INDEBTEDNESS

Borrowings

As at the close of business on 31 December 2004, the latest practicable date for the purpose of this indebtedness statement, the Group had short-term bank loans of approximately HK$22,376 thousand and long-term bank loans of approximately HK$47,500 thousand, all denominated in Hong Kong Dollars.

A breakdown of the Group's bank loans on 31 December 2004 by due date is as follows.

Due within one year	HK$32,376 thousand
Due in the second year	HK$10,000 thousand
Due in the third to fifth years	HK$27,500 thousand

Collateral

As at 31 December 2004, bank borrowings of the Group totalling HK$69,876 thousand were secured by the following:

1. the Group's bank deposits of HK$17,750 thousand;

2. the Group's inventories of HK$22,376 thousand held under trust receipts bank loan arrangements;

3. personal guarantees provided by Mr. Sham Kar Wai, Mr. Sham Kin Wai, Ms. Sham Sau Wai and Ms. Sham Sau Han;

4. properties owned by a relative of Mr. Sham Kar Wai and Mr. Sham Kin Wai, and Ms. Yau Shuk Ching, Chingmy;

5. properties owned by Income Team Limited, Popbest Limited and Shine Team Development Limited, all jointly and beneficially owned by 3WH Limited and Effective Convey Limited in equal shares, the then holding companies of ithk holdings limited;

6. properties owned by Online Profit Limited and Veston Limited, both beneficially owned by 3WH Limited;

7. corporate guarantees provided by 3WH Limited, Income Team Limited, Popbest Limited and Shine Team Development Limited; and

8. corporate guarantees provided by ithk holdings limited and i.t apparels Limited.

The relevant banks have agreed in principle that the personal guarantees provided by Mr. Sham Kar Wai, Mr. Sham Kin Wai, Ms. Sham Sau Wai and Ms. Sham Sau Han, the corporate guarantees provided by 3WH Limited, Income Team Limited, Popbest Limited and Shine Team Development Limited, and legal charges over the properties owned by a relative of Mr. Sham Kar Wai and Mr. Sham Kin Wai, and Ms. Yau Shuk Ching, Chingmy, and Income Team Limited, Popbest Limited, Shine Team Development Limited, Online Profit Limited and

Veston Limited (items 3 to 7 above) will be released or replaced by guarantees or other securities from the Company and/or its subsidiaries upon Listing. The collateral referenced in items 1, 2 and 8 above will continue to be effective after Listing.

Pursuant to the terms of the bank borrowings, the Group is required to comply with the following restrictive financial covenants at all times when there are amounts outstanding thereunder:

1. net worth of not less than HK$100,000 thousand;

2. net worth after deducting the amounts due from shareholders and/or directors, of not less than HK$50,000 thousand;

3. i.t apparels Limited shall maintain a net worth of not less than HK$8,000 thousand;

4. dividends paid by the Group shall not exceed 50% of its after-tax profits of that financial year;

5. a ratio of total interest bearing debts to net worth shall be below 1.0;

6. a ratio of current assets to current liabilities of at least 1.0;

7. total debt level of less than HK$150,000 thousand; and

8. loans to shareholders and associated companies shall not exceed HK$18,000 thousand.

During the Track Record Period, compliance with the last covenant above was waived by the relevant bank. The bank waived compliance with this covenant as applied to certain dividends because the proceeds therefrom were to be used to offset certain then outstanding loans to shareholders. Subsequent to the Track Record Period, compliance with financial covenants 4, 5, and 7 above were also waived by the relevant banks. The relevant banks agreed to waive compliance with these covenants in light of the proposed Offering.

Contingent liabilities and guarantees

As at 31 December 2004, the Group had the following contingent liabilities:

Letters of guarantee issued by banks in lieu of rental deposits	HK$10,942 thousand
Corporate guarantees in respect of bank loans granted by banks to certain related companies	HK$31,869 thousand

These corporate guarantees were made because the related companies pledged certain real property acquired with the proceeds of these bank loans as security for certain other bank loans made subsequently to the Group. The relevant banks have agreed in principle that the corporate guarantees provided by the Group to these related companies will be released or replaced by guarantees or other securities from the Company and/or its subsidiaries upon Listing.

Capital commitments and other commitments

As at 31 December 2004, the future aggregate minimum lease payments under non-cancellable operating leases totalled HK$403,848 thousand, and outstanding forward foreign currency exchange contracts to buy Japanese Yen 669,426 thousand and Euro 3,263 thousand at various rates totalled HK$85,132 thousand.

DISCLAIMER

Save as disclosed on pages 105, 106, 107, 109, 128, 129, 130, I-4, I-5, I-35, I-36, I-37 and I-41 of this prospectus, as at the Latest Practicable Date, the Group did not have any outstanding mortgages, charges, pledge, debentures, loan capital, bank loans and overdrafts, debt securities or other similar indebtedness, finance leases or hire purchase commitments, acceptance liabilities or acceptance credits, any guarantees or other material contingent liabilities.

The Directors have confirmed that save as disclosed above, there has not been any material adverse change in the indebtedness and contingent liabilities of the Group since 31 December 2004.

NO MATERIAL ADVERSE CHANGES

Save for: (i) the HK$190,000 thousand dividend paid and certain bank loans drawn down by the Group to partially fund that dividend (referenced in the “Summary” section on page 6, in the “Risk factors” section on page 34, in the “Financial information” section on pages 128 and 135 and in the “Future plans and use of proceeds” section on page 138, as well as the subsequent events enumerated in note 31 to the Accountants’ Report) and (ii) that, with regard to the bank loan of HK$100,000 thousand drawn on 17 February 2005, which is secured by personal guarantees and bank deposits provided by Mr. Sham Kar Wai and Mr. Sham Kin Wai, and corporate guarantees provided by ithk holdings limited, The Hongkong and Shanghai Banking Corporation Limited has agreed in principle that the aforementioned personal guarantees and pledges of bank deposits will be released upon the Listing, the Directors confirm that there is no adverse material change in the financial or trading position or prospects of the Group since 31 August 2004 (being the date to which the latest financial statements of the Group were made up).

DISCLOSURE UNDER CHAPTER 13 OF THE LISTING RULES

The Directors have confirmed that as at the Latest Practicable Date, they are not aware of any circumstances which would give rise to a disclosure under Rule 13.13 to Rule 13.19 of the Listing Rules.

SELECTED COMBINED FINANCIAL AND OPERATING DATA

The selected combined financial data set forth below have been extracted from the combined financial information of the Group as at 28 February 2002, 28 February 2003, 29 February 2004 and 31 August 2004, for the years ended 28 February 2002, 28 February 2003 and 29 February 2004, and for the six months ended 31 August 2003 and 2004, all of which is set forth in the Accountants' Report included as Appendix I to this prospectus (the "Financial Information"). The Financial Information, for the purpose of the Accountants' Report prepared on the basis set out in Section I — Note I in the Accountants' Report, has been prepared in accordance with accounting principles generally accepted in Hong Kong ("Hong Kong GAAP") and complies with accounting standards issued by the Hong Kong Institute of Certified Public Accountants.

Investors should read these selected combined financial data together with Appendix I to this prospectus and the discussion under the caption "Management's discussion and analysis of financial condition and results of operations" below.

	For the year ended			For the six months ended	
	28 February 2002	28 February 2003	29 February 2004	31 August 2003	31 August 2004
			(HK$000s)		
Profit and Loss Data:					
Turnover	**695,051**	**731,983**	**812,168**	**342,209**	**413,318**
Cost of sales	(310,804)	(316,280)	(326,571)	(144,483)	(160,200)
Gross profit	**384,247**	**415,703**	**485,597**	**197,726**	**253,118**
Other revenue	216	215	128	85	4
Operating expenses	(318,236)	(344,441)	(361,684)	(174,171)	(204,617)
Operating profit	**66,227**	**71,477**	**124,041**	**23,640**	**48,505**
Finance costs	(11,772)	(9,863)	(4,298)	(1,944)	(1,926)
Share of profit/(loss) of jointly controlled entities	(276)	110	(1,792)	(1,014)	(5,852)
Gain on disposal of subsidiaries	—	—	9,012	—	—
Profit before taxation	**54,179**	**61,724**	**126,963**	**20,682**	**40,727**
Taxation	(10,310)	(13,770)	(21,373)	(3,890)	(7,807)
Profit attributable to shareholders	**43,869**	**47,954**	**105,590**	**16,792**	**32,920**
Dividends	20,000	20,000	20,000	—	—

	28 February 2002	As at 28 February 2003	29 February 2004	As at 31 August 2004
		(HK$000s)		
Selected Balance Sheet Data:				
Non-current Assets				
Fixed assets	38,878	20,001	32,737	36,240
Investment in jointly controlled entities	2,215	2,497	33,503	36,590
Rental deposits	24,281	17,185	29,139	42,008
Due from related companies	35,369	23,601	51,221	76,646
Deferred tax assets	354	1,172	904	1,444
Total non-current assets	101,097	64,456	147,504	192,928
Current Assets				
Inventories	55,027	53,189	66,216	99,584
Accounts receivable	2,814	2,737	8,622	4,320
Prepayments, deposits and other receivables	6,544	17,063	13,685	20,010
Due from directors	15,445	30,734	17,927	21,541
Due from related parties	—	–	40	—
Pledged bank deposits	5,162	5,220	750	17,750
Cash and bank balances	34,026	75,832	53,406	56,457
Total current assets	119,018	184,775	160,646	219,662
Non-current liabilities				
Long-term bank loans	0	0	0	(40,000)
Convertible note	(53,034)	0	(31,195)	(31,195)
Deferred taxation	(1,342)	(47)	(178)	(166)
Total non-current liabilities	(54,376)	(47)	(31,373)	(71,361)
Current Liabilities				
Short-term bank borrowings	(8,892)	(5,403)	(443)	(11,638)
Long-term bank loan, current portion	(740)	0	(21,000)	(19,000)
Other loan	(622)	(170)	0	0
Convertible note, current portion	0	(59,648)	0	0
Accounts and bills payable	(27,890)	(30,479)	(24,662)	(38,906)
Accruals and other payables	(24,530)	(19,595)	(21,464)	(25,575)
Taxation payable	(5,081)	(7,962)	(7,680)	(11,662)
Dividend payable	0	(20,000)	(10,000)[1]	(10,000)[1]
Total current liabilities	(67,755)	(143,257)	(85,249)	(116,781)
Total liabilities	(122,131)	(143,304)	(116,622)	(188,142)
Total equity and liabilities	(220,115)	(249,231)	(308,150)	(412,590)

[1] This dividend was applied to set off advances from the Company to its controlling shareholders and their related interests in December 2004.

	For the year ended			For the six months ended	
	28 February 2002	28 February 2003	29 February 2004	31 August 2003	2004
			(HK$'000s)		
Other Financial Data:					
Net cash inflow/(outflow) from operating activities.	71,432	83,598	46,661	(11,297)	22,782
Net cash outflow from investing activities. . .	(37,997)	(37,053)	(84,873)	(29,646)	(51,926)
Net cash(outflow)/inflow from financing activities	(16,829)	(4,223)	15,786	28,542	32,195

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Investors should read the following discussion and analysis in conjunction with the combined financial information of the Group as at 28 February 2002, 28 February 2003, 29 February 2004 and 31 August 2004, for the years ended 28 February 2002, 28 February 2003 and 29 February 2004 and for the six months ended 31 August 2003 and 2004, all of which is set forth in the Accountants' Report included as Appendix I to this prospectus (the "Financial Information"). Except for the Financial Information, the remainder of the Group's financial information, including forward-looking debt obligations set forth in the section headed "Financial information — Liquidity and capital resources" in this prospectus, presented in this section has been extracted or derived from the management accounts or other records of the Group. Investors should read the whole of the Accountants' Report and not rely merely on the information contained in this section.

OVERVIEW

The Group is well-established as a trend setter in the fashion apparel retail market in Hong Kong. Through its multi-layer and multi-brand business model, the Group offers a range of apparel products with different fashion influences, sold at varying retail sales prices and targeted at different customer groups. The Group's stores carry apparel from established and up-and-coming international brands, in-house brands and, increasingly, licensed brands. These international brands include *Tsumori Chisato*, *A.P.C.*, *Helmut Lang* and *as know as de base*. In-house brands include *http://www.izzue.com* and *b+ab*. The Group's licensed brands include *Arnold Palmer* and *i.t loves mickey*. Pursuant to the Group's license agreement with Walt Disney, the Group may be under an obligation to seek prior consent in respect of the disclosure of their relationship in this prospectus. The Group has not yet obtained such prior consent. The Group has recently begun discussion with Walt Disney on these issues. In the event that the Group is held to be in breach of its obligations under the license agreement, Walt Disney has the right to take legal action against the Group and/or terminate its license agreement. In such circumstances, the Group may lose its license to sell its *i.t loves mickey* apparel and its financial results and reputation may be harmed. In addition, the Group began establishing *FCUK* stores in Hong Kong pursuant to a corporate partnership with French Connection in November 2003.

The Group sells its products through its network of retail stores, each designed to project a sophisticated and contemporary atmosphere. These stores may be either its multi-brand stores, *I.T*, *i.t*, *ETE* and *double-park*, or stores dedicated to a single brand (such as an in-house brand, a licensed brand or a single international brand). After opening its first store over 16 years ago, as at 31 January 2005 the Group had established an extensive retail network of 95 free-standing stores, 30 store-in-stores and four concessions in Hong Kong. In the PRC, as at 31 January 2005 the joint venture GSIT operated 23 concessions and sold apparel to 56 franchisee-owned free-standing stores and 10 franchisee-owned store-in-stores.

In Taiwan, as at 31 January 2005 another joint venture had opened a free-standing store, two store-in-stores and nine concessions. In Malaysia, as at 31 January 2005 a franchisee had opened four stores to which the Group sold apparel.

The following table shows a breakdown of the Group's turnover by business segment for the years ended 28 February 2002, 28 February 2003 and 29 February 2004, as well as the six months ended 31 August 2003 and 31 August 2004:

	Year ended 28 February 2002		Year ended 28 February 2003		Year ended 29 February 2004		Six months ended 31 August 2003		Six months ended 31 August 2004	
	Turnover		Turnover		Turnover		Turnover		Turnover	
	HK$'000s	%	HK$'000s	%	HK$'000s	%	HK$'000s	%	HK$'000s	%
Apparel from										
International brands	409,417	58.9	387,546	52.9	351,652	43.3	154,840	45.2	179,296	43.4
In-house brands . .	250,019	36.0	308,693	42.2	351,694	43.3	146,231	42.7	176,882	42.8
Licensed brands . .	0	0.0	6,885	0.9	69,234	8.5	23,466	6.9	39,169	9.5
Others[1, 2]	35,615	5.1	28,859	4.0	39,588	4.9	17,672	5.2	17,971	4.3
Total	**695,051**	**100.0**	**731,983**	**100.0**	**812,168**	**100.0**	**342,209**	**100.0**	**413,318**	**100.0**

1 "Others" mainly includes sales of food and beverages at a now discontinued restaurant, sales revenue from sales stores for off-season goods, royalties from the Malaysian franchisee, consultancy fees from a PRC franchisee and commissions on consignment sales. The Group operated a cafe called *izzue cafe* during the year ended 28 February 2002 to 29 February 2004. The Group ceased this business during the year ended 29 February 2004.

2 Sales of apparel at discount outlets is included in "Others".

While the Group offers apparel from hundreds of international brands each year across all its stores, only five such international brands, *Tsumori Chisato*, *as know as de base*, *Camper*, *Carhartt* and *Pou Dou Dou*, individually accounted for more than 1% of the Group's annual turnover for the year ended 29 February 2004, and none individually were responsible for more than approximately 5% thereof. The two in-house brands whose apparel sales together represented the substantial majority of the Group's total turnover from all in-house brands for the year ended 29 February 2004 were *http://www.izzue.com* and *b+ab*. The two licensed brands whose apparel sales together represented the substantial majority of the Group's total turnover from all licensed brands for the year ended 29 February 2004 were *i.t loves mickey* and *Arnold Palmer*.

The Group's financial results over the Track Record Period have been most significantly impacted by the following factors:

Increasing sales of apparel from in-house and licensed brands and decreasing reliance on apparel from international brands

In addition to selling apparel products from international brands, the Group also sells products from own in-house brands, such as *http://www.izzue.com* and *b+ab*. The Group's sales of apparel from international brands as a percentage of total turnover declined over the Track Record Period. Sales of apparel from international brands accounted for over 58.9%, 52.9% and 43.3% of the Group's annual turnover for each of the three years ended 28 February 2002, 28 February 2003 and 29 February 2004, respectively.

The Group has been able to grow its annual turnover over the Track Record Period, even though the difficult economic environment in Hong Kong particularly during 2002 and 2003, caused the Group's sales of apparel from international brands at *I.T* to remain flat because sales of lower priced in-house apparel, particularly apparel from *http://www.izzue.com* and *b+ab*, have increased significantly over the Track Record Period. While sales of apparel from in-house brands accounted for approximately 43.3% of the Group's annual turnover for the year ended 29 February 2004, the Group's profit margins on apparel products in these lines are higher than its margins on apparel from international brands. In-house and licensed brand apparel have higher margins because their unit cost to the Group is lower than that of apparel from international brands (in part because the Group designs this apparel in-house) and because retail customers have been willing to purchase this apparel at similar price points to that of apparel from international brands. This is due in significant part to the fact that, when pricing their apparel, international brand owners include their marketing and promotion costs, as well as their own production and overhead costs (as well as a further mark-up for profit).

In addition, increases in the Group's turnover from sales of licensed brands, such as *Arnold Palmer*, and Mickey Mouse-related products at its *i.t loves mickey* stores, particularly during the year ended 29 February 2004, also contributed to the Group's increasing annual turnover during the Track Record Period. Pursuant to its licenses, the Group may sell such licensed apparel only in Hong Kong currently, however. Turnover attributable to sales of *Arnold Palmer* and *i.t loves mickey* products rose from HK$6,885 thousand or 0.9% of the Group's total turnover, in the year ended 28 February 2003 to HK$56,098 thousand, or 6.9% of the Group's turnover, in the year ended 29 February 2004, primarily because sales of *i.t loves mickey* apparel had only just started in the last quarter of the year ended 28 February 2003 and sales of *Arnold Palmer* apparel did not start until the year ended 29 February 2004. Apparel from the Group's licensed brands is priced similarly to that of its in-house brands. Apparel from licensed brands has a gross profit margin higher than that from international brands sold at *I.T*.

Increasing network of retail stores in Hong Kong, particularly for in-house brands such as *http://www.izzue.com* and *b+ab*

The Group's annual turnover is driven directly by the number of apparel products that it sells each year. Its ability to sell more products is significantly related to the number of stores (and the floor space of such stores) in its network of retail stores. The number of retail stores opened and maintained by the Group also affects the Group's financial results reflected by increased operating expenses, primarily due to the additional expenses associated with added leases in connection with rentals of store premises. During the Track Record Period and to date, sales of apparel in Hong Kong account for substantially all of the Group's annual turnover. As a result, it has been the growth of the Group's retail network in Hong Kong that has been the driver of increased turnover, and not yet the stores (or those of franchisees) in the PRC, Taiwan or Malaysia. Of these new stores in Hong Kong, in addition to continuing to open stores in prime retail locations, the Group has opened stores in less established retail locations, often in suburban areas in Kowloon and the New Territories. Many of these stores are single brand stores for licensed brands, in-house brands or international brands' apparel. Many of these new stores are smaller than the Group's older stores. As a result of both of these factors, the Group's total annual turnover and aggregate square footage have grown by smaller percentages than the percentage annual increase in the total number of the Group's stores.

On 28 February 2002, the Group directly owned 56 free-standing stores and 10 store-in-stores in Hong Kong and a franchisee had opened four free-standing stores in Malaysia.

As at 31 January 2005, the Group directly owned 95 free-standing stores, 30 store-in-stores and four concessions in Hong Kong. In the PRC, as at 31 January 2005 the joint venture GSIT operated 23 concessions and sold apparel to 56 franchisee-owned free-standing stores and 10 franchisee-owned store-in-stores. In Taiwan, as at 31 January 2005 another joint venture had opened a free-standing store along with two store-in-stores and nine concessions. In Malaysia, as at 31 January 2005 a franchisee had opened four stores to which the Group sold apparel.

Broader economic conditions in Hong Kong

The fashion apparel industry is sensitive to broader economic trends. Purchases of apparel and related merchandise tend to decline during recessionary periods. In the past, economic downturns in Hong Kong, where almost all of the Group's stores were located during the Track Record Period and in which Hong Kong stores substantially all of the Group's turnover (and approximately 99% of the Group's total profit attributable to shareholders) was derived for the six months ended 31 August 2004 and the year ended 29 February 2004, have caused consumers to reduce their spending, which negatively affected the Group's financial results. The Group's business during the six months ended 31 August 2003 was significantly impacted by SARS, which did not recur during the comparable period in 2004. However, the Group has been able to increase turnover during periods of decreased consumer spending in Hong Kong due significantly to increased sales of lower priced apparel from its in-house brands such as *http://www.izzue.com* and *b+ab* and, in the last two years, sales from its licensed brands.

Relatively small financial impact of sales outside Hong Kong to date

Since 2002, when a franchisee opened the first *http://www.izzue.com* store in Malaysia, the Group has begun expanding its network of retail stores in other parts of the Asia-Pacific region, primarily through franchise arrangements with third parties. As at 31 January 2005, the Group directly owned 95 free-standing stores, 30 store-in-stores and four concessions in Hong Kong. In the PRC, as at 31 January 2005 the joint venture GSIT operated 23 concessions and sold apparel to 56 franchisee-owned free-standing stores and 10 franchisee-owned store-in-stores. In Taiwan, as at 31 January 2005 another joint venture had opened a free-standing store along with two store-in-stores and nine concessions. In Malaysia, as at 31 January 2005 a franchisee had opened four stores to which the Group sold apparel.

Most of the Group's expansion outside Hong Kong has therefore been driven by stores owned by franchisees. For the year ended 29 February 2004, sales to all franchisees (all of whom are located outside Hong Kong) accounted for approximately 2% of the Group's total profit attributable to shareholders. In addition, the network of retail stores in the PRC and Taiwan not owned by franchisees are owned by GSIT, in which the Group holds a 50% stake.

The Group's business is seasonal

Like many apparel retailers, the Group experiences seasonal fluctuations in its turnover and operating income and generally records higher turnover from September to February. This is due primarily to the impact of increasing sales in Hong Kong at Christmas and Chinese new year, as well as to the fact that winter apparel is traditionally more expensive than summer clothes. For the year ended 29 February 2004, the Group derived approximately 42.1% of its annual turnover in the first six months of the fiscal year and approximately 57.9% in the last six months.

Financial presentation

For the purposes of the financial information included in the Accountants' Report, the combined profit and loss accounts, combined cash flow statements and combined statements of changes in equity of the Group included elsewhere in this prospectus and the related financial information included in this section present the results of operations of the companies comprising the Group as if the current group structure had been in existence and remained unchanged throughout the period from 1 March 2001 to 31 August 2004 (or since the date of such companies' incorporation where this is a shorter period).

The combined balance sheets of the Group as at 28 February 2002, 28 February 2003, 29 February 2004 and as at 31 August 2004 have been prepared to present the assets and liabilities of the Group as if the current group structure had been in existence as at those dates. All significant intra-group transactions and balances have been eliminated on combination.

Description of certain profit & loss account items

Turnover

The Group generates turnover almost exclusively from retail apparel sales. The Group's sales are determined by the average selling price, type of garments sold and number of garments sold. The number of stores (and thus the total floor space of the Group's stores) is the principal limitation on the number of garments that the Group can sell each year. Over the Track Record Period, the Group has successfully increased its total annual turnover, by increasing sales of apparel from its lower priced but higher margin in-house brands, particularly *http://www.izzue.com* and *b+ab* as well as sales of apparel from its licensed brands. Sales of apparel from international brands has remained almost unchanged.

Sales are recognised when goods are delivered and title has been passed to the customers, which generally coincides with when customers purchase garments in the Group's stores. Customers may, however, only return garments if they are defective. Payment is made at the time of the sale. The Group does not accept non-monetary consideration for its products.

Over the Track Record Period, the number of stores and aggregate square footage in the Group's retail network has increased. The number of stores (including store-in-stores and concessions, as well as free-standing stores) in the Group's network increased from 63 for the year ended 28 February 2002 (with an aggregate square footage of approximately 142,953), to 66 for the year ended 28 February 2003 (with an aggregate square footage of approximately 147,223), and to 84 for the year ended 29 February 2004 (with an aggregate square footage of approximately 171,057). The average selling price of the Group's apparel has also increased over the Track Record Period.

Cost of sales

The Group's cost of sales consists almost entirely of "purchases" which are made up of purchases of apparel products from international brands for re-sale by the Group in its network of retail stores and purchases of finished apparel products for the Group's in-house and licensed brands from PRC-based garment manufacturers.

Provision for obsolete inventory has also affected the Group's cost of sales over the Track Record Period. Prior to the year ended 29 February 2004, the Group used an inventory provision policy to provide 100% of inventory of previous seasons. For the year ended 29 February 2004, the Group changed this inventory provision policy to provide only 50% of inventory of previous seasons and took a one-time write-back of approximately HK$13,281 thousand.

Operating expenses

The Group's operating expenses consist primarily of:

- rent expense;
- employment costs;
- other overhead; and
- depreciation.

The Group believes its operating expenses will increase as its operations continue to grow.

Finance costs

The Group's finance costs consist primarily of interest payments on the convertible notes outstanding to the Selling Shareholder from time-to-time during the Track Record Period and on bank borrowings. These costs dropped in the year ended 29 February 2004 from the prior year, primarily because on 11 March 2003 the Group repaid entirely an outstanding convertible note held by the Selling Shareholder that bore a 7% annual interest rate but which also included a payment (pursuant to the terms of the convertible note) equal to a 16% annual interest rate that became payable on repayment because the Group had not yet completed an initial public offering of its capital stock. (For accounting purposes these amounts were accrued over the entire period during which this convertible note was outstanding.) Subsequently, on 10 July 2003, the Group issued another convertible note with the same lender in a lower principal amount which also bore a substantially lower interest rate of 7%. On 23 September 2004, the Selling Shareholder elected to convert the entire amount of US$4,000 thousand under its outstanding convertible note, into 2,078 ordinary shares of ithk holdings limited (in addition to a final cash adjustment of not more than HK$1 million to be paid by ithk holdings limited or, should the Listing fail to be completed by 20 April 2005, an issue of further Shares by the Company).

Taxation

In Hong Kong, the Group is subject to the statutory income tax rate which was 17.5% for the year ended 29 February 2004. In the PRC, GSIT's subsidiaries are subject to enterprise income tax at rates varying from 15% to 24% and are not eligible for any exemptions or exclusions therefrom.

Critical accounting policies and practices

The Group's discussion and analysis of its financial condition and results of operations is based on the combined accounts. The Group's significant accounting policies are set forth in note 2 of the Accountants' Report. The Group's reported financial condition and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of these combined accounts. The Group bases its estimates on historical experience, the experience of other companies in the industry and on various other assumptions that the Group believes to be reasonable, the results of which form the basis for making judgments about the carrying amounts of assets and liabilities and the Group's financial results. The Group's management evaluates its estimates on an ongoing basis. Actual results may differ from these estimates under different assumptions and conditions.

The selection of critical accounting policies, the judgment and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the Group's combined accounts. The Group believes that the following critical accounting policies involve the most significant judgments and estimates used in the preparation of its combined accounts.

Changes to Hong Kong accounting standards may result in changes in the future as to how the Group's results and financial position are prepared and presented.

As noted in the Accountants' Report, the Group's audited combined accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with statements of standard accounting practice issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The HKICPA has issued a number of new Hong Kong Financial Reporting Standards and revised Hong Kong Accounting Standards, herein collectively referred to as HKFRSs, which are effective for accounting periods beginning on or after 1 January 2005. These new standards cover financial instruments, share-based payment, business combinations, insurance contracts and non-current assets held for sale and discontinued operations.

These issued HKFRSs may result in changes in the future as to how the Group's results and financial position are prepared and presented.

Inventory provision policy

The Group has substantial investments in inventory for the fashion apparel and fashion accessories that the Group offers to its customers. Changes in fashion trends and customers' tastes for fashion may cause the value of these inventories to change.

The Group considers its inventory provision policy to be a policy that requires among the most extensive applications of judgements by management.

The inventory of fashion apparel and fashion accessories can be classified into two categories: seasonal and non-seasonal items. Seasonal items are apparel and accessories that change in response to fashion trends. Non-seasonal items are accessories for which the sales cycle is much longer, such as bags, wallets and belts.

Seasonal inventory is classified into two seasons in each year, the spring/summer and the fall/winter season.

Before the financial year ended 29 February 2004, for seasonal inventory, 100% of the inventory purchased for the previous seasons was written off; for the non-seasonal inventory, no provision was made. On top of the above, an additional provision of the expected leftover for the current season inventory was made evenly over the current six month season.

Starting from the financial year ended 29 February 2004, as a result of an improvement in the economic environment of Hong Kong as well as improved sales performance, the Group revised its inventory provision policy in the second half of the year ended 29 February 2004 as follows. For seasonal inventory, 50% of the inventory purchased for the previous seasons is written off; for non-seasonal inventory, 50% of those inventories older than one year at each month end's financial reporting date will be written off. On top of the above, an additional provision of the expected leftover for the current season inventory will be made evenly over the current six month season. If the original inventory provision policy was used in the year ended 29 February 2004, a HK$4,907 thousand provision would have been made. By aggregating such additional provision of HK$4,907 thousand and the write-back of the provision of HK$13,281 thousand due to the revised inventory provision policy, the impact of using the original inventory provision policy is a decrease of HK$18,188 thousand in net profit.

For the year ended 28 February 2002, inventory provision was HK$6,938 thousand. For the year ended 28 February 2003, inventory provision was HK$9,856 thousand. For the six months ended 31 August 2003, there was an inventory write-back of HK$116 thousand. For the year ended 29 February 2004, there was an inventory write-back of HK$13,281 thousand. For the six months ended 31 August 2004, inventory provision was HK$605 thousand. The Directors consider that the provisions made were adequate as evidenced by subsequent sales made on the subject inventory.

The Group's inventory level increased significantly as at 31 August 2004 compared with the inventory levels as at 28 February 2002, 28 February 2003 and 29 February 2004, in significant part due to (1) the increase in the number of the Group's stores from 84 in

February 2004 to over 120 in November 2004, and (2) the increase in stock levels in preparation for its peak season of Christmas and Chinese new year, which is consistent with the seasonality of its business.

Subsequent usage of inventory up to 30 November 2004

During the three months ended 30 November 2004, of the HK$99,584 thousand carrying value of inventories as at 31 August 2004: (1) HK$50,670 thousand was sold to customers; and (2) HK$939 thousand was written off due to damage or loss. The Directors believe that the remaining inventories, net of obsolescence provision of HK$47,975 thousand, could be subsequently sold at above the book carrying value, in particular during the peak seasons of Christmas and Chinese new year in a manner that is consistent with the operating history in previous years.

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.

Related party transactions

In the view of the Directors (including independent non-executive Directors), the related party transactions as described in note 30 of the Accountants' Report were conducted on a fair and reasonable basis and their terms were fair and reasonable.

Store renovation policy

The Group renovates its stores prior to their opening and every three to four years subsequently. During the Track Record Period, the Group conducted 132 renovations which were charged on both new and existing stores in connection with which the Group incurred an aggregate renovation cost of HK$48,537 thousand, or an average cost per renovation charge of HK$368 thousand. The number of the Group's existing stores which will require renovation by the end of February 2006 is expected to be ten.

RESULTS OF OPERATIONS

The following table shows the line items of the Group's profit and loss accounts expressed as a percentage of turnover for the years ended 28 February 2002, 28 February 2003, 29 February 2004 and the six months ended 31 August 2003 and 2004:

	Year ended 28 February 2002	Year ended 28 February 2003	Year ended 29 February 2004	Six months ended 31 August 2003	Six months ended 31 August 2004
	% of total turnover	% of total turnover	% of total turnover	% of total turnover	% of total turnover
Turnover	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Cost of sales	44.7	43.2	40.2	42.2	38.8
Gross profit	**55.3**	**56.8**	**59.8**	**57.8**	**61.2**
Other revenue	0.0	0.0	0.0	0.0	0.0
Operating expenses	45.8	47.1	44.5	50.9	49.5
Operating profit	9.5	9.7	15.3	6.9	11.7
Finance costs	1.7	1.3	0.5	0.6	0.5
Profit before taxation	7.8	8.4	15.6	6.0	9.9
Profit attributable to shareholders	6.3	6.6	13.0	4.9	8.0

The six months ended 31 August 2004 compared to the six months ended 31 August 2003

Turnover

From the six months ended 31 August 2003 to the six months ended 31 August 2004, turnover increased by HK$71,109 thousand, or 20.8%, from HK$342,209 thousand to HK$413,318 thousand. This increase was principally due to the fact that the Group's business during the six months ended 31 August 2003 was significantly impacted by SARS, which did not recur during the comparable period in 2004.

Cost of sales

Cost of sales increased by HK$15,717 thousand, or 10.9%, from HK$144,483 thousand in the six months ended 31 August 2003 to HK$160,200 thousand in the six months ended 31 August 2004. Cost of sales increased because the Group sold more apparel during the six months ended 31 August 2004 and cost of sales primarily consists of purchases of apparel from international designers and from PRC-based garment manufacturers for the Group's in-house and licensed brands. As a percentage of total turnover, cost of sales dropped from 42.2% in the six months ended 31 August 2003 to 38.8% in the six months ended 31 August

2004. This decrease was due to the fact that, during the six months ended 31 August 2003, which was significantly impacted by SARS, the Group had to offer bigger discounts on its apparel in order to sell it than during the comparable period in 2004.

Gross profit

As a result of the increase in sales and also the fact that lesser discounts were being offered to customers in the six months ended 31 August 2004 as compared to the six months ended 31 August 2003 which was significantly impacted by SARS, the Group's gross profit of HK$197,726 thousand in the six months ended 31 August 2003 increased to HK$253,118 thousand in the six months ended 31 August 2004, and the Group's gross profit margin increased from 57.8% in the six months ended 31 August 2003 to 61.2% in the six months ended 31 August 2004. The Directors believe the Group's gross profit margin may be higher than some of its competitors in part because the Group carries higher margin in-house and licensed brands.

Operating expenses

Operating expenses increased from HK$174,171 thousand in the six months ended 31 August 2003 to HK$204,617 thousand in the six months ended 31 August 2004. This change was principally due to an increase in rental expense (from HK$66,895 thousand in the six months ended 31 August 2003 to HK$76,792 thousand in the six months ended 31 August 2004, as the number of the Group's stores increased from 68 to 103) and employment costs (from HK$58,892 thousand in the six months ended 31 August 2003 to HK$72,141 thousand in the six months ended 31 August 2004, as the number of staff increased from 701 to 983) resulting from an increase in the number of stores in the Group's retail network.

Operating profit

As the increase in the amount of sales and gross profit in the six months ended 31 August 2004 from that of the six months ended 31 August 2003 was larger than the increase in operating expenses, the Group's operating profit of HK$23,640 thousand in the six months ended 31 August 2003 increased to an operating profit of HK$48,505 thousand in the six months ended 31 August 2004. The Group's operating margin (profit from operations expressed as a percentage of turnover) increased from 6.9% in the six months ended 31 August 2003 to 11.7% in the six months ended 31 August 2004.

Finance costs

Finance costs decreased by HK$18 thousand, or 0.9%, from HK$1,944 thousand in the six months ended 31 August 2003 to HK$1,926 thousand in the six months ended 31 August 2004. There was little change because the total outstanding balances of the Group's debt remained almost unchanged between the two periods, though the nature of the lenders did change.

Profit before taxation

As operating profit increased by HK$24,865 thousand, finance costs decreased by HK$18 thousand and the share of loss of jointly controlled entities increased by HK$4,838 thousand from the six months ended 31 August 2003 to the six months ended 31 August

2004, the Group's profit before taxation increased by HK$20,045 thousand, or 96.9%, from HK$20,682 thousand in the six months ended 31 August 2003 to HK$40,727 thousand in the six months ended 31 August 2004.

Taxation

Taxation increased by HK$3,917 thousand, or 100.7%, from HK$3,890 thousand in the six months ended 31 August 2003 to HK$7,807 thousand in the six months ended 31 August 2004 because the Group's profit before taxation increased. The Group's effective tax rate, expressed as the taxation charge as a percentage of profit before tax, was 18.8% during the six months ended 31 August 2003 and 19.2% during the six months ended 31 August 2004.

Profit attributable to shareholders

With an increase in profit before taxation of HK$20,045 thousand and an increase in taxation of HK$3,917 thousand from the six months ended 31 August 2003 to the six months ended 31 August 2004, the Group's profit attributable to shareholders increased by HK$16,128 thousand, or 96%, from HK$16,792 thousand in the six months ended 31 August 2003 to HK$32,920 thousand in the six months ended 31 August 2004.

With improved operating results during the six months ended 31 August 2004 as compared to that of the six months ended 31 August 2003 which was significantly impacted by SARS, the net profit margin of the Group increased from 4.9% in the six months ended 31 August 2003 to 8% in the six months ended 31 August 2004.

The year ended 29 February 2004 compared to the year ended 28 February 2003

Turnover

From the year ended 28 February 2003 to the year ended 29 February 2004, turnover increased by HK$80,185 thousand, or 11%, from HK$731,983 thousand to HK$812,168 thousand. This increase was principally due to three factors:

- The Group's annual turnover growth was driven by sales growth from its licensed brands and in-house brands. Turnover attributable to in-house brands increased by HK$43,001 thousand from HK$308,693 thousand in the year ended 28 February 2003 to HK$351,694 thousand in the year ended 29 February 2004. Turnover attributable to licensed brands increased by HK$62,349 thousand from HK$6,885 thousand in the year ended 28 February 2003 to HK$69,234 thousand in the year ended 29 February 2004.

- The Group increased the number of its stores in Hong Kong, as well as its total retail floor space in Hong Kong. These increases allowed the Group to display more merchandise and reach more potential customers in Hong Kong. The majority of these new stores were opened in the second half of the year ended 29 February 2004. Many of these new stores are smaller than the Group's older stores. Most were smaller, single brand stores rather than larger multi-brand stores. As a result of both of these factors, the Group's total annual turnover and aggregate square footage have grown by smaller percentages than the percentage annual increase in the total number of the Group's stores.

- The number of stores (including store-in-stores and concessions, as well as free-standing stores) in the Group's retail network increased from 66 for the year ended 28 February 2003 (with an aggregate square footage of 147,223) to 84 for the year ended 29 February 2004 (with an aggregate square footage of 171,057).

- Broader economic conditions in Hong Kong improved, particularly in the second half of the year ended 29 February 2004.

Cost of sales

Cost of sales increased by HK$10,291 thousand, or 3.3%, from HK$316,280 thousand in the year ended 28 February 2003 to HK$326,571 thousand in the year ended 29 February 2004. Cost of sales increased because the Group sold more apparel during the year ended 29 February 2004 and cost of sales primarily consists of purchases of apparel from international designers and from PRC-based garment manufacturers for the Group's in-house and licensed brands. As a percentage of total sales, cost of sales decreased from 43.2% in the year ended 28 February 2003 to 40.2% in the year ended 29 February 2004. This decrease was due to an increasing proportion of sales attributable to apparel from in-house brands, which cost the Group less per unit than apparel from international brands. Sales of *http://www.izzue.com* apparel increased by approximately 6.4% for the year ended 29 February 2004, and sales of *b+ab* apparel increased by 15.1% during the same period, while sales at *I.T*, comprised principally of products by international brands, remained steady.

Cost of sales would have been higher for the year ended 29 February 2004 but for a one time accounting write-back. The one-time write-back of HK$13,281 thousand for slow moving stock was made due to a change in inventory provision policy resulting from improved economic conditions in Hong Kong, which made it more likely that the Group could sell its inventory before reducing prices.

Gross profit

As a result of improvement in Hong Kong's economy, the increase in sales of products of in-house brands and licensed brands, which have a lower per unit cost than apparel from international brands, and the one time accounting write back of HK$13,281 thousand for slow moving stock, the Group's gross profit increased 16.8% from HK$415,703 thousand in the year ended 28 February 2003 to HK$485,597 thousand in the year ended 29 February 2004, and the Group's gross profit margin increased from 56.8% in the year ended 28 February 2003 to 59.8% in the year ended 29 February 2004.

Operating expenses

Operating expenses increased by HK$17,243 thousand, or 5%, from HK$344,441 thousand in the year ended 28 February 2003 to HK$361,684 thousand in the year ended 29 February 2004. The increase was principally due to an increase in rental expenses from HK$127,331 thousand in the year ended 28 February 2003 to HK$136,453 thousand in the year ended 29 February 2004 with store numbers increasing from 66 as of 28 February 2003 to 84 as of 29 February 2004, and an increase in employment costs from HK$111,347 thousand in the year ended 28 February 2003 to HK$126,870 thousand in the year ended 29 February 2004 with the number of staff increasing from 686 as of 28 February 2003 to 831 as of 29 February 2004 as a result of the opening of new retail stores in Hong Kong, offset by a decrease in depreciation expense.

Operating profit

With an increase in gross profit for the year ended 29 February 2004 of HK$69,894 thousand but with an increase in operating expenses of only HK$17,243 thousand and after accounting for the HK$87 thousand decrease in interest income as from that of year ended 28 February 2003, the Group's operating profit increased by HK$52,564 thousand, or 73.5%, from HK$71,477 thousand in the year ended 28 February 2003 to HK$124,041 thousand in the year ended 29 February 2004. The Group's operating margin (profit from operations expressed as a percentage of turnover) increased from 9.8% in the year ended 28 February 2003 to 15.3% in the year ended 29 February 2004.

Finance costs

Finance costs decreased by HK$5,565 thousand, or 56.4%, from HK$9,863 thousand in the year ended 28 February 2003 to HK$4,298 thousand in the year ended 29 February 2004. The decrease was principally due to the repayment of an outstanding convertible note. On 11 March 2003, the Group repaid an outstanding convertible note that bore a 7% annual interest rate but which also included a payment pursuant to the terms of the convertible note equal to a 16% annual interest rate that became payable on repayment of the note because the Group had not yet completed a public offering of its capital stock. These amounts were accrued over the entire period during which this convertible note was outstanding. On 10 July 2003, the Group issued another convertible note to the same lender in a lower principal amount which also bore a substantially lower interest rate of 7% (because the 16% payment payable on the previous convertible note did not yet apply under the terms of the new convertible note).

Profit before taxation

With the increase in operating profit of HK$52,564 thousand, the decrease in finance costs by HK$5,565 thousand and after accounting for the share of loss of jointly controlled entities as well as the gain of HK$9,012 thousand from disposal of subsidiaries, the Group's profit before taxation increased by HK$65,239 thousand, or 105.7%, from HK$61,724 thousand in the year ended 28 February 2003 to HK$126,963 thousand in the year ended 29 February 2004.

Taxation

Taxation increased by HK$7,603 thousand, or 55.2%, from HK$13,770 thousand in the year ended 28 February 2003 to HK$21,373 thousand in the year ended 29 February 2004. The increase was principally due to an increase in the Group's pre-tax profit. The Group's effective tax rate, expressed as the taxation charge as a percentage of profit before taxation, was 22.3% in the year ended 28 February 2003 and 16.8% in the year ended 29 February 2004. This change was due to a reduction in non-tax deductible expenses (convertible note interest) and provisions (in connection with doubtful debt). In addition, in the year ended 29 February 2004, a gain on the disposal of subsidiaries was not taxable.

Profit attributable to shareholders

As a result of the increase in profit before taxation of HK$65,239 thousand and the increase in taxation of HK$7,603 thousand as discussed above, the Group's profit attributable to shareholders increased by HK$57,636 thousand, or 120.2%, from HK$47,954 thousand in the year ended 28 February 2003 to HK$105,590 thousand in the year ended 29 February 2004. The net profit margin of the Group increased from 6.6% in the year ended 28 February 2003 to 13% in the year ended 29 February 2004.

The year ended 28 February 2003 compared to the year ended 28 February 2002

Turnover

From the year ended 28 February 2002 to the year ended 28 February 2003, turnover increased by HK$36,932 thousand, or 5.3%, from HK$695,051 thousand to HK$731,983 thousand. This increase was principally due to increases in sales of in-house brands, such as *http://www.izzue.com*, and an overall more favourable economic climate compared to the year ended 28 February 2002. Sales of in-house brands increased by HK$58,674 thousand from the year ended 28 February 2002 to in the year ended 28 February 2003, while sales of apparel from international brands declined.

Cost of sales

Cost of sales increased slightly by HK$5,476 thousand, or 1.8%, from HK$310,804 thousand in the year ended 28 February 2002 to HK$316,280 thousand in the year ended 28 February 2003. Cost of sales increased slightly because the Group sold slightly more apparel during the year ended 28 February 2003 and cost of sales primarily consists of purchases of apparel from international designers and from PRC-based garment manufacturers for the Group's in-house and licensed brands. As a percentage of total sales, cost of sales decreased, from 44.7% in the year ended 28 February 2002 to 43.2% in the year ended 28 February 2003. This slight decrease was due to the fact that the Group purchased an increasing proportion of apparel for lower cost in-house brands.

Gross profit

As a result of the increase in turnover principally on in-house brands which cost less than international brands as discussed above, the Group's gross profit increased by 8.2% in the year ended 28 February 2003 from HK$384,247 thousand in the year ended 28 February 2002 to HK$415,703 thousand in the year ended 28 February 2003, and the Group's gross profit margin increased from 55.3% in the year ended 28 February 2002 to 56.8% in the year ended 28 February 2003.

Operating expenses

Operating expenses increased by HK$26,205 thousand, or 8.2%, from HK$318,236 thousand in the year ended 28 February 2002 to HK$344,441 thousand in the year ended 28 February 2003. This increase was principally due to an increase in employment costs (from HK$108,993 thousand in the year ended 28 February 2002 to HK$111,347 thousand in the year ended 28 February 2003 with the number of staff increasing from 636 as of 28 February 2002 to 686 as of 28 February 2003) and rental expenses (from HK$121,329 thousand in the year ended 28 February 2002 to HK$127,331 thousand in the year ended 28 February 2003 with the number of stores increasing from 63 as of 28 February 2002 to 66 as of 28 February 2003) and increases in other overheads of HK$17,849 thousand. A principal component to this increase in other overheads was an impairment in the value of HK$9,000 thousand related to apparel inventory and store renovation expenditure provided to a PRC-based franchisee. The franchisee, Nanjing Runlang Commercial and Trading Co., Ltd., was a franchisee of the Group in the PRC from September 2002 to October 2004, and is wholly separate and independent of GSIT. Prior to the creation of GSIT in 2003, the Group expanded into the PRC without a standard franchise agreement. Under the terms of its arrangement with Nanjing Runlang Commercial and Trading Co., Ltd. the Group renovated certain stores and provided inventory without simultaneous payment. The impairment resulted because this entity's business in the PRC was not successful. The Group no longer grants such terms to franchisees. The Group does not have any equity stake in this entity.

Operating profit

As a result of the increase in gross profit of HK$31,456 thousand but with an increase in operating expenses of only HK$26,205 thousand as discussed above, the Group's operating profit increased by HK$5,250 thousand, or 7.9%, from HK$66,227 thousand in the year ended 28 February 2002 to HK$71,477 thousand in the year ended 28 February 2003. The Group's operating margin (profit from operations expressed as a percentage of turnover) was 9.5% in the year ended 28 February 2002 and 9.8% in the year ended 28 February 2003.

Finance costs

Finance costs decreased by HK$1,909 thousand, or 16.2%, from HK$11,772 thousand in the year ended 28 February 2002 to HK$9,863 thousand in the year ended 28 February 2003. The decrease was principally due to the fact that, because the Group slowed its expansion during the year ended 28 February 2003, it was able to repay an outstanding short term bank loan used to purchase merchandise.

Profit before taxation

As a result of the increase in operating profit of HK$5,250 thousand and the decrease of finance costs of HK$1,909 thousand as discussed above, and after accounting for the share of profit of jointly controlled entities of HK$110 thousand compared to a loss of HK$276 thousand in the year ended 28 February 2002, the Group's profit before taxation increased by HK$7,545 thousand or 13.9%, from HK$54,179 thousand in the year ended 28 February 2002 to HK$61,724 thousand in the year ended 28 February 2003.

Taxation

Taxation increased by HK$3,460 thousand, or 33.6%, from HK$10,310 thousand in the year ended 28 February 2002 to HK$13,770 thousand in the year ended 28 February 2003. The increase was principally due to the increase in the Group's profit before taxation and an increase in non-tax-deductible expenses in connection with certain loss making companies within the Group. The Group's effective tax rate, expressed as the Group's taxation charge expressed as a percentage of profit before taxation, was 19% in the year ended 28 February 2002 and 22.3% in the year ended 28 February 2003. This change was due to the increase in non-tax-deductible expenses.

Profit attributable to shareholders

As a result of the increase in profit before taxation of HK$7,545 thousand and the taxation increase of HK$3,460 thousand discussed above, the Group's profit attributable to shareholders increased by HK$4,085 thousand, or 9.3%, from HK$43,869 thousand in the year ended 28 February 2002 to HK$47,954 thousand in the year ended 28 February 2003. The net profit margin of the Group increased from 6.3% in the year ended 28 February 2002 to 6.6% in the year ended 28 February 2003.

LIQUIDITY AND CAPITAL RESOURCES

Overview

The Group's principal sources of liquidity and capital resources have been, and are expected to continue to be, cash flow from operations, the issuance of new shares and debt financing from banks. The Group's principal uses of cash have been, and are expected to continue to be, operational costs, the repayment of loans and the expansion of its retail network in Hong Kong, the PRC and Taiwan.

Net current assets

As at 31 December 2004, the Group had net current assets of approximately HK$116,240 thousand. Current assets were mainly comprised of trade and other receivables of approximately HK$24,570 thousand, inventories of approximately HK$107,237 thousand and bank balances and cash of approximately HK$88,363 thousand. Current liabilities were mainly comprised of short term bank and other borrowings (those due within one year) of approximately HK$32,376 thousand and trade and other payables of approximately HK$62,809 thousand.

Although the Group has been profitable on an operating basis and declared and paid HK$20,000 thousand dividends in each of the last three financial years, it has historically had to take out short-term bank debt to supplement its cash flow from operations in order to satisfy its working capital needs. Its ability to expand its operations in Greater China may depend on its ability to finance these activities through the issuance of equity securities, long-term borrowings and the issuance of convertible and other debt securities.

If adequate funds are not available, whether on satisfactory terms, or at all, the Group may be forced to curtail its expansion plans. The Group's ability to meet its working capital needs from cash flow from operations will be affected by the demand for its fashion apparel products, which in turn may be affected by several factors. Many of these factors are outside of its control, such as economic downturns or dramatic increases in rents on the commercial real estate market. To the extent that the Group does not generate sufficient cash flow from its operations to meet its cash requirements, it may rely on external borrowings and securities offerings.

Cash flows

The following table sets forth a condensed summary of the Group's audited statements of cash flows for the periods indicated:

	For the year ended			For the six months ended	
	28 February 2002	28 February 2003	29 February 2004	31 August 2003	31 August 2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Other Financial Data:					
Net cash inflow/(outflow) from operating activities.	71,432	83,598	46,661	(11,297)	22,782
Net cash outflow from investing activities. . .	(37,997)	(37,053)	(84,873)	(29,646)	(51,926)
Net cash(outflow)/inflow from financing activities.	(16,829)	(4,223)	15,786	28,542	32,195
Gross Profit	384,247	415,703	485,597	197,726	253,118
Net Profit	43,869	47,954	105,590	16,792	32,920

As of 31 August 2004, the Group's primary source of liquidity was cash and cash equivalents of HK$56,457 thousand, denominated principally in HK dollars, a decrease from HK$63,431 thousand from 31 August 2003. Cash generated from operations, when not needed for working capital requirements, is held principally in money market accounts.

Net cash inflow from operating activities

Net cash inflow from operating activities amounted to HK$22,782 thousand in the six months ended 31 August 2004, an increase of HK$34,079 thousand from a net cash outflow of HK$11,297 thousand for the six months ended 31 August 2003. The change was primarily due to the increase in operating profit in the six months ended 31 August 2004 (in part due to the effects of SARS in 2003), the lack of a comparable one-time payment in the six months ended 31 August 2004 to the 16% per annum interest charge on the convertible note which became payable upon its repayment in the six months ended 31 August 2003 and the payment of tax on profits. Net cash inflow from operating activities amounted to HK$46,661 thousand in the year ended 29 February 2004, a decrease of 44.2% from HK$83,598 thousand for the year ended 28 February 2003. The change was primarily due to the payment of the aforementioned charge for the convertible note and the payment of tax on profits during the year ended 29 February 2004.

Net cash outflow from investing activities

Net cash outflow from investing activities amounted to HK$51,926 thousand in the six months ended 31 August 2004, an increase of 75.2% from HK$29,646 thousand for the six months ended 31 August 2003. Net cash outflow from investing activities in the year ended 29 February 2004 was HK$84,873 thousand, of which approximately HK$29,115 thousand was used for leasehold improvements at new retail stores and the head office, HK$8,000 thousand of which was invested in the corporate partnership with French Connection, and further amounts related to an increase in amounts due from directors and related companies for payment of their mortgage loans and the acquisition of properties. The Group's investing activities have consisted primarily of capital expenditures in connection with opening new stores. Net cash outflow from investing activities in the year ended 28 February 2003 was HK$37,053 thousand.

Net cash provided by financing activities

Net cash provided by financing activities amounted to HK$32,195 thousand in the six months ended 31 August 2004, an increase of 12.8% from the inflow of HK$28,542 thousand for the six months ended 31 August 2003. This change was primarily due to the addition of a new long-term bank loan. Net cash provided by financing activities in the year ended 29 February 2004 was HK$15,786 thousand, of which HK$39,000 thousand was raised from the issuance of a convertible note to the Selling Shareholder and HK$34,720 thousand was raised from bank loans off-set by repayment of other forms of indebtedness. Net cash outflow from financing activities in the year ended 28 February 2003 was HK$4,223 thousand, primarily reflecting the repayment of the outstanding trust receipt bank loan which was used to finance the purchase of merchandise from overseas suppliers off-set by new bank loans. The change from the year ended 28 February 2003 to 29 February 2004 was primarily due to the issuance of a convertible note to the Selling Shareholder and the proceeds from new long-term bank loans.

Borrowings, loans and banking facilities

As at 31 August 2004, the Group had aggregate borrowings of HK$101,833 thousand comprised of short-term borrowings or HK$11,638 thousand, current portions of long-term loans of HK$19,000 thousand, long-term loans of HK$40,000 thousand and a convertible note of HK$31,195 thousand.

As at 31 August 2004 the Group's non-current liabilities amounted to HK$71,361 thousand mainly comprised of long term bank loans of HK$40,000 thousand and a convertible note of HK$31,195 thousand. As at 29 February 2004, the Group's non-current liabilities amounted to HK$31,373 thousand. These liabilities were largely made up of a convertible note of HK$31,195 thousand, secured by personal guarantees of shareholders of the holding companies of the Group's operations. A portion of the proceeds of this Offering will be used to pay portions of the Group's long-term loans. On 12 May 2004 the Group obtained a HK$50,000 thousand loan from Hang Seng Bank carrying interest at 2.5% over HIBOR per annum, maturing in August 2009, the proceeds from which were used to fund the expansion of the Group's retail network. On 20 October 2004, the Group entered into an additional loan agreement, a HK$100,000 thousand loan from the Hongkong and Shanghai Banking Corporation Ltd. carrying interest at 1.5% over one month HIBOR per annum or on daily balances at 2.5% per annum below prime rate, expected to mature in January 2008. This loan was drawn on 17 February 2005. Approximately HK$68,192 thousand of the proceeds of this HK$100,000 thousand loan was used to pay part of the HK$190,000 thousand dividend. These loans will be repaid prior to their respective maturity dates using proceeds from the Offering so as to limit interest expenses paid by the Company. The effect of these loans on the Group's financial position (using as a baseline the most recent audited financial statements as at 31 August 2004) would be as follows: assuming the date is "as at 31 August 2004", that bank loans of HK$100,000 thousand were drawn for the payment of a dividend of HK$190,000 thousand, and that the the dividend was used to offset the Group's receivables from directors, related companies and related parties of HK$98,187 thousand, the gearing ratio (being total debt divided by the total assets, and where total debt refers to total liabilities less accounts and bills payable, accruals and other payables, taxation payable, dividends payable and deferred taxation) would have increased from 24.7% to 62.6%, and the net tangible assets (being total tangible assets less total tangible liabilities) would have decreased from HK$224,448 thousand to HK$34,448 thousand.

On 10 July 2003, the Group issued to the Selling Shareholder a convertible note with a face value of US$5,000 thousand (approximately HK$39,000 thousand). The note was secured by personal guarantees of Mr. Sham Kar Wai, Mr. Sham Kin Wai, Ms. Yau Shuk Ching, Chingmy, Ms. Sham Sau Wai and Ms. Sham Sau Han, and bore interest at 7% per annum, payable quarterly. The Group issued this note, which bore a significantly lower interest rate than the 23% rate applicable to the prior convertible note at its repayment in March 2003, in anticipation of funding needs in connection with its expansion into the PRC. Further, as Hong Kong was in the midst of the SARS crisis at that time, the Group considered it appropriate for business reasons to have access to additional cash.

On 9 October 2003, the Selling Shareholder accepted from the Group a partial repayment on the note of US$1,000 thousand (approximately HK$7,805 thousand) and a new note issued by the Group in exchange for redemption of the 10 July 2003 note. The new note had a face value of US$4,000 thousand (approximately HK$31,195 thousand). The note was also secured by Mr. Sham Kar Wai, Mr. Sham Kin Wai, Ms. Yau Shuk Ching, Chingmy, Ms. Sham Sau Wai and Ms. Sham Sau Han of the Group, and bore interest at 7% per annum, payable quarterly. On 23 September 2004, the Selling Shareholder elected to convert the entire amount outstanding of US$4,000 thousand (approximately HK$31,195 thousand) under this convertible note into 2,078 ordinary shares of ithk holdings limited (in addition to a final cash adjustment of not more than HK$1 million to be paid by ithk holdings limited or, should the Listing fail to be completed by 20 April 2005, an issue of further Shares by the Company). Proceeds from this note were used to fund the Group's operations and expansion.

Short-term bank borrowings as at 31 August 2004, 29 February 2004 and 28 February 2003 amounted to HK$11,638 thousand, HK$443 thousand, and HK$5,403 thousand, respectively. The change from 29 February 2004 to 31 August 2004 and from 2003 to 2004 was largely due to more short-term trade financing for purchases of merchandise from overseas suppliers. The outstanding short-term loans as at 31 August 2004 were secured. The HK$11,638 thousand, which was a trade payable, was in connection with the purchase of products from international brands from overseas suppliers who require settlement through a letter of credit issued by a bank. In August 2004, as is the case in every year, the Group made more purchases for the coming fall/winter season as well as for Christmas and Chinese new year.

Set forth below are the aggregate amounts as at 31 August 2004 of the Group's future cash payment obligations under its existing debt and lease arrangements:

	Payments due by period				
	Total	Less than 1 year	1–3 years	4–5 years	After 5 years
			(HK$'000s)		
Contractual Obligations:					
Long-term debt	59,000	19,000	20,000	20,000	—
Short-term debt	11,638	11,638	—	—	—
Total contractual cash obligations	455,249	189,259	237,603	28,387	—

The contractual cash obligation of HK$455,249 thousand represents operating lease commitments in respect of the stores, warehouse and office premises of the Group (i.e. the rental to be paid over the remaining lease term of all tenancy agreements entered into as of 31 August 2004).

Capital expenditures

Additional expansion for the future generally will continue to require cash for startup costs for new stores. The following table sets forth a breakdown of the Group's historical and planned capital expenditures:

	Year Ended 28 Feb 2002	Year Ended 28 Feb 2003	Year Ended 29 Feb 2004	6 months ended 31 Aug 2004	Year Ending 28 Feb 2005	Year Ending 28 Feb 2006
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Addition of fixed assets	23,856	4,750	29,115	11,866	44,229	48,000
Acquisition of investment	0	8,673	0	569	569	0
Acquisition of investment in a jointly controlled entity	0	0	8,000	4,000	4,000	4,000
	23,856	**13,423**	**37,115**	**16,435**	**48,798**	**52,000**

The Group's total capital expenditures for the year ended 29 February 2004 were approximately HK$37,115 thousand, comprised largely of expenditures for additions to fixed assets, primarily for leasehold improvements and office furniture and equipment and investment in a corporate partnership with French Connection of HK$8,000 thousand. Currently, the Group is not bound by any contractual arrangements to invest in its planned expansion of its retail network, although the Group expects its capital expenditures in 2005 and 2006 to total approximately HK$48,798 thousand and HK$52,000 thousand respectively. These capital expenditures will be primarily used for the expansion of the Group's retail network in Hong Kong. The Group expects to meet the capital expenditures through internal resources, bank financing and issuance of shares.

The Group may adjust the amount of its capital expenditures upward or downward based on cash flow from operations, the progress of expansion, and market conditions. There can be no assurances that it will be able to raise additional capital should it become necessary on terms acceptable to the Group or at all. The sale of additional equity or equity-linked securities may result in additional dilution to the Company's shareholders.

Investments in jointly controlled entities

During the year ended 29 February 2004, the Group entered into a corporate partnership, one with French Connection and a joint venture with Glorious Sun Trading (Hong Kong) Limited. For the *FCUK* corporate partnership, the Group injected HK$8,000 thousand capital during the year ended 29 February 2004. With respect to the joint venture GSIT, the Group contributed HK$30,000 thousand of amounts due in the year ended 29 February 2004. The net balance of investments in jointly controlled entities of HK$33,503 thousand as of 29 February 2004 was the net amount after sharing the losses of all the jointly controlled entities from commencement up to 29 February 2004 and provision for doubtful debts.

Since GSIT was loss making for the year ended 29 February 2004, the net asset value shared by the Group was less than that of the amount due from GSIT to the Group. Therefore the Group made a provision of HK$9,012 thousand for doubtful debt related thereto.

Trade receivables

As the Group expanded in the year ended 29 February 2004, the amount of trade receivables had increased significantly. As at 28 February 2003, the Group had receivables of HK$2,737 thousand, which increased to HK$8,622 thousand as at 29 February 2004 and HK$4,320 thousand as at 31 August 2004.

Market risks

Interest rate risks

The Group is exposed to substantial interest rate risk on its existing floating-rate debt. Upward fluctuations in interest rates increase the cost of existing floating-rate debt and new debt. The interest rates for the Group's short-term borrowings denominated in Hong Kong dollars as at 31 August 2004 were from prime plus 0.3% to prime plus 3% and HIBOR plus 1% to 3.5% per annum, respectively. As at 31 August 2004, the Group's existing Hong Kong dollar long-term credit facilities bore an interest rate of prime plus 3% and HIBOR plus 2.5% per annum.

Foreign currency exchange risks

The Group's exposure to financial market risks relates primarily to foreign currency exchange rate fluctuations. To mitigate this risk, the Group uses derivative financial instruments, the application of which is for hedging and not for speculative purposes. The Group enters into these contracts only to hedge against currency exchange fluctuations with regard to contractual commitments it has made to purchase apparel from international designers. It does not enter into any other derivative contracts.

As at 31 August 2004, the Group had commitments to buy Japanese Yen and Euros at various rates totalling HK$28,044 thousand (approximately 17.5% of cost of sales). For the year ended 28 February 2002, net exchange gains were HK$2,012 thousand. For the year ended 28 February 2003, net exchange losses were HK$111 thousand. For the year ended 29 February 2004, net exchange gains were HK$363 thousand. For the six months ended 31 August 2004, net exchange gains were HK$1,433 thousand.

Currently, most of the Group's sales are made to customers in Hong Kong and are denominated in HK dollars, while a portion of its costs of sales, including product costs, have been denominated in Euros and Japanese Yen. The value of the HK dollar is pegged to the US dollar, and therefore there are currently no material changes between the HK dollar and the US dollar to generate any significant impact on the Group's foreign exchange gain or loss. Fluctuations in exchange rates among the HK dollar, Euros and Japanese Yen, however, have affected the Group's costs, although Japanese Yen made up only 7.6% of the Group's accounts payable as at 31 August 2004. Euros accounted for 26.5% of the Group's accounts payable as at 31 August 2004.

Off-balance sheet transactions

The Group has no off balance sheet transactions.

Financial ratios

	For the year ended 28 February 2002	For the year ended 28 February 2003	For the year ended 29 February 2004	For the six months ended 31 August 2003	For the six months ended 31 August 2004
Current ratio[1]	1.8	1.3	1.9	1.5	1.9
Quick ratio[2]	0.9	0.9	1.1	1.0	1.0
Inventory turnover days[3] . . .	61.5	62.4	66.7	80.1	95.2
Debtor turnover days[4]	1.5	1.4	3.9	3.8	1.9
Creditor turnover days[5]. . . .	32.8	35.2	27.6	54.8	44.3
Gearing ratio[6] (%)	28.8	26.2	17.1	25.3	24.7

1. Current ratio is calculated based on the total current assets divided by the total current liabilities at the end of the period/year. The numbers in the table above reflect this ratio and these numbers are not expressed as a percentage.

2. Quick ratio is calculated based on the difference between the total current assets and the inventories divided by the total current liabilities at the end of the period/year. The numbers in the table above reflect this ratio and these numbers are not expressed as a percentage.

3. Inventory turnover days is calculated based on the average inventory during the period/year divided by cost of sales during the period/year times the number of days during the period/year.

4. Debtor turnover days is calculated based on accounts receivable at the end of the period/year divided by turnover during the period/year times the number of days during the period/year.

5. Creditor turnover days is calculated based on accounts and bills payable at the end of the period/year divided by cost of sales during the period/year times the number of days during the period/year.

6. Gearing ratio is calculated based on the total debt divided by the total assets at the end of the period/year. Total debt refers to the total liabilities less accounts and bills payable, accruals and other payables, taxation payable, dividend payable and deferred taxation at the end of the period/year.

Over the Track Record Period, the Group's current ratio fluctuated partly in response to varying levels of interest payable on its convertible notes (such interest being considered a current liability for accounting purposes). The slight fluctuations in the Group's quick ratio were also partly due to varying amounts of interest payable on the Group's convertible notes which in turn affected the total amount of the Group's current liabilities. The Group's inventory turnover days remained relatively stable in each of the three years ended 29 February 2004. Inventory turnover days were higher for the six month periods ending 31 August 2003 and 2004 than for each of the three years ended 29 February 2004, which mainly reflects increases in stock levels in preparation for its peak season of Christmas and Chinese new year, which is consistent with the seasonality of the Group's business. However, the Group's inventory turnover days for the six months ended 31 August 2004 increased when compared to the same period in 2003 as more inventory was manufactured in anticipation of the opening of new stores in the second half of the year ending 28 February 2005. The Group's debtor turnover days remained relatively stable throughout most of the Track Record Period. The last two business days for the six months period ended 31 August 2003 and for the year ended 29 February 2004 were a Saturday and a Sunday. Sales on Saturdays and Sundays are frequently twice that of a normal weekday and therefore the debtor turnover days were longer for the six month period ended 31 August 2003 and for the year ended 29 February 2004. The Group's creditor turnover days remained relatively stable as at the end of each year-end period throughout the Track Record Period, but were longer as at the middle of the year. Sales results are usually better in the second half of the year than in the first half; therefore the Group usually pays short term trade financing from banks more quickly in the second half of the year, which makes the accounts payable balance lower by the end of the year. The Group's gearing ratio decreased as at 28 February 2003 and 29 February 2004 when compared to that as at 28 February 2002 due to an improvement in the Group's results. The gearing ratio was higher in the six month period ended 31 August 2004 compared to the six month period ended 31 August 2003 because the Group obtained a new long term bank loan to fund the expansion of its retail network in the year ending 28 February 2005.

PROPERTY INTERESTS

The property interests of the Group, as valued by American Appraisal China Limited, had no commercial value as at 30 November 2004. The text of the letter prepared by American Appraisal China Limited, the summary of valuations and the valuation certificates of the property interests leased by the Group, are set out in Appendix IV to this prospectus.

PROFIT FORECAST

The Directors forecast that, in the absence of unforeseeable circumstances and on the bases and assumptions set out in Appendix III, the forecast of the Group's combined profit after tax and minority interests but before extraordinary items for the year ending 28 February 2005 will not be less than HK$106,000 thousand.

On the basis of the abovementioned combined profit forecast and on the assumption that the weighted average number of 703,245,000 Shares were in issue during the year ending 28 February 2005 (without taking into any account any Shares which may be issued pursuant to the Over-allotment Option or any options which have been granted or may be granted under the Pre-IPO Share Options and/or Share Option Scheme), the forecast earnings per Share on a weighted average basis will be HK$0.151 for the year ending 28 February 2005.

The forecast of the combined profit after taxation and minority interests but before extraordinary items of the Group for the year ending 28 February 2005 prepared by the Directors is based on the audited accounts of the Group for the six months ended 31 August 2004, unaudited management accounts of the Group for the four months ended 31 December 2004 and a forecast of the results of the Group for the remaining two months ending 28 February 2005. The Directors are not aware of any extraordinary items which have arisen or are likely to arise during the year ending 28 February 2005. The forecast has been prepared on the basis of the accounting policies consistent in all material aspects with those currently adopted by the Group as summarised in the Accountants' Report, the text of which is set out in Appendix I to this prospectus and is based on the following principal assumptions:

(a) there will be no material changes in existing government policies or political, legal (including changes in legislation or regulations or rules), fiscal, market or economic conditions in any of the countries, regions or industries in which the Group operates, where the Group's customers carry out business, to where the Group exports its products or from which it imports its raw materials;

(b) there will be no significant fluctuations in currency exchange rates, interest rates and tariffs and duties in the respective countries in which the Group operates;

(c) there will be no material changes in the bases or rates of taxation applicable to the Group in the respective jurisdictions in which they operate;

(d) the Group is not materially and adversely affected by any of the risk factors set out in the section headed "Risk factors" in this prospectus; and

(e) the Group's operation and business will not be severely interrupted by any force majeure events or unforeseeable factors or any unforeseeable reasons that are beyond the control of the Directors, including but not limited to the occurrence of natural disasters or catastrophes (such as floods and typhoons), epidemics or serious accidents.

The texts of the letters from the Company's reporting accountants, PricewaterhouseCoopers, and from the Sponsor, CLSA, in respect of the profit forecast, are set out in Appendix III to this prospectus.

DIVIDEND AND DISTRIBUTABLE RESERVES

Dividend

Dividends of HK$20,000 thousand were declared in each of the years ended 28 February 2002, 28 February 2003 and 29 February 2004. The dividends declared during the Track Record Period did not result in any direct cash outflow as such dividends actually consisted of offsetting amounts already due by the related companies and directors to the Group. The Group declared a further dividend of HK$190,000 thousand on 4 February 2005 financed in part through an approximately HK$68,192 thousand portion of a HK$100,000 thousand external bank loan and in part from an offset in the sum of approximately HK$121,808 thousand due from related companies, directors and related parties on 17 February 2005. This dividend was declared for the year ending 28 February 2005 and has already been distributed, and therefore will not be paid to new investors participating in the Offering. The following table provides a more detailed presentation illustrating the components of the payment of the HK$190,000 thousand dividend:

	HK$'000
Dividend (declared for the year ended 28 February 2005)	190,000
Less: Balance of money owed the Company as at 31 January 2005 comprising	
— Balance of money owed the Company as at 31 August 2004	98,187
— Further advances from the Company from 1 September 2004 to 31 January 2005	33,621
— Offset by dividend declared for the year ended 29 February 2004	(10,000)
	121,808
Dividend settled in cash in February 2005	68,192

Whilst the total value of the aforementioned dividends exceeds the Group's net profit earned over the Track Record Period, it does not exceed the total value of retained profit and net profit that the Group had during the same period. Such dividends were declared having due regard to, amongst other factors, the Group's retained profits, business prospects and shareholders' needs. Future declarations of dividends will be subject to the discretion of the Directors, depending on the Group's profitability, financial conditions, cash requirements and availability and other relevant factors. The Company's ability to pay dividends will also depend on the amount of distributions, if any, received by the Company from its principal operating subsidiaries.

Taking the above into consideration, the Company intends to recommend annually in the foreseeable future the distribution to all its shareholders of approximately 40% to 50% of the Group's distributable annual profit as dividend. The amount of dividend actually distributed to the Company's shareholders will depend upon the Group's earnings and financial condition, operating requirements and capital requirements and in the case of final dividend, the approval of the Company's shareholders.

Distributable Reserves

The Company was incorporated on 18 October 2004. There were no reserves available for distribution to the shareholders of the Company as at 31 August 2004.

WORKING CAPITAL

The Directors are of the opinion that the working capital available to the Group is sufficient for the Group's present requirements, that is for at least the next 12 months from the date of this prospectus.

ADJUSTED NET TANGIBLE ASSETS

The following statement of unaudited pro forma combined net tangible assets of the Group is based on the audited combined net tangible assets of the Group as at 31 August 2004, as shown in the Accountants' Report, the text of which is set out in Appendix I to this prospectus and adjusted as described below:

	Audited combined net tangible assets of the Group as at 31 August 2004	Estimated net proceeds from the Offering (Note 1)	Unaudited pro forma net tangible assets (Note 2)	Unaudited pro forma net tangible assets per Share (Notes 2, 3)
	HK$'000	HK$'000	HK$'000	HK$
Based on an Offer Price of HK$1.75 per Share	224,448	408,133	632,581	0.63
Based on an Offer Price of HK$1.95 per Share	224,448	456,877	681,325	0.68

Notes:

1. The estimated net proceeds from the Offering are based on the Offer Price of HK$1.75/HK$1.95 per Share, after deduction of the underwriting fees and other related expenses paid or payable by the Company. No account has been taken of the Shares which may fall to be issued upon the exercise of the Over-allotment Option or any options which have been granted or may be granted under the Pre-IPO Share Options and/or Share Option Scheme.

2. Subsequent to 31 August 2004, on 4 February 2005 a subsidiary of the Company declared a dividend of HK$190,000 thousand for the year ending 28 February 2005. Such a dividend has not been adjusted in the unaudited pro forma net tangible assets and unaudited pro forma net tangible assets per Share.

3. The unaudited pro forma net tangible assets per Share is arrived at after the adjustments referred to in Note 1 above, and on the basis that a total of 1,000,000,000 Shares are in issue after the Capitalisation Issue and the Offering on 31 August 2004 but takes no account that the Shares issued pursuant to the conversion of the convertible note were not outstanding for the full year, any Shares which may be issued upon the exercise of the Over-allotment Option or any options which have been granted or may be granted under the Pre-IPO Share Options and/or Share Option Scheme.