

## 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
<b>Non-current assets</b>				
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	—
<b>Total non-current assets</b>		<b>167,693</b>	<b>147,504</b>	<b>181,880</b>
<b>Current assets</b>				
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
<b>Total current assets</b>		<b>720,071</b>	<b>160,646</b>	<b>467,504</b>
<b>Current liabilities</b>				
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)	—
<b>Total current liabilities</b>		<b>(236,088)</b>	<b>(85,249)</b>	<b>(2,119)</b>
<b>Net current assets</b>		<b>483,983</b>	<b>75,397</b>	<b>465,385</b>
<b>Total assets less current liabilities</b>		<b>651,676</b>	<b>222,901</b>	<b>647,265</b>
<b>Non-current liabilities</b>				
Long-term bank loans	20	(51,640)	—	—
Due to subsidiaries	32	—	—	(8,508)
Convertible note	21	—	(31,195)	—
Deferred taxation	24	(925)	(178)	—
<b>Total non-current liabilities</b>		<b>(52,565)</b>	<b>(31,373)</b>	<b>(8,508)</b>
<b>Net assets</b>		<b>599,111</b>	<b>191,528</b>	<b>638,757</b>
<b>Representing</b>				
Share capital	25	100,000	8	100,000
Reserves	27	499,111	191,520	538,757
<b>Shareholders' equity</b>		<b>599,111</b>	<b>191,528</b>	<b>638,757</b>

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
<b>Operating activities</b>			
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
<b>Net cash inflow from operating activities</b>		<b>140,201</b>	<b>46,661</b>
<b>Investing activities</b>			
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
<b>Net cash outflow from investing activities</b>		<b>(162,643)</b>	<b>(84,873)</b>
<b>Net cash outflow before financing activities</b>		<b>(22,442)</b>	<b>(38,212)</b>
<b>Financing activities</b>			
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
<b>Net cash inflow from financing activities</b>		<b>530,993</b>	<b>15,786</b>
<b>Increase/(Decrease) in cash and cash equivalents</b>		<b>508,551</b>	<b>(22,426)</b>
Cash and cash equivalents, beginning of year		53,406	75,832
<b>Cash and cash equivalents, end of year</b>	28(f)	<b>561,957</b>	<b>53,406</b>

## 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	1,091	515
	<u>1,041,017</u>	<u>812,168</u>
Total turnover		
	1,041,017	812,168
Other revenue		
– Interest income	3,407	128
	<u>3,407</u>	<u>128</u>
Total revenue	<u>1,044,424</u>	<u>812,296</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
<b>After charging</b>		
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	815	350
	<u>307,438</u>	<u>285,912</u>
<b>After crediting</b>		
Gain on disposal of fixed assets	3	194
Write-back on provision for obsolete and slow-moving inventories	–	13,281
Net exchange gains	631	363
	<u>634</u>	<u>15,838</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	2,547	2,396
	<u>3,797</u>	<u>4,298</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	<u>37,075</u>	<u>145,000</u>	<u>—</u>	<u>—</u>

## 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	<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	(26)	—
	<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	1,660	—
	<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))	31,200	42,477
	<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 <sup>1</sup>	—	934
GP (FE) Ltd <sup>1</sup>	—	2,590
Income Team Limited <sup>1</sup>	—	20,072
Online Profit Limited <sup>1</sup>	—	5,663
Popbest Limited <sup>1</sup>	—	15,528
Shine Team Development Limited <sup>1</sup>	—	2,521
Veston Limited <sup>1</sup>	<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 <sup>2</sup>	—	2
Sham Sau Han <sup>2</sup>	<u>—</u>	<u>38</u>
	<u>—</u>	<u>40</u>

Notes:

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

<sup>2</sup> 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.