I.T

INTERIM REPORT
05/06

I.T LIMITED INTERIM REPORT 05/06

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ITIS

a fashion icon
TREND SETTING

inspiration
a lifestyle
MOVING FORWARD

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

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Wong Chuk Hang
Hong Kong

Legal Advisors
Deacons (as to Hong Kong law)
Conyers Dill & Pearman
(as to Bermuda law)
Fangda Partners (as to the 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
Computershare Hong Kong Investor Services Limited
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HIGHLIGHTS

- Sales reached HK$568.1 million, increased 37.4%
- Gross profit was HK$338.7 million, increased 33.8%
  Due to expansion in wholesale business, gross profit margin was 59.6%, dropped 1.6%
- EBITDA was HK$72.4 million, increased 26.6%
  EBITDA as a percentage of sales was 13.0%, dropped 0.8%
- Net profit was HK$30.2 million, dropped 8.3%
  EPS was HK$0.029
- Application of new accounting standards has resulted in a share-based compensation of HK$13.7 million charged to and changes in fair value of financial instruments and assets of HK$0.3 million credited to income statement
  If not applying the new accounting standards, net profit would have been HK$43.6 million, increased 32.5% and EPS would have been HK$0.042
- Cash on hand was approximately HK$400 million, bank borrowings of HK$0.3 million
- Book value per share was HK$0.63
- Sales of apparels from international brands accounted for 43.9% (2004: 43.4%) of total sales, contributing HK$249.4 million for the six month ended 31 August 2005. Sales of apparels from in-house and licensed brands accounted for 49.9% (2004: 52.3%) of total sales, contributing HK$283.4 million for the six months ended 31 August 2005
- Net sales footage in Hong Kong (excluding fcuk stores operated by FCUK IT Company, 50% owned joint venture) increased by 48.6% to 283,800 sq. ft. as at 31 August 2005 (as at 31 August 2004: 191,000 sq. ft.), weighted average sales footage for the period increased to 250,400 sq. ft., increased by 34.9% (2004: 185,700 sq. ft.)
- Rental expenses as a percentage of total sales was 22.9%, increased 1.1% (2004: 21.8%)
- Store coverage:
  154 stores in Hong Kong (including 5 fcuk stores)
  115 stores in the PRC (operated by GSIT, including 6 fcuk stores operated by a 50% owned JV with GSIT)
  14 stores in Taiwan (operated by GSIT)
  4 stores in Malaysia (operated by a franchisee)

Key Statistics	31 August 2005	31 August 2004	Change
Inventory Turnover (Days) (1)	102.0	94.0	+8.0 days
Capital Expenditure (HK$'million) (2)	33.7	11.9	+183.2%
Current Ratio (3)	4.4	3.1	+41.9%
Return on Equity (%) (4)	4.9	15.8	–69.0%

Notes:
1. Average of the inventory at the beginning of the period and at the end of the period divided by cost of sales times number of days during the period.
2. Additions of furniture and equipment during the period.
3. Current assets divided by current liabilities.
4. Net profit during the period divided by average of the shareholders' equity at the beginning of the period and at the end of the period. The average of the shareholders' equity increased from HK$208.0 million for the six months ended 31 August 2004 to HK$619.8 million for the six months ended 31 August 2005, mainly due to the shares of the Company being listed on The Stock Exchange of Hong Kong Limited since 4 March 2005.

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

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

INDEPENDENT REVIEW REPORT TO THE BOARD OF DIRECTORS OF
I.T LIMITED
(incorporated in Bermuda with limited liability)

Introduction

We have been instructed by the company to review the interim financial report set out on pages 12 to 31.

Respective responsibilities of directors and auditors

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Review work performed

We conducted our review in accordance with SAS 700 "Engagements to review interim financial reports" issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 31 August 2005.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 8 November 2005

CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	Six months ended 31 August 2005 (Unaudited) HK$'000	2004 (Audited) HK$'000
Sales	5	**568,067**	413,318
Cost of sales	17	**(229,363)**	(160,200)
Gross profit		**338,704**	253,118
Other gains	16	**9,443**	4
Operating expenses	17	**(306,723)**	(204,617)
Operating profit		**41,424**	48,505
Finance costs	18	**(967)**	(1,926)
Share of loss of jointly controlled entities	7	**(1,947)**	(5,852)
Profit before taxation		**38,510**	40,727
Income tax expense	19	**(8,333)**	(7,807)
Profit for the period, attributable to the equity holders of the Company		**30,177**	32,920
Earnings per share for profit attributable to the equity holders of the Company during the period (expressed in HK$ per share)			
– basic	20	**0.029**	0.049
– diluted	20	**0.029**	0.045

CONDENSED CONSOLIDATED BALANCE SHEET

	Note	As at 31 August 2005 (Unaudited) HK$'000	As at 28 February 2005 (As restated) HK$'000
ASSETS			
Non-current assets			
Furniture and equipment	6	**78,017**	62,043
Interests in jointly controlled entities	7	**45,366**	62,150
Rental deposits	8	**48,154**	40,858
Deferred income tax assets		**3,726**	2,642
		175,263	167,693
Current assets			
Inventories		**156,134**	101,194
Accounts receivable	9	**3,975**	9,840
Amount due from a jointly controlled entity	10	**30,490**	–
Prepayments, deposits and other receivables		**32,450**	29,304
Pledged bank deposits	21	**750**	17,750
Cash at bank and on hand		**398,164**	561,983
		621,963	720,071
LIABILITIES			
Current liabilities			
Borrowings	15	**255**	130,461
Accounts and bills payable	14	**61,372**	40,873
Accruals and other payables		**61,756**	55,396
Derivative financial instruments	13	**4,693**	–
Current income tax liabilities		**13,139**	9,358
		141,215	236,088
Net current assets		**480,748**	483,983
Total assets less current liabilities		**656,011**	651,676
Non-current liabilities			
Borrowings	15	**–**	51,640
Deferred income tax liabilities		**2,354**	925
		2,354	52,565
Net assets		**653,657**	599,111
EQUITY			
Capital and reserve attributable to the Company's equity holders			
Share capital	11	**103,750**	100,000
Reserves	12	**549,907**	499,111
Total equity		**653,657**	599,111

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Attributable to equity holders of the Company Share capital (Unaudited) HK$'000	 Reserves (Unaudited) HK$'000	 Total (Unaudited) HK$'000
Balance at 1 March 2005, as previously reported		100,000	499,111	599,111
Opening adjustment for the adoption of HKAS 39		–	(13,145)	(13,145)
Balance at 1 March 2005, as restated		100,000	485,966	585,966
Net expense recognised directly in equity				
– cash flow hedges	12	–	(2,832)	(2,832)
Profit for the period		–	30,177	30,177
Total recognised income for the six months ended 31 August 2005		–	27,345	27,345
Issue of shares for cash		3,750	69,375	73,125
Share issuance costs		–	(1,836)	(1,836)
Share option scheme				
– value of employee and consultancy services		–	13,669	13,669
Dividend relating to year ended 28 February 2005		–	(44,612)	(44,612)
		3,750	36,596	40,346
Balance at 31 August 2005		103,750	549,907	653,657

	Attributable to equity holders of the Company Share capital HK$'000	 Reserves HK$'000	 Total HK$'000
Balance at 1 March 2004	8	191,520	191,528
Profit for the period	–	32,920	32,920
Balance at 31 August 2004	8	224,440	224,448

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 31 August	
	2005	2004
	(Unaudited)	(Audited)
	HK$'000	HK$'000
Net cash generated from operating activities	**51,108**	22,782
Net cash used in investing activities	**(59,794)**	(51,926)
Net cash (used in)/generated from financing activities	**(155,107)**	32,195
Net (decrease)/increase in cash and bank overdrafts	**(163,793)**	3,051
Cash and cash equivalents, at 1 March	**561,957**	53,406
Cash and cash equivalents, at 31 August	**398,164**	56,457
Analysis of balances of cash and cash equivalents:		
Cash at bank and on hand	**398,164**	56,457

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

This unaudited condensed consolidated financial information has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

This condensed consolidated financial information should be read in conjunction with the 2005 annual financial statements.

The accounting policies and methods of computation used in the preparation of this condensed consolidated financial information are consistent with those used in the annual financial statements for the year ended 28 February 2005 except that the Group has changed certain of its accounting policies following its adoption of new/revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRS") which are effective for accounting periods commencing on or after 1 January 2005.

This interim financial information has been prepared in accordance with those HKFRS standards and interpretations issued and effective as at the time of preparing this information. The HKFRS standards and interpretations that will be applicable at 28 February 2006, including those that will be applicable on an optional basis, are not known with certainty at the time of preparing this interim financial information.

The changes to the Group's accounting policies and the effect of adopting these new policies are set out in Note 2 below.

2. CHANGES IN ACCOUNTING POLICIES

(a) Effect of adopting new HKFRS

For the six months ended 31 August 2005, the Group adopted the new/revised standards of HKFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 31	Investments in Joint Ventures
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS-Int 15	Operating Leases – Incentives
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 16, 17, 21, 23, 24, 27, 31, 33, 36 and HKAS-Int 15 and HKFRS 3 did not result in substantial changes to the Group's accounting policies. In summary:

– HKAS 1 has affected the presentation of share of net after-tax results of jointly controlled entities and other disclosures;

– HKASs 2, 7, 8, 10, 16, 17, 23, 27, 31, 33, 36 and HKAS-Int 15 and HKFRS 3 had no material effect on the Group's policies;

– HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group entities have the same functional currency as the presentation currency for respective entity financial statements; and

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

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification of financial assets at fair value through profit and loss and loans and receivables. It has also resulted in the recognition of derivative financial instruments at fair value and the change in the recognition and measurement of hedging activities.

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

2. CHANGES IN ACCOUNTING POLICIES (continued)

(a) Effect of adopting new HKFRS (continued)

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

- HKAS 16 – the initial measurement of an item of furniture and equipment acquired in an exchange of assets transaction is accounted at fair value prospectively only to future transactions;
- HKAS 21 – prospective accounting for goodwill and fair value adjustments as part of foreign operations;
- HKAS 39 – does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous SSAP 24 "Accounting for Investments in Securities" to hedge relationships for the 2004 comparative information. The adjustments required for the accounting differences between SSAP 24 and HKAS 39, where appropriate, are determined and recognised at 1 March 2005;
- HKAS-Int 15 – does not require the recognition of incentives for leases beginning before 1 March 2005;
- HKFRS 2 – only retrospective application for all equity instruments granted after 7 November 2002 and not vested at 1 March 2005; and
- HKFRS 3 – prospectively after the adoption date.

(i) The adoption of HKFRS 2 resulted in:

	As at 31 August 2005 HK$'000	As at 28 February 2005 HK$'000
Increase in share premium	**14,962**	1,293
Decrease in retained profits	**14,962**	1,293

	Year ended 28 February	**Six months ended 31 August**	
	2005	**2005**	2004
	HK$'000	**HK$'000**	HK$'000
Increase in employment costs	**395**	**6,161**	–
Increase in consultancy fee	**898**	**7,508**	–
Decrease in basic earnings per share (expressed in HK$)	**0.002**	**0.013**	–
Decrease in diluted earnings per share (expressed in HK$)	**0.002**	**0.013**	–

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

(ii) The adoption of HKAS 39 resulted in a decrease in retained profits at 1 March 2005 by approximately HK$13,145,000 and the details of the adjustments to the balance sheet at 31 August 2005 are as follows:

	As at 31 August 2005 HK$'000
Increase in rental deposits	**33**
Decrease in amounts due from jointly controlled entities	**12,274**
Increase in inventories	**1,281**
Increase in derivative financial instruments (liabilities)	**4,693**
Decrease in retained profits	**12,821**
Increase in hedging reserve	**2,832**

2. CHANGES IN ACCOUNTING POLICIES (continued)

(b) New accounting policies

The accounting policies used for the condensed consolidated financial information for the six months ended 31 August 2005 are the same as those set out in Note 2 to the 2005 annual financial statements except for the following:

2.1 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

2.2 Furniture and equipment

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

2.3 Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

2.4 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money directly to a debtor with no intention of trading the loans and receivables. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets.

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

2.5 Inventories

Costs of inventories include the transfer from equity of any gains/losses on qualifying cash flow hedges relating to purchases of inventories.

2.6 Accounts receivable

Accounts receivable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of accounts receivable is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivable. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

2. CHANGES IN ACCOUNTING POLICIES (continued)

(b) New accounting policies (continued)

2.7 Borrowings

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

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

2.8 Share-based payments

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

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

2.9 Interest income

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

3. FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: foreign exchange risk, credit risk, liquidity risk and cash flow interest-rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

(i) Foreign exchange risk

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

To manage their foreign exchange risk arising from certain future commercial transactions, recognised assets and liabilities, entities in the Group use forward currency contracts, transacted with external financial institutions. Foreign exchange risk arises when future commercial transactions, recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. Group Finance is responsible for managing the net position in each foreign currency by using external forward currency contracts.

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

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

3. FINANCIAL RISK MANAGEMENT (continued)

(a) Financial risk factors (continued)

(ii) Credit risk

The Group has no significant concentrations of credit risk. Sales to retail customers are made in cash or via major credit/debit cards. Derivative counter parties and cash transactions are limited to high-credit-quality financial institutions. The Group has policies that limit the amount of credit exposure to any financial institution.

(iii) Liquidity risk

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

(iv) Cash flow and fair value interest rate risk

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

(b) Accounting for derivative financial instruments and hedging activities

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

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

The fair values of various derivative instruments used for hedging purposes are disclosed in Note 13. Movements on the hedging reserve in shareholders' equity are shown in Note 12.

(i) Cash flow hedge

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

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit or loss (for instance when the forecast purchase that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) or a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

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

(ii) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement.

(c) Fair value estimation

The fair value of financial instruments traded in active markets (such as publicly traded derivatives) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of forward currency contracts is determined using forward exchange market rates at the balance sheet date.

3. FINANCIAL RISK MANAGEMENT (continued)

(c) Fair value estimation (continued)

The nominal value less estimated credit adjustments of accounts receivable and payable are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

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

(a) Useful lives of furniture and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its furniture and equipment. This estimate is based on the historical experience of the actual useful lives of furniture and equipment of similar nature and functions. It could change significantly as a result of shop relocation or renovation. Management will increase the depreciation charge where useful lives are less than previously estimated lives.

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

The Group writes down inventories to net realisable value based on an assessment of the reliability of inventories. Write-downs on inventories are recorded where events or changes in circumstances indicate that the balances may not realised. The identification of write-downs requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of inventories and write-downs of inventories in the periods in which such estimate has been changed.

(c) Impairment of assets

The Group tests annually whether assets have suffered any impairment. The recoverable amounts of cash-generating units have been determined on the value-in-use calculation. These calculations require use of estimate.

(d) Deferred taxation

Deferred income tax assets relating to certain temporary differences and tax losses are recognised as management considers it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and liabilities in the periods in which such estimate is changed.

(e) Employee benefits – share-based payments

The determination of the fair value of the share options granted requires estimates in determining the expected volatility of the share price, the dividends expected on the shares, the risk-free interest rate for the life of the option and the number of share options that are expected to become exercisable as stated in Note 11. Where the outcome of the number of options that are exercisable is different, such difference will impact the income statement in the subsequent remaining vesting period of the relevant share options.

5. SALES AND SEGMENT INFORMATION

(a) Analysis of sales by category

	Six months ended 31 August	
	2005	2004
	(Unaudited)	(Audited)
	HK$'000	HK$'000
Sales of fashion wears and accessories	**566,221**	413,318
Royalty income (Note 23)	**1,846**	–
	568,067	413,318

5. SALES AND SEGMENT INFORMATION (continued)

(b) Segment information

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

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

6. CAPITAL EXPENDITURE

	Leasehold improvements HK$'000	**Furniture and equipment** HK$'000	**Total** HK$'000
Opening net book amount as at 1 March 2004	27,080	5,657	32,737
Additions	10,171	1,695	11,866
Acquisition of a subsidiary	268	32	300
Disposals	(2)	–	(2)
Depreciation	(7,251)	(1,410)	(8,661)
Closing net book amount as at 31 August 2004	30,266	5,974	36,240
Additions	45,550	3,124	48,674
Disposals	–	(12)	(12)
Depreciation	(21,403)	(1,456)	(22,859)
Closing net book amount as at 28 February 2005	54,413	7,630	62,043

	Leasehold improvements (Unaudited) HK$'000	**Furniture and equipment (Unaudited)** HK$'000	**Total (Unaudited)** HK$'000
Opening net book amount as at 1 March 2005	54,413	7,630	62,043
Additions	30,788	2,959	33,747
Disposals	(143)	(8)	(151)
Depreciation	(16,059)	(1,563)	(17,622)
Closing net book amount as at 31 August 2005	68,999	9,018	78,017

7. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	Share of net assets HK$'000	Due from jointly controlled entities HK$'000	Total HK$'000
At 1 March 2004	7,573	25,930	33,503
Share of post-acquisition losses	(5,852)	–	(5,852)
Capital injection	1,600	–	1,600
Disposal of a jointly controlled entity	1,548	–	1,548
Increase in amounts due from jointly controlled entities	–	5,791	5,791
At 31 August 2004	4,869	31,721	36,590
Share of post-acquisition losses	(3,011)	–	(3,011)
Capital injection	4,000	–	4,000
Increase in amounts due from jointly controlled entities	–	24,571	24,571
At 28 February 2005	5,858	56,292	62,150

	Share of net assets (Unaudited) HK$'000	Due from jointly controlled entities (Unaudited) HK$'000	Total (Unaudited) HK$'000
At 1 March 2005, as previously reported	5,858	56,292	62,150
Opening adjustment for adoption of HKAS 39	–	(12,957)	(12,957)
At 1 March 2005, as restated	5,858	43,335	49,193
Share of post-acquisition losses	(1,947)	–	(1,947)
Capital injection	4,000	–	4,000
Decrease in amounts due from jointly controlled entities	–	(6,563)	(6,563)
Amortisation			
– interest income	–	683	683
At 31 August 2005	7,911	37,455	45,366

The above amounts due from jointly controlled entities are unsecured, non-interest bearing and not repayable within one year. These amounts due from jointly controlled entities are carried at amortised costs using the effective interest rate of 3.0% per annum. As at 31 August 2005, the carrying amounts of the above amounts due from jointly controlled entities approximate their fair values.

There are no contingent liabilities relating to the Group's interests in the jointly controlled entities, and no contingent liabilities of the jointly controlled entities themselves.

7. INTERESTS IN JOINTLY CONTROLLED ENTITIES (continued)

Details of the jointly controlled entities as at 31 August 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$40,000,000	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
Zoompac Limited	Hong Kong	HK$1	50%	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
景卓服飾商貿(上海)有限公司	Mainland China	US$3,700,000	50%	Retail and trading of fashion wears and accessories
廣派商業(上海)有限公司	Mainland China	US$3,700,000	50%	Retail and trading of fashion wears and accessories

8. RENTAL DEPOSITS

Rental deposits are carried at amortised costs using the effective interest rate of 3.0% per annum. As at 31 August 2005, the carrying amounts of rental deposits approximate their fair values.

9. ACCOUNTS RECEIVABLE

As at 31 August 2005, all accounts receivable are aged between 0 and 90 days (28 February 2005: between 0 and 90 days). There is no concentration of credit risk with respect to accounts receivable, as the Group's sales to customers are mainly in cash or credit/debit card payments. The carrying amounts of accounts receivable approximate their fair values.

10. AMOUNT DUE FROM A JOINTLY CONTROLLED ENTITY

The amount due from a jointly controlled entity is unsecured, non-interest bearing and repayable on demand. The carrying value of the amount due from a jointly controlled entity approximates its fair value.

11. SHARE CAPITAL

	Number of ordinary shares '000	Nominal value HK$'000
At 1 March 2005	1,000,000	100,000
New issue of shares	37,500	3,750
At 31 August 2005	1,037,500	103,750

The Company was incorporated in Bermuda on 18 October 2004.

The total number of authorised ordinary shares is 3,000,000,000 shares (28 February 2005: 3,000,000,000 shares) with a par value of HK$0.1 per share (28 February 2005: HK$0.1 per share). All issued shares are fully paid.

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 of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing"), and raised gross proceeds of HK$73,125,000.

Share options

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

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

	Six months ended 31 August 2005	
	Exercise price per share HK$	**Options '000**
Beginning and end of period	**0.1**	**7,200**

No Pre-IPO Share Options were granted, forfeited, exercised or expired during the six months ended 31 August 2005.

The fair value of Pre-IPO Share Options granted on 7 February 2005 determined using the Binomial Option Pricing Model was approximately HK$1.71 per share option, totalling approximately HK$12,338,000, of which HK$10,810,000 was charged to the income statement for the six months ended 31 August 2005.

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

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

11. SHARE CAPITAL (continued)

Share options (continued)

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

	Six months ended 31 August 2005 Exercise price per share HK$	Options '000
Beginning of period	–	–
Granted	2.35	15,750
Forfeited	2.35	(300)
Exercised	–	–
Expired	–	–
End of period	2.35	15,450

The fair value of options granted during the six months ended 31 August 2005 determined using the Binomial Option Pricing Model was approximately HK$0.18 per share option, totalling approximately HK$2,859,000, which was charged to the income statement for the six months ended 31 August 2005.

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

	Pre-IPO Share Options	Options under the Share Option Scheme
Share price at the grant date	HK$1.95	HK$2.1
Exercise price per share	HK$0.1	HK$2.35
Standard deviation of expected share price returns	33%	33%
Expected life of options	3 years	1.6 years
Expected dividend paid out rate	2.5%	2.5%
Annual risk free rate	2.15%	2.79%

12. RESERVES

	Share premium HK$'000	Capital reserve HK$'000	Retained profits HK$'000	Total HK$'000
Balance at 1 March 2004, as previously reported	–	1,202	190,318	191,520
Profit for the period	–	–	32,920	32,920
Balance at 31 August 2004, as previously reported	–	1,202	223,238	224,440
Issue of shares in connection with the Listing	462,500	–	–	462,500
Capitalisation of share premium account	(74,800)	–	–	(74,800)
Share issuance costs	(33,977)	–	–	(33,977)
Effect of the Reorganisation (i)	–	31,135	–	31,135
Share option scheme				
– value of employee and consultancy services	1,293	–	(1,293)	–
Profit for the period	–	–	79,813	79,813
Dividend	–	–	(190,000)	(190,000)
Balance at 28 February 2005, as restated	355,016	32,337	111,758	499,111

Note:

(i) 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").

12. RESERVES (continued)

	Share premium (Unaudited) HK$'000	Capital reserve (Unaudited) HK$'000	Hedging reserve (Unaudited) HK$'000	Retained profits (Unaudited) HK$'000	Total (Unaudited) HK$'000
Balance at 1 March 2005, as previously reported	353,723	32,337	–	113,051	499,111
Share option scheme					
– value of employee and consultancy services	1,293	–	–	(1,293)	–
Opening adjustment for the adoption of HKAS 39	–	–	–	(13,145)	(13,145)
Balance at 1 March 2005, as restated	355,016	32,337	–	98,613	485,966
Issue of shares under an over-allotment arrangement in connection with the Listing	69,375	–	–	–	69,375
Share issuance costs	(1,836)	–	–	–	(1,836)
Share option scheme					
– value of employee and consultancy services	13,669	–	–	–	13,669
Cash flow hedge					
– fair value losses in the period	–	–	(4,693)	–	(4,693)
– transfers to net profit	–	–	580	–	580
– transfers to inventories	–	–	1,281	–	1,281
Profit for the period	–	–	–	30,177	30,177
Dividend relating to year ended 28 February 2005	–	–	–	(44,612)	(44,612)
Balance at 31 August 2005	436,224	32,337	(2,832)	84,178	549,907

13. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments represented forward currency contracts designated as cash flow hedges. Gains and losses in equity on forward currency contracts as of 31 August 2005 will be released to the income statement at various dates between six months to one year from that date.

14. ACCOUNTS AND BILLS PAYABLE

The aging analysis of accounts and bills payable is as follows:

	As at 31 August 2005 (Unaudited) HK$'000	As at 28 February 2005 (Audited) HK$'000
0 to 30 days	**53,542**	38,063
31 to 60 days	**5,800**	2,342
61 to 90 days	**1,166**	324
Over 90 days	**864**	144
	61,372	40,873

The carrying amounts of accounts and bills payable approximate their fair values.

15. BORROWINGS

	As at 31 August 2005 (Unaudited) HK$'000	As at 28 February 2005 (Audited) HK$'000
Current		
Bank overdrafts	–	26
Short-term bank borrowings	255	37,075
Long-term bank borrowings, repayable within one year	–	93,360
	255	130,461
Non-current		
Long-term bank borrowings, repayable between one and two years	–	26,640
Long-term bank borrowings, repayable between two and five years	–	25,000
	–	51,640
Total borrowings, wholly repayable within five years	255	182,101

Details of the Group's banking facilities are set out in Note 21.

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

	As at 31 August 2005	As at 28 February 2005
Bank overdrafts	–	5.50%
Short-term bank borrowings	4.70%	4.46%
Long-term bank borrowings	–	3.46%

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

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

16. OTHER GAINS

	Six months ended 31 August 2005 (Unaudited) HK$'000	2004 (Audited) HK$'000
Derivative instruments: forward currency contracts, transactions not qualifying as hedges and ineffective portion of changes in fair values	(580)	–
Interest income		
– bank deposits	8,616	4
– loans and receivables	1,407	–
	9,443	4

17. EXPENSES BY NATURE

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

	Six months ended 31 August 2005 (Unaudited) HK$'000	2004 (Audited) HK$'000
Charging		
Cost of inventories sold	**229,415**	159,913
Write-downs of inventories to net realisable value	**–**	605
Employment costs (including directors' emoluments)	**106,359**	72,141
Operating lease rentals of premises	**109,216**	76,792
Advertising and promotion costs	**6,199**	5,691
Depreciation of furniture and equipment	**17,622**	8,661
Crediting		
Net exchange gain	**2,726**	1,433
Reversal of write-downs of inventories to net realisable value	**1,935**	–

18. FINANCE COSTS

	Six months ended 31 August 2005 (Unaudited) HK$'000	2004 (Audited) HK$'000
Interest on bank borrowings		
– wholly repayable within five years	**967**	1,926

19. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profit for the period.

	Six months ended 31 August 2005 (Unaudited) HK$'000	2004 (Audited) HK$'000
Current income tax – Hong Kong profits tax	**7,988**	8,359
Deferred income tax	**345**	(552)
	8,333	7,807

20. EARNINGS PER SHARE

Basic

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

	Six months ended 31 August 2005 (Unaudited) HK$'000	2004 (Audited) HK$'000
Profit attributable to equity holders of the Company	**30,177**	32,920
Weighted average number of ordinary shares in issue ('000)	**1,032,405**	672,075
Basic earnings per share (HK$ per share)	**0.029**	0.049

20. EARNINGS PER SHARE (continued)

Diluted

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

	Six months ended 31 August	
	2005	2004
	(Unaudited)	(Audited)
	HK$'000	HK$'000
Profit attributable to equity holders of the Company	**30,177**	32,920
Interest expense on convertible notes (net of tax)	**–**	1,117
Profit used to determine diluted earnings per share	**30,177**	34,037
Weighted average number of ordinary shares in issue ('000)	**1,032,405**	672,075
Adjustments for		
– assumed conversion of convertible notes ('000)	**–**	77,925
– share options ('000)	**6,539**	–
Weighted average number of ordinary shares for diluted earnings per share ('000)	**1,038,944**	750,000
Diluted earnings per share (HK$ per share)	**0.029**	0.045

21. BANKING FACILITIES AND PLEDGE OF ASSETS

As at 31 August 2005, the Group had aggregate banking facilities of approximately HK$365,000,000 (28 February 2005: HK$369,127,000) for overdrafts, bank loans and trade financing, of which approximately HK$302,793,000 (28 February 2005: HK$122,197,000) was unutilised at the same date. These facilities were secured by:

(i) the Group's bank deposits of HK$750,000 (28 February 2005: HK$17,750,000);

(ii) the Group's inventories of HK$255,000 held under trust receipts bank loan arrangements (28 February 2005: HK$37,075,000); and

(iii) corporate guarantees provided by certain subsidiaries.

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

22. 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 July 2011. The total minimal lease payment commitments are analysed as follows:

	As at 31 August 2005 HK$'000	As at 28 February 2005 HK$'000
Amounts payable		
– within one year	**208,482**	183,799
– more than one year but not exceeding five years	**261,549**	231,630
– more than five years	**11,111**	1,660
	481,142	417,089

22. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

(a) Operating lease commitments (continued)

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

Contingent liabilities not provided for in the financial statements are as follows:

	As at 31 August 2005 HK$'000	As at 28 February 2005 HK$'000
Letters of guarantee issued by banks in lieu of rental deposits	13,366	12,204
Corporate guarantees in respect of bank loans granted by banks to certain related companies	–	31,200
	13,366	43,404

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

23. RELATED PARTY TRANSACTIONS

The Group is controlled by Effective Convey Limited (incorporated in the British Virgin Islands) and 3WH Limited (incorporated in Hong Kong), each of which owns 32.39% of the Company's shares. The remaining 35.22% of the shares are widely held.

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

	Six months ended 31 August 2005 (Unaudited) HK$'000	2004 (Audited) HK$'000
Sales of fashion wears and accessories to a jointly controlled entity	26,124	4,770
Reimbursement of administrative expenses by a jointly controlled entity	2,095	1,043
Royalty income received/receivable from a jointly controlled entity	1,846	–

(ii) Key management compensation:

	Six months ended 31 August 2005 (Unaudited) HK$'000	2004 (Audited) HK$'000
Basic salaries and housing allowances	7,300	7,532
Contributions to defined contribution plan	153	133
Share-based compensation	5,354	–
	12,807	7,665

24. EVENT AFTER BALANCE SHEET DATE

In September 2005, 1,400,000 Pre-IPO Share Options were exercised at HK$0.1 per share. In this connection, the Company issued 1,400,000 ordinary shares of HK$0.1 each and raised gross proceeds of HK$140,000.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Sales from retail shop operations increased by 32.2% to HK$532.9 million for the six months ended 31 August 2005 (six months ended 31 August 2004: HK$403.2 million). Excluding sales to G.S-i.t Limited ("GSIT"), the 50% owned joint venture involved in the PRC business, the gross margin was maintained at 62.7% (six months ended 31 August 2004: 62.5%). If not applying the new accounting standards, net profit would have increased by 32.5% to HK$43.6 million for the six months ended 31 August 2005 (six months ended 31 August 2004: HK$32.9 million).

The unfavourable weather in March, June and August 2005 dampened retail sales in Hong Kong. As a result, the Company's comparable stores sales increased only slightly by 0.3% as compared to the same period in last year. However, the Company maintained its stable pace of growth. Weighted average sales footage for stores in operation for the six months ended 31 August 2005 increased by 34.9% to 250,400 sq. ft. (six months ended 31 August 2004: 185,700 sq. ft.).

Sales of apparels from international brands accounted for 43.9% (six months ended 31 August 2004: 43.4%) of the total sales, contributing HK$249.4 million for the six months ended 31 August 2005. During the period under review, the Company brought, amongst other brands, Beams Boy, an icon of Japanese street fashion, to Hong Kong and stirred considerable interest among fashion-lovers.

Sales of apparels from in-house and licensed brands accounted for 49.9% (six months ended 31 August 2004: 52.3%) of total sales, contributing HK$283.4 million for the six months ended 31 August 2005. In-house brands http://www.izzue.com, b+ab and 5cm remained the top selling brands in the Company's in-house brand portfolio.

During the six months ended 31 August 2005, rental expenses (including rental expenses, building management fees and government rates) as a percentage of total sales increased slightly to 22.9% (six months ended 31 August 2004: 21.8%), as a result of increased rental costs.

In the first half of fiscal year 2006, staff costs (share-based compensation excluded), advertising and promotion expenses and other operating overheads as a percentage of total sales were all maintained at a stable level of 17.6%, 1.1% and 6.7% respectively (six months ended 31 August 2004: 17.5%, 1.4% and 6.8% respectively).

GSIT continued its strong performance in the PRC, with increased brand recognition of I.T among the public in the PRC. Subsequent to the opening of a 21,000 sq. ft. store at Oriental Plaza, Beijing, another multi-brand store with a floor area of 23,000 sq. ft. was opened in Plaza 66, Shanghai, in June 2005 housing both international designers' labels as well as the Company's in-house and licensed brands. This mega store concept is well-liked by both customers and franchisees. As at 31 August 2005, GSIT had 115 points of sales (including 6 fcuk stores) with a sales footage of 167,000 sq. ft. in the PRC and 14 stores in Taiwan (six months ended 31 August 2004: 54 points of sales with a sales footage of 78,600 sq. ft. in the PRC and 5 stores in Taiwan).

Share-based Compensation and Changes in Fair Value of Financial Instruments and Assets

For the six months ended 31 August 2005, share-based compensation of HK$13.7 million was charged to and changes in fair value of financial instruments and assets of HK$0.3 million was credited to the income statement (six months ended 31 August 2004: Nil).

Operating Expenses

Operating expenses increased by 50.0% to HK$306.7 million for the six months ended 31 August 2005 (six months ended 31 August 2004: HK$204.6 million). If not applying the new accounting standards, the operating expenses for the current period would have increased by 42.7% to HK$292.5 million for the six months ended 31 August 2005 (six months ended 31 August 2004: HK$204.6 million). The increase was mainly due to the opening of new shops. The number of shops (excluding fcuk stores) as at 31 August 2005 increased to 149 (31 August 2004: 102 shops).

Operating Profit and Earnings before Interest, Taxation, Depreciation and Amortisation Expenses (EBITDA)

EBITDA for the six months ended 31 August 2005 increased by 26.6% to HK$72.4 million (six months ended 31 August 2004: HK$57.2 million). EBITDA as a percentage of sales decreased by 0.8% to 13.0% for the six months ended 31 August 2005 (six months ended 31 August 2004: 13.8%). The decrease was partially due to the increase in rental related expenses as a percentage of sales.

Operating profit decreased by 14.6% to HK$41.4 million for the six months ended 31 August 2005 (six months ended 31 August 2004: HK$48.5 million). If not applying the new accounting standards, operating profit for the six months ended 31 August 2005 would have increased by 13.0% to HK$54.8 million (six months ended 31 August 2004: HK$48.5 million).

Share of Results of Jointly Controlled Entities

Share of loss of jointly controlled entities reduced from HK$5.9 million for the six months ended 31 August 2004 to HK$1.9 million for the six months ended 31 August 2005. For the six months ended 31 August 2005, profit was reported from FCUK IT Company whereas the operating result of GSIT continued to improve.

Income Tax Expense

Income tax expense increased from HK$7.8 million for the six months ended 31 August 2004 to HK$8.3 million for the six months ended 31 August 2005. The effective tax rate, expressed as the taxation charge as a percentage of profit before tax excluding share of result of jointly controlled entities increased to 20.6% (six months ended 31 August 2004: 16.8%).

Cash Flows

Net cash generated from operating activities increased from HK$22.8 million for the six months ended 31 August 2004 to HK$51.1 million for the six months ended 31 August 2005. Net cash used for investing activities was HK$59.8 million for the six months ended 31 August 2005, an increase of HK$7.9 million from HK$51.9 million for the six months ended 31 August 2004. For the six months ended 31 August 2005, HK$33.7 million was used for additions to furniture and equipment and HK$24 million was used to finance the operation of jointly controlled entities. Net cash used for financing activities for the six months ended 31 August 2005 was HK$155.1 million. HK$71.3 million was received from the issuance of shares for the six months ended 31 August 2005. For the six months ended 31 August 2005, HK$44.6 million of dividends were paid to shareholders and long-term bank loans of HK$145 million were repaid.

Inventory

Inventory turnover days for the six months ended 31 August 2005 were 102 days, an increase of 8 days from 94 days for the six months ended 31 August 2004. The increase in inventory level for the six months ended 31 August 2005 was mainly due to the increase in sales footage and more products being stocked for the coming seasons in the second half of the year.

Liquidity and Capital Resources

As at 31 August 2005, total cash and bank balances amounted to HK$398.9 million (28 February 2005: HK$579.7 million) and total liabilities were HK$143.6 million (28 February 2005: HK$288.7 million). As at 31 August 2005, shareholders' equity was HK$653.7 million (28 February 2005: HK$599.1 million).

As at 31 August 2005, the Group had aggregate banking facilities of approximately HK$365.0 million (28 February 2005: HK$369.1 million) for overdrafts, bank loans and trade financing, of which approximately HK$302.8 million (28 February 2005: HK$122.2 million) was unutilised.

As at 31 August 2005, charges on assets amounted to HK$1.1 million, comprising bank deposits of HK$0.8 million and inventories of HK$0.3 million held under trust receipts bank loan arrangements, to cover banking facilities in the ordinary course of business (28 February 2005: HK$54.9 million, comprising bank deposits of HK$17.8 million and inventories of HK$37.1 million held under trust receipts bank loan arrangements).

The Company had bank borrowings of HK$0.3 million as at 31 August 2005 (28 February 2005: HK$182.1 million). The current ratio as at 31 August 2005 was 4.4 (28 February 2005: 3.1).

Foreign Exchange Risk Management

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

To manage their foreign exchange risk arising from certain future commercial transactions, recognised assets and liabilities, entities in the Group used forward currency contracts, transacted with external financial institutions. Foreign exchange risk arises when future commercial transactions, recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. Group Finance is responsible for managing the net position in each foreign currency by using external forward currency contracts.

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

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

Contingent Liabilities

As at 31 August 2005, letters of guarantee issued by banks in lieu of rental deposits amounted to HK$13.3 million (28 February 2005: HK$12.2 million). Subsequent to 28 February 2005, corporate guarantees in respect of bank loans granted by banks to certain related companies were released.

Use of Proceeds

The proceeds from the issuance of new shares by the Company in March 2005, net of listing expenses, were approximately HK$514.9 million. For the six months ended 31 August 2005, net proceeds were utilised in the following manner:

	Per Prospectus HK$'000	**Amount Utilised** HK$'000	**Balance as at 31 August 2005** HK$'000
Expansion of retail network in Hong Kong	320,000	45,497	274,503
Expansion of retail network in the PRC and Taiwan	90,000	20,000	70,000
Repayment of bank loans	95,000	95,000	–
Working capital	9,900	9,900	–
	514,900	170,397	344,503

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

Employment, Training and Development

The Group had a total of 1,232 employees as at 31 August 2005 (28 February 2005: 1,279). Training courses were organised regularly for employees to enhance technical and product knowledge as well as the industry quality standards. The Group offered competitive remuneration packages to its employees, including basic salaries, allowances, insurance and bonuses. In addition, share options were granted based on the individual's performance.

Future Outlook

In the first half of fiscal year 2006, 37,000 sq.ft. sales footage was added in Hong Kong amounting to a total sales footage of 294,000 sq.ft. (fcuk stores included, operated by FCUK IT Company, a 50% owned joint venture) as at 31 August 2005. This expansion pace was in line with the forecast as stated in the Company's Prospectus.

The opening of the multi-brand store in apm, i.t in Festival Walk, stand-alone stores like Beams Boy and Baby Jane in Paterson Street, Causeway Bay and the new http://www.izzue.com 7,000 sq. ft. concept store in Island Beverley, Causeway Bay have further strengthened the Company's market position. A totally new design I.T multi-brand store will be opened in the premier shopping destination, Pacific Place, in December 2005. This prestigiously located I.T store will further reinforce the Company's brand image.

The Company will continue to introduce attractive imported brands and create new in-house and/ or licensed brands to further broaden its customer base.

The Board believes that rental expenses is starting to stabilise yet staff costs are still rising. Taking into consideration of the further rise in interest rate and the possible impacts of Avian Flu, the Company is cautious in its expansion plan in Hong Kong and will maintain a steady pace of growth with stringent cost control measures.

To further develop the PRC market, GSIT will continue to expand its retail network in Beijing and Shanghai and to enter other first tier cities through franchisees. Replicating the mega multi-brand store concept, GSIT has store opening plans in Chengdu, Shenyang, Nanjing and Macau housing the Company's in-house and licensed brands. Nevertheless, the high end and luxurious I.T brand concept is also well received by customers. GSIT will aggressively introduce well-established high end designers' labels and strengthen its brand portfolio. With the increase in sales networks as well as the enhancement in brand portfolio, GSIT will be at a high growth phase from 2006 onwards.

The Company is vigorously looking for opportunities to extend its regional presence. Discussion is currently underway for the Company's in-house brands to be sold in the South East Asia.

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

As at 31 August 2005, the interests or short positions of the directors and chief executives in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance (the "SFO")), as recorded in the register maintained by the Company under Section 352 of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuer (the "Model Code") as set out in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

(a) Long positions in the shares of the Company

Director	Capacity	Number of shares held	Percentage of interest in the Company
Sham Kar Wai	Interest in controlled company and beneficiary of trust (Notes 1 and 2)	672,075,000	64.78%
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 is in turn wholly-owned by The ABS 2000 Trust. Each of Mr Sham Kar Wai and Mr Sham Kin Wai is therefore deemed to be interested in the interests of Effective Convey Limited in the Company.

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

Saved as disclosed above, at no time during the period 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 the 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.

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

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

Save as disclosed above, none of the directors, chief executives or their associates had any interests and/or short positions in the shares, underlying shares or debentures of the Company or its associated corporations as at 31 August 2005.

SHARE OPTIONS

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

	Date of grant	Exercise period	Number of share options held as at beginning and end of period
Director			
Chan Wai Mo, Alva	7 February 2005	4 September 2005 to 7 February 2008	600,000
Continuous contract employees	7 February 2005	4 September 2005 to 7 February 2008	1,600,000
Consultant	7 February 2005	4 September 2005 to 7 February 2008	5,000,000
			7,200,000

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

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

			Number of share options			
	Date of grant	Exercise period	As at 1 March 2005	Granted during the period	Forfeited during the period	Held as at 31 August 2005
Director						
Chan Wai Mo, Alva	28 April 2005	28 April 2005 to 27 April 2008	–	3,000,000	–	3,000,000
Continuous contract employees	28 April 2005	28 April 2005 to 27 April 2008	–	12,750,000	300,000	12,450,000
			–	15,750,000	300,000	15,450,000

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

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

As at 31 August 2005, the register kept by the Company under Section 336 of the SFO showed that the following shareholders (other than directors of the Company) had disclosed to the Company pursuant to Division 2 and 3 of Part XV of the SFO an interest or a short position in the shares or underlying shares 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 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.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend (six months ended 31 August 2004: Nil) and proposes that the profit for the period be retained.

CONTINUING DISCLOSURE REQUIREMENTS

The Company has made an announcement pursuant to Rule 13.16 of the Listing Rules on 2 August 2005 whereby a wholly-owned subsidiary of the Company by stages made advancements to GSIT, a jointly-controlled company owned as to 50% indirectly by the Company and 50% indirectly by Glorious Sun Enterprises Limited. Pursuant to the assets test under Rule 14.07 of the Listing Rules, the total sum advanced to GSIT exceeded 8% of the total assets of the Company as at 28 February 2005. The circumstances giving rise to such disclosure continued to exist at the six months ended 31 August 2005. A summary of significant balance sheet classifications of GSIT is hereby presented.

G.S - i.t LIMITED
SUMMARY OF SIGNIFICANT BALANCE SHEET CLASSIFICATIONS
AS AT 31 AUGUST 2005

	As at 31 August 2005 (unaudited) HK$'000
Non-current assets	65,782
Current assets	114,499
Current liabilities	(77,604)
Net current assets	36,895
Total assets less current liabilities	102,677
Non-current liabilities	
Amounts due to shareholders	(91,086)
Other liabilities	(502)
	(91,588)
Net assets	11,089
Capital and reserve attributable to the Company's equity holders	11,089

CORPORATE GOVERNANCE

In the opinion of the Board, the Company has complied with the Code Provisions in Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Listing Rules throughout the six months ended 31 August 2005 except for the deviations as mentioned below.

Code Provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The Company does not have a separate Chairman and Chief Executive Officer and Mr Sham Kar Wai currently holds both positions. The Board believes that vesting the roles of both Chairman and Chief Executive Officer in the same person would allow the Company to be more effective and efficient in developing long-term business strategies and execution of business plans. The Board believes that the balance of power and authority is adequately ensured by the operating of the Board which comprises experienced and high caliber individuals with a substantial number thereof being Non-executive Directors.

Code Provision A.4.2 stipulates that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. At the annual general meeting held on 11 August 2005, the shareholders of the Company passed a resolution amending the Company's Bye-laws in order to comply with this provision. Prior to the amendment, the Chairman of the Board and/or the Managing Director of the Company were/was not, whilst holding such office, subject to retirement by rotation.

The Company is committed to implement good corporate governance practices and has established an Audit Committee, a Remuneration Committee and a Nomination 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 perform other duties assigned by the Board. There are three members in the Audit Committee, all members are Independent Non-executive Directors.

The Remuneration Committee is responsible for reviewing the remuneration packages of Executive Directors and senior management, including bonuses and options granted under the Share Option Scheme, to ensure that such remuneration is reasonable and not excessive. There are three members in the Remuneration Committee, majority of which are Independent Non-executive Directors.

The Nomination Committee is responsible for selecting Board members and ensuring transparency of the selection process. There are three members in the Nomination Committee, one of them is an Independent Non-executive Director who also acts as Chairman of the Committee.

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules for securities transactions by the Directors. All Directors have confirmed that, in respect of the six months ended 31 August 2005, they have complied with the required standard set out in the Model Code regarding securities transactions by the Directors.

REVIEW OF FINANCIAL INFORMATION

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Company and discussed auditing, internal control and financial reporting matters including the review of the unaudited financial information and interim report for the six months ended 31 August 2005.

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

There was no purchase, sale or redemption of the Company's listed shares by the Company or any of its subsidiaries during the six months ended 31 August 2005.

By Order of the Board

Sham Kar Wai
Chairman

Hong Kong, 8 November 2005

I.T IS FASHION

shaping the fashion scene in Greater China