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 stratgey 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.