I.T

INTERIM REPORT

06/07

STOCK CODE: 999

I.T LIMITED INTERIM REPORT 06/07

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I.TIS

a fashion icon

TREND SETTING

inspiration

a lifestyle

MOVING FORWARD

Executive Directors

Mr. SHAM Kar Wai
Dr. LO Wing Yan, William, J.P.
Mr. SHAM Kin Wai
Mr. CHAN Wai Mo, Alva

DIRECTORS

Independent Non-executive Directors
Mr. CHAN Mo Po, Paul
Mr. WONG Wai Ming
Mr. Francis GOUTENMACHER

Company Secretary
Mr. CHAN Wai Mo, Alva

Qualified Accountant
Mr. KWONG Kwok Yu, Gary

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Bermuda

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Hong Kong

Legal Advisors
Deacons (as to Hong Kong law)
Conyers Dill & Pearman
(as to Bermuda law)

Auditors
PricewaterhouseCoopers,
Certified Public Accountants

Principal Bankers
Hang Seng Bank Limited
The Hongkong and Shanghai Banking Corporation Limited
Standard Chartered Bank (Hong Kong) Limited

Principal Share Registrar
The Bank of Bermuda Limited

Hong Kong Branch Share Registrar
Computershare Hong Kong Investor Services Limited
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HIGHLIGHTS

- Total sales reached HK$673.3 million, increased 18.5%.
- Comparable stores sales increased by 4.2%.
- Gross profit was HK$384.4 million, increased 13.5%.
- EBITDA (excluding share of loss of jointly controlled entities) was HK$74.0 million, increased 2.2%.
- Net profit increased 3.4% to HK$31.2 million, mainly due to higher loss from our jointly controlled Greater China businesses, G.S-i.t Limited ("GSIT").
  If the share of loss from the jointly controlled entities were excluded, net profit would be HK$39.5 million, an increase of 22.9% compared with similar first six months period last year (HK$32.1 million).
- EPS was HK$0.03.
- Net sales footage in Hong Kong (excluding fcuk stores operated by FCUK IT Company ("FCUK"), 50% owned joint venture) increased by 2.6% to 291,290 sq.ft. at 31 August 2006 (as at 31 August 2005: 283,800 sq.ft.). Weighted average sales footage in Hong Kong increased by 16.3% to 291,156 sq.ft. for the six months ended 31 August 2006 (six months ended 31 August 2005: 250,400 sq.ft.).
- Rental costs (including rental charge, management fee, rates and government rent) as a percentage of total sales remained stable at 22.7% (2005: 22.9%).
- Staff costs (excluding share options) as a percentage of total sales increased slightly to 18.4% (2005: 17.6%).
- Store coverage:
  158 stores in Hong Kong (including 5 fcuk stores)
  134 stores in the PRC (operated by GSIT, including 14 fcuk stores)
  26 stores in Taiwan (operated by GSIT)
  3 stores in Malaysia (operated by a franchisee)
  3 stores in Saudi Arabia (operated by a franchisee)
  2 stores in Thailand (operated by a franchisee)

Key statistics	31 August 2006	31 August 2005	Change
Inventory Turnover (Days)[1]	104.5	102.0	+2.5
Capital Expenditure (HK$ million)[2]	18.0	33.7	-15.7
Cash on Hand (HK$ million)[3]	322.7	398.9	-76.2
Current Ratio[4]	4.8	4.4	
Return on equity (%)[5]	4.2	4.9	-0.7

Notes:

1. Average of the inventory at the beginning and at the end of the period divided by cost of sales times number of days during the period.

2. Additions of furniture and equipment and intangible assets during the period.

3. Pledged bank deposits and cash and cash equivalents.

4. Current assets divided by current liabilities.

5. Net profit during the period divided by average of the shareholders' equity at the beginning and at the end of the period.

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

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

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

Introduction

We have been instructed by the Company to review the interim financial report of the Company set out on pages 12 to 24.

Respective responsibilities of directors and auditors

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of consolidated condensed interim financial information to be in compliance with Hong Kong Accounting Standard No. 34, "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

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

Review work performed

We conducted our review in accordance with Statement of Auditing Standards No. 700, "Engagements to review interim financial reports" issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 31 August 2006.

PricewaterhouseCoopers

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 7 November 2006

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

For the six months ended 31 August 2006

	Note	Six months ended 31 August 2006 (Unaudited) HK$'000	2005 (Unaudited) HK$'000
Sales	4	**673,304**	568,067
Cost of sales	6	**(288,908)**	(229,363)
Gross profit		**384,396**	338,704
Other gains, net	5	**9,362**	9,443
Operating expenses	6	**(347,837)**	(306,723)
Operating profit		**45,921**	41,424
Finance costs	7	**(327)**	(967)
Share of loss of jointly controlled entities		**(8,289)**	(1,947)
Profit before taxation		**37,305**	38,510
Income tax expense	8	**(6,102)**	(8,333)
Profit for the period, attributable to the equity holders of the Company		**31,203**	30,177
Dividend		**–**	–
Earnings per share for profit attributable to the equity holders of the Company during the period (expressed in HK$ per share)			
– basic	9	**0.030**	0.029
– diluted	9	**0.030**	0.029

The notes are an integral part of this condensed interim financial information.

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

As at 31 August 2006

	Note	**As at 31 August 2006 (Unaudited) HK$'000**	As at 28 February 2006 (Audited) HK$'000
ASSETS			
Non-current assets			
Furniture and equipment	10	**91,510**	97,237
Intangible assets	10	**14,305**	19,169
Investments in and due from jointly controlled entities	11	**40,129**	51,699
Rental deposits		**39,309**	43,418
Deferred income tax assets		**2,315**	576
Other asset		**1,080**	1,080
		188,648	213,179
Current assets			
Inventories		**180,920**	147,398
Trade receivables	12	**6,136**	6,638
Due from jointly controlled entities	11	**96,179**	44,557
Prepayments, deposits and other receivables	13	**85,293**	45,702
Derivative financial instruments	14	**1,520**	–
Pledged bank deposits		**750**	750
Cash and cash equivalents		**321,920**	424,881
		692,718	669,926
LIABILITIES			
Current liabilities			
Borrowings	15	**(911)**	–
Trade and bills payables	16	**(63,074)**	(48,151)
Accruals and other payables	17	**(64,407)**	(62,739)
Derivative financial instruments	14	**(453)**	(2,430)
Current income tax liabilities		**(14,381)**	(9,900)
		(143,226)	(123,220)
Net current assets		**549,492**	546,706
Total assets less current liabilities		**738,140**	759,885
Non-current liabilities			
Other payables	17	**(7,252)**	(10,388)
Deferred income tax liabilities		**(418)**	(2,231)
		(7,670)	(12,619)
Net assets		**730,470**	747,266
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	18	**103,890**	103,890
Reserves	19	**626,580**	643,376
Total equity		**730,470**	747,266

SHAM KAR WAI
Chairman

LO WING YAN, WILLIAM
Vice Chairman

The notes are an integral part of this condensed interim financial information.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 August 2006

	Attributable to equity holders of the Company		
	Share capital (Unaudited) HK$'000	**Reserves (Unaudited)** HK$'000	**Total (Unaudited)** HK$'000
Balance at 1 March 2006	103,890	643,376	747,266
Net income recognised directly in equity			
– cash flow hedges	–	1,868	1,868
Profit for the period	–	31,203	31,203
Total recognised income for the six months ended 31 August 2006	–	33,071	33,071
Dividend relating to year ended 28 February 2006	–	(49,867)	(49,867)
Balance at 31 August 2006	103,890	626,580	730,470
Balance at 1 March 2005	100,000	485,966	585,966
Net expense recognised directly in equity			
– cash flow hedges	–	(2,832)	(2,832)
Profit for the period	–	30,177	30,177
Total recognised income for the six months ended 31 August 2005	–	27,345	27,345
Proceeds from issue of shares	3,750	69,375	73,125
Share issue costs	–	(1,836)	(1,836)
Share option schemes			
– value of employment services	–	13,669	13,669
Dividend relating to year ended 28 February 2005	–	(44,612)	(44,612)
	3,750	36,596	40,346
Balance at 31 August 2005	103,750	549,907	653,657

The notes are an integral part of this condensed interim financial information.

CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT

For the six months ended 31 August 2006

	Six months ended 31 August	
	2006	2005
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Net cash generated from operating activities	**33,186**	51,108
Net cash used in investing activities	**(87,191)**	(59,794)
Net cash used in financing activities	**(48,956)**	(155,107)
Net decrease in cash and cash equivalents	**(102,961)**	(163,793)
Cash and cash equivalents, at 1 March	**424,881**	561,957
Cash and cash equivalents, at 31 August	**321,920**	398,164
Analysis of cash and cash equivalents:		
Cash and bank deposits	**321,920**	398,164

The notes are an integral part of this condensed interim financial information.

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.

This condensed consolidated interim financial information is presented in Hong Kong dollars ("HK$"), unless otherwise stated.

This condensed consolidated interim financial information was approved for issue by the Company's Board of Directors on 7 November 2006.

2 BASIS OF PREPARATION

This condensed consolidated financial information for the six months ended 31 August 2006 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") No. 34, "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

This interim condensed financial report should be read in conjunction with the Group's annual financial statements for the year ended 28 February 2006.

3 ACCOUNTING POLICIES

The accounting policies are consistent with those as described in the Group's annual financial statements for the year ended 28 February 2006, except that the Group has changed certain of its accounting policies following its adoption of the new/revised Hong Kong Financial Reporting Standards ("HKFRSs") and Hong Kong Accounting Standards ("HKASs") which are effective from accounting periods beginning on or after 1 March 2006 and relevant to its operations. The changes to the Group's accounting policies and the effect of adopting the new policies are set out below.

- HKAS 39 and HKFRS 4 (Amendments), "Financial guarantee contracts": These amendments require 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 effect of adoption is not significant to the Company's financial statements and is eliminated on consolidation.

- HKFRS-Int 4, "Determining whether an arrangement contains a lease": 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; and (b) the arrangement conveys a right to use the asset(s). The Group has reviewed its contracts. Some of them are required to be accounted for as leases in accordance with HKAS 17, "Leases". However, these leases are operating leases, and their reclassification has had no impact on the expense recognised in respect of them.

The following new standards, amendments to standards and interpretations have been issued by the HKICPA but are not effective for financial year ending 28 February 2007 and have not been early adopted:

- HK(IFRIC)-Int 8, "Scope of HKFRS 2", effective for annual periods beginning on or after 1 May 2006. Management is currently assessing the impact of HK(IFRIC)-Int 8 on the Group's operations.

- HK(IFRIC)-Int 9, "Reassessment of Embedded Derivatives", effective for annual periods beginning on or after 1 June 2006. Management believes that this interpretation should not have a significant impact on the reassessment of embedded derivatives as the Group already assess if embedded derivative should be separated using principles consistent with HK(IFRIC)-Int 9.

- HKFRS 7, "Financial instruments: Disclosures", effective for annual periods beginning on or after 1 January 2007. HKAS 1, "Amendments to capital disclosures", effective for annual periods beginning on or after 1 January 2007. The Group assessed the impact of HKFRS 7 and the amendment to HKAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and capital disclosures required by the amendment of HKAS 1. The Group will apply HKFRS 7 and the amendment to HKAS 1 from financial periods beginning 1 March 2007.

4 SALES AND SEGMENT INFORMATION

(a) Analysis of sales by category

	Six months ended 31 August 2006 HK$'000	2005 HK$'000
Sales of fashion wears and accessories	**671,386**	566,221
Royalty income (Note 22)	**1,918**	1,846
	673,304	568,067

(b) Segment information

No segment analysis for business segment is presented as the Group operated principally 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.

5 OTHER GAINS, NET

	Six months ended 31 August 2006 HK$'000	2005 HK$'000
Interest income		
– bank deposits	**5,488**	8,616
– loans and receivables	**2,941**	1,407
Derivative financial instruments: forward currency contracts, transactions not qualifying as hedge and ineffective portion of changes in fair values	**933**	(580)
	9,362	9,443

6 EXPENSES BY NATURE

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

	Six months ended 31 August 2006 HK$'000	2005 HK$'000
Charging		
Cost of inventories sold	**292,675**	234,024
Write-downs of inventories to net realisable value	**1**	–
Employment costs, including directors' emoluments	**124,096**	106,359
Operating lease rentals of premises		
– minimum lease payments	**122,815**	104,306
– contingent rents	**4,511**	4,910
Advertising and promotion costs	**9,139**	6,199
Depreciation of furniture and equipment	**23,171**	17,622
Loss on disposal of furniture and equipment	**–**	151
Licence fee		
– amortisation of licence right	**4,864**	–
– contingent licence fee	**1,842**	5,027
Crediting		
Net exchange gains	**3,768**	2,726
Reversal of write-downs of inventories to net realisable value	**–**	1,935
Gain on disposal of furniture and equipment	**119**	–

As a result of the changes in product portfolio and the recovery of economic conditions in Hong Kong, the Group has revised its estimates relating to inventory provision policy during the period. If the old inventory provision policy was used for the current period, an additional provision of approximately HK$9,330,000 to write-down inventories to net realisable value would have been made.

7 FINANCE COSTS

	Six months ended 31 August	
	2006	2005
	HK$'000	HK$'000
Interest expense		
– bank borrowings wholly repayable within five years	**1**	967
– licence fee payable	**326**	–
	327	967

8 INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profits of the Group's operations in Hong Kong for the period.

	Six months ended 31 August	
	2006	2005
	HK$'000	HK$'000
Current income tax – Hong Kong profits tax	**9,654**	7,988
Deferred income tax	**(3,552)**	345
	6,102	8,333

9 EARNINGS PER SHARE

Basic

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

	Six months ended 31 August	
	2006	2005
Profit attributable to equity holders of the Company (HK$'000)	**31,203**	30,177
Weighted average number of ordinary shares in issue ('000)	**1,038,900**	1,032,405
Basic earnings per share (HK$ per share)	**0.030**	0.029

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 outstanding share options as dilutive potential ordinary shares. 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 outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	Six months ended 31 August	
	2006	2005
Profit attributable to equity holders of the Company (HK$'000)	**31,203**	30,177
Weighted average number of ordinary shares in issue ('000)	**1,038,900**	1,032,405
Adjustments for		
– share options ('000)	**5,403**	6,539
Weighted average number of ordinary shares for diluted earnings per share ('000)	**1,044,303**	1,038,944
Diluted earnings per share (HK$ per share)	**0.030**	0.029

10 CAPITAL EXPENDITURE

	Furniture and equipment HK$'000	Intangible assets HK$'000	Total HK$'000
Six months ended 31 August 2006			
Opening net book amount as at 1 March 2006	97,237	19,169	116,406
Additions	17,994	–	17,994
Disposals	(550)	–	(550)
Depreciation and amortisation	(23,171)	(4,864)	(28,035)
Closing net book amount as at 31 August 2006	91,510	14,305	105,815
Six months ended 31 August 2005			
Opening net book amount as at 1 March 2005	62,043	–	62,043
Additions	33,747	–	33,747
Disposals	(151)	–	(151)
Depreciation and amortisation	(17,622)	–	(17,622)
Closing net book amount as at 31 August 2005	78,017	–	78,017

11 INVESTMENTS IN AND DUE FROM JOINTLY CONTROLLED ENTITIES

	As at 31 August 2006 HK$'000	As at 28 February 2006 HK$'000
Share of net assets	**1,806**	14,095
Due from jointly controlled entities	**134,502**	82,161
	136,308	96,256
Less: current portion of due from jointly controlled entities	**(96,179)**	(44,557)
	40,129	51,699

Amounts due from jointly controlled entities of approximately HK$38,323,000 (28 February 2006: HK$37,604,000) 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 31 August 2006, the carrying amounts of these amounts due from jointly controlled entities approximate their fair values.

The remaining balances due from jointly controlled entities of (i) approximately HK$35,650,000 (28 February 2006: HK$44,557,000) are unsecured, non-interest bearing and repayable on demand; and (ii) approximately HK$60,529,000 (28 February 2006: Nil) are unsecured, bear interest at 5% per annum and are repayable within 7 days.

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

Details of the principal jointly controlled entities as at 31 August 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$32,000,000	50%	Retail of fashion wears and accessories
G.S – i.t Limited	Hong Kong	HK$2	50%	Investment holding

12 TRADE RECEIVABLES

The Group's sales are mainly settled by 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 31 August 2006, all trade receivables are aged between 0 and 90 days (28 February 2006: between 0 and 90 days).

The carrying amounts of trade receivables approximate their fair values.

13 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 31 August 2006 HK$'000	As at 28 February 2006 HK$'000
Prepayments	**55,442**	22,298
Rental and utility deposits	**29,646**	23,024
Other receivables	**205**	380
	85,293	45,702

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

14 DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments represented forward currency contracts designated as cash flow hedges. Gains and losses in equity on forward currency contracts as of 31 August 2006 will be released to the income statement at various dates between six months to one year from that date.

15 BORROWINGS

	As at 31 August 2006 HK$'000	As at 28 February 2006 HK$'000
Trust receipts import bank loans	**911**	–

The effective interest rate at the balance sheet date is as follows:

	As at 31 August 2006	As at 28 February 2006
Trust receipts import bank loans	**4.53%**	–

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

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

Details of the Group's banking facilities are set out in Note 20.

16 TRADE AND BILLS PAYABLES

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

	As at 31 August 2006 HK$'000	As at 28 February 2006 HK$'000
0 to 30 days	**53,359**	41,543
31 to 60 days	**7,651**	4,883
61 to 90 days	**1,003**	529
Over 90 days	**1,061**	1,196
	63,074	48,151

The carrying amounts of trade and bills payables approximate their fair values.

17 ACCRUALS AND OTHER PAYABLES

	As at 31 August 2006 HK$'000	As at 28 February 2006 HK$'000
Unutilised coupon	**881**	2,040
Accruals		
– rental premises	**32,395**	33,394
– employment costs	**12,790**	10,941
– others	**9,283**	8,963
Licence fee payable	**13,629**	15,718
Other payables	**2,681**	2,071
	71,659	73,127
Less: non-current portion of licence fee payable	**(7,252)**	(10,388)
	64,407	62,739

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.

18 SHARE CAPITAL

The total number of authorised ordinary shares is 3,000,000,000 shares (28 February 2006: 3,000,000,000 shares) with a par value of HK$0.1 per share (28 February 2006: HK$0.1 per share).

	Number of ordinary shares '000	**Nominal value** HK$'000
Issued and fully paid:		
At 1 March 2005	1,000,000	100,000
New issue of shares	37,500	3,750
At 31 August 2005	1,037,500	103,750
At 1 March 2006 and 31 August 2006	1,038,900	103,890

On 26 March 2005, the Company issued 37,500,000 ordinary shares of HK$0.1 each at HK$1.95 per share under an over-allotment arrangement in connection with the listing of the Company's shares on The Stock Exchange of Hong Kong Limited, and raised gross proceeds of approximately HK$73,125,000.

18 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 the exercise prices of related Pre-IPO Share Options are as follows:

	Six months ended 31 August			
	2006		2005	
	Exercise price per share HK$	**Options '000**	Exercise price per share HK$	Options '000
At beginning and end of period	**0.1**	**5,800**	0.1	7,200

No Pre-IPO Share Options were granted, forfeited, exercised or expired during the six months ended 31 August 2006.

(b) The Company has a share option scheme ("Share Option Scheme"), 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 adopted by the Group from time to time must not in aggregate exceed 30% of the share capital of the Company in issue from time to time. The Share Option Scheme will remain in force for a period of 10 years up to February 2015.

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

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

	Six months ended 31 August			
	2006		2005	
	Exercise price per share HK$	**Options '000**	Exercise price per share HK$	Options '000
At beginning of period	**2.35**	**14,950**	–	–
Granted	**–**	**–**	2.35	15,750
Forfeited	**2.35**	**(600)**	2.35	(300)
Exercised	**–**	**–**	–	–
Expired	**–**	**–**	–	–
At end of period	**2.35**	**14,350**	2.35	15,450

19 RESERVES

	Share premium HK$'000	Share-based compensation reserves HK$'000	Capital reserve HK$'000	Hedging reserve HK$'000	Retained profits HK$'000	Total HK$'000
Balance at 1 March 2006	423,661	12,798	32,337	(1,735)	176,315	643,376
Cash flow hedge						
– fair value gains	–	–	–	2,801	–	2,801
– transfers to income statement	–	–	–	(933)	–	(933)
Profit for the period	–	–	–	–	31,203	31,203
Dividend relating to year ended 28 February 2006	–	–	–	–	(49,867)	(49,867)
Balance at 31 August 2006	423,661	12,798	32,337	133	157,651	626,580
Balances at 1 March 2005	353,723	1,293	32,337	–	98,613	485,966
Issue of shares	69,375	–	–	–	–	69,375
Share issue costs	(1,836)	–	–	–	–	(1,836)
Share option scheme						
– value of employment services	–	13,669	–	–	–	13,669
Cash flow hedge						
– fair value losses	–	–	–	(4,693)	–	(4,693)
– transfers to income statement	–	–	–	580	–	580
– transfers to inventories	–	–	–	1,281	–	1,281
Profit for the period	–	–	–	–	30,177	30,177
Dividend relating to year ended 28 February 2005	–	–	–	–	(44,612)	(44,612)
Balance at 31 August 2005	421,262	14,962	32,337	(2,832)	84,178	549,907

20 BANKING FACILITIES AND PLEDGE OF ASSETS

As at 31 August 2006, the Group had aggregate banking facilities of approximately HK$319,500,000 (28 February 2006: HK$312,500,000) for overdrafts, bank loans and trade financing, of which approximately HK$227,337,000 (28 February 2006: HK$235,063,000) was unutilised as at the same date. These facilities are secured by:

(i) the Group's bank deposits of HK$750,000 (28 February 2006: HK$750,000);

(ii) the Group's inventories held under trust receipts import bank loan arrangements; 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.

21 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:

	As at 31 August 2006 HK$'000	As at 28 February 2006 HK$'000
Not later than one year	**227,608**	220,077
Later than one year but not later than five years	**291,382**	265,482
Later than five years	**–**	4,637
	518,990	490,196

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.

21 COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

(b) Forward foreign currency exchange contracts

As at 31 August 2006, the Group had 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:

	As at 31 August 2006 HK$'000	As at 28 February 2006 HK$'000
Forward currency exchange contracts	**83,900**	75,650

22 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 31 August 2006.

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

	Six months ended 31 August	
	2006	2005
	HK$'000	HK$'000
Sales of fashion wears and accessories to a jointly controlled entity	**37,184**	26,124
Royalty income earned from a jointly controlled entity	**1,918**	1,846
Reimbursement of operating expenses by a jointly controlled entity	**2,765**	2,095
Interest income earned from a jointly controlled entity	**1,299**	–

(b) Key management compensation:

	Six months ended 31 August	
	2006	2005
	HK$'000	HK$'000
Fees	**143**	–
Salaries and allowances	**11,802**	7,300
Pension costs - employer's contributions to a defined contribution plan	**214**	153
Share option costs	**–**	5,354
	12,159	12,807

23 SEASONALITY

The sales for fashion wears and accessories are subject to seasonal fluctuations, with higher sales amount in the third and fourth quarters of the financial year. This is due to seasonal weather conditions and holiday periods.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Sales from retail shop operations increased by 17.6% to HK$626.9 million for the six months ended 31 August 2006 (six months ended 31 August 2005: HK$532.9 million). The gross margin for retail sales for the six months ended 31 August 2006 was 60.6% (six months ended 31 August 2005: 62.7%). Net profit for the six months ended 31 August 2006 was HK$31.2 million (six months ended 31 August 2005: HK$30.2 million), increased by 3.4%. Share of loss from jointly controlled entities for the six months ended 31 August 2006 increased to HK$8.3 million (six months ended 31 August 2005: HK$1.9 million). If not including the share of loss from the jointly controlled entities, the net profits for the six months ended 31 August 2006 increased to HK$39.5 million (six months ended 31 August 2005: HK$32.1 million), an increase of 22.9% and would then be faster than the top line sales growth.

Sales of apparels from international brands accounted for 51.1% (six months ended 31 August 2005: 43.9%) of the total sales, contributing HK$343.7 million for the six months ended 31 August 2006. During this period, the Company brought, amongst other brands, A Bathing Ape, to Hong Kong and created considerable interest among fashion-lovers. Sales of apparels from in-house and licensed brands accounted for 42.1% (six months ended 31 August 2005: 49.9%) of the total sales, contributing HK$283.2 million for the six months ended 31 August 2006. In-house brands http://www.izzue.com, b+ab and 5cm remained the top selling brands in the Company's in-house and licensed brand portfolio.

During the first six months of operations, the Company put a lot of focus on improving the efficiency and effectiveness of our retail sales environment which resulted in an improvement in comparable stores sales growth of 4.2%, a reversal of last year's negative trend.

Although consumer spending sentiments in Hong Kong continued to recover during the first six months of this financial year, retail market was also more competitive. In order to sustain sales growth as well as maintaining high sell-through rate of our inventory, relatively higher discount was offered to customers during the six months ended 31 August 2006. This factor, together with the above mentioned change in product mix resulted in the gross profit margin on retail sales dropped 2.1% to 60.6% for the six months ended 31 August 2006 (six months ended 31 August 2005: 62.7%).

A recovering economy in Hong Kong of which unemployment rate was declining plus increased competitions especially from global players created a shortage of labor, a general increase in market salary rate as well as increasing pressure in the commercial rental market. As a result, staff costs (excluding share options) as a percentage of total sales increased to 18.4% (six months ended 31 August 2005: 17.6%). Rental expenses (comprising rental charge, management fee, rates and government rent) as a percentage of total sales was maintained at 22.7% for the six months ended 31 August 2006 (six months ended 31 August 2005: 22.9%). In order to further enhance the corporate and brand image of the Company, more marketing and public relations works were conducted during the six months ended 31 August 2006. Advertising and promotion expenses as percentage of total sales were increased to 1.4% (six months ended 31 August 2005: 1.1%), though it is still low compared to most of the other market players. Other operating overheads other than rental expenses, staff costs, depreciation and advertising and promotion expenses; as percentage of total sales was reduced to 5.6% for the six months ended 31 August 2006 (six months ended 31 August 2005: 6.7%).

The first six months of this financial year is a very exciting period for our jointly controlled Greater China joint venture company GSIT (market coverage: China, Taiwan & Macau) which experienced a very rapid growth phase. Top line revenue grew over 50% to HK$126 million with a similar impressive same stores sales increased 19% as the China consumer market expanding quickly. GSIT had, by the end of August 2006, 134 shops in China, of which 82 were directly managed, 38 were operated by franchisees and 14 were fcuk stores. However, this relatively compressed phase of distribution network expansion which saw expenses such as pre-opening fitting and promotion costs cumulating resulted in a higher than expected net loss. Brand equity for our signature stores such as I.T and in-house brands like http://www.izzue.com and b+ab continued to gain recognition in fashion conscious cities such as Shanghai and Beijing. Together with our franchisees network, our distribution in China now covers more than 22 key cities.

Our wholesale business started to gain momentum as new franchisees and markets had been added during the first half of this financial year — 3 and 2 stores were opened in Saudi Arabia and Thailand, respectively. Initial feedbacks from the franchisees were positive and both had plans to expand during the next six to twelve months.

Operating expenses

Operating expenses increased by 13.4% to HK$347.8 million for the six months ended 31 August 2006 (six months ended 31 August 2005: HK$306.7 million) which was still lower than the sales growth rate. Additional manpower was recruited during the six months ended 31 August 2006 for the preparation of two new in-house brands which is targeted to be launched in the late second half of this financial year. As a result, staff costs (excluding share options) were increased by 23.8% to HK$124.1 million (six months ended 31 August 2005: HK$100.2 million). Other than the increase in staff cost as stated above, increase in operating expenses was mainly reflecting the increase in sales footage. The weighted average sales footage for the period increased to 291,156 sq.ft., increased by 16.3% (six months ended 31 August 2005: 250,400 sq.ft.).

Operating profit and earnings before interest, taxation, depreciation and amortisation expenses and excluding the share of loss of jointly controlled entities (EBITDA)

EBITDA for the six months ended 31 August 2006 increased by 2.2% to HK$74.0 million (six months ended 31 August 2005: HK$72.4 million). EBITDA as a percentage of sales decreased from 12.7% for the six months ended 31 August 2005 to 11.0% for the six months ended 31 August 2006. The decrease was mainly due to decrease in gross profit as a percentage to sales resulting from shift of product mix to international brands, which comparatively have a lower margin than in-house and licensed brands, and a slightly deeper discount being offered from international brands and in-house brands in order to enhance sales growth.

Share of results of jointly controlled entities

Share of loss of jointly controlled entities increased from HK$1.9 million for the six months ended 31 August 2005 to HK$8.3 million for the six months ended 31 August 2006. For the six months ended 31 August 2006, profit was reported from FCUK IT Company whereas the operating loss of GSIT was increased.

Cash Flows

Net cash generated from operating activities was HK$33.2 million for the six months ended 31 August 2006 (six months ended 31 August 2005: HK$51.1 million). Net cash used for investing activities was HK$87.2 million for the six months ended 31 August 2006 (six months ended 31 August 2005: HK$59.8 million). For the six months ended 31 August 2006, HK$18.0 million was used for additions to furniture and equipment and HK$50.3 million was used to finance the operation of a jointly controlled entity, GSIT and which were the major components of the cash outflow of investing activities. Net cash used for financing activities for the six months ended 31 August 2006 was HK$49.0 million. For the six months ended 31 August 2006, HK$49.8 million of dividend were paid to shareholders.

Inventory

Inventory turnover days for the six months ended 31 August 2006 were 104.5 days, an increase of 2.5 days from 102 days for the six months ended 31 August 2005. The increase in inventory level for the six months ended 31 August 2006 was mainly due to increase in sales footage and more products being stocked for the coming seasons.

Liquidity and capital resources

As at 31 August 2006, total cash and bank balances amounted to HK$322.7 million (28 February 2006: HK$425.6 million) and total liabilities were HK$150.9 million (28 February 2006: HK$135.8 million). As at 31 August 2006, shareholders' equity was HK$730.5 million (28 February 2006: HK$747.3 million).

As at 31 August 2006, the Company had aggregate banking facilities of approximately HK$319.5 million (28 February 2006: HK$312.5 million) for overdraft, bank loans and trade financing, of which approximately HK$227.3 million (28 February 2006: HK$235.1 million) was unutilised.

As at 31 August 2006, charges on assets amounted to HK$1.7 million, comprising bank deposits of HK$0.8 million pledged for letters of guarantee issued by banks in lieu of rental deposits and inventories of HK$0.9 million held under trust receipts bank loan arrangements, to cover banking facilities in the ordinary course of business (28 February 2006: HK$0.8 million pledged for letters of guarantee issued by banks in lieu of rental deposits).

The Company had bank borrowing of HK$0.9 million as at 31 August 2006 (28 February 2006: Nil). The current ratio as at 31 August 2006 was 4.8 (28 February 2006: 5.4).

Use of proceeds

The proceeds from the issuance of new shares by the Company in March 2005, net of listing expenses, were approximately HK$514.9 million. For the six months ended 31 August 2006, net proceeds were utilised in the following manners:

	Per Prospectus HK$'000	**Amount utilized** HK$'000	**Balance as at 31 August 2006** HK$'000
Expansion of retail network in Hong Kong	320,000	103,900	216,100
Expansion of retail network in the PRC and Taiwan	90,000	35,000	55,000
Repayment of bank loans	95,000	95,000	–
Working capital	9,900	9,900	–
	514,900	243,800	271,100

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

Employment, Training and Development

The Company had a total of 1,326 employees as at 31 August 2006 (28 February 2006: 1,283). Training and development courses were regularly organised for employees to enhance both of their specialised technical and product knowledge as well as marketing and sales to general business management skills. The Company offered competitive remuneration packages to its employees, including basic salaries, allowances, insurance and commission/bonuses. In addition, share options were granted to selected employees based on their individual performances.

Future Outlook

This financial year has been designated as a foundation year of which the Company's strategy is to "invest for future growth", in both the core market of Hong Kong as well as the fast growing Greater China region. Our strategy in Hong Kong is to maintain the momentum of growth through consolidating and improving the efficiency of existing brands and stores as well as expanding into new segments via product innovations. In the Greater China region and operated via the jointly owned joint venture company GSIT, our goal there is to grow vigorously through rapid expansion of our directly managed stores network as well as that of our franchisees distribution.

Over recent months, the Company has been able to maintain the growth momentum of the first half. Looking into the rest of the financial year, we remain cautiously optimistic in achieving the double digit turnover and net profit growth target for the full financial year in the key market of Hong Kong while minimising the loss in the faster growing market of China.

Intense competition is expected to continue in the retail business. However, the Company remains bullish in sustaining the growth in Hong Kong of which a pragmatic expansion strategy has been adopted with strong emphasis on efficiency and profitability. To achieve such long-term growth objective, the Company will launch two new in-house brands for apparels (Chocoolate) and shoes (Venilla Suite) in November. This is the first time the Company introduces new in-house brand since launching http://www.izzue.com back in year 2000. We believe that the new merchandise offered will broaden the customer segments for the Company and increase our share of the customers' wallets. The long-term vision of the Company is to evolve from a pure fashion trend-setter to a fashion focus lifestyle products and services provider.

Retail and wholesale businesses in the China market continues to strengthen and various new business opportunities is being actively pursued via our jointly controlled joint venture company GSIT. GSIT's top line performance as well as the new footages and shops added during the first six months have been strong. Our goal for GSIT is to deliver sustainable and vigorous growth and to achieve operating break-even in financial year 2008. GSIT is also expanding its business to the lucrative luxury brand market in China. In September this year, GSIT has taken over the operations of KENZO and more luxury brands and shops are on the pipeline. Despite the higher than expected first half loss in China, we remain highly confident that the current strategy will continue to strengthen our competitive position in capitalising on the forthcoming opportunities that the China market's growth presents.

We have also continued to explore the potential of new markets via the franchise business. The international development of our wholesale businesses, leveraging our in-house brands and product design/development capabilities, is one of our key focuses in our long-term strategy. More stores will be added in Saudi Arabia and Thailand in the coming months. The Company is also of high hope that several new markets will be added during the next twelve months.

While the Company has started to re-align both internal and external resources for the next five years growth plan and strategy, a number of task forces have been set up to look at delivering short-term efficiency and sales gain. Task forces such as those focusing on the improvement of sales per footage as well as on customer service, customer relationship management, and sales culture will hopefully create significant values in both near-term as well as preparing the Company for future expansion. The Company has also added a new investment appraisal process of which new investment or business initiatives will have to go through a series of vigorous analyses in both strategic and financial angles (via a newly established Strategic & Corporate Development Department) so as to improve the return of our investment in the future. All these initiatives are designed to assist the Company to deliver our goal of generating long-term higher than market return on investment and equity value to our shareholders.

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

As at 31 August 2006, the interests or short positions of the directors and chief executives in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance (the "SFO")), as recorded in the register maintained by the Company under Section 352 of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuer (the "Model Code") as set out in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

(a) Long positions in the shares of the Company

Director	Capacity	Number of shares held	Percentage of interest in the Company
Sham Kar Wai	Interest in controlled company and beneficiary of trust (Notes 1 and 2)	672,075,000	64.69%
Sham Kin Wai	Interest in controlled company and beneficiary of trust (Notes 2 and 3)	672,075,000	64.69%

Notes:

(1) Mr Sham Kar Wai holds 25% of the issued share capital of 3WH Limited. Ms Yau Shuk Ching, Chingmy (spouse of Mr Sham Kar Wai) also holds 25% of the issued share capital of 3WH Limited. As such, Mr Sham Kar Wai is deemed to have a controlling interest in 3WH Limited and is therefore deemed to be interested in the interests of 3WH Limited in the Company.

(2) Mr Sham Kar Wai and Mr Sham Kin Wai are both beneficiaries of The ABS 2000 Trust, which is an irrevocable discretionary trust. Effective Convey Limited is wholly-owned by Dynamic Vitality Limited, which is in turn wholly-owned by The ABS 2000 Trust. Each of Mr Sham Kar Wai and Mr Sham Kin Wai is therefore deemed to be interested in the interests of Effective Convey Limited in the Company.

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

(b) Long positions in the share options of the Company

The interests of the directors and chief executives of the Company in the share options of the Company are detailed in "Share Options" below.

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

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

Save as disclosed above, none of the directors, chief executives or their associates had any interests and/or short positions in the shares, underlying shares or debentures of the Company or its associated corporations as at 31 August 2006.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Apart from the Pre-IPO Share Options and Share Option Scheme as disclosed in the section headed "Share Options" below, at no time during the period ended 31 August 2006 were rights to acquire benefits be means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangements to enable the Directors or their associates to acquire benefits by means of acquisition of shares in, or debenture of, the Company or any body corporate.

SHARE OPTIONS

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

	Date of grant	Exercise period	Number of Share Options held as at beginning and end of period
Director			
Chan Wai Mo, Alva	7 February 2005	4 September 2005 to 7 February 2008	600,000
Continuous contract employees	7 February 2005	4 September 2005 to 7 February 2008	200,000
Consultant	7 February 2005	4 September 2005 to 7 February 2008	5,000,000
			5,800,000

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

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

			Number of share options		
	Date of grant	Exercise period	As at 1 March 2006	Forfeited during the period	Held as at 31 August 2006
Director					
Chan Wai Mo, Alva	28 April 2005	28 April 2005 to 27 April 2008	3,000,000	–	3,000,000
Continuous contract employees	28 April 2005	28 April 2005 to 27 April 2008	11,950,000	(600,000)	11,350,000
			14,950,000	(600,000)	14,350,000

Subsequent to the cessation as employees of the Company, a total of 600,000 number of share options were forfeited during the six months ended 31 August 2006. The Company may grant these number of share options to eligible participants again pursuant to the rules of the Share Option Scheme.

SHARE OPTIONS (Continued)

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

The significant inputs into the Binomial Option Pricing Model were as follows:–

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

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

As at 31 August 2006, the register kept by the Company under Section 336 of the SFO showed that the following shareholders (other than directors of the Company) had disclosed to the Company pursuant to Division 2 and 3 of Part XV of the SFO an interest or a short position in the shares or underlying shares of the Company:

Name	Capacity	Number of shares held	Percentage of interest in the Company
3WH Limited	Beneficial owner	336,037,500	32.35%
Effective Convey Limited (Note 1)	Beneficial owner	336,037,500	32.35%
Dynamic Vitality Limited (Note 1)	Interest in corporation	336,037,500	32.35%
The ABS 2000 Trust (Notes 1 and 2)	Interest in corporation	336,037,500	32.35%
HSBC International Trustee Limited (Note 2)	Interest in corporation	338,187,500	32.55%

Notes:

1. Effective Convey Limited is a wholly-owned subsidiary of Dynamic Vitality Limited, which is wholly-owned by The ABS 2000 Trust. Each of Dynamic Vitality Limited and The ABS 2000 Trust is therefore deemed interested in the Shares held by Effective Convey Limited.

2. The ABS 2000 Trust was established on 14 September 2000 as an irrevocable discretionary trust for the benefit of Mr. Sham Kar Wai and Mr. Sham Kin Wai, and their respective family members. HSBC International Trustee Limited is the trustee of The ABS 2000 Trust.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend (six months ended 31 August 2005: Nil) and propose that the profit for the period be retained.

CONTINUING DISCLOSURE REQUIREMENTS

The Company has made an announcement pursuant to Rule 13.16 of the Listing Rules on 2 August 2005 whereby a wholly-owned subsidiary of the Company by stages made advancements to GSIT, a jointly-controlled company owned as to 50% indirectly by the Company and 50% indirectly by Glorious Sun Enterprises Limited. Pursuant to the assets test under Rule 14.07 of the Listing Rules, the total sum advanced to GSIT exceeded 8% of the total assets of the Company as at 28 February 2006. The circumstances giving rise to such disclosure continued to exist at the six months ended 31 August 2006. A summary of significant balance sheet classifications of GSIT is hereby presented.

G.S – I.T LIMITED
SUMMARY OF SIGNIFICANT BALANCE SHEET CLASSIFICATION
AS AT 31 AUGUST 2006

	As at 31 August 2006 (Unaudited) HK$'000
Non-current assets	104,918
Current assets	158,594
Current liabilities	(185,581)
Net current liabilities	(26,987)
Total assets less current liabilities	77,931
Non-current liabilities	
Deferred income tax liabilities	(55)
Amount due to shareholders	(99,599)
	(99,654)
Net liabilities	(21,723)
Capital and reserves attributable to the Company's equity holders	(21,723)

CORPORATE GOVERNANCE

The Company is committed to implementing good corporate governance practices and emphasizing on transparency and accountability to its shareholders and stakeholders. In the opinion of the Board, the Company has applied throughout the six months ended 31 August 2006 with the Code on Corporate Governance Practices as set out in the Listing Rules except for the deviations as mentioned below.

From 24 May 2006 to 31 July 2006, the Board only had two Independent Non-executive Directors as the result of the re-designation of Dr. Lo Wing Yan, William, J.P. to an Executive Director. On 1 August 2006, Mr. Francis Goutenmacher was appointed as Independent Non-executive Director of the Company in compliance with Rules 3.10 and 3.11 of the Listing Rules.

The Company is fully aware that in order to reinforce the Directors' respective independence, accountability and responsibility, the role of the Chairman should be separated from that of the Chief Executive Officer. However, Mr. Sham Kar Wai currently holds both positions. The Board believes that vesting the roles of both Chairman and Chief Executive Officer in the same person would allow the Company to be more effective and efficient in developing long term business strategies and execution of business plans. The Board believes that the balance of power and authority is adequately ensured by the operating of the Board which comprises experienced and high caliber individuals with superintendence from Non-executive Directors.

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules for securities transactions by the Directors. Employees who are likely to possess unpublished price-sensitive information of the Company are also subject to compliance with the same terms as the Model Code. Having made specific enquiry, all Directors have confirmed that throughout the period under review they have fully complied with the required standard set out in the Model Code regarding securities transactions by the Directors.

REVIEW OF FINANCIAL INFORMATION

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Company and discussed auditing, internal control and financial reporting matters including the review of the unaudited financial information and interim report for the six months ended 31 August 2006.

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

There was no purchase, sale or redemption of the Company's listed shares by the Company or any of its subsidiaries during the six months ended 31 August 2006.

On Behalf of the Board

Sham Kar Wai
Chairman

Hong Kong, 7 November 2006

I.T IS FASHION

shaping the fashion scene in Greater China

I.T

INTERIM REPORT

06/07

STOCK CODE: 999