CONSOLIDATED INCOME STATEMENT

For the year ended 28 February 2006

	Note	2006 HK$'000	2005 HK$'000 As restated
Sales	5	**1,314,443**	1,041,017
Cost of sales		**(540,243)**	(406,546)
Gross profit		**774,200**	634,471
Other gains, net	6	**16,384**	3,407
Operating expenses		**(642,553)**	(488,597)
Operating profit		**148,031**	149,281
Finance costs	10	**(1,665)**	(3,797)
Share of profit/(loss) of jointly controlled entities		**4,237**	(8,863)
Profit before taxation		**150,603**	136,621
Income tax expense	11	**(28,289)**	(25,181)
Profit for the year, attributable to the equity holders of the Company	12	**122,314**	111,440
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in HK$ per share)			
– basic	13	**HK$0.12**	HK$0.16
– diluted	13	**HK$0.12**	HK$0.15
Dividends	14	**49,867**	234,612

The notes are an integral part of these financial statements.

BALANCE SHEETS

As at 28 February 2006

	Note	Consolidated 2006 HK$'000	Consolidated 2005 HK$'000 As restated	Company 2006 HK$'000	Company 2005 HK$'000 As restated
ASSETS					
Non-current assets					
Furniture and equipment	15	**97,237**	62,043	**–**	–
Intangible assets	16	**19,169**	–	**–**	–
Investments in and due from subsidiaries	17	**–**	–	**522,050**	183,173
Investments in and due from jointly controlled entities	18	**51,699**	62,150	**–**	–
Rental deposits	19	**43,418**	40,858	**–**	–
Deferred income tax assets	28	**576**	2,642	**–**	–
Other asset		**1,080**	–	**–**	–
		213,179	167,693	**522,050**	183,173
Current assets					
Inventories	20	**147,398**	101,194	**–**	–
Trade receivables	21	**6,638**	9,840	**–**	–
Due from a jointly controlled entity	18	**44,557**	–	**–**	–
Prepayments, deposits and other receivables	22	**45,702**	29,304	**538**	3,669
Pledged bank deposits	23 & 32	**750**	17,750	**–**	–
Cash and cash equivalents	23	**424,881**	561,983	**214,184**	463,835
		669,926	720,071	**214,722**	467,504
LIABILITIES					
Current liabilities					
Borrowings	24	**–**	(130,461)	**–**	–
Trade and bills payables	25	**(48,151)**	(40,873)	**–**	–
Accruals and other payables	26	**(62,739)**	(55,396)	**(38)**	(2,119)
Derivative financial instruments	27	**(2,430)**	–	**–**	–
Current income tax liabilities		**(9,900)**	(9,358)	**–**	–
		(123,220)	(236,088)	**(38)**	(2,119)
Net current assets		**546,706**	483,983	**214,684**	465,385
Total assets less current liabilities		**759,885**	651,676	**736,734**	648,558
Non-current liabilities					
Borrowings	24	**–**	(51,640)	**–**	–
Other payables	26	**(10,388)**	–	**–**	–
Due to subsidiaries		**–**	–	**–**	(8,508)
Deferred income tax liabilities	28	**(2,231)**	(925)	**–**	–
		(12,619)	(52,565)	**–**	(8,508)
Net assets		**747,266**	599,111	**736,734**	640,050
EQUITY					
Capital and reserves attributable to the Company's equity holders					
Share capital	29	**103,890**	100,000	**103,890**	100,000
Reserves	30	**643,376**	499,111	**632,844**	540,050
Total equity		**747,266**	599,111	**736,734**	640,050

SHAM KAR WAI
Chairman

LO WING YAN, WILLIAM
Vice Chairman

The notes are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 28 February 2006

		Attributable to equity holders of the Company		
		Share capital	**Reserves**	**Total**
	Note	HK$'000	HK$'000	HK$'000
Balance at 1 March 2004		8	191,520	191,528
Profit for the year	30	–	111,440	111,440
Issue of shares upon conversion of convertible note	30	16	31,179	31,195
Issue of shares of a subsidiary prior to the Reorganisation		132	–	132
Effect of the Reorganisation	2.1	44	(44)	–
Capitalisation of share premium account	29 & 30	74,800	(74,800)	–
Issue of shares for cash	29 & 30	25,000	462,500	487,500
Share issue costs	30	–	(33,977)	(33,977)
Share option schemes				
– value of employment services	30	–	1,293	1,293
Dividend of a subsidiary prior to the Reorganisation		–	(190,000)	(190,000)
Balance at 28 February 2005		100,000	499,111	599,111
Balance at 1 March 2005		100,000	499,111	599,111
Opening adjustment for the adoption of HKAS 39	2.2	–	(13,145)	(13,145)
Balance at 1 March 2005, after opening adjustment		100,000	485,966	585,966
Net expense recognised directly in equity				
– cash flow hedges	30	–	(1,735)	(1,735)
Profit for the year		–	122,314	122,314
Total recognised income for the year		–	120,579	120,579
Proceeds from issue of shares in connection with the Listing	29 & 30	3,750	69,375	73,125
Proceeds from issue of shares under a share option scheme exercised	29	140	–	140
Share issue costs	30	–	(1,836)	(1,836)
Share option schemes				
– value of employment services	30	–	13,904	13,904
Dividend		–	(44,612)	(44,612)
		3,890	36,831	40,721
Balance at 28 February 2006		103,890	643,376	747,266

The notes are an integral part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 28 February 2006

	Note	2006 HK$'000	2005 HK$'000
Cash flows from operating activities			
Cash generated from operations	31(a)	**162,628**	168,454
Interest paid		**(969)**	(3,797)
Income tax paid		**(24,400)**	(25,450)
Income tax refunded		**25**	956
Net cash generated from operating activities		**137,284**	140,163
Cash flows from investing activities			
Purchase of furniture and equipment		**(77,134)**	(60,540)
Purchase of intangible assets		**(29,524)**	–
Proceeds from disposal of furniture and equipment	31(b)	**–**	17
Net cash inflow in respect of acquisition of a subsidiary		**–**	2,361
Investments in a jointly controlled entity		**(4,000)**	(8,000)
Increase in amounts due from jointly controlled entities		**(37,473)**	(33,993)
Increase in amounts due from directors		**–**	(9,785)
Decrease in amounts due from related parties		**–**	40
Increase in amounts due from related companies		**–**	(52,743)
Interest received		**14,059**	38
Net cash used in investing activities		**(134,072)**	(162,605)
Cash flows from financing activities			
Proceeds from issue of shares		**73,265**	487,500
Share issue costs		**(3,866)**	(31,947)
Proceeds from long-term bank borrowings		**–**	150,000
Repayments of long-term bank borrowings		**(145,000)**	(26,000)
Net (decrease)/increase in trust receipts import bank loans		**(37,075)**	36,632
Dividends paid		**(44,612)**	(68,192)
Decrease/(Increase) in pledged bank deposits		**17,000**	(17,000)
Net cash (used in)/generated from financing activities		**(140,288)**	530,993
Net (decrease)/increase in cash and cash equivalents		**(137,076)**	508,551
Cash and cash equivalents, beginning of the year		**561,957**	53,406
Cash and cash equivalents, end of the year	31(c)	**424,881**	561,957

The notes are an integral part of these financial statements.

1 GENERAL INFORMATION

I.T Limited ("the Company") is an investment holding company and its subsidiaries (together with the Company are collectively referred to as "the Group") are principally engaged in the sales of fashion wears and accessories.

The Company was incorporated in Bermuda on 18 October 2004 as an exempted company with limited liability under the Companies Act 1981 of Bermuda. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.

The Company has its listing on The Stock Exchange of Hong Kong Limited ("the Stock Exchange").

These financial statements are presented in Hong Kong dollars ("HK$"), unless otherwise stated.

These financial statements have been approved for issue by the Board of Directors on 29 May 2006.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 BASIS OF PRESENTATION

On 5 February 2005, the Company acquired the entire issued share capital of ithk holdings limited, a company incorporated in the British Virgin Islands, through a share exchange ("the Reorganisation") and consequently became the holding company of the subsidiaries as set out in Note 17, except for Amwell Development Limited, which was incorporated subsequent to the Reorganisation. The Reorganisation involved companies under common control, and the Company and its subsidiaries resulting from the Reorganisation are regarded as a continuing group. Accordingly, the Reorganisation has been accounted for on the basis of merger accounting, under which the consolidated financial statements have been prepared as if the Company had been the holding company of the other companies comprising the Group throughout the year ended 28 February 2005, rather than from the date on which the Reorganisation was completed.

2.2 BASIS OF PREPARATION

The financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The financial statements have been prepared under the historical cost convention, as modified by financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Although these estimates are based on management's best knowledge of events and actions, actual results ultimately may differ from those estimates.

The adoption of new/revised HKFRS

For the year ended 28 February 2006, the Group adopted the new/revised standards of HKFRS below, which are relevant to its operations. The 2005 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	Interests in Joint Ventures
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 (Amendment)	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKAS-Int 15	Operating Leases–Incentives
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 BASIS OF PREPARATION (continued)

The adoption of new/revised HKFRS (continued)

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 16, 17, 21, 23, 24, 27, 31, 33, 36, 38 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, 38 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, 39 and 39 (Amendment) has resulted in a change in the accounting policy relating to the recognition, measurement and classification of financial instruments. 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.

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 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 2005 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:

	2006 **HK$'000**	2005 HK$'000
Increase in share-based compensation reserves	**15,197**	1,293
Decrease in retained profits	**15,197**	1,293
Increase in employment costs	**13,904**	1,293
Decrease in basic earnings per share (expressed in HK$)	**0.013**	0.002
Decrease in diluted earnings per share (expressed in HK$)	**0.013**	0.002

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 BASIS OF PREPARATION (continued)

The adoption of new/revised HKFRS (continued)

(ii) The adoption of HKASs 39 and 39 (Amendment) 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 consolidated balance sheet as at 28 February 2006 are as follows:

	2006 HK$'000
Decrease in rental deposits	3,824
Increase in prepayments	3,776
Decrease in amounts due from jointly controlled entities	11,604
Increase in inventories	422
Increase in derivative financial instruments liabilities	2,430
Decrease in other payables	1,070
Decrease in retained profits	10,855
Increase in hedging reserve	1,735

Standards, interpretations and amendments to published standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 March 2006 or later periods as described below, as follows:

New/revised HKFRS	Effective date	Description
HKAS 1 (Amendment)	1 March 2007	Capital Disclosure
HKAS 19 (Amendment)	1 March 2006	Actuarial gains and losses, group plans and disclosures
HKAS 21 (Amendment)	1 March 2006	Net investment in a foreign operation
HKAS 39 & HKFRS 4 (Amendments)	1 March 2006	Financial guarantee contracts
HKAS 39 (Amendment)	1 March 2006	Cash flow hedge accounting of forecast intragroup transactions
HKAS 39 (Amendment)	1 March 2006	The fair value option
HKFRS 6	1 March 2006	Exploration for and Evaluation of Mineral Resources
HKFRS 7	1 March 2007	Financial instruments: Disclosures
HKFRS-Int 4	1 March 2006	Determining whether an arrangement contains a lease
HKFRS-Int 5	1 March 2006	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds
HK(IFRIC)-Int 6	1 March 2006	Liabilities arising from participating in a specific market – waste electrical and electronic equipment
HK(IFRIC)-Int 7	1 March 2006	Applying the restatement approach under HKAS 29 financial reporting in hyperinflationary economies

The Group has not early adopted these new/revised HKFRSs. The Group has started considering the potential impact of these HKFRSs. Based on preliminary assessment, the Group believes that the following new/revised HKFRSs are relevant to the Group's operation:

- HKAS 39 (Amendment), The Fair Value Option (effective from 1 March 2006) – This amendment changes the definition of financial instruments classified at fair value through profit or loss and restricts the ability to designate financial instruments as part of this category. The Group believes that this amendment should not have a significant impact on the classification of financial instruments, as the Group should be able to comply with the amended criteria for the designation of financial instruments at fair value through profit or loss. The Group will apply this amendment from 1 March 2006.

- HKAS 39 and HKFRS 4 (Amendments), Financial Guarantee Contracts (effective from 1 March 2006) – This amendment requires issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, to be initially recognised at their fair value, and subsequently measured at the higher of (a) the unamortised balance of the related fees received and deferred, and (b) the expenditure required to settle the commitment at the balance sheet date. There is no financial guarantee contract issued at group level. For guarantees provided by the Company for banking facilities granted to subsidiaries, the Company shall adopt this amendment from 1 March 2006. The Group believes that adoption of this amendment should have no significant impact to the Company's financial statements.

- HKAS 1, Presentation of Financial Statements – Capital Disclosures (effective from 1 March 2007) – The amendment to HKAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Group assessed the impact of amendment to HKAS 1 and considered that the main additional disclosures will be the capital disclosures required by the amendment of HKAS 1. The Group will apply the amendment to HKAS 1 from 1 March 2007.

- HKFRS-Int 4, Determining whether an Arrangement contains a Lease (effective from 1 March 2006) – HKFRS-Int 4 requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement. It requires an assessment of whether: (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets ("the asset"); and (b) the arrangement conveys a right to use the asset. Management is currently assessing the impact of HKFRS-Int 4 on the Group's operations.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 CONSOLIDATION

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 28 February.

(a) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of an impairment of the asset transferred.

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

(b) Jointly controlled entities

A jointly controlled entity is a joint venture that involves the establishment of a corporation, partnership or other entity in which each venturer has an interest. The entity operates in the same way as other entities, except that a contractual arrangement between the venturers establishes joint control over the economic activity of the entity.

Investments in jointly controlled entities are accounted for by the equity method of accounting and are initially recognised at cost. The Group's share of its jointly controlled entities' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investments. When the Group's share of losses in a jointly controlled entity equals or exceeds its interest in the jointly controlled entity, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the jointly controlled entity.

Unrealised gains on transactions between the Group and its jointly controlled entities are eliminated to the extent of the Group's interests in the jointly controlled entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

2.4 SEGMENT REPORTING

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

2.5 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 dollar ("HK$"), 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 FURNITURE AND EQUIPMENT

Furniture and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the period in which they are incurred.

Depreciation of furniture and equipment is calculated using the straight-line method to allocate cost to their residual values over their estimated useful lives, as follows:

Leasehold improvements	4 years or over the unexpired period of the lease, whichever is shorter
Furniture and equipment	4 years

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.8).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

2.7 INTANGIBLE ASSETS

Intangible assets represent licence right, which is stated at historical cost less accumulated amortisation and accumulated impairment losses, if any. Historical cost comprises the capitalised present values of the fixed minimum periodic payments to be made in subsequent years in respect of the acquisition of the licence right.

Licence right is amortised over the licence period on a basis that reflects the pattern in which the licence's future economic benefits are expected to be consumed by the Group.

2.8 IMPAIRMENT OF NON-FINANCIAL ASSETS

Assets that are subject to depreciation or 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). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.9 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 are included in current assets, except for maturities greater than 12 months and in this case they 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, if any. 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 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 value. 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 a particular risk associated with a recognised asset or liability or a 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.

(i) Cash flow hedges

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 within "other gains/losses".

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). The gain or loss relating to the effective portion of forward foreign exchange contracts hedging import purchases is recognised in the income statement within "cost of sales". 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 within "other gains/losses".

2.11 INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method of costing and comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Costs of inventories include the transfer from equity of any gains/losses on qualifying cash flow hedges relating to purchases of inventories.

2.12 TRADE AND OTHER RECEIVABLES

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment, if any. A provision for impairment of trade and other receivables 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 receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that receivables are impaired. 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 within operating expenses.

2.13 LICENCE FEE PAYABLE

Licence fee payable in respect of the acquisition of licence right is initially recognised at fair value, which represents the present values of the fixed minimum periodic payments to be made in subsequent years. It is subsequently stated at amortised cost using the effective interest method less amounts paid. Changes in estimates of the expected cash flows are recognised in the income statement. The revised expected cash flows are discounted using the original effective interest rate to arrive at the carrying amount of the liability.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14 SHARE CAPITAL

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any Group company purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

2.15 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.

2.16 CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

2.17 DEFERRED INCOME TAX

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and jointly controlled entities, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.18 EMPLOYEE BENEFITS

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date. Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Pension obligations

The Group has a defined contribution plan. The Group pays contributions to trustee-administered pension fund on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employment costs when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(iii) Bonus plans

The Group recognises a liability and an expense for bonuses. It recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 EMPLOYEE BENEFITS (continued)

(iv) 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 with a corresponding adjustment to equity.

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.

2.19 PROVISIONS

Provisions for environmental restoration, restructuring costs and legal claims are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.20 REVENUE RECOGNITION

Revenue comprises the fair value of the consideration received or receivable for the sale of goods. Revenue is shown, net of value-added tax, returns, rebates and discounts. Revenue is recognised as follows:

(a) Sales of goods

Sales of goods are recognised when the Group entity has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

Retail sales are usually paid in cash or by credit/debit cards. The recorded revenue is the gross amount of sale, including credit card fees payable for the transaction. Such fees are included in operating expenses.

(b) Royalty income

Royalty income is recognised on an accruals basis in accordance with the substance of the relevant agreements.

(c) 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.

Sales of coupons is deferred and recognised as income upon utilisation of the related coupons.

2.21 OPERATING LEASES (AS THE LESSEE)

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed in the income statement on a straight-line basis over the period of the lease.

2.22 DIVIDEND DISTRIBUTION

Dividend distribution to the Company's shareholders is recognised as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholders.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.23 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

The Group does not recognise liabilities for financial guarantees at inception, but perform a liability adequacy test at each balance sheet date by comparing its net liability regarding the financial guarantee with the amount that would be required if the financial guarantee would result in a present legal or constructive obligation. If the liability is less than its present legal or constructive obligation amount, the entire difference is recognised in the income statement immediately. As at 28 February 2006, no additional liability is recognised for outstanding financial guarantees.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group. Contingent assets are not recognised but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

3 FINANCIAL RISK MANAGEMENT

3.1 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.

Management regularly monitors the financial risks of the Group and uses derivative financial instruments to hedge certain foreign exchange risk exposures. Because of the simplicity of the financial structure and the current operations of the Group, no other hedging activities are undertaken by management.

(a) Foreign exchange risk

The Group is exposed to foreign exchange risk arising from the exposure of various currency against Hong Kong dollar. 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 and recognised liabilities, entities in the Group use forward currency exchange contracts, transacted with external financial institutions. Foreign exchange risk arises when future commercial transactions or recognised liabilities are denominated in a currency that is not the entity's functional currency.

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 season. 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.

(b) Credit risk

The Group has no significant concentrations of credit risk. Retail sales are usually paid in cash or by 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.

(c) Liquidity risk

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

(d) 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.

3 FINANCIAL RISK MANAGEMENT (continued)

3.2 FAIR VALUE ESTIMATION

The fair values of forward currency contracts are determined using quoted forward exchange rates at the balance sheet date.

The nominal value less impairment provision of trade receivables and payables 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 JUDGEMENTS

Estimates and judgements 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 and residual values of furniture and equipment

The Group's management determines the estimated useful lives, residual values 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 any future management determination of shop relocation or renovation. Management will increase the depreciation charge where useful lives are less than previously estimated lives. Actual economic lives may differ from estimated useful lives; actual residual values may differ from estimated residual values. Periodic review could result in a change in depreciable lives and residual values and therefore depreciation expense in the future periods.

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

Net realisable value of inventories is the estimated selling prices in the ordinary course of business, less estimated selling expenses. These estimates are based on the current market condition and the historical experience of selling products of similar nature. It could change significantly as a result of change in customer taste and competitor actions in response to severe industry cycle. Management reassesses these estimates at each balance sheet date.

(c) Impairment of non-financial assets

Non-financial assets, including furniture and equipment and intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts have been determined based on value-in-use calculation or market valuations. These calculations require use of judgements and estimates.

(d) Deferred taxation

Deferred income tax assets relating to certain temporary differences and tax losses are recognised as management considers it is likely that future taxable profits will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimates, such differences will impact the recognition of deferred income tax assets and income tax charges in the period in which such estimates have been 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. 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 SEGMENT INFORMATION

(a) Analysis of sales by category:

	2006 HK$'000	2005 HK$'000
Sales of fashion wears and accessories	**1,310,600**	1,039,926
Royalty income	**3,843**	–
Consultancy fees	**–**	1,091
	1,314,443	1,041,017

(b) Segment information

No segment analysis for business segment is presented as the Group principally operates 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 OTHER GAINS, NET

	2006 HK$'000	2005 HK$'000
Interest income		
– bank deposits	**14,059**	3,407
– loans and receivables	**2,598**	–
Derivative financial instruments: forward currency contracts, transactions not qualifying as hedge and ineffective portion of changes in fair values	**(273)**	–
	16,384	3,407

7 EXPENSES BY NATURE

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

	2006 HK$'000	2005 HK$'000
Charging		
Cost of inventories sold	**532,802**	396,342
Write-downs of inventories to net realisable value	**3,177**	7,697
Employment costs (including directors' emoluments) (Note 8)	**231,130**	171,820
Operating lease rentals of premises		
– minimum lease payments	**223,550**	165,605
– contingent rents	**13,670**	13,435
Advertising and promotion costs	**9,853**	10,959
Depreciation of furniture and equipment	**41,452**	31,520
Loss on disposal of furniture and equipment	**488**	–
Licence fee		
– amortisation of licence right	**10,355**	–
– contingent licence fee	**5,387**	7,144
Auditors' remuneration	**1,160**	815
Crediting		
Net exchange gains	**4,643**	4,398
Gain on disposal of furniture and equipment	**–**	3

8 EMPLOYMENT COSTS, INCLUDING DIRECTORS' EMOLUMENTS

	2006 HK$'000	2005 HK$'000
Salaries, commission and allowances	**207,758**	163,348
Bonuses	**–**	2,041
Pension costs – employer's contributions to a defined contribution plan and provision for long-service payments	**9,090**	4,856
Share option costs	**13,904**	1,293
Staff welfare and benefits	**378**	282
	231,130	171,820

(a) Pension – defined contribution plan

The Group has arranged for its employees to join the Hong Kong Mandatory Provident Fund Scheme ("the MPF Scheme"), a defined contribution scheme managed by an independent trustee. Under the MPF Scheme, each of the Group and its employees make monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation. Both the employer's and the employees' contributions are subject to a cap of HK$1,000 per month and thereafter contributions are voluntary.

During the year ended 28 February 2006, the amount of the Group's employer contributions to the MPF Scheme was approximately HK$9,090,000 (2005: HK$6,779,000).

9 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The remuneration of every Director of the Company for the year ended 28 February 2006 is set out below:

Name of Director	Fees HK$'000	Salaries HK$'000	Other benefits (i) HK$'000	Employer's contribution to pension scheme HK$'000	Total HK$'000
Mr. Sham Kar Wai	–	4,355	960	12	5,327
Mr. Sham Kin Wai	–	3,187	530	12	3,729
Mr. Chan Wai Mo, Alva	67	880	1,465	12	2,424
Dr. Yeung Chun Kam, Charles	67	–	–	–	67
Mr. Chan Mo Po, Paul	67	–	–	–	67
Dr. Lo Wing Yan, William	67	–	–	–	67
Mr. Wong Wai Ming	67	–	–	–	67
	335	8,422	2,955	36	11,748

The remuneration of every Director of the Company for the year ended 28 February 2005 is set out below:

Name of Director	Fees HK$'000	Salaries HK$'000	Other benefits (i) HK$'000	Employer's contribution to pension scheme HK$'000	Total HK$'000
Mr. Sham Kar Wai	–	4,020	960	11	4,991
Mr. Sham Kin Wai	–	3,480	–	11	3,491
Mr. Chan Wai Mo, Alva	55	–	108	–	163
Dr. Yeung Chun Kam, Charles	55	–	–	–	55
Mr. Chan Mo Po, Paul	55	–	–	–	55
Dr. Lo Wing Yan, William	55	–	–	–	55
Mr. Wong Wai Ming	55	–	–	–	55
	275	7,500	1,068	22	8,865

Note:

(i) Other benefits include housing allowance, and the amortisation to the income statement of the fair value of Pre-IPO Share Options and share options under the Share Option Scheme measured at the respective grant dates, regardless of whether the share options would be exercised or not.

None of the directors waived any emoluments during the year (2005: Nil).

9 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (continued)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2005: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2005: three) individuals are as follows:

	2006 **HK$'000**	2005 HK$'000
Salaries	**1,632**	2,295
Other benefits (i)	**1,124**	1,131
Employer's contribution to pension scheme	**51**	36
	2,807	3,462

Note:

(i) Other benefits include housing allowance and the amortisation to the income statement of the fair value of Pre-IPO Share Options and share options under the Share Option Scheme measured at the respective grant dates, regardless of whether the share options would be exercised or not.

The emoluments of the remaining two (2005: three) individuals fell within the following bands:

	2006	2005
Nil – HK$1,000,000	**–**	1
HK$1,000,001 – HK$1,500,000	**2**	2
	2	3

(c) No emolument was paid to the directors of the Company or the five highest individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

10 FINANCE COSTS

	2006 **HK$'000**	2005 HK$'000
Interest expense		
– bank borrowings wholly repayable within five years	**969**	2,547
– convertible notes	**–**	1,250
– financial liabilities	**696**	–
	1,665	3,797

11 INCOME TAX EXPENSE

The Company is exempted from taxation in Bermuda until March 2016. The Company's subsidiaries established in the British Virgin Islands are incorporated under the International Business Companies Acts of the British Virgin Islands and, accordingly, are exempted from British Virgin Islands income taxes. Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits of the Group's operations in Hong Kong.

The amount of taxation charged to the consolidated income statement represents:

	2006 **HK$'000**	2005 HK$'000
Current income tax		
– Hong Kong profits tax	**24,917**	26,172
Deferred income tax (Note 28)	**3,372**	(991)
	28,289	25,181

11 INCOME TAX EXPENSE (continued)

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the profits tax rate in Hong Kong, where the Group principally operates in, as follows:

	2006 HK$'000	2005 HK$'000
Profit before taxation	150,603	136,621
Adjustment: share of (profit)/loss of jointly controlled entities	(4,237)	8,863
	146,366	145,484
Calculated at a tax rate of 17.5% (2005: 17.5%)	25,614	25,460
Income not subject to tax	(2,843)	(596)
Expenses not deductible for tax purposes	5,518	607
Recognition of previously unrecognised tax losses	–	(290)
Tax expense	28,289	25,181

12 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of HK$55,963,000 (2005: HK$48,354,000).

13 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 year.

	2006 HK$'000	2005 HK$'000
Profit attributable to equity holders of the Company	122,314	111,440
Weighted average number of ordinary shares in issue ('000)	1,035,466	703,930
Basic earnings per share (HK$ per share)	0.12	0.16

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 notes (for the year ended 28 February 2005) and share options (for the years ended 28 February 2006 and 2005). 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 quoted market share price of the Company's shares) based on the monetary value of the subscription rights attached to the 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.

	2006 HK$'000	2005 HK$'000
Profit attributable to equity holders of the Company	122,314	111,440
Interest expense on convertible notes, net of tax	–	1,250
Profit used to determine diluted earnings per share	122,314	112,690
Weighted average number of ordinary shares in issue ('000)	1,035,466	703,930
Adjustments for		
– share options ('000)	5,362	–
– assumed conversion of convertible notes ('000)	–	47,148
Weighted average number of ordinary shares for diluted earnings per share ('000)	1,040,828	751,078
Diluted earnings per share (HK$ per share)	0.12	0.15

14 DIVIDENDS

	2006 HK$'000	2005 HK$'000
Interim, paid	–	190,000
Final, proposed, of HK4.8 cents (2005: HK4.3 cents) per ordinary share	49,867	44,612
	49,867	234,612

During the year ended 28 February 2005, dividend of HK$190,000,000 represented dividend paid by ithk holdings limited, a wholly owned subsidiary, out of its retained profits to its then shareholders before the Reorganisation (see Note 2.1). Approximately HK$121,808,000 of such dividends was settled by offsetting amounts due from a director of ithk holdings limited and certain related parties at the instructions of the relevant shareholders.

A dividend in respect of the year ended 28 February 2006 of HK4.8 cents per share, amounting to a total dividend of HK$49,867,000 is to be proposed for approval at the upcoming Annual General Meeting in July 2006. These financial statements do not reflect this dividend payable.

15 FURNITURE AND EQUIPMENT

	Leasehold improvements HK$'000	Furniture and equipment HK$'000	Total HK$'000
At 1 March 2004			
Cost	76,133	13,981	90,114
Accumulated depreciation	(49,053)	(8,324)	(57,377)
Net book amount	27,080	5,657	32,737
Year ended 28 February 2005			
Opening net book amount	27,080	5,657	32,737
Additions	55,721	4,819	60,540
Acquisition of a subsidiary	268	32	300
Disposals	(2)	(12)	(14)
Depreciation	(28,654)	(2,866)	(31,520)
Closing net book amount	54,413	7,630	62,043
At 28 February 2005			
Cost	132,120	18,816	150,936
Accumulated depreciation	(77,707)	(11,186)	(88,893)
Net book amount	54,413	7,630	62,043
Year ended 28 February 2006			
Opening net book amount	54,413	7,630	62,043
Additions	56,461	20,673	77,134
Disposals	(459)	(29)	(488)
Depreciation	(36,636)	(4,816)	(41,452)
Closing net book amount	73,779	23,458	97,237
At 28 February 2006			
Cost	178,727	38,819	217,546
Accumulated depreciation	(104,948)	(15,361)	(120,309)
Net book amount	73,779	23,458	97,237

Depreciation expense of HK$41,452,000 (2005: HK$31,520,000) has been included in operating expenses.

16 INTANGIBLE ASSETS

Intangible assets represent licence right on branded products.

	HK$'000
At 1 March 2004 and 28 February 2005	
Cost	–
Accumulated amortisation	–
Net book amount	–
Year ended 28 February 2006	
Opening net book amount	–
Additions	29,524
Amortisation	(10,355)
Closing net book amount	19,169
At 28 February 2006	
Cost	29,524
Accumulated amortisation	(10,355)
Net book amount	19,169

Amortisation of licence right of HK$10,355,000 (2005: Nil) has been included in operating expenses.

17 INVESTMENTS IN AND DUE FROM SUBSIDIARIES – COMPANY

	2006 **HK$'000**	2005 HK$'000
Unlisted investments, at cost	**136,880**	136,880
Due from subsidiaries	**385,170**	46,293
	522,050	183,173

(a) Details of the subsidiaries as at 28 February 2006 are as follows:

Name	**Place of incorporation and operations**	**Issued and fully paid capital**	**Percentage of equity interest attributable to the Group (i)**	**Principal activities**
Amwell Development Limited	Hong Kong	HK$300,000	100%	Holding leases
b+ab (bvi) limited	British Virgin Islands	US$1	100%	Investment holding
b&ab Limited	Hong Kong	HK$500,000	100%	Retail of fashion wears and accessories
Blossom Glory Limited	Hong Kong	HK$300,000	100%	Retail of fashion wears and accessories
Century Team Corporation Limited	Hong Kong	HK$2	100%	Investment holding
Cheerful Joyce Limited	Hong Kong	HK$2	100%	Holding leases
Cheersway Development Limited	Hong Kong	HK$2	100%	Holding leases
Cheerwood Limited	Hong Kong	HK$2	100%	Holding leases
Double Park Limited	Hong Kong	HK$500,000	100%	Retail of fashion wears and accessories

17 INVESTMENTS IN AND DUE FROM SUBSIDIARIES – COMPANY (continued)

Name	Place of incorporation and operations	Issued and fully paid capital	Percentage of equity interest attributable to the Group (i)	Principal activities
Elegance Source Limited	Hong Kong	HK$2	100%	Retail of fashion wears and accessories
Elegant Century Enterprises Limited	Hong Kong	HK$500,000	100%	Holding leases
Enwell Limited	Hong Kong	HK$2	100%	Holding leases
Good Praise Limited	Hong Kong	HK$2	100%	Inactive
i.t apparels Limited	Hong Kong	HK$500,000	100%	Retail and trading of fashion wears and accessories
I.T. CHINA (B.V.I.) LIMITED	British Virgin Islands	US$1	100%	Investment holding
I.T Licensing Limited (previously known as Visionage Limited)	Hong Kong	HK$1	100%	Inactive
I.T Distribution Limited (previously known as Wasin Limited)	Hong Kong	HK$2	100%	Trading of fashion wears and accessories
ithk associates limited	British Virgin Islands	US$1	100%	Investment holding
ithk investments limited	British Virgin Islands	US$1	100%	Investment holding
ithk holdings limited	British Virgin Islands	US$20,000	100%	Investment holding
ithk tm limited	British Virgin Islands	US$1	100%	Holding trademarks
Izzue Limited	Hong Kong	HK$300,000	100%	Retail of fashion wears and accessories
izzue (bvi) limited	British Virgin Islands	US$1	100%	Investment holding
Jandix Limited	Hong Kong	HK$2	100%	Retail of fashion wears and accessories
Janport Limited	Hong Kong	HK$1	100%	Holding leases
Jetchance Limited	Hong Kong	HK$2	100%	Retail of fashion wears and accessories
Joyful Fair Limited	Hong Kong	HK$2	100%	Investment holding
Kenchart Investments Limited	Hong Kong	HK$300,000	100%	Retail of fashion wears and accessories
King Chart Limited	Hong Kong	HK$10,000	100%	Retail of fashion wears and accessories
Legend Grace International Limited	Hong Kong	HK$2	100%	Retail of fashion wears and accessories
Rainbow Hope Investment Limited	Hong Kong	HK$2	100%	Holding leases
Regent Cheer Limited	Hong Kong	HK$2	100%	Holding leases
Sanjose Limited	Hong Kong	HK$2	100%	Investment holding

17 INVESTMENTS IN AND DUE FROM SUBSIDIARIES – COMPANY (continued)

Name	Place of incorporation and operations	Issued and fully paid capital	Percentage of equity interest attributable to the Group (i)	Principal activities
Sunport Holdings Limited	Hong Kong	HK$2	100%	Investment holding
Top Honour Corporation Limited	Hong Kong	HK$4,000,000	100%	Retail of fashion wears and accessories
Tower Group International (HK) Limited	Hong Kong	HK$300,000	100%	Inactive
Turbo Corporation Limited	Hong Kong	HK$2	100%	Holding leases

Note:–

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

(b) Due from subsidiaries

The amounts due from subsidiaries are unsecured, non-interest bearing and without pre-determined repayment terms.

18 INVESTMENTS IN AND DUE FROM JOINTLY CONTROLLED ENTITIES

	2006 HK$'000	2005 HK$'000
Share of net assets	**14,095**	5,858
Due from jointly controlled entities	**82,161**	56,292
	96,256	62,150
Less: current portion of due from jointly controlled entities	**(44,557)**	–
	51,699	62,150

(a) Share of net assets of jointly controlled entities

	2006 HK$'000	2005 HK$'000
Beginning of the year	**5,858**	7,573
Share of results of jointly controlled entities		
– profit/(loss) before taxation	**3,515**	(8,863)
– taxation	**722**	–
Capital injection	**4,000**	8,000
Disposal of a jointly controlled entity	**–**	(852)
End of the year	**14,095**	5,858

The Group's aggregated share of the revenues, results, assets and liabilities of its jointly controlled entities is as follows:

	Revenues HK$'000	**Profit/(Loss)** HK$'000	**Assets** HK$'000	**Liabilities** HK$'000
2006	140,692	4,237	113,707	(99,612)
2005	62,989	(8,863)	77,067	(71,209)

18 INVESTMENTS IN AND DUE FROM JOINTLY CONTROLLED ENTITIES (continued)

(a) Share of net assets of jointly controlled entities (continued)

Details of the principal jointly controlled entities as at 28 February 2006 are as follows:

Name	Place of incorporation 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

(b) Due from jointly controlled entities

Amounts due from jointly controlled entities of HK$37,604,000 (2005: HK$56,292,000) 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 28 February 2006, the carrying amounts of these amounts due from jointly controlled entities approximate their fair values.

The remaining balance due from a jointly controlled entity of HK$44,557,000 (2005: Nil) is unsecured, non-interest bearing and repayable on demand.

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

19 RENTAL DEPOSITS

Rental deposits are carried at amortised costs using the effective interest rate of 3.0% per annum. As at 28 February 2006, the carrying amounts of rental deposits approximate their fair values.

20 INVENTORIES

	2006	2005
	HK$'000	HK$'000
Fashion wears and accessories	**147,398**	101,194

As at 28 February 2005, the carrying amount of inventories that was secured for trust receipts import bank loan arrangements amounted to approximately HK$37,075,000 (see Note 24).

21 TRADE RECEIVABLES

The Group's sales are mainly in cash or credit/debit cards. The Group grants to a limited number of corporate customers credit periods generally ranging from 30 to 60 days. As at 28 February 2006, all trade receivables were aged between 0 and 90 days (2005: between 0 and 90 days).

The carrying amounts of trade receivables approximate their fair values.

22 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Consolidated		**Company**	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Prepayments	**22,298**	10,326	**–**	–
Rental and utility deposits	**23,024**	14,906	**–**	–
Other receivables	**380**	4,072	**538**	3,669
	45,702	29,304	**538**	3,669

The carrying amounts of deposits and other receivables approximate their fair values.

23 PLEDGED BANK DEPOSITS, CASH AND CASH EQUIVALENTS

	Consolidated		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Pledged bank deposits	**750**	17,750	**–**	–
Cash at bank and in hand	**119,238**	543,897	**306**	463,835
Short-term bank deposits	**305,643**	18,086	**213,878**	–
	425,631	579,733	**214,184**	463,835

The effective interest rate on short-term bank deposits was 2.97% (2005: 0.84%) per annum; these deposits have an average maturity of 15 (2005: 33) days.

Pledged bank deposits, cash and cash equivalents are denominated in the following currencies:

	Consolidated		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong dollar	**403,568**	573,232	**214,184**	463,835
Euros	**19,250**	2,760	**–**	–
US dollar	**523**	2,721	**–**	–
Pound sterling	**895**	36	**–**	–
Japanese yen	**1,395**	984	**–**	–
	425,631	579,733	**214,184**	463,835

24 BORROWINGS

	2006	2005
	HK$'000	HK$'000
Current		
Bank overdrafts	**–**	26
Trust receipts import bank loans	**–**	37,075
Long-term bank borrowings, repayable within one year	**–**	93,360
	–	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	**–**	182,101

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

	2006	2005
Bank overdrafts	**–**	5.50%
Trust receipts import bank loans	**–**	4.46%
Long-term bank borrowings	**–**	3.46%

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

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

Details of the Group's banking facilities are set out in Note 32.

25 TRADE AND BILLS PAYABLES

The ageing analysis of trade and bills payables is as follows:

	2006 HK$'000	2005 HK$'000
0 to 30 days	**41,543**	38,051
31 to 60 days	**4,883**	2,342
61 to 90 days	**529**	324
91 to 180 days	**852**	110
181 to 365 days	**256**	38
Over 365 days	**88**	8
	48,151	40,873

26 ACCRUALS AND OTHER PAYABLES

	Consolidated		**Company**	
	2006 HK$'000	2005 HK$'000	**2006 HK$'000**	2005 HK$'000
Unutilised coupon	**2,040**	1,584	**–**	–
Accruals				
– Rental premises	**33,394**	26,908	**–**	–
– Employment costs	**10,941**	13,997	**–**	–
– Others	**8,963**	10,315	**38**	2,119
Licence fee payable	**15,718**	–	**–**	–
Other payables	**2,071**	2,592	**–**	–
	73,127	55,396	**38**	2,119
Less non-current portion: Licence fee payable	**(10,388)**	–	**–**	–
	62,739	55,396	**38**	2,119

Licence fee payable is recognised based on a discount rate equal to the Group's weighted average borrowing rate of 4% per annum at the date of inception of such an obligation.

The carrying amounts of payables approximate their fair values.

27 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 at 28 February 2006 will be released to the income statement at various dates between six months to one year from that date.

28 DEFERRED INCOME TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

	2006	2005
	HK$'000	HK$'000
Deferred income tax assets:		
– Deferred income tax assets to be recovered after more than 12 months	**124**	493
– Deferred income tax assets to be recovered within 12 months	**452**	2,149
	576	2,642
Deferred income tax liabilities:		
– Deferred income tax liabilities to be settled after more than 12 months	**(2,231)**	(925)
	(1,655)	1,717

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

	2006	2005
	HK$'000	HK$'000
At beginning of the year	**1,717**	726
Recognised in the income statement (Note 11)	**(3,372)**	991
At end of the year	**(1,655)**	1,717

Deferred income tax assets are recognised for tax losses carry forward to the extent that realisation of the related tax benefit through the future taxable profits is probable. Such tax loss has no expiry date. As at 28 February 2006, the Group has no material unrecognised tax losses to carry forward against future taxable income.

The movements in deferred tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) are as follows:

Deferred tax liabilities

	Accelerated tax depreciation	
	2006	2005
	HK$'000	HK$'000
At beginning of the year	**(1,520)**	(338)
Recognised in the income statement	**(718)**	(1,182)
At end of the year	**(2,238)**	(1,520)

Deferred tax assets

	Decelerated tax depreciation		**Tax losses**		**Total**	
	2006	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
At beginning of the year	**2,706**	864	**531**	200	**3,237**	1,064
Recognised in the income statement	**(2,209)**	1,842	**(445)**	331	**(2,654)**	2,173
At end of the year	**497**	2,706	**86**	531	**583**	3,237

29 SHARE CAPITAL

Movements were:

	Note	Number of shares '000	Nominal value HK$'000
Authorised:			
At 18 October 2004 (date of incorporation)			
Ordinary shares of HK$1 each upon incorporation	(i)	100	100
Subdivision of shares	(iii)	900	–
Ordinary shares of HK$0.1 each		1,000	100
Increase in authorised share capital	(iv)	2,999,000	299,900
At 28 February 2005 and 28 February 2006			
Ordinary shares of HK$0.1 each		3,000,000	300,000
Issued and fully paid:			
At 18 October 2004 (date of incorporation)			
Ordinary shares of HK$1 each allotted and issued nil paid	(ii)	100	–
Subdivision of shares	(iii)	900	–
Ordinary shares of HK$0.1 each		1,000	–
On acquisition of ithk holdings limited			
– nil paid shares credited as fully paid	(v)	–	100
– consideration shares issued	(v)	1,000	100
Capitalisation of share premium account	(vi)	748,000	74,800
New issue of shares	(vii)	250,000	25,000
At 28 February 2005			
Ordinary shares of HK$0.1 each		1,000,000	100,000
New issue of shares	(viii)	37,500	3,750
Share option scheme			
– issue of shares	(ix)	1,400	140
At 28 February 2006			
Ordinary shares of HK$0.1 each		1,038,900	103,890

Notes:–

(i) On 18 October 2004 (date of incorporation), the authorised share capital of the Company was HK$100,000, divided into 100,000 ordinary shares of HK$1 each.

(ii) On 19 October 2004, 100,000 ordinary shares of HK$1 each were allotted and issued as nil paid.

(iii) On 3 February 2005, the Company subdivided all its issued shares of HK$1 each into ten shares of HK$0.1 each.

(iv) On 3 February 2005, the authorised share capital of the Company was increased from HK$100,000 to HK$300,000,000, by the creation of additional 2,999,000,000 shares of HK$0.1 each.

(v) On 5 February 2005, the Company:

- credited as fully paid at par value of HK$0.1 each 1,000,000 ordinary shares, which were previously allotted and issued as nil paid; and
- further allotted and issued 1,000,000 ordinary shares of the Company, credited as fully paid at par value of HK$0.1 each,

as consideration of and in exchange for the entire issued share capital of ithk holdings limited in connection with the Reorganisation (see Note 2.1).

(vi) On 5 February 2005, 748,000,000 ordinary shares of the Company were allotted and issued, credited as fully paid at par value of HK$0.1 each to the then existing shareholders of the Company in proportion to their respective shareholdings, by the capitalisation of HK$74,800,000 from the share premium account. Such allotment and capitalisation were conditional on the share premium account being credited as a result of the new shares issued in connection with the listing of the Company's shares on The Stock Exchange of Hong Kong Limited ("the Listing") as described in (vii) below.

(vii) On 28 February 2005, the Company issued 250,000,000 ordinary shares of HK$0.1 each at HK$1.95 per share in connection with the Listing, and raised gross proceeds of approximately HK$487,500,000.

(viii) On 26 March 2005, the Company issued 37,500,000 ordinary shares of HK$0.1 each at HK$1.95 per share under an over-allotment arrangement in connection with the Listing, and raised gross proceeds of HK$73,125,000.

(ix) In September 2005, the Company issued 1,400,000 ordinary shares of HK$0.1 each at HK$0.1 per share upon the exercise of certain Pre-IPO Share Options (see below).

29 SHARE CAPITAL (continued)

Share options

(a) On 7 February 2005, the Company granted Pre-IPO Share Options to a director and certain employees (including a consultant) 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 and the exercise prices of the related Pre-IPO Share Options are as follows:

	2006		2005	
	Exercise price per share HK$	**Options '000**	Exercise price per share HK$	Options '000
At beginning of the year	**0.1**	**7,200**	–	–
Granted	**–**	**–**	0.1	7,200
Exercised	**0.1**	**(1,400)**	–	–
At end of the year	**0.1**	**5,800**	0.1	7,200

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.

(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 of Hong Kong Limited 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 of Hong Kong Limited 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 to be adopted by the Company 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.

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

	2006	
	Exercise price per share HK$	**Options '000**
At beginning of the year	**–**	–
Granted	**2.35**	15,750
Forfeited	**2.35**	(800)
At end of the year	**2.35**	14,950

The fair value of options granted on 28 April 2005 determined using the Binomial Option Pricing Model was approximately HK$0.18 per share option, totalling approximately HK$2,859,000.

29 SHARE CAPITAL (continued)

Share options (continued)

(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$2.10
Exercise price per share	**HK$0.10**	HK$2.35
Standard deviation of expected share price returns	**33.00%**	33.00%
Expected life of options	**3 years**	1.6 years
Expected dividend paid out rate	**2.50%**	2.50%
Annual risk free rate	**2.15%**	2.79%

30 RESERVES

(a) Group

	Share premium HK$'000	Share-based compensation reserves HK$'000	Capital reserve (i) HK$'000	Retained profits HK$'000	Total HK$'000
Balance at 1 March 2004	–	–	1,202	190,318	191,520
Profit for the year	–	–	–	111,440	111,440
Effect of the Reorganisation (Note 2.1)	–	–	31,135	–	31,135
Capitalisation of share premium account (Note 29(vi))	(74,800)	–	–	–	(74,800)
Issue of shares in connection with the Listing (Note 29(vii))	462,500	–	–	–	462,500
Share issue costs	(33,977)	–	–	–	(33,977)
Share option schemes – value of employment services	–	1,293	–	–	1,293
Dividend of a subsidiary	–	–	–	(190,000)	(190,000)
Balance at 28 February 2005	353,723	1,293	32,337	111,758	499,111
Representing –					
2005 Final dividend proposed				44,612	
Others				67,146	
				111,758	
Analysed by –					
Company and subsidiaries	353,723	1,293	32,337	121,900	509,253
Jointly controlled entities	–	–	–	(10,142)	(10,142)
Balance at 28 February 2005	353,723	1,293	32,337	111,758	499,111

30 RESERVES (continued)

(a) Group (continued)

	Share premium HK$'000	Share-based compensation reserves HK$'000	Capital reserve (i) HK$'000	Hedging reserve HK$'000	Retained profits HK$'000	Total HK$'000
Balance at 1 March 2005, as previously reported	353,723	–	32,337	–	113,051	499,111
Share option schemes						
– value of employment services	–	1,293	–	–	(1,293)	–
Balance at 1 March 2005, as restated	353,723	1,293	32,337	–	111,758	499,111
Opening adjustment for the adoption of HKAS 39	–	–	–	–	(13,145)	(13,145)
Balance at 1 March 2005, after opening adjustment	353,723	1,293	32,337	–	98,613	485,966
Profit for the year	–	–	–	–	122,314	122,314
Cash flow hedge						
– fair value losses	–	–	–	(2,430)	–	(2,430)
– transfers to income statement	–	–	–	273	–	273
– transfers to inventories	–	–	–	422	–	422
Issue of shares in connection with the Listing (Note 29(viii))	69,375	–	–	–	–	69,375
Share issue costs	(1,836)	–	–	–	–	(1,836)
Share option schemes						
– value of employment services	–	13,904	–	–	–	13,904
Exercise of share options	2,399	(2,399)	–	–	–	–
Dividend	–	–	–	–	(44,612)	(44,612)
Balance at 28 February 2006	423,661	12,798	32,337	(1,735)	176,315	643,376
Representing –						
2006 Final dividend proposed					49,867	
Others					126,448	
					176,315	
Analysed by –						
Company and subsidiaries	423,661	12,798	32,337	(1,735)	182,220	649,281
Jointly controlled entities	–	–	–	–	(5,905)	(5,905)
Balance at 28 February 2006	423,661	12,798	32,337	(1,735)	176,315	643,376

30 RESERVES (continued)

(b) Company

	Share premium HK$'000	Share-based compensation reserves HK$'000	Contributed surplus (ii) HK$'000	Retained profits HK$'000	Total HK$'000
Balance at 1 March 2004	–	–	–	–	–
Profit for the year	–	–	–	48,354	48,354
Capitalisation in paying up nil paid shares (Note 29(v))	–	–	(100)	–	(100)
Effect of the Reorganisation (Note 2.1)	–	–	136,780	–	136,780
Capitalisation of share premium account (Note 29(vi))	(74,800)	–	–	–	(74,800)
Issue of shares in connection with the Listing (Note 29(vii))	462,500	–	–	–	462,500
Share issue costs	(33,977)	–	–	–	(33,977)
Share option schemes – value of employment services	–	1,293	–	–	1,293
Balance at 28 February 2005	353,723	1,293	136,680	48,354	540,050
Representing –					
2005 Final dividend proposed				44,612	
Others				3,742	
				48,354	
Balance at 1 March 2005, as previously reported	353,723	–	136,680	48,354	538,757
Share option schemes – value of employment services	–	1,293	–	–	1,293
Balance at 1 March 2005, as restated	353,723	1,293	136,680	48,354	540,050
Profit for the year	–	–	–	55,963	55,963
Issue of shares in connection with the Listing (Note 29(viii))	69,375	–	–	–	69,375
Share issue costs	(1,836)	–	–	–	(1,836)
Share option schemes – value of employment services	–	13,904	–	–	13,904
Exercise of share options	2,399	(2,399)	–	–	–
Dividend	–	–	–	(44,612)	(44,612)
Balance at 28 February 2006	423,661	12,798	136,680	59,705	632,844
Representing –					
2006 Final dividend proposed				49,867	
Others				9,838	
				59,705	

Notes:–

(i) Capital reserve of the Group represents (a) the difference between the nominal value of the shares of subsidiaries acquired pursuant to a group reorganisation effected on 8 March 2000 over the nominal value of the share capital of ithk holdings limited issued in exchange therefor, (b) the difference between the nominal value of shares of ithk holdings limited acquired pursuant to the Reorganisation (see Note 2.1) over the nominal value of the share capital of the Company issued in exchange therefor, and (c) the share premium of ithk holdings limited arising from the conversion of convertible notes before the Reorganisation.

(ii) Contributed surplus of the Company represents the difference between the costs of investments in subsidiaries acquired pursuant to the Reorganisation (see Note 2.1) over the nominal value of the share capital of the Company issued in exchange therefor.

31 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Cash generated from operations

	2006 HK$'000	2005 HK$'000
Profit for the year	122,314	111,440
Adjustments for:		
– Income tax expense	28,289	25,181
– Interest expense	1,665	3,797
– Interest income	(16,657)	(3,407)
– Share of (profit)/loss of jointly controlled entities	(4,237)	8,863
– Depreciation of furniture and equipment	41,452	31,520
– Amortisation of intangible assets	10,355	–
– Fair value loss on derivative financial instruments	273	–
– Loss/(Gain) on disposal of furniture and equipment	488	(3)
– Share option costs	13,904	1,293
	197,846	178,684
Changes in workings capital:		
– Increase in rental deposits	(1,503)	(11,030)
– Increase in other asset	(1,080)	–
– Increase in inventories	(45,782)	(33,873)
– Decrease/(Increase) in trade receivables	3,202	(1,128)
– Increase in prepayments, deposits and other receivables	(16,398)	(12,039)
– Increase in trade and bills payables	7,278	16,170
– Increase in accruals and other payables	19,065	31,670
Cash generated from operations	162,628	168,454

(b) In the cash flow statement, proceeds from disposal of furniture and equipment comprises:

	2006 HK$'000	2005 HK$'000
Net book value (Note 15)	488	14
(Loss)/Gain on disposal of furniture and equipment	(488)	3
Proceeds from disposal of furniture and equipment	–	17

(c) Analysis of cash and cash equivalents:

	2006 HK$'000	2005 HK$'000
Cash and bank deposits	424,881	561,983
Bank overdrafts	–	(26)
	424,881	561,957

32 BANKING FACILITIES AND PLEDGE OF ASSETS

As at 28 February 2006, the Group had aggregate banking facilities of approximately HK$312,500,000 (2005: HK$369,127,000) for overdrafts, bank loans and trade financing, of which approximately HK$235,063,000 (2005: HK$122,197,000) was unutilised as at the same date. These facilities were secured by:

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

(ii) the Group's inventories held under trust receipts import bank loan arrangements (see Note 20); and

(iii) corporate guarantees provided by the Company and certain subsidiaries.

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

33 COMMITMENTS AND CONTINGENT LIABILITIES

(a) Operating lease commitments

The Group leases various retail shops, offices and warehouses under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights. The future aggregate minimal lease payments are as follows:

	2006 HK$'000	2005 HK$'000
Not later than one year	**220,077**	183,799
Later than one year and not later than five year	**265,482**	231,630
Later than five years	**4,637**	1,660
	490,196	417,089

The above lease commitments only include commitments for basic rentals, and do not include commitments for additional rental payable (contingent rents), if any, which are to be determined generally by applying pre-determined percentages to future sales less 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

	2006 HK$'000	2005 HK$'000
Letters of guarantee issued by banks in lieu of rental deposits	**16,660**	12,204
Corporate guarantees in respect of bank loans granted by banks to certain related companies	**–**	31,200
	16,660	43,404

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

(c) Forward foreign currency exchange contracts

As at 28 February 2006, the Group has commitment in respect of outstanding forward currency exchange contracts to buy Japanese yen, Pound sterling and Euros, to hedge against foreign exchange risk exposures relating to firm purchase orders of fashion wears and accessories and certain outstanding payables denominated in those currencies, as follows:

	2006 HK$'000	2005 HK$'000
Forward currency exchange contracts	**75,650**	57,320

34 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 32.35% of the Company's shares as at 28 February 2006.

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

	2006 HK$'000	2005 HK$'000
Sales of fashion wears and accessories to a jointly controlled entity	**47,970**	9,793
Royalty income earned from a jointly controlled entity	**3,843**	–
Reimbursement of operating expenses by jointly controlled entities	**4,563**	2,888

34 RELATED PARTY TRANSACTIONS (continued)

(b) Key management compensation:

	2006 **HK$'000**	2005 HK$'000
Fees	**67**	55
Salaries and allowances	**17,062**	15,377
Bonuses	**–**	943
Pension costs–employer's contributions to a defined contribution plan	**348**	292
Share option costs	**5,426**	395
Staff welfare and benefits	**2,656**	2,055
	25,559	19,117

(c) During the year ended 28 February 2006, 3,000,000 options under the Share Option Scheme were granted to a director of the Company to subscribe for 3,000,000 ordinary shares in the Company at an exercise price of HK$2.35 per share (see Note 29(b)). During the year ended 28 February 2005, 600,000 Pre-IPO Share Options were granted to a director of the Company to subscribe for 600,000 ordinary shares in the Company at an exercise price of HK$0.1 per share (see Note 29(a)).