporting

In accordance with the Group's internal financial reporting the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of fixed assets, inventories, receivables and other operating assets. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to fixed assets and acquisition of investments.

In respect of geographical segment reporting, turnover is based on the country in which the customer is located and total assets and capital expenditure are where the assets are located.

(s) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from date of investment and bank overdrafts.

NOTES TO THE ACCOUNTS (Continued)

3. TURNOVER AND REVENUE

(a) Turnover and revenue consisted of:

| | 2005 HK\$'000 | 2004 HK\$'000 |
|--|-------------------------|-----------------------|
| Turnover | | |
| – Sales of fashion wears and accessories | 1,039,926 | 810,456 |
| – Sales of food and beverages (restaurant) | – | 994 |
| – Consignment fees | – | 158 |
| – Royalty fees | – | 45 |
| – Consultancy fees | <u>1,091</u> | <u>515</u> |
| Total turnover | <u>1,041,017</u> | 812,168 |
| Other revenue | | |
| – Interest income | <u>3,407</u> | <u>128</u> |
| Total revenue | <u><u>1,044,424</u></u> | <u><u>812,296</u></u> |

(b) Segment information

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

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

4. OPERATING PROFIT

Operating profit is determined after charging or crediting the following items:

| | 2005 HK\$'000 | 2004 HK\$'000 |
|--|------------------|------------------|
| After charging | | |
| Employment costs (including directors' emoluments) (Note 7) | 169,407 | 126,870 |
| Operating lease rentals of premises | 179,040 | 136,453 |
| Advertising and promotion costs | 10,959 | 6,340 |
| Depreciation of fixed assets | 31,520 | 15,899 |
| Provision for obsolete and slow-moving inventories | 7,697 | – |
| Auditors' remuneration | <u>815</u> | <u>350</u> |
| After crediting | | |
| Gain on disposal of fixed assets | 3 | 194 |
| Write-back on provision for obsolete and slow-moving inventories | – | 13,281 |
| Net exchange gains | <u>631</u> | <u>363</u> |

5. FINANCE COSTS

| | 2005 HK\$'000 | 2004 HK\$'000 |
|--|---------------------|---------------------|
| Interest on | | |
| – convertible note | 1,250 | 1,902 |
| – bank borrowings wholly repayable within five years | <u>2,547</u> | <u>2,396</u> |
| | <u><u>3,797</u></u> | <u><u>4,298</u></u> |

NOTES TO THE ACCOUNTS (Continued)

6. GAIN ON DISPOSAL OF SUBSIDIARIES

During the year ended 29 February 2004, the Group disposed of its entire interest in certain wholly-owned subsidiaries to a 50% owned jointly controlled entity, and recorded a gain on disposal of approximately HK\$9,012,000.

7. EMPLOYMENT COSTS

Employment costs, including directors' emoluments, consisted of:

| | 2005 HK\$'000 | 2004 HK\$'000 |
|--|-----------------------|-----------------------|
| Salaries, commission and allowances | 164,551 | 119,335 |
| Pension costs – contributions to defined contribution plan and provision for long-service payments | <u>4,856</u> | <u>7,535</u> |
| | <u><u>169,407</u></u> | <u><u>126,870</u></u> |

8. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

(a) Directors' emoluments

The aggregate amounts of emoluments paid/payable to directors of the Company are as follows:

| | 2005 HK\$'000 | 2004 HK\$'000 |
|--|---------------------|---------------------|
| Fees | | |
| – executive directors | 55 | – |
| – independent non-executive directors | 163 | – |
| – other non-executive director | 55 | – |
| Other emoluments for executive directors | | |
| – basic salaries and housing allowances | 8,460 | 2,340 |
| – contributions to defined contribution plan | <u>22</u> | <u>24</u> |
| | <u><u>8,482</u></u> | <u><u>2,364</u></u> |

The emoluments of the directors fell within the following bands:

| | 2005 | 2004 |
|-------------------------------------|-----------------|-----------------|
| Executive directors | | |
| Nil – HK\$1,000,000 | 1 | 2 |
| HK\$1,500,001 – HK\$2,000,000 | – | 1 |
| HK\$3,000,001 – HK\$3,500,000 | 1 | – |
| HK\$4,500,001 – HK\$5,000,000 | 1 | – |
| Independent non-executive directors | | |
| Nil – HK\$1,000,000 | 3 | – |
| Other non-executive director | | |
| Nil – HK\$1,000,000 | <u>1</u> | <u>–</u> |
| | <u><u>7</u></u> | <u><u>3</u></u> |

None of the directors waived any emoluments during the year (2004: Nil).

NOTES TO THE ACCOUNTS (Continued)

8. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS (Continued)

(b) Five highest paid individuals

The five highest paid individuals consisted of:

| | 2005 | 2004 |
|---------------------|----------|----------|
| Number of directors | 2 | 2 |
| Number of employees | <u>3</u> | <u>3</u> |
| | <u>5</u> | <u>5</u> |

The emoluments paid/payable to the highest paid individuals who are directors of the Company have been reflected in the analysis presented above. The emoluments payable to the remaining individuals are as follows:

| | 2005 HK\$'000 | 2004 HK\$'000 |
|--|------------------|------------------|
| Basic salaries and housing allowances | 3,390 | 3,185 |
| Contributions to defined contribution plan | <u>36</u> | <u>36</u> |
| | <u>3,426</u> | <u>3,221</u> |

The emoluments of the remaining individuals fell within the following bands:

| | 2005 | 2004 |
|-------------------------------|----------|----------|
| Nil - HK\$1,000,000 | 1 | 1 |
| HK\$1,000,001 - HK\$1,500,000 | <u>2</u> | <u>2</u> |
| | <u>3</u> | <u>3</u> |

(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.

9. TAXATION

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% (2004: 17.5%) on the estimated assessable profits of the Group's operations in Hong Kong for the year. Mainland China enterprise income tax has been provided at the applicable rates 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.

The amount of taxation charged to the consolidated profit and loss account represents:

| | 2005 HK\$'000 | 2004 HK\$'000 |
|---|------------------|------------------|
| Current taxation | | |
| – Hong Kong profits tax | 26,160 | 21,005 |
| – Under/(Over) provision in prior years | 12 | (31) |
| Deferred taxation relating to the origination and reversal of temporary differences (Note 24) | (991) | 504 |
| Deferred taxation resulting from an increase in tax rate | <u>—</u> | <u>(105)</u> |
| Taxation charge | <u>25,181</u> | <u>21,373</u> |

NOTES TO THE ACCOUNTS (Continued)

9. TAXATION (Continued)

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using applicable profits tax rate in Hong Kong, the home country of the Group, and the reconciliation is as follows:

| | 2005 HK\$'000 | 2004 HK\$'000 |
|--|------------------|------------------|
| Profit before taxation | <u>137,914</u> | <u>126,963</u> |
| Calculated at a taxation rate of 17.5% | 24,135 | 22,219 |
| Effect of different taxation rates for operations in Mainland China | — | (23) |
| Income not subject to taxation | (596) | (1,721) |
| Expenses not deductible for taxation purposes | 369 | 852 |
| Unrecognised tax loss | 1,551 | 314 |
| Recognition of previously unrecognised tax losses | (290) | (132) |
| Under/(Over) provision in prior years | 12 | (31) |
| Increase in opening net deferred tax assets resulting from an increase in tax rate | <u>—</u> | <u>(105)</u> |
| Taxation charge | <u>25,181</u> | <u>21,373</u> |

10. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders includes profit of approximately HK\$48,354,000 (2004: Nil) dealt with in the accounts of the Company.

11. DIVIDENDS

| | 2005 HK\$'000 | 2004 HK\$'000 |
|---|------------------|------------------|
| Interim, paid | 190,000 | 20,000 |
| Final, proposed, of HK 4.3 cents (2004: Nil) per ordinary share | <u>44,612</u> | <u>—</u> |
| | <u>234,612</u> | <u>20,000</u> |

During the year ended 28 February 2005, dividends of HK\$190,000,000 (2004: HK\$20,000,000) represented dividends paid by itkh holdings limited out of its retained profits to its then shareholders before the Reorganisation. Such dividends of approximately HK\$121,808,000 (2004: HK\$20,000,000) were settled by offsetting amounts due from a director of itkh holdings limited and certain related parties at the instructions of the relevant shareholders.

At a meeting held on 1 June 2005, the directors proposed a final dividend of HK 4.3 cents per ordinary share. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained profits for the year ending 28 February 2006. Such dividend represented HK\$43,000,000 for the 1,000,000,000 shares issued and outstanding as at 28 February 2005 and an additional amount of approximately HK\$1,612,000 for the shares issued in March 2005 under the over-allotment arrangement as disclosed in Note 33.

12. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of HK\$112,733,000 (2004: HK\$105,590,000). The calculation of diluted earnings per share is based on the adjusted profit of HK\$113,983,000 (2004: HK\$107,492,000), which is the Group's profit attributable to shareholders plus the after-tax effect of expense that would result from the conversion of the dilutive potential ordinary shares, amounted to approximately HK\$1,250,000 (2004: HK\$1,902,000).

The basic earnings per share is based on the weighted average number of 703,929,932 (2004: 672,075,000) ordinary shares in issue during the year. The diluted earnings per share is based on 751,077,935 (2004: 732,009,567) ordinary shares which is the weighted average number of ordinary shares in issue during the year plus the weighted average number of 47,148,003 (2004: 59,934,567) ordinary shares, which are (i) deemed to be issued if all outstanding convertible notes had been converted, and (ii) deemed to be issued at no consideration if all outstanding options had been exercised.

NOTES TO THE ACCOUNTS (Continued)

13. FIXED ASSETS

Movements (consolidated) were:

| | Leasehold Improvements HK\$'000 | 2005 Furniture and equipment HK\$'000 | Total HK\$'000 | 2004 Total HK\$'000 |
|-----------------------------|---------------------------------------|--|-------------------|---------------------------|
| Cost | | | | |
| Beginning of year | 76,133 | 13,981 | 90,114 | 76,334 |
| Additions | 55,721 | 4,819 | 60,540 | 29,115 |
| Acquisition of a subsidiary | 268 | 32 | 300 | — |
| Disposals | (2) | (16) | (18) | (14,972) |
| Disposals of subsidiaries | — | — | — | (363) |
| End of year | <u>132,120</u> | <u>18,816</u> | <u>150,936</u> | <u>90,114</u> |
| Accumulated depreciation | | | | |
| Beginning of year | 49,053 | 8,324 | 57,377 | 56,333 |
| Provision for the year | 28,654 | 2,866 | 31,520 | 15,899 |
| Disposals | — | (4) | (4) | (14,822) |
| Disposals of subsidiaries | — | — | — | (33) |
| End of year | <u>77,707</u> | <u>11,186</u> | <u>88,893</u> | <u>57,377</u> |
| Net book value | | | | |
| End of year | <u>54,413</u> | <u>7,630</u> | <u>62,043</u> | <u>32,737</u> |
| Beginning of year | <u>27,080</u> | <u>5,657</u> | <u>32,737</u> | <u>20,001</u> |

14. INVESTMENTS IN SUBSIDIARIES

| | Company 2005 HK\$'000 |
|-------------------------------|-----------------------------|
| Unlisted investments, at cost | 136,880 |
| Due from a subsidiary | <u>45,000</u> |
| | <u>181,880</u> |

The amount due from a subsidiary is unsecured, non-interest bearing and not repayable within one year.

NOTES TO THE ACCOUNTS (Continued)

14. INVESTMENTS IN SUBSIDIARIES (Continued)

Details of the subsidiaries as at 28 February 2005 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% | Inactive |
| 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% | Investment holding and retail of fashion wears and accessories |
| Elegance Source Limited | Hong Kong | HK\$2 | 100% | Retail of fashion wears and accessories |
| Elegant Century Enterprises Limited | Hong Kong | HK\$500,000 | 100% | Holdings leases |
| Enwell Limited | Hong Kong | HK\$2 | 100% | Holding leases |
| Good Praise Limited | Hong Kong | HK\$2 | 100% | Inactive |
| i.t apparels Limited (previously known as i.t. 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 |
| 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 |

NOTES TO THE ACCOUNTS (Continued)

14. INVESTMENTS IN SUBSIDIARIES (Continued)

| Name | Place of incorporation and operations | Issued and fully paid capital | Percentage of equity interest attributable to the Group (i) | Principal activities |
|--|---------------------------------------|-------------------------------|---|---|
| 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 |
| 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 |
| Visionage Limited | Hong Kong | HK\$1 | 100% | Inactive |
| Wasin Limited | Hong Kong | HK\$2 | 100% | Inactive |
| Zoompac Limited | Hong Kong | HK\$1 | 100% | Inactive |

Note:

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

None of the subsidiaries had any loan capital in issue at any time during the years ended 28 February 2005 and 29 February 2004.

NOTES TO THE ACCOUNTS (Continued)

15. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

| | Consolidated | |
|--------------------------------------|------------------|------------------|
| | 2005 HK\$'000 | 2004 HK\$'000 |
| Unlisted shares, at cost | 16,000 | 10,400 |
| Share of post-acquisition loss | (10,142) | (2,827) |
| Due from jointly controlled entities | <u>65,304</u> | <u>34,942</u> |
| | 71,162 | 42,515 |
| Less: provision for doubtful debts | <u>(9,012)</u> | <u>(9,012)</u> |
| | <u>62,150</u> | <u>33,503</u> |

The amounts due from jointly controlled entities are unsecured, non-interest bearing and not repayable within one year.

Details of the jointly controlled entities as at 28 February 2005 are as follows:

| Name | Place of incorporation/ establishment/ and operations | Issued and fully paid capital | Percentage of equity interest attributable to the Group indirectly | Principal activities |
|--|---|----------------------------------|--|---|
| FCUK IT Company | Hong Kong | HK\$32,000,000 | 50% | Retail of fashion wears and accessories |
| G.S – i.t Limited | Hong Kong | HK\$2 | 50% | Investment holding |
| I.T Taiwan Limited | Hong Kong | HK\$1 | 25.5% | Investment holding |
| Income Team Consultancy (Shanghai) Limited | Mainland China | US\$140,000 | 50% | Provision of consultancy service |
| Kenchart Trading (Shanghai) Limited | Mainland China | US\$3,590,000 | 50% | Retail and trading of fashion wears and accessories |
| New Concepts Corporation Limited | Hong Kong | HK\$2 | 50% | Investment holding |
| Top Alliance Enterprises Limited | British Virgin Islands | US\$100 | 25.5% | Investment holding |
| 旭日宜泰服飾（惠州）有限公司 | Mainland China | HK\$10,000,000 | 50% | Retail and trading of fashion wears and accessories |

16. INVENTORIES

| | Consolidated | |
|--|------------------|------------------|
| | 2005 HK\$'000 | 2004 HK\$'000 |
| Fashion wears and accessories | 127,079 | 84,404 |
| Less: provision for obsolete and slow-moving inventories | <u>(25,885)</u> | <u>(18,188)</u> |
| | <u>101,194</u> | <u>66,216</u> |

Gross inventories carried at net realisable value amounted to approximately HK\$22,230,000 as at 28 February 2005 (2004: HK\$15,286,000).

The carrying amount of inventories that was secured for trust receipts bank loan arrangements amounted to approximately HK\$37,075,000 (2004: HK\$443,000) as at 28 February 2005 (see Notes 19 and 31).

NOTES TO THE ACCOUNTS (Continued)

17. ACCOUNTS RECEIVABLE

The Group's sales to customers are mainly in cash or credit/debit card payments. The Group does not have a defined fixed credit policy as its accounts receivable mainly arise from credit/debit card sales.

As at 28 February 2005, all accounts receivable were aged between 0 and 90 days (2004: 0 and 90 days).

18. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | Consolidated | | Company |
|-----------------------------|---------------|---------------|--------------|
| | 2005 | 2004 | 2005 |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Prepayments | 10,326 | 5,934 | — |
| Rental and utility deposits | 14,906 | 6,430 | — |
| Other receivables | 4,072 | 1,321 | 3,669 |
| | <u>29,304</u> | <u>13,685</u> | <u>3,669</u> |

19. SHORT-TERM BANK BORROWINGS

| | Consolidated | |
|---------------------------|---------------|------------|
| | 2005 | 2004 |
| | HK\$'000 | HK\$'000 |
| Bank overdrafts | 26 | — |
| Trust receipts bank loans | 37,075 | 443 |
| | <u>37,101</u> | <u>443</u> |

Trust receipts bank loans were secured by inventories released under such loans (see Note 16). Details of the Group's banking facilities are set out in Note 31.

20. LONG-TERM BANK LOANS

| | Consolidated | |
|---|---------------|----------|
| | 2005 | 2004 |
| | HK\$'000 | HK\$'000 |
| Amounts repayable | | |
| Within one year | 93,360 | 21,000 |
| In the second year | 26,640 | — |
| In the third to fifth year | 25,000 | — |
| | 145,000 | 21,000 |
| Less: current portion of long-term bank loans | (93,360) | (21,000) |
| | <u>51,640</u> | <u>—</u> |

As at 28 February 2005, long-term bank loans were secured and bore interest at the best lending rate offered by the bank less 2.5% per annum or HIBOR plus 2.5% per annum (2004: the best lending rate offered by the bank plus 3% per annum). Details of the Group's banking facilities are set out in Note 31.

NOTES TO THE ACCOUNTS (Continued)

21. CONVERTIBLE NOTE

| | Consolidated | |
|------------------|------------------|------------------|
| | 2005 HK\$'000 | 2004 HK\$'000 |
| Principal amount | — | 31,195 |

On 10 July 2003, ithk holdings limited issued a convertible note with face value of US\$5,000,000 (equivalent to HK\$39,000,000). The note was secured by personal guarantees provided by certain directors of the Company and relatives of certain directors of the Company, and bore interest at 7% per annum payable quarterly. The note was scheduled to mature in July 2006, and the noteholder had an option to extend it to July 2007.

The note was convertible, at the option of the noteholder, in whole into ordinary shares of ithk holdings limited at any time prior to an initial public offering of shares by a prospective holding company of ithk holdings limited according to a pre-determined price-earnings multiple. In the event that an initial public offering was not effected on or before 9 July 2006 and the note had not been converted or its maturity had not been extended, ithk holdings limited was obliged to redeem the note at face value.

During the year ended 29 February 2004, ithk holdings limited exercised its option to repay an amount of US\$1,000,000 (equivalent to HK\$7,805,000).

On 5 October 2004, the outstanding amount of the convertible note of US\$4,000,000 (equivalent to HK\$31,195,000) was converted into 2,078 shares of ithk holdings limited, representing approximately 10.39% interest in ithk holdings limited as at that date.

22. ACCOUNTS AND BILLS PAYABLE

The ageing analysis of accounts and bills payable is at follows:

| | Consolidated | |
|---------------|------------------|------------------|
| | 2005 HK\$'000 | 2004 HK\$'000 |
| 0 to 30 days | 38,063 | 21,153 |
| 31 to 60 days | 2,342 | 2,438 |
| 61 to 90 days | 324 | 82 |
| Over 90 days | 144 | 989 |
| | <u>40,873</u> | <u>24,662</u> |

23. ACCRUALS AND OTHER PAYABLE

| | Consolidated | | Company |
|--------------------|------------------|------------------|------------------|
| | 2005 HK\$'000 | 2004 HK\$'000 | 2005 HK\$'000 |
| Unutilised coupon | 1,584 | 3,159 | — |
| Accruals | | | |
| — Rental premises | 26,908 | 4,435 | — |
| — Employment costs | 13,997 | 5,701 | — |
| — Others | 10,315 | 6,908 | 2,119 |
| Other payables | <u>2,592</u> | <u>1,261</u> | <u>—</u> |
| | <u>55,396</u> | <u>21,464</u> | <u>2,119</u> |

NOTES TO THE ACCOUNTS (Continued)

24. DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2004: 17.5%).

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

| | 2005 HK\$'000 | 2004 HK\$'000 |
|--|---------------------|-------------------|
| At beginning of the year | 726 | 1,125 |
| Deferred taxation credited/(charged) to profit and loss account (Note 9) | <u>991</u> | <u>(399)</u> |
| At end of the year | <u><u>1,717</u></u> | <u><u>726</u></u> |

Deferred income tax assets are recognised for tax losses carry forwards to the extent that realisation of the related tax benefit through the future taxable profits is probable. Such tax loss has no expiry date. The Group has unrecognised tax losses of HK\$8,482,000 (2004: HK\$1,408,000) to carry forward against future taxable income, of which HK\$271,000 (2004: HK\$2,017,000) will expire in December 2008.

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 | |
|------------------------------------|------------------------------|-------------------|
| | 2005 HK\$'000 | 2004 HK\$'000 |
| At beginning of year | 338 | 133 |
| Charged to profit and loss account | <u>1,182</u> | <u>205</u> |
| At end of the year | <u><u>1,520</u></u> | <u><u>338</u></u> |

| Deferred tax assets | Decelerated tax depreciation | | Tax losses | | Total | |
|---|------------------------------|-------------------|-------------------|-------------------|---------------------|---------------------|
| | 2005 HK\$'000 | 2004 HK\$'000 | 2005 HK\$'000 | 2004 HK\$'000 | 2005 HK\$'000 | 2004 HK\$'000 |
| At beginning of year | 864 | 1,073 | 200 | 185 | 1,064 | 1,258 |
| Credited/(Charged) to profit and loss account | <u>1,842</u> | <u>(209)</u> | <u>331</u> | <u>15</u> | <u>2,173</u> | <u>(194)</u> |
| At end of year | <u><u>2,706</u></u> | <u><u>864</u></u> | <u><u>531</u></u> | <u><u>200</u></u> | <u><u>3,237</u></u> | <u><u>1,064</u></u> |

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet:

| | 2005 HK\$'000 | 2004 HK\$'000 |
|--------------------------|---------------------|-------------------|
| Deferred tax assets | 2,642 | 904 |
| Deferred tax liabilities | <u>(925)</u> | <u>(178)</u> |
| | <u><u>1,717</u></u> | <u><u>726</u></u> |

NOTES TO THE ACCOUNTS (Continued)

25. SHARE CAPITAL

Movements were:

| | Note | 2005 Number of shares '000 | Nominal value HK\$'000 |
|--|-------|-------------------------------------|---------------------------|
| Authorised: | | | |
| 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 |
| Ordinary shares of HK\$0.1 each | | <u>3,000,000</u> | <u>300,000</u> |
| Issued and fully paid: | | | |
| 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 |
| Ordinary shares of HK\$0.1 each | | <u>1,000,000</u> | <u>100,000</u> |

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 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.

The comparative figures of the Company's share capital as at 29 February 2004 shown on the consolidated balance sheet represented the amount of the issued and paid-up capital of ithk holdings limited, the then holding company as at that date.

NOTES TO THE ACCOUNTS (Continued)

26. SHARE OPTIONS

- (a) On 7 February 2005, the Company granted 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.

Movements of the outstanding Pre-IPO Share Options during the year ended 28 February 2005 were:

| Date of grant | Exercise period | Exercise price per share | Beginning of year '000 | Number of shares | | | End of year '000 |
|-----------------|-------------------------------------|--------------------------|------------------------|------------------------------|---------------------------------------|--------------------------------|------------------|
| | | | | Granted during the year '000 | Lapsed/Cancelled during the year '000 | Exercised during the year '000 | |
| 7 February 2005 | 4 September 2005 to 7 February 2008 | HK\$0.1 | — | 7,200 | — | — | 7,200 |

- (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 one share as stated in the daily quotation sheets issued by The Stock Exchange of Hong Kong Limited ("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.

During the year ended 28 February 2005, no option was granted by the Company under the Share Option Scheme.

27. RESERVES

- (a) Group

| | Share premium HK\$'000 | Capital reserve (i) HK\$'000 | Retained profits HK\$'000 | Total HK\$'000 |
|--|---------------------------|---------------------------------|------------------------------|-------------------|
| As at 1 March 2004 | — | 1,202 | 190,318 | 191,520 |
| Profit attributable to shareholders | — | — | 112,733 | 112,733 |
| Dividends | — | — | (190,000) | (190,000) |
| Issue of shares in connection with the Listing (Note 25(vii)) | 462,500 | — | — | 462,500 |
| Capitalisation of share premium account (Note 25(vi)) | (74,800) | — | — | (74,800) |
| Share issuance costs | (33,977) | — | — | (33,977) |
| Effect of the Reorganisation (Note 1) | — | 31,135 | — | 31,135 |
| As at 28 February 2005 | <u>353,723</u> | <u>32,337</u> | <u>113,051</u> | <u>499,111</u> |
| Representing — | | | | |
| 2005 Final dividend proposed | | | 44,612 | |
| Others | | | 68,439 | |
| Retained profits as at 28 February 2005 | | | <u>113,051</u> | |
| Analysed by — | | | | |
| Company and subsidiaries | 353,723 | 32,337 | 123,193 | 509,253 |
| Jointly controlled entities | — | — | (10,142) | (10,142) |
| As at 28 February 2005 | <u>353,723</u> | <u>32,337</u> | <u>113,051</u> | <u>499,111</u> |

NOTES TO THE ACCOUNTS (Continued)

27. RESERVES (Continued)

(a) Group (Continued)

| | Capital reserve (i) HK\$'000 | Cumulative translation adjustments HK\$'000 | Retained profits HK\$'000 | Total HK\$'000 |
|-------------------------------------|------------------------------------|--|---------------------------------|-------------------|
| As at 1 March 2003 | 1,202 | (11) | 104,728 | 105,919 |
| Profit attributable to shareholders | — | — | 105,590 | 105,590 |
| Dividends | — | — | (20,000) | (20,000) |
| Translation adjustments | — | 1 | — | 1 |
| Disposal of subsidiaries | — | 10 | — | 10 |
| | <u>1,202</u> | <u>—</u> | <u>190,318</u> | <u>191,520</u> |
| As at 29 February 2004 | <u>1,202</u> | <u>—</u> | <u>190,318</u> | <u>191,520</u> |
| Analysed by — | | | | |
| Company and subsidiaries | 1,202 | — | 193,145 | 194,347 |
| Jointly controlled entities | — | — | (2,827) | (2,827) |
| | <u>1,202</u> | <u>—</u> | <u>190,318</u> | <u>191,520</u> |
| As at 29 February 2004 | <u>1,202</u> | <u>—</u> | <u>190,318</u> | <u>191,520</u> |

(b) Company

| | Share premium HK\$'000 | Contributed surplus (ii) HK\$'000 | Retained profits HK\$'000 | Total HK\$'000 |
|--|------------------------------|---|---------------------------------|-------------------|
| As at 1 March 2004 | — | — | — | — |
| Profit for the year | — | — | 48,354 | 48,354 |
| Capitalisation in paying up nil paid shares (Note 25(v)) | — | (100) | — | (100) |
| Issue of shares in connection with the Listing (Note 25(vii)) | 462,500 | — | — | 462,500 |
| Capitalisation of share premium account (Note 25(vi)) | (74,800) | — | — | (74,800) |
| Share issuance costs | (33,977) | — | — | (33,977) |
| Effect of the Reorganisation (Note 1) | — | 136,780 | — | 136,780 |
| | <u>353,723</u> | <u>136,680</u> | <u>48,354</u> | <u>538,757</u> |
| As at 28 February 2005 | <u>353,723</u> | <u>136,680</u> | <u>48,354</u> | <u>538,757</u> |
| Representing — | | | | |
| 2005 Final dividend proposed | | | 44,612 | |
| Others | | | <u>3,742</u> | |
| Retained profits as at 28 February 2005 | | | <u>48,354</u> | |

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

NOTES TO THE ACCOUNTS (Continued)

28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit before taxation to net cash inflow generated from operations:

| | 2005 HK\$'000 | 2004 HK\$'000 |
|--|------------------|------------------|
| Profit before taxation | 137,914 | 126,963 |
| Interest expense | 3,797 | 4,298 |
| Interest income | (3,407) | (128) |
| Share of loss of jointly controlled entities | 8,863 | 1,792 |
| Gain on disposal of subsidiaries | — | (9,012) |
| Depreciation of fixed assets | 31,520 | 15,899 |
| Gain on disposal of fixed assets | (3) | (194) |
| Net liabilities disposed upon disposal/deemed disposal of subsidiaries | — | (8,880) |
| Increase in rental deposits | (11,030) | (11,954) |
| Increase in inventories | (33,873) | (13,355) |
| Increase in prepayments, deposits and other receivables | (12,039) | (9,005) |
| Increase in accounts receivable | (1,128) | (6,285) |
| Increase/(Decrease) in accounts and bills payable | 16,170 | (1,962) |
| Increase in accruals and other payables | 31,670 | 3,089 |
| | <u>168,454</u> | <u>91,266</u> |
| Net cash inflow generated from operations | <u>168,454</u> | <u>91,266</u> |

(b) Analysis of changes in financing:

| | Trust receipts bank loans HK\$'000 | Bank loans HK\$'000 | Other loan HK\$'000 | Convertible note HK\$'000 |
|---|---|------------------------|------------------------|---------------------------------|
| As at 1 March 2003 | 5,403 | — | 170 | 59,648 |
| Net decrease in trust receipts bank loans | (4,960) | — | — | — |
| New borrowings | — | 34,720 | — | 39,000 |
| Repayments | — | (9,000) | (170) | (48,274) |
| Accrued interest | — | — | — | 1,902 |
| Payment of interest | — | — | — | (21,081) |
| Disposal/Deemed disposal of subsidiaries | — | (4,720) | — | — |
| | <u>443</u> | <u>21,000</u> | <u>—</u> | <u>31,195</u> |
| As at 29 February 2004 | 443 | 21,000 | — | 31,195 |
| Net increase in trust receipts bank loans | 36,632 | — | — | — |
| New borrowings | — | 150,000 | — | — |
| Repayments | — | (26,000) | — | — |
| Accrued interest | — | — | — | 1,250 |
| Payment of interest | — | — | — | (1,250) |
| Conversion of note | — | — | — | (31,195) |
| | <u>37,075</u> | <u>145,000</u> | <u>—</u> | <u>—</u> |
| As at 28 February 2005 | 37,075 | 145,000 | — | — |

NOTES TO THE ACCOUNTS (Continued)

28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(c) Details of the disposal/deemed disposal of subsidiaries during the year ended 29 February 2004 are as follows:

| | HK\$'000 |
|--|----------------|
| Fixed assets | 330 |
| Inventories | 328 |
| Accounts receivable | 400 |
| Prepayments, deposits and other receivables | 12,383 |
| Cash and bank deposits | 2,766 |
| Long-term bank loans | (4,720) |
| Accounts payable | (3,855) |
| Accruals and other payables | (1,220) |
| Due to fellow subsidiaries | (15,302) |
| Cumulative translation adjustments | 10 |
| | <u>10</u> |
| Net liabilities | <u>(8,880)</u> |
| Satisfied by: | |
| Consideration for disposal of shares of subsidiaries | <u>—</u> |
| Analysis of the net cash outflow in respect of the disposal/deemed disposal of subsidiaries: | |
| Cash consideration received | — |
| Cash and bank deposits disposed of | <u>(2,766)</u> |
| Net cash outflow in respect of the disposal/deemed disposal of subsidiaries | <u>(2,766)</u> |

(d) Details of the acquisition of a subsidiary, which was previously a jointly controlled entity, during the year ended 28 February 2005 are:

| | HK\$'000 |
|--|----------------|
| Fixed assets | 300 |
| Rental deposits | 689 |
| Inventories | 1,105 |
| Accounts receivable | 90 |
| Prepayments, deposits and other receivables | 211 |
| Cash and bank deposits | 2,930 |
| Accounts payable | (41) |
| Accruals and other payables | (232) |
| Due to fellow subsidiaries | (3,631) |
| | <u>(3,631)</u> |
| Net assets | 1,421 |
| Less: share of net assets of a jointly controlled entity | <u>(852)</u> |
| | <u>569</u> |
| Satisfied by: | |
| Consideration for acquisition of shares of a subsidiary | <u>569</u> |
| Analysis of the net cash inflow in respect of the acquisition of a subsidiary: | |
| Cash consideration paid | (569) |
| Cash and bank deposits acquired | <u>2,930</u> |
| Net cash inflow in respect of the acquisition of a subsidiary | <u>2,361</u> |

NOTES TO THE ACCOUNTS (Continued)

28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(e) Non-cash transactions:

During the year ended 28 February 2005, dividends payable/paid to then shareholders of ithk holdings limited were assigned by the shareholders to offset the Group's receivables from a director of ithk holdings limited of HK\$27,712,000 and from certain related companies of HK\$104,096,000.

During the year ended 29 February 2004, dividends payable/paid to then shareholders of ithk holdings limited were assigned by the shareholders to offset the Group's receivables from a director of ithk holdings limited of HK\$30,000,000.

(f) Analysis of cash and cash equivalents:

| | 2005 HK\$'000 | 2004 HK\$'000 |
|------------------------|------------------|------------------|
| Cash and bank deposits | 561,983 | 53,406 |
| Bank overdrafts | <u>(26)</u> | <u>—</u> |
| | <u>561,957</u> | <u>53,406</u> |

29. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Operating lease commitments

The Group has operating lease commitments in respect of rented premises under various non-cancellable operating lease agreements extending to May 2010 (2004: May 2008). The total minimal lease payment commitments are analysed as follows:

| | 2005 HK\$'000 | 2004 HK\$'000 |
|---|------------------|------------------|
| Amounts payable | | |
| — within one year | 183,799 | 92,037 |
| — more than one year but not exceeding five years | 231,630 | 110,737 |
| — more than five years | <u>1,660</u> | <u>—</u> |
| | <u>417,089</u> | <u>202,774</u> |

The above lease commitments only include commitments for basic rentals, and do not include commitments for additional rental payable, if any, when the amounts determined by applying pre-determined percentages to turnover exceeds 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

| | 2005 HK\$'000 | 2004 HK\$'000 |
|--|------------------|------------------|
| Letters of guarantee issued by banks in lieu of rental deposits | 12,204 | 5,860 |
| Corporate guarantees in respect of bank loans granted by banks to certain related companies (Note 32(h)) | <u>31,200</u> | <u>42,477</u> |
| | <u>43,404</u> | <u>48,337</u> |

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.

Subsequent to 28 February 2005, the corporate guarantees in respect of bank loans granted by banks to certain related companies were released.

NOTES TO THE ACCOUNTS (Continued)

29. COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

- (c) Forward foreign currency exchange contracts

As at 28 February 2005, the Group has commitment in respect of outstanding forward foreign currency exchange contracts to buy Japanese Yen and Euros, in order to hedge against currency fluctuations arising from firm purchase orders of fashion wears and accessories and certain outstanding payables denominated in those currencies, as follows:

| | 2005 HK\$'000 | 2004 HK\$'000 |
|---|------------------|------------------|
| Forward foreign currency exchange contracts | <u>57,320</u> | <u>—</u> |

30. PENSION SCHEME

The Group has arranged for its employees to join the 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 2005, the amount of the Group's employer contributions to the MPF Scheme was approximately HK\$6,779,000 (2004: HK\$5,346,000).

31. BANKING FACILITIES AND PLEDGE OF ASSETS

As at 28 February 2005, the Group had aggregate banking facilities of approximately HK\$369,127,000 (2004: HK\$174,000,000) for overdrafts, bank loans and trade financing, of which approximately HK\$122,197,000 (2004: HK\$110,518,000) was unutilised as at the same date. These facilities were secured by:

- (i) the Group's bank deposits of HK\$17,750,000 (2004: HK\$750,000);
- (ii) the Group's inventories of HK\$37,075,000 held under trust receipts bank loan arrangements (2004: HK\$443,000) (see Note 16);
- (iii) bank deposits of certain directors of the Company;
- (iv) personal guarantees provided by certain directors of the Company and relatives of certain directors of the Company;
- (v) properties owned by relatives of certain directors of the Company and certain related companies;
- (vi) corporate guarantees provided by certain related companies; and
- (vii) corporate guarantees provided by certain subsidiaries.

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

Subsequent to 28 February 2005, the pledge of bank deposits of certain directors of the Company, charges over properties owned by relatives of certain directors of the Company and certain related companies, personal guarantees provided by certain directors of the Company and relatives of certain directors of the Company, and corporate guarantees provided by certain related companies were released and replaced by guarantees from the Company and/or its subsidiaries.

NOTES TO THE ACCOUNTS (Continued)

32. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

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

| | 2005 HK\$'000 | 2004 HK\$'000 |
|---|------------------|------------------|
| Sales of fashion wears and accessories to a jointly controlled entity | 9,793 | — |
| Reimbursement of administrative expenses by jointly controlled entities | 2,888 | 1,333 |
| Consignment fees received/receivable from a jointly controlled entity | <u>—</u> | <u>158</u> |

In the opinion of the Company's Directors and the Group's management, the above transactions were carried out in the usual course of business of the Group, and in accordance with terms of the contracts entered into by the Group and the related parties.

(b) Balances with related parties

Details of amounts due from related companies, directors and related parties are as follows:

| | Consolidated | |
|---|------------------|------------------|
| | 2005 HK\$'000 | 2004 HK\$'000 |
| Due from related companies | | |
| 3WH Limited ¹ | — | 934 |
| GP (FE) Ltd ¹ | — | 2,590 |
| Income Team Limited ¹ | — | 20,072 |
| Online Profit Limited ¹ | — | 5,663 |
| Popbest Limited ¹ | — | 15,528 |
| Shine Team Development Limited ¹ | — | 2,521 |
| Veston Limited ¹ | <u>—</u> | <u>3,913</u> |
| | <u>—</u> | <u>51,221</u> |
| Due from directors | | |
| Sham Kar Wai | — | 17,849 |
| Sham Kin Wai | <u>—</u> | <u>78</u> |
| | <u>—</u> | <u>17,927</u> |
| Due from related parties | | |
| Sham Sau Wai ² | — | 2 |
| Sham Sau Han ² | <u>—</u> | <u>38</u> |
| | <u>—</u> | <u>40</u> |

Notes:

¹ These companies are beneficially owned by Mr. Sham Kar Wai and Mr. Sham Kin Wai, the directors of the Company.

² Ms. Sham Sau Wai and Ms. Sham Sau Han are relatives of Mr. Sham Kar Wai and Mr. Sham Kin Wai, the directors of the Company.

NOTES TO THE ACCOUNTS (Continued)

32. RELATED PARTY TRANSACTIONS (Continued)

(b) Balances with related parties (Continued)

Details of the maximum balances outstanding during the years are disclosed pursuant to the disclosure requirements of the Hong Kong Companies Ordinance, as follows:

| | Consolidated | |
|--------------------------------|-------------------|-------------------|
| | 2005 | 2004 |
| | HK\$'000 | HK\$'000 |
| Due from related companies | | |
| 3WH Limited | 10,388 | 934 |
| GP (FE) Ltd | 7,732 | 2,702 |
| Income Team Limited | 50,648 | 20,072 |
| Online Profit Limited | 29,998 | 5,663 |
| Popbest Limited | 32,192 | 15,528 |
| Shine Team Development Limited | 3,562 | 2,568 |
| Veston Limited | 7,951 | 11,976 |
| | <u> </u> | <u> </u> |
| Due from directors | | |
| Sham Kar Wai | 27,507 | 49,233 |
| Sham Kin Wai | 78 | 78 |
| | <u> </u> | <u> </u> |
| Due from related parties | | |
| Sham Sau Wai | 2 | 2 |
| Sham Sau Han | 38 | 38 |
| | <u> </u> | <u> </u> |

The amounts due from related companies are unsecured, non-interest bearing and not repayable within one year. The amounts due from directors and related parties are unsecured, non-interest bearing and without pre-determined repayment terms.

- (c) During the year ended 28 February 2005, dividends payable/paid of HK\$131,080,000 (2004: HK\$30,000,000) to the then shareholders of itkh holdings limited were assigned by the shareholders to offset the Group's receivables from related companies and a director (see Note 28(e)).
- (d) During the year ended 28 February 2005, Pre-IPO Share Options of 600,000 were granted to a director of the Company to subscribe for 600,000 shares in the Company at an exercise price of HK\$0.1 per share (see Note 26(a)).
- (e) The convertible note was secured by personal guarantees provided by certain directors of the Company and relatives of certain directors of the Company. On 5 October 2004, the note was converted and the said guarantees were released (see Note 21).
- (f) The amounts due to subsidiaries by the Company are unsecured, non-interest bearing and not repayable with one year.
- (g) As at 28 February 2005, the Group's banking facilities were secured by, among others, corporate guarantees provided by certain related companies, personal guarantees provided by certain directors and relatives of certain directors of the Company, bank deposits of certain directors, and properties owned by certain related companies and relatives of certain directors (see Note 31).
- (h) As at 28 February 2005, the Group provided corporate guarantees amounting to HK\$31,200,000 (2004: HK\$42,477,000) in respect of bank loans granted by banks to certain related companies (see Note 29(b)).

33. SUBSEQUENT EVENT

Subsequent to 28 February 2005, 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 approximately HK\$73,125,000.

34. APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 1 June 2005.

4 YEAR FINANCIAL SUMMARY

CONSOLIDATED PROFIT AND LOSS ACCOUNTS

| | Year ended 28 February 2005 HK\$'000 | Year ended 29 February 2004 HK\$'000 | Year ended 28 February 2003 HK\$'000 | Year ended 28 February 2002 HK\$'000 |
|---|--|--|--|--|
| Turnover | 1,041,017 | 812,168 | 731,983 | 695,051 |
| Cost of sales | <u>(406,546)</u> | <u>(326,571)</u> | <u>(316,280)</u> | <u>(310,804)</u> |
| Gross profit | 634,471 | 485,597 | 415,703 | 384,247 |
| Other revenue | 3,407 | 128 | 215 | 216 |
| Operating expenses | <u>(487,304)</u> | <u>(361,684)</u> | <u>(344,441)</u> | <u>(318,236)</u> |
| Operating profit | 150,574 | 124,041 | 71,477 | 66,227 |
| Finance costs | (3,797) | (4,298) | (9,863) | (11,772) |
| Share of (loss)/profit of jointly controlled entities | (8,863) | (1,792) | 110 | (276) |
| Gain on disposal of subsidiaries | <u>—</u> | <u>9,012</u> | <u>—</u> | <u>—</u> |
| Profit before taxation | 137,914 | 126,963 | 61,724 | 54,179 |
| Taxation | <u>(25,181)</u> | <u>(21,373)</u> | <u>(13,770)</u> | <u>(10,310)</u> |
| Profit attributable to shareholders | <u>112,733</u> | <u>105,590</u> | <u>47,954</u> | <u>43,869</u> |
| Dividends | <u>234,612</u> | <u>20,000</u> | <u>20,000</u> | <u>20,000</u> |

4 YEAR FINANCIAL SUMMARY (Continued)

CONSOLIDATED BALANCE SHEETS

| | 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 |
|---|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| Non-current assets | | | | |
| Fixed assets | 62,043 | 32,737 | 20,001 | 38,878 |
| Investments in jointly controlled entities | 62,150 | 33,503 | 2,497 | 2,215 |
| Rental deposits | 40,858 | 29,139 | 17,185 | 24,281 |
| Due from related companies | — | 51,221 | 23,601 | 35,369 |
| Deferred tax assets | 2,642 | 904 | 1,172 | 354 |
| Total non-current assets | <u>167,693</u> | <u>147,504</u> | <u>64,456</u> | <u>101,097</u> |
| Current assets | | | | |
| Inventories | 101,194 | 66,216 | 53,189 | 55,027 |
| Accounts receivable | 9,840 | 8,622 | 2,737 | 2,814 |
| Prepayments, deposits and other receivables | 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 | 17,750 | 750 | 5,220 | 5,162 |
| Cash and bank deposits | 561,983 | 53,406 | 75,832 | 34,026 |
| Total current assets | <u>720,071</u> | <u>160,646</u> | <u>184,775</u> | <u>119,018</u> |
| Current liabilities | | | | |
| Short-term bank borrowings | (37,101) | (443) | (5,403) | (8,892) |
| Long-term bank loans, current portion | (93,360) | (21,000) | — | (740) |
| Other loan | — | — | (170) | (622) |
| Convertible note, current portion | — | — | (59,648) | — |
| Accounts and bills payable | (40,873) | (24,662) | (30,479) | (27,890) |
| Accruals and other payables | (55,396) | (21,464) | (19,595) | (24,530) |
| Taxation payable | (9,358) | (7,680) | (7,962) | (5,081) |
| Dividend payable | — | (10,000) | (20,000) | — |
| Total current liabilities | <u>(236,088)</u> | <u>(85,249)</u> | <u>(143,257)</u> | <u>(67,755)</u> |
| Net current assets | <u>483,983</u> | <u>75,397</u> | <u>41,518</u> | <u>51,263</u> |
| Total assets less current liabilities | <u>651,676</u> | <u>222,901</u> | <u>105,974</u> | <u>152,360</u> |
| Non-current liabilities | | | | |
| Long-term bank loans | (51,640) | — | — | — |
| Convertible note | — | (31,195) | — | (53,034) |
| Deferred taxation | (925) | (178) | (47) | (1,342) |
| Total non-current liabilities | <u>(52,565)</u> | <u>(31,373)</u> | <u>(47)</u> | <u>(54,376)</u> |
| Net assets | <u>599,111</u> | <u>191,528</u> | <u>105,927</u> | <u>97,984</u> |
| Representing | | | | |
| Share capital | 100,000 | 8 | 8 | 8 |
| Reserves | 499,111 | 191,520 | 105,919 | 97,976 |
| Shareholders' equity | <u>599,111</u> | <u>191,528</u> | <u>105,927</u> | <u>97,984</u> |

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 accounts. 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 57 and 58 respectively, of this annual report and are presented on the basis set out in Note 1 to the consolidated accounts.