

**I.T**

**INTERIM REPORT**

**07/08**

**STOCK CODE: 999**

**I.T LIMITED INTERIM REPORT**

**07/08**



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ITS

**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

# DIRECTORS

### **Independent Non-executive Directors**

Mr. WONG Wai Ming

Mr. Francis GOUTENMACHER

Mr. WONG Tin Yau, Kelvin

### **Company Secretary**

Miss HO Suk Han, Sophia

### **Qualified Accountant**

Mr. KWONG Kwok Yu, Gary

### **Registered Office**

Clarendon House  
2 Church Street  
Hamilton HM11  
Bermuda

### **Head Office and Principal Place of Business in Hong Kong**

31/F Tower A Southmark  
11 Yip Hing Street  
Wong Chuk Hang  
Hong Kong

### **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  
1715-16 Hopewell Centre  
183 Queen's Road East  
Wanchai  
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### **IR Contact**

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Strategic & Corporate Development  
Director  
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### **Corporate Website**

[www.ithk.com](http://www.ithk.com)



## Hong Kong

- Total revenue of the Group increased by 20.0% to HK\$808.0 million.
- Comparable store sales increased by 16.7%.
- Gross profit of the Group increased by 21.5% to HK\$467.1 million at a slightly improved margin of 57.8%.
- Net profit of the Group increased by 41.4% to HK\$44.1 million.
- An interim dividend of HK2.1 cents per share was declared.
- Total revenue of the 50:50 joint venture with French Connection Group plc increased by 42.9% to HK\$45.6 million.
- Comparable store sales of the 50:50 joint venture with French Connection Group plc increased by 24.4%.

## China (operated by GSIT, a 50:50 joint venture)

- Total revenue increased by 55.3% to HK\$194.7 million.
- Comparable store sales increased by 36.8%.
- Total revenue of the 50:50 joint venture between GSIT and French Connection Group plc increased by 84.3% to HK\$18.8 million.
- Comparable store sales of the 50:50 joint venture between GSIT and French Connection Group plc increased by 33.7%.

Key statistics	31 August	31 August	Change
	2007	2006	
Inventory Turnover (Days) <sup>(1)</sup>	114.2	104.5	+ 9.7
Capital Expenditure (HK\$ million) <sup>(2)</sup>	29.8	18.0	+ 11.8
Cash on Hand (HK\$ million) <sup>(3)</sup>	334.4	322.7	+ 11.7
Current Ratio <sup>(4)</sup>	4.0	4.8	
Return on Equity (%) <sup>(5)</sup>	5.4	4.2	+ 1.2

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. Cash and cash equivalents and pledged bank deposits.
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.

Store Coverage	No. of stores			
	Self-managed		Franchise	
	31 August 2007	28 February 2007	31 August 2007	28 February 2007
<b>Greater China:</b>				
Hong Kong				
I.T	150	156	-	-
FCUK IT <sup>(1)</sup>	6	7	-	-
China				
GSIT <sup>(1)</sup>	93	104	51	42
FCIT China <sup>(2)</sup>	13	14	8	5
Taiwan <sup>(3)</sup>	19	25	-	-
Macau				
GSIT <sup>(1)</sup>	-	-	3	3
FCIT China <sup>(2)</sup>	-	-	1	1
<b>Total</b>	<b>281</b>	<b>306</b>	<b>63</b>	<b>51</b>

Notes:

- (1) a 50% owned joint venture of the Company
- (2) a 50% owned joint venture of GSIT
- (3) a 51% owned joint venture of GSIT

羅兵咸永道會計師事務所

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

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION  
TO THE BOARD OF DIRECTORS OF I.T LIMITED  
(Incorporated in Bermuda with limited liability)

## INTRODUCTION

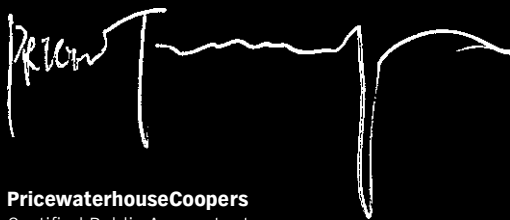
We have reviewed the interim financial information set out on pages 12 to 26, which comprises the condensed consolidated balance sheet of I.T Limited (the "Company") and its subsidiaries (together, the "Group") as at 31 August 2007 and the related condensed consolidated statements of income, changes in equity and cash flows for the six-month period then ended. The Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review 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.

## SCOPE OF REVIEW

We conducted our review in accordance with the Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting."



**PricewaterhouseCoopers**  
Certified Public Accountants

Hong Kong, 29 October 2007

# CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

For the six months ended 31 August 2007

	Note	Six months ended 31 August	
		2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Revenue	4	<b>807,970</b>	673,304
Cost of sales	6	<b>(340,833)</b>	(288,908)
Gross profit		<b>467,137</b>	384,396
Other gains, net	5	<b>1,369</b>	933
Operating expenses	6	<b>(424,393)</b>	(347,837)
Operating profit		<b>44,113</b>	37,492
Finance income, net	7	<b>9,983</b>	8,102
Share of loss of jointly controlled entities		<b>(925)</b>	(8,289)
Profit before income tax		<b>53,171</b>	37,305
Income tax expense	8	<b>(9,058)</b>	(6,102)
Profit for the period, attributable to the equity holders of the Company		<b>44,113</b>	31,203
Dividend	9	<b>21,834</b>	-
Earnings per share for profit attributable to the equity holders of the Company during the period (expressed in HK\$ per share)			
- basic	10	<b>0.042</b>	0.030
- diluted	10	<b>0.042</b>	0.030

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

# CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

As at 31 August 2007

	Note	As at 31 August 2007 (Unaudited) HK\$'000	As at 28 February 2007 (Audited) HK\$'000
<b>ASSETS</b>			
Non-current assets			
Furniture and equipment	11	94,399	93,191
Intangible assets	11	11,143	14,819
Investments in and amounts due from jointly controlled entities	12	81,799	83,233
Rental deposits		42,137	56,352
Deferred income tax assets		10,333	5,761
Other assets		4,330	2,330
		<u>244,141</u>	<u>255,686</u>
Current assets			
Inventories		226,770	196,299
Trade receivables	13	9,833	9,252
Amount due from a jointly controlled entity	12	96,594	82,437
Prepayments, deposits and other receivables	14	103,598	82,010
Derivative financial instruments	15	1,355	1,883
Pledged bank deposits		750	750
Cash and cash equivalents		333,626	364,820
		<u>772,526</u>	<u>737,451</u>
<b>LIABILITIES</b>			
Current liabilities			
Trade and bills payables	16	(86,941)	(66,805)
Accruals and other payables	17	(74,423)	(71,648)
Borrowings	18	(3,102)	-
Derivative financial instruments	15	-	(424)
Current income tax liabilities		(27,944)	(19,423)
		<u>(192,410)</u>	<u>(158,300)</u>
Net current assets		<u>580,116</u>	<u>579,151</u>
Total assets less current liabilities		<u>824,257</u>	<u>834,837</u>
Non-current liabilities			
Other payables	17	(3,063)	(7,585)
Deferred income tax liabilities		(328)	(499)
		<u>(3,391)</u>	<u>(8,084)</u>
Net assets		<u>820,866</u>	<u>826,753</u>
<b>EQUITY</b>			
Capital and reserves attributable to the Company's equity holders			
Share capital	19	103,970	103,950
Reserves	20	716,896	722,803
Total equity		<u>820,866</u>	<u>826,753</u>



**SHAM KAR WAI**  
Chairman



**LO WING YAN, WILLIAM**  
Vice Chairman

The accompanying 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 2007

	Attributable to equity holders of the Company		Total (Unaudited) HK\$'000
	Share capital (Unaudited) HK\$'000	Reserves (Unaudited) HK\$'000	
Balance at 1 March 2007	103,950	722,803	826,753
Net income recognised directly in equity			
- cash flow hedges	-	(820)	(820)
- currency translation differences	-	1,402	1,402
Profit for the period	-	44,113	44,113
Total recognised income for the six months ended 31 August 2007	-	44,695	44,695
Proceeds from issue of shares under a share option scheme	20	-	20
Share option scheme			
- Value of employment services	-	1,383	1,383
Dividend relating to year ended 28 February 2007	-	(51,985)	(51,985)
	20	(50,602)	(50,582)
Balance at 31 August 2007	103,970	716,896	820,866
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

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

# CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT

For the six months ended 31 August 2007

	Six months ended 31 August	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Net cash generated from operating activities	19,947	33,186
Net cash used in investing activities	(2,620)	(87,191)
Net cash used in financing activities	(48,521)	(48,956)
Net decrease in cash and cash equivalents	(31,194)	(102,961)
Cash and cash equivalents, at 1 March	364,820	424,881
Cash and cash equivalents, at 31 August	<u>333,626</u>	<u>321,920</u>
Analysis of cash and cash equivalents:		
Cash and bank deposits	<u>333,626</u>	<u>321,920</u>

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

# NOTES TO THE CONDENSED CONSOLIDATED 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 29 October 2007.

## 2 BASIS OF PREPARATION

This condensed consolidated financial information for the six months ended 31 August 2007 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (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 2007.

## 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 2007, 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 2007 and relevant to its operations.

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transfer

The adoption of the above new standard, amendment and interpretations has no material impact on the condensed consolidated interim financial information of the Group.

The following new standards and interpretations have been issued by the HKICPA but are not effective for financial year ending 29 February 2008 and have not been early adopted:

HKFRS 8	Operating Segments
HK(IFRIC)-Int 12	Service Concession Arrangements
HK(IFRIC)-Int 13	Customer Loyalty Programmes
HK(IFRIC)-Int 14	HKAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
HKAS 23 (Revised)	Borrowing Costs

## 4 SEGMENT INFORMATION

### (a) Analysis of revenue by category

	Six months ended 31 August	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Sales of fashion wears and accessories	804,504	671,386
Royalty income (Note 23)	3,466	1,918
	<u>807,970</u>	<u>673,304</u>

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

(Continued)

## 4 SEGMENT INFORMATION (Continued)

### (b) Segment information

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

No segment analysis for geographical segment is presented as substantially all of the Group's sales, operating results, assets (excluding investments in and amounts due from jointly controlled entities) and liabilities were located in Hong Kong. The Group's operations in Mainland China are mainly carried out through its jointly controlled entities.

## 5 OTHER GAINS, NET

	<b>Six months ended 31 August</b>	
	<b>2007</b>	2006
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Derivative financial instruments: forward currency contracts, transactions not qualifying as hedge and ineffective portion of changes in fair values	<u>1,369</u>	<u>933</u>

## 6 EXPENSES BY NATURE

	<b>Six months ended 31 August</b>	
	<b>2007</b>	2006
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Cost of inventories sold	<b>337,740</b>	292,675
Write-downs of inventories to net realisable value	<b>5,859</b>	1
Employment costs (including directors' emoluments)	<b>154,222</b>	124,096
Operating lease rentals of premises		
- minimum lease payments	<b>150,597</b>	122,815
- contingent rents	<b>5,166</b>	4,511
Advertising and promotion costs	<b>10,222</b>	9,139
Depreciation of furniture and equipment	<b>26,502</b>	23,171
Licence fees		
- amortisation of licence rights	<b>3,917</b>	4,864
- contingent licence fees	<b>2,064</b>	1,842
Net exchange gains	<b>(2,766)</b>	(3,768)
Loss/(gain) on disposal of furniture and equipment	<b>1,873</b>	(119)
Other expenses	<b>69,830</b>	57,518
Total cost of sales and operating expenses	<u><b>765,226</b></u>	<u>636,745</u>

## 7 FINANCE INCOME, NET

	<b>Six months ended 31 August</b>	
	<b>2007</b>	2006
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Interest income from		
- bank deposits	<b>5,032</b>	5,488
- amounts due from jointly controlled entities	<b>2,241</b>	1,299
- others	<b>2,788</b>	1,642
Finance income	<u><b>10,061</b></u>	<u>8,429</u>
Interest expense on		
- bank borrowings wholly repayable within five years	<b>(8)</b>	(1)
- licence fees payable	<b>(70)</b>	(326)
Finance costs	<u><b>(78)</b></u>	<u>(327)</u>
Net finance income	<u><b>9,983</b></u>	<u>8,102</u>



# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

## (Continued)

### 8 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% (six months ended 31 August 2006: 17.5%) on the estimated assessable profits of the Group's operations in Hong Kong for the period.

The amounts of taxation charged to the condensed consolidated interim income statement represent:

	<b>Six months ended 31 August</b>	
	<b>2007</b>	2006
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Current income tax – Hong Kong profits tax	<b>13,801</b>	9,654
Deferred income tax	<b>(4,743)</b>	(3,552)
	<b><u>9,058</u></b>	<u>6,102</u>

### 9 DIVIDEND

	<b>Six months ended 31 August</b>	
	<b>2007</b>	2006
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Interim, declared, of HK\$0.021 (six months ended 31 August 2006: Nil) per ordinary share	<b><u>21,834</u></b>	<u>-</u>

At the board meeting held on 29 October 2007, the directors declared interim dividend of HK\$0.021 per share. These dividends have not been recognised as a liability at the balance sheet date.

### 10 EARNINGS PER SHARE

#### Basic

The calculation of basic earnings per share for the year is based on the consolidated profit attributable to equity holders of the Company and on the weighted average number of ordinary shares in issue during the period.

	<b>Six months ended 31 August</b>	
	<b>2007</b>	2006
	<b>(Unaudited)</b>	(Unaudited)
Profit attributable to equity holders of the Company (HK\$'000)	<b>44,113</b>	31,203
Weighted average number of ordinary shares in issue ('000)	<b>1,039,641</b>	1,038,900
Basic earnings per share (HK\$ per share)	<b><u>0.042</u></b>	<u>0.030</u>

#### 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.

Shares issuable under the share option schemes are the only dilutive potential ordinary shares. A calculation is made in order 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.

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

(Continued)

## 10 EARNINGS PER SHARE (Continued)

### Diluted (Continued)

	Six months ended 31 August 2007 (Unaudited)	2006 (Unaudited)
Profit attributable to equity holders of the Company (HK\$'000)	<u>44,113</u>	<u>31,203</u>
Weighted average number of ordinary shares in issue ('000)	<u>1,039,641</u>	1,038,900
Adjustments for share options ('000)	<u>3,291</u>	5,403
Weighted average number of ordinary shares for diluted earnings per share ('000)	<u>1,042,932</u>	<u>1,044,303</u>
Diluted earnings per share (HK\$ per share)	<u>0.042</u>	<u>0.030</u>

## 11 CAPITAL EXPENDITURE

	Furniture and equipment (Unaudited) HK\$'000	Intangible Assets (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
<b>Six months ended 31 August 2007</b>			
Opening net book amount as at 1 March 2007	93,191	14,819	108,010
Additions	29,583	241	29,824
Disposals	(1,873)	-	(1,873)
Depreciation and amortisation	(26,502)	(3,917)	(30,419)
Closing net book amount as at 31 August 2007	<u>94,399</u>	<u>11,143</u>	<u>105,542</u>
<b>Six months ended 31 August 2006</b>			
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	<u>91,510</u>	<u>14,305</u>	<u>105,815</u>

## 12 INVESTMENTS IN AND AMOUNTS DUE FROM JOINTLY CONTROLLED ENTITIES

	As at 31 August 2007 (Unaudited) HK\$'000	As at 28 February 2007 (Audited) HK\$'000
Share of net assets	<u>36,141</u>	8,795
Amounts due from jointly controlled entities	<u>142,252</u>	156,875
	<u>178,393</u>	165,670
Less: current portion of amounts due from jointly controlled entities	<u>(96,594)</u>	(82,437)
	<u>81,799</u>	<u>83,233</u>

Amounts due from jointly controlled entities of approximately HK\$45,658,000 (28 February 2007: HK\$74,438,000) 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 (28 February 2007: 3% per annum). As at 31 August 2007, the carrying amounts of these amounts due from jointly controlled entities approximate their fair values.

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

## (Continued)

### 12 INVESTMENTS IN AND AMOUNTS DUE FROM JOINTLY CONTROLLED ENTITIES (Continued)

The remaining balance due from a jointly controlled entity of approximately HK\$96,594,000 (28 February 2007: HK\$82,437,000) is unsecured, interest-bearing at 5% per annum (28 February 2007: 5% per annum) and repayable within 7 days.

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

Details of the principal jointly controlled entities as at 31 August 2007 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\$26,000,000	50%	Retail of fashion wears and accessories
G.S - i.t Limited	Hong Kong	HK\$60,000,000	50%	Investment holding

In September 2007, Support Holdings Limited, the wholly-owned subsidiary of the Group proposed to acquire the remaining 50% interest in G.S-i.t Limited from Glorious Sun Trading (HK) Limited, the other shareholder of G.S-i.t Limited (Note 24).

### 13 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 2007, all trade receivables were aged between 0 and 90 days (28 February 2007: between 0 and 90 days).

The carrying amounts of trade receivables approximate their fair values.

### 14 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 31 August 2007 (Unaudited) HK\$'000	As at 28 February 2007 (Audited) HK\$'000
Prepayments	46,125	57,840
Rental and utility deposits	51,947	23,520
Other receivables	5,526	650
	<u>103,598</u>	<u>82,010</u>

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

### 15 DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments represent forward currency contracts designated as cash flow hedges. Gains and losses in equity on forward currency contracts as at 31 August 2007 will be released to the income statement at various dates between six months and one year from that date.

As at 31 August 2007, the notional amounts of the outstanding forward currency exchange contracts to buy Japanese Yen and Euros for hedging against foreign exchange risk exposures relating to firm purchase orders of fashion wears and accessories and certain outstanding payables denominated in those currencies, are approximately HK\$83,183,000 (28 February 2007: HK\$85,439,000).

As at 31 August 2007, the notional amount of the 1 year foreign exchange contract to buy Euros against USD is approximately HK\$15,227,000.

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

(Continued)

## 16 TRADE AND BILLS PAYABLES

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

	As at 31 August 2007 (Unaudited) HK\$'000	As at 28 February 2007 (Audited) HK\$'000
0 to 30 days	79,532	53,516
31 to 60 days	4,522	8,662
61 to 90 days	1,296	3,086
91 to 180 days	598	1,240
181 to 365 days	986	256
Over 365 days	7	45
	<u>86,941</u>	<u>66,805</u>

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

## 17 ACCRUALS AND OTHER PAYABLES

	As at 31 August 2007 (Unaudited) HK\$'000	As at 28 February 2007 (Audited) HK\$'000
Unutilised coupon	2,198	1,914
Accruals		
- Rental premises	32,671	32,363
- Employment costs	14,462	17,575
- Others	12,730	10,525
Licence fees payable	10,357	13,525
Other payables	5,068	3,331
	<u>77,486</u>	<u>79,233</u>
Less: non-current portion of licence fees payable	(3,063)	(7,585)
	<u>74,423</u>	<u>71,648</u>

Licence fees payable are recognised based on a discount rate equal to the Group's weighted average borrowing rate of 4% per annum (28 February 2007: 4% per annum) at the date of inception of such obligation.

The carrying amounts of payables approximate their fair values.

## 18 BORROWINGS

	As at 31 August 2007 (Unaudited) HK\$'000	As at 28 February 2007 (Audited) HK\$'000
Current	<u>3,102</u>	<u>-</u>

Movement in bank borrowings is analysed as follows:

	(Unaudited) HK\$'000
<b>At 1 March 2007</b>	-
Proceeds from borrowings	<u>3,102</u>
<b>At 31 August 2007</b>	<u>3,102</u>

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

(Continued)

## 18 BORROWINGS (Continued)

Bank borrowings are repayable by February 2008 and bear interest of 6.6% per annum (28 February 2007: Nil).

The fair values of current borrowings approximate their carrying amounts, as the impact of discounting is not significant. The fair values are based on cash flows discounted using a rate based on the borrowings rate of 6.6% (28 February 2007: Nil).

Interest expense on borrowings for the six months ended 31 August 2007 is approximately HK\$6,000 (six months ended 31 August 2006: Nil).

## 19 SHARE CAPITAL

The total number of authorised ordinary shares is 3,000,000,000 shares (28 February 2007: 3,000,000,000 shares) with a par value of HK\$0.1 per share (28 February 2007: HK\$0.1 per share).

	Number of ordinary shares '000	Nominal value HK\$'000
Issued and fully paid:		
At 1 March 2006 (Audited) and 31 August 2006 (Unaudited)	1,038,900	103,890
<b>At 1 March 2007</b> (Audited)	1,039,500	103,950
Issue of shares under a share option scheme (Unaudited)	200	20
<b>At 31 August 2007</b> (Unaudited)	1,039,700	103,970

### 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. The Group has no legal or constructive obligation to repurchase or settle these Pre-IPO Share Options in cash. No additional Pre-IPO Share Options can be granted.

The fair value of the Pre-IPO Share Options granted on 7 February 2005 determined using Binomial Option Pricing Model, was approximately HK\$1.71 per share option, totalling approximately HK\$12,338,000. The significant inputs into Binomial Option Pricing Model were as follows:

Share price at the grant date	HK\$1.95
Exercise price per share	HK\$0.10
Standard derivation of expected share price returns	33.00%
Expected life of options	3 years
Expected dividend paid out rate	2.50%
Annual risk free rate	2.15%

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

	Six months ended 31 August			
	2007		2006	
	Exercise price per share HK\$	Options '000	Exercise price per share HK\$	Options '000
At beginning of period	0.1	5,200	0.1	5,800
Exercised	0.1	(200)	0.1	-
At end of period		<u>5,000</u>	0.1	<u>5,800</u>

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

(Continued)

## 19 SHARE CAPITAL (Continued)

### Share options (Continued)

- (b) In February 2005, the Company has adopted a share option scheme ("Share Option Scheme"), which will remain in force for 10 years up to February 2015. Share options may be granted to eligible participants as defined in the Share Option Scheme to subscribe for shares in the Company. The exercise price is determined by the Board and shall not be 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; 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\$10 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 Group has no legal or constructive obligation to repurchase or settle the options in cash.

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 fair value of the 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.

On 16 February 2007, the Company granted options under the Share Option Scheme to a director of the Group to subscribe for an aggregate of 6,000,000 shares in the Company at a price of HK\$1.56 per share, exercisable during the period from 16 February 2007 to 15 February 2010. The fair value of the options granted on 16 February 2007, determined using the Binomial Option Pricing Model, was approximately HK\$0.29 per share option, totalling approximately HK\$1,724,000.

On 1 June 2007, the Company granted options under the Share Option Scheme to a director of the Group to subscribe for an aggregate of 4,000,000 shares in the Company at a price of HK\$1.47 per share, exercisable during the period from 1 June 2007 to 30 May 2010. The fair value of the options granted on 1 June 2007, determined using the Binomial Option Pricing Model, was approximately HK\$0.35 per share option, totalling approximately HK\$1,383,000.

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

Grant date	28 April 2005	16 February 2007	1 June 2007
Share price at the grant date	HK\$2.10	HK\$1.55	HK\$1.46
Exercise price per share	HK\$2.35	HK\$1.56	HK\$1.47
Standard deviation of expected share price returns	33.00%	36.00%	35.00%
Expected life of options	1.6 years	3 years	2.7 years
Expected dividend paid out rate	2.50%	3.50%	3.00%
Annual risk free rate	2.79%	4.11%	4.36%

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

	Six months ended 31 August			
	2007		2006	
	Exercise price per share HK\$	Options '000	Exercise price per share HK\$	Options '000
Beginning of the period	2.11	20,150	2.35	14,950
Granted	1.47	4,000	-	-
Forfeited	2.35	(3,550)	2.35	(600)
End of the period	1.94	20,600	2.35	14,350

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

## (Continued)

### 19 SHARE CAPITAL (Continued)

#### Share options (Continued)

(c) Share options outstanding at the end of the period have the following expiry dates and exercise prices:

Expiry date	Exercise price per share HK\$	Share options	
		As at 31 August 2007 '000	As at 31 August 2006 '000
7 February 2008	0.1	5,000	5,800
27 April 2008	2.35	10,600	14,350
15 February 2010	1.56	6,000	-
30 May 2010	1.47	4,000	-
		<u>25,600</u>	<u>20,150</u>

### 20 RESERVES

	Share premium (Unaudited) HK\$'000	Share-based compensation reserve (Unaudited) HK\$'000	Capital reserve (Unaudited) HK\$'000	Hedging reserve (Unaudited) HK\$'000	Translation (Unaudited) HK\$'000	Retained profits (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Balance at 1 March 2007	424,689	13,349	32,337	820	2,612	248,996	722,803
Share option scheme							
- value of employment services	-	1,383	-	-	-	-	1,383
Cash flow hedge							
- transfers to income statement	-	-	-	(820)	-	-	(820)
Profit for the period	-	-	-	-	-	44,113	44,113
Exercise of share options	342	(342)	-	-	-	-	-
Forfeiture of share options	-	(645)	-	-	-	645	-
Currency transaction difference							
- jointly controlled entities	-	-	-	-	1,402	-	1,402
Dividend relating to year ended 28 February 2007	-	-	-	-	-	(51,985)	(51,985)
Balance at 31 August 2007	<u>425,031</u>	<u>13,745</u>	<u>32,337</u>	<u>-</u>	<u>4,014</u>	<u>241,769</u>	<u>716,896</u>
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	<u>423,661</u>	<u>12,798</u>	<u>32,337</u>	<u>133</u>	<u>-</u>	<u>157,651</u>	<u>626,580</u>

### 21 BANKING FACILITIES AND PLEDGE OF ASSETS

As at 31 August 2007, the Group had aggregate banking facilities of approximately HK\$344,711,000 (28 February 2007: HK\$339,500,000) for overdrafts, bank loans and trade financing, of which approximately HK\$243,396,000 (28 February 2007: HK\$254,424,000) was unutilised as at the same date. These facilities are secured by:

- the Group's bank deposits of HK\$750,000 (28 February 2007: HK\$750,000); and
- 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.

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

(Continued)

## 22 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:

	<b>As at 31 August 2007 (Unaudited) HK\$'000</b>	As at 28 February 2007 (Audited) HK\$'000
Not later than one year	<b>323,667</b>	273,062
Later than one year and not later than five years	<b>410,748</b>	374,197
	<b><u>734,415</u></b>	<u>647,259</u>

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

	<b>As at 31 August 2007 (Unaudited) HK\$'000</b>	As at 28 February 2007 (Audited) HK\$'000
Letters of guarantee issued by banks in lieu of rental deposits	<b>17,608</b>	19,550

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.

## 23 RELATED PARTY TRANSACTIONS

As at 31 August 2007, the Group was controlled by the Sham's family via:

- (i) Effective Convey Limited (incorporated in the British Virgin Islands), which owns 32.32% of the Company's shares. Effective Convey Limited is indirectly wholly-owned by a discretionary trust for the benefit of, amongst others, Mr. Sham Kar Wai and Mr. Sham Kin Wai; and
- (ii) 3WH Limited (incorporated in Hong Kong), which owns 32.32% of the Company's shares. 3WH Limited is owned by Mr. Sham Kar Wai and his wife, and Mr. Sham Kin Wai.

### (a) Details of significant transactions with related parties

	<b>Six months ended 31 August 2007 (Unaudited) HK\$'000</b>	2006 (Unaudited) HK\$'000
Sales of fashion wears and accessories to a jointly controlled entity (i)	<b>43,748</b>	37,184
Royalty income earned from a jointly controlled entity	<b>3,466</b>	1,918
Commission income earned from a jointly controlled entities	<b>77</b>	-
Reimbursement of operating expenses by jointly controlled entities	<b>2,985</b>	2,765
Interest income from amounts due from jointly controlled entities	<b>2,241</b>	1,299

Note:

- (i) Sales of fashion wears and accessories to a jointly controlled entity was made at cost.



# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

(Continued)

## 23 RELATED PARTY TRANSACTIONS (Continued)

### (b) Key management compensation

	Six months ended 31 August	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Directors' fees	268	143
Salaries and allowances	14,575	11,802
Pension costs – employer's contributions to a defined contribution plan	246	214
Share options granted	1,383	–
	<u>16,472</u>	<u>12,159</u>

## 24 EVENTS AFTER THE BALANCE SHEET DATE

Subsequent to period end, the Group proposed to acquire the remaining 50% interest in G.S-i.t Limited from Glorious Sun Enterprises Limited ("Glorious Sun") not already owned by the Group and Glorious Sun Trading (HK) Limited ("GS Trading"), a company wholly owned by Glorious Sun for a cash consideration of HK\$80 million and ordinary shares of 102,827,473 at market price of HK\$1.78 per share amounting to approximately HK\$183 million under GSIT Acquisition Agreement. The Group also proposed to acquire assets of a Nanjing Store and a Macao Store from Glorious Sun for HK\$20 million cash pursuant to the Stores Assets Acquisition Agreement entered into between the Group and Glorious Sun on 28 September 2007. These transactions have not been completed at the date of this report.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Business Review

### (a) Hong Kong

Total revenue increased by 20.0% to HK\$808.0 million (six months ended 31 August 2006: HK\$673.3 million) and sales from retail operation increased by 20.5% to HK\$755.3 million (six months ended 31 August 2006: HK\$626.9 million) for the six months ended 31 August 2007. Overall comparable store sales increased by an impressive 16.7% as compared to the six months ended 31 August 2006. As at 31 August 2007, the Company had 150 stores (excluding French Connection stores operated by FCUK IT Company, our 50% owned joint venture) (31 August 2006: 153). The weighted average of the sales footage remained stable at 290,791 sq. ft. for the six months ended 31 August 2007 (six months ended 31 August 2006: 291,156 sq. ft.).

Retail sales of international product brands increased by 4.8% to HK\$360.3 million (six months ended 31 August 2006: HK\$343.7 million), accounting for 44.6% of total revenue. Due to the launch of :Chocoolate and Venilla suite and impressive performance of b+ab and 5cm, retail sales of in-house product brands increased significantly by 50.9% to HK\$320.9 million (six months ended 31 August 2006: HK\$212.6 million), accounting for 39.7% of total revenue. Retail sales of licensed product brands increased by 3.5% to HK\$73.2 million (six months ended 31 August 2006: HK\$70.7 million), accounting for 9.1% of total revenue.

As at 31 August 2007, FCUK IT Company had 6 stores (31 August 2006: 5), with a total sales area of 11,878 sq. ft. (31 August 2006: 11,563 sq. ft.). After incubating the French Connection brand in Hong Kong for more than 4 years, the brand is gaining more and more awareness among the customers and this joint venture reported a jump of 42.9% in revenue, from HK\$31.9 million for the six months ended 31 August 2006 to HK\$45.6 million for the six months ended 31 August 2007 and enjoyed a comparable store sales increase of 24.4%.

### (b) Greater China (excluding Hong Kong)

G.S.i.t Limited ("GSIT"), our 50% owned joint venture with Glorious Sun Enterprises Limited for the Greater China market (covering China, Taiwan and Macau), reported an increase of 55.3% in revenue, from HK\$125.6 million for the six months ended 31 August 2006 to HK\$194.7 million for the six months ended 31 August 2007. Comparable stores sales for the six months ended 31 August 2007 maintained a high growth rate of 36.8% (six months ended 31 August 2006: 25.2%).

In order to consolidate the aggressive expansion over the last few years, GSIT slowed down the opening of new stores in the first half this year. The total number of self-managed stores (excluding French Connection stores operated by FCIT China Limited, a 50% owned joint venture of GSIT) increased from 82 as at 31 August 2006 to 93 as at 31 August 2007. Total sales area of our self-managed stores was 173,900 sq. ft. as at 31 August 2007 (31 August 2006: 158,500 sq. ft.).

Franchise business had a moderate growth last year. Numbers of franchised stores increased to 54 (including 3 in Macau and excluding French Connection stores) as at 31 August 2007 from 38 as at 31 August 2006 and 45 as at 28 February 2007, with a total sales area of 51,900 sq. ft. (31 August 2006: 33,800 sq. ft.).

As part of our restructuring of our Taiwan operation, GSIT's 51% owned joint venture in Taiwan reduced its self-managed points of sale from 26 as at 31 August 2006 to 19 as at 31 August 2007. Further streamlining is expected given the continued uncertainty in the market.

GSIT's 50% owned joint venture with French Connection Group Plc followed a similar expansion pace as GSIT as a whole. Numbers of self-managed stores increased from 10 as at 31 August 2006 (with a total sales area of 16,500 sq. ft.) to 13 as at 31 August 2007 (with a total sales area of 19,100 sq. ft.). Numbers of franchised stores increased to 9 (31 August 2006: 4) and their total sales area was 12,000 sq. ft. (31 August 2006: 5,700 sq. ft.) as at 31 August 2007. Revenue of this joint venture increased by 84.3%, from HK\$10.2 million for the six months ended 31 August 2006 to HK\$18.8 million for the six months ended 31 August 2007 and reported a comparable store sales increase of 33.7%.

#### **(c) Overseas**

As at 31 August 2007, the Group had 13 franchised stores outside Greater China, 5 stores in Saudi Arabia and 8 stores in Thailand. This represents an increase of 5 stores over 8 stores as at 31 August 2006. Our existing franchisees are performing very well, and the Group plans to introduce :Chocoolate and Venilla suite brands to overseas markets next year. Other countries in the franchised business pipeline include Canada, Singapore, Indonesia and the Philippines.

#### **Gross Profit**

Gross profit increased by 21.5% to HK\$467.1 million for the six months ended 31 August 2007 (six months ended 31 August 2006: HK\$384.4 million). Gross profit margin on retail sales increased slightly to 60.8% for the six months ended 31 August 2007 (six months ended 31 August 2006: 60.3%). The improvement was mainly due to the reversal of the retail sales of in-house brands (which have a comparatively higher margin) against international brands and the tightening of our discount policy to strengthen our brand equity.

#### **Operating Expenses**

Total operating expenses increased by 22.0% to HK\$424.4 million for the six months ended 31 August 2007 (six months ended 31 August 2006: HK\$347.8 million), representing 52.5% (six months ended 31 August 2006: 51.7%) of total revenue.

Despite the continuing market pressure, the Group managed to maintain the percentage of total rental expenses (including management fee, rates and government rent) to total revenue for the six months ended 31 August 2007 at 22.5% (six months ended 31 August 2006: 22.7%). Total rental expenses increased by 19.1% and was slightly lower than the growth rate of total revenue.

The next key expenses item is staff cost which has increased by 24.3% during the period. Due to the launch of 2 new in-house brands late last year (with a majority of the full year's contribution to be reflected in the second half), staff cost as a percentage of total revenue increased to 19.1% (six months ended 31 August 2006: 18.4%). This increase in staff expenses contributes most of the increases in the total operating expenses as a percentage of total revenue in the current first half.

Advertising and promotion expenses increased only mildly at 11.9% during the six months ended 31 August 2007 representing 1.3% of total revenue (six months ended 31 August 2006: 1.4%). We expect to invest more in advertising and promotion in the second half of the year to further enhance overall corporate image and product branding.

During the six months ended 31 August 2007, other miscellaneous operating expenses (total operating expenses other than rental expenses, staff cost, advertising and promotion expenses and depreciation) increased by 33.3%, and as a percentage of total revenue, increased to 6.4% (six months ended 31 August 2006: 5.8%).

#### **Operating Profit and Earnings Before Interest, Taxation, Depreciation and Amortisation Expenses and Excluding the Share of Results of Jointly Controlled Entities (EBITDA)**

EBITDA increased by 14.3% from HK\$74.0 million for the six months ended 31 August 2006 to HK\$84.6 million for the six months ended 31 August 2007 at an operating margin of 10.5%.

#### **Share of Results of Jointly Controlled Entities**

Due to the encouraging performance of FCUK IT Company, share of profit of this joint venture during the six months ended 31 August 2007 increased significantly. Given the continued strong growth momentum, GSIT is close to reach the critical mass and to achieve breakeven, and therefore share of loss of this joint venture during the six months ended 31 August 2007 decreased substantially. Taken together, share of loss of jointly controlled entities decreased substantially from HK\$8.3 million for the six months ended 31 August 2006 to HK\$0.9 million for the six months ended 31 August 2007.

#### **Net Profit**

With the strong double digit growth in top-line revenue in Hong Kong, continuous improvement in gross profit margin and significantly improved performance of the jointly controlled entities, net profit for the six months ended 31 August 2007 increased by 41.4% to HK\$44.1 million (six months ended 31 August 2006: HK\$31.2 million).

#### **Cash Flows**

Net cash generated from operating activities was HK\$19.9 million for the six months ended 31 August 2007 (six months ended 31 August 2006: HK\$33.2 million). Net cash used in investing activities was HK\$2.6 million for the six months ended 31 August 2007 (six months ended 31 August 2006: HK\$87.2 million), which included HK\$29.6 million additions to furniture and equipment. Net cash used in financing activities was HK\$48.5 million for the six months ended 31 August 2007 (six months ended 31 August 2006: HK\$49.0 million), which included HK\$52.0 million dividend payment to shareholders.

#### **Inventory**

Inventory turnover days for the six months ended 31 August 2007 was 114.2 days (six months ended 31 August 2006: 104.5 days).

#### **Liquidity and Capital Resources**

As at 31 August 2007, total cash and bank balances amounted to HK\$333.6 million (28 February 2007: HK\$364.8 million) and total liabilities was HK\$195.8 million (28 February 2007: HK\$166.4 million). Shareholders' equity was HK\$820.9 million (28 February 2007: HK\$826.8 million).

As at 31 August 2007, the Group had aggregate banking facilities of approximately HK\$344.7 million (28 February 2007: HK\$339.5 million) for overdrafts, bank loans and trade financing, of which approximately HK\$243.4 million (28 February 2007: HK\$254.4 million) was unutilised.

As at 31 August 2007, charges on assets amounted to HK\$0.75 million (28 February 2007: HK\$0.75 million), which was bank deposit pledged for letters of guarantees issued by banks in lieu of rental deposits. The Group had bank borrowings of HK\$3.1 million as at 31 August 2007 (28 February 2007: Nil). The current ratio as at 31 August 2007 was 4.0 (28 February 2007: 4.7). The Group's gearing ratio, resulting from a comparison of the total borrowings with total equity was 0.4% at 31 August 2007 (28 February 2007: Nil).

#### **Contingent Liabilities**

As at 31 August 2007, letters of guarantees issued by banks in lieu of rental deposits amounted to HK\$17.6 million (28 February 2007: HK\$19.5 million).

#### **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. Up to 31 August 2007, net proceeds were utilised in the following manners:

	<b>Per prospectus</b>	<b>Amount utilised</b>	<b>Balance as at</b>
	HK\$'000	HK\$'000	31 August 2007 HK\$'000
Expansion of retail network in Hong Kong	320,000	160,786	159,214
Expansion of retail network in the Greater China	90,000	35,336	54,664
Repayment of bank loans	95,000	95,000	–
Working capital	9,900	9,900	–
	<u>514,900</u>	<u>301,022</u>	<u>213,878</u>

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 1,432 employees as at 31 August 2007 (28 February 2007: 1,428). 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**

The Company has recently announced that it has entered into an agreement with Glorious Sun Enterprises Limited to buy back the remaining 50% interest in GSIT not owned by the Group. Completion is expected by the end of November. This is a very important strategic move and signal a new era of the development of the Group. Following completion, GSIT (proposed to be renamed to I.T China Limited) would become a wholly-owned subsidiary of the Company whom will have full control of the strategy and development of the China markets including Macau and Taiwan. The Company will also be able to consolidate the China business, the fastest growing retail and consumer market in the world.

Expansion plan for China would be much accelerated. The Group will expand aggressively outside the existing core cities of Shanghai and Beijing to the growing affluent second tier cities like Nanjing, Hangzhou and Guangzhou. Points of sales will be added at department stores across China so as to improve efficiency and scale. The Company's target is to triple our retail footage in China over the next 3 years. Given that the loss from the China business has narrowed substantially during the six months ended 31 August 2007, the Company still strives to achieve the breakeven target for GSIT for the full year. With the rapid growth of the China economy and the Group's business in China, the Company is confident that China will contribute significantly to the revenue and net profit of the Group by the end of the 3-year plan.

Although the key driver for the medium and long term would be the China market, the Hong Kong market will continue to maintain a healthy growth and provide stable revenue and cash flow to the Group. The performance of the Hong Kong business is very encouraging in the first half of this year. We will strive to keep the growth momentum through revamping of existing stores and introduction of new international brands to Hong Kong. In fact, a new face has already been introduced to some of our stores, for example, the newly renovated i.t shop at Times Square, and they are well received. Our forthcoming strategy would be opening bigger stores to replace existing smaller ones so as to leverage the scale and improving sales per square feet as well as providing a more spacious and comfortable shopping environment to attract new customers through a new store format. The mega store of b+ab at Festival Walk is an example.

The new brands (Chocoolate and Venilla suite) launched late last year are also doing very well and contributed approximately 6.1% of the total retail sales. They will be introduced to overseas markets next year.

The Group has continued to focus on improving its operational leverage processes. We believe that after the contribution of the 2 new brands is reflected in the full year results, key operating expenses such as staff cost will come down as a percentage of total revenue. Special task forces such as one working on improving the design cycle time and the sourcing process has been set up to further explore other cost benefits opportunities. The Board believes that with the new potential in the China market are now under our belt and the robust growth in Hong Kong, the Company is in a good position to expand in both scale and profitability over the next few years. The board is pleased to announce that the Company will pay an interim dividend of HK2.1 cents per share for the first time to our shareholders for their continued support.

## DISCLOSURE OF INTEREST

### 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 2007, 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 of Hong Kong Limited (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	64.64%
Sham Kin Wai	Interest in controlled company and beneficiary of trust (Notes 2 and 3)	672,075,000	64.64%

Notes:

- Mr. Sham Kar Wai holds 25% of the issued share capital of 3WH Limited. Miss 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.
- 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.
- 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 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%
	Income Team 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 a trust	100%
	Dynamic Vitality Limited	Beneficiary of a trust	100%
Sham Kin Wai	3WH Limited	Beneficial owner	50%
	Income Team 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 a trust	100%
	Dynamic Vitality Limited	Beneficiary of a trust	100%

Save as disclosed above, none of the Directors 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 2007.

## DISCLOSURE OF INTEREST (Continued)

### DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Apart from those disclosed in the section headed "Share Options" below, at no time during the period ended 31 August 2007 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangements to enable the 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		
			As at 1 March 2007	Exercised during the period	Held as at 31 August 2007
<b>Continuous contract employees</b>	7 February 2005	4 September 2005 to 7 February 2008	200,000	(200,000)	-
<b>Consultant</b>	7 February 2005	4 September 2005 to 7 February 2008	5,000,000	-	5,000,000
			<u>5,200,000</u>	<u>(200,000)</u>	<u>5,000,000</u>

- (b) The Company adopted a share option scheme ("Share Option Scheme") on 3 February 2005, pursuant to which it may grant options to eligible participants as defined in the Share Option Scheme to subscribe for shares in the Company at a price per share of not less than the highest of (i) the nominal value of a share; (ii) the closing price of a share as stated in the daily quotation sheets issued by the Stock Exchange on the date of the offer of the relevant option; and (iii) the average closing price of the shares as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the date of offer. A consideration of HK\$10 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.

On 16 February 2007, the Company granted options under the Share Option Scheme to a director to subscribe for an aggregate of 6,000,000 shares in the Company at a price of HK\$1.56 per share, exercisable during the period from 16 February 2007 to 15 February 2010. The closing price of the Company's shares immediately before the date on which the options were granted was HK\$1.52.

On 1 June 2007, the Company granted options under the Share Option Scheme to a director to subscribe for an aggregate of 4,000,000 shares in the Company at a price of HK\$1.47 per share, exercisable during the period from 1 June 2007 to 31 May 2010. The closing price of the Company's shares immediately before the date on which the options were granted was HK\$1.50.

	Date of grant	Exercise period	Exercise price per share HK\$	Number of share options			Held as at 31 August 2007
				As at 1 March 2007	Granted during the period	Forfeited during the period	
<b>Director</b>							
Chan Wai Mo, Alva (resigned on 30 March 2007)	28 April 2005	28 April 2005 to 27 April 2008	2.35	3,000,000	-	(3,000,000)	-
Lo Wing Yan, William	16 February 2007	16 February 2007 to 15 February 2010	1.56	6,000,000	-	-	6,000,000
	1 June 2007	1 June 2007 to 31 May 2010	1.47	-	4,000,000	-	4,000,000
<b>Continuous contract employees</b>	28 April 2005	28 April 2005 to 27 April 2008	2.35	11,150,000	-	(550,000)	10,600,000
				<u>20,150,000</u>	<u>4,000,000</u>	<u>(3,550,000)</u>	<u>20,600,000</u>



## DISCLOSURE OF INTEREST (Continued)

### 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	Options granted on 28 April 2005 under the Share Option Scheme	Options granted on 16 February 2007 under the Share Option Scheme	Options granted on 1 June 2007 under the Share Option Scheme
Share price at the grant date	HK\$1.95	HK\$2.1	HK\$1.55	HK\$1.46
Exercise price per share	HK\$0.1	HK\$2.35	HK\$1.56	HK\$1.47
Standard deviation of expected share price returns	33%	33%	36%	35%
Expected life of options	3 years	1.6 years	3 years	2.7 years
Expected dividend paid out rate	2.5%	2.5%	3.5%	3%
Annual risk free rate	2.15%	2.79%	4.11%	4.36%

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

As at 31 August 2007, 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
Arisaig Greater China Fund Limited	Beneficial owner	96,132,000	9.25%
Arisaig Partners (Mauritius) Ltd (Note 1)	Interest in corporation	96,132,000	9.25%
Lindsay William Ernest Cooper (Note 2)	Interest in corporation	96,132,000	9.25%
3WH Limited	Beneficial owner	336,037,500	32.32%
Effective Convey Limited (Note 3)	Beneficial owner	336,037,500	32.32%
Dynamic Vitality Limited (Note 3)	Interest in corporation	336,037,500	32.32%
The ABS 2000 Trust (Note 3 & 4)	Interest in corporation	336,037,500	32.32%
HSBC International Trustee Limited (Note 4)	Interest in corporation	338,187,500	32.53%

Notes:

1. Arisaig Partners (Mauritius) Ltd is the fund manager of Arisaig Greater China Fund Limited.
2. Mr. Lindsay William Ernest Cooper is deemed interested in the Shares held by Arisaig Greater China Fund Limited through his indirect 33.33% interest in Arisaig Partners (Mauritius) Ltd.
3. 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.
4. 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.

## OTHER INFORMATION

### INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK2.1 cents (six months ended 31 August 2006: Nil) per share for the six months ended 31 August 2007, amounting to approximately HK\$21,834,000. The interim dividend will be payable to the shareholders on or around 21 November 2007 to those shareholders whose names appear on the register of members of the Company on 15 November 2007.

### COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE PRACTICES AND THE MODEL CODE

In the opinion of the Board, the Company has complied with the code provisions in Code of Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the six months ended 31 August 2007 except for the deviations as mentioned below.

Mr. Chan Mo Po, Paul did not offer himself for re-election at the Company's 2007 annual general meeting, the Board had only two Independent Non-executive Directors from 23 July to 31 July 2007. On 1 August 2007, Mr. Wong Tin Yau, Kelvin 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 Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules for securities transactions by the Directors. Upon enquiry by the Company, all Directors have confirmed that, for the six months ended 31 August 2007, they have complied with the required standard set out in the Model Code regarding securities transactions by the Directors.

### REVIEW OF FINANCIAL INFORMATION

The Audit Committee has reviewed with the management, the accounting principles and practices adopted by the Company and discussed auditing, internal control and financial reporting matters including the review of the unaudited financial information and interim report for the six months ended 31 August 2007.

The interim financial report for the six months ended 31 August 2007 has also been reviewed by PricewaterhouseCoopers, the Company's independent auditor, whose review report will be included in the interim report to be sent to shareholders.

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

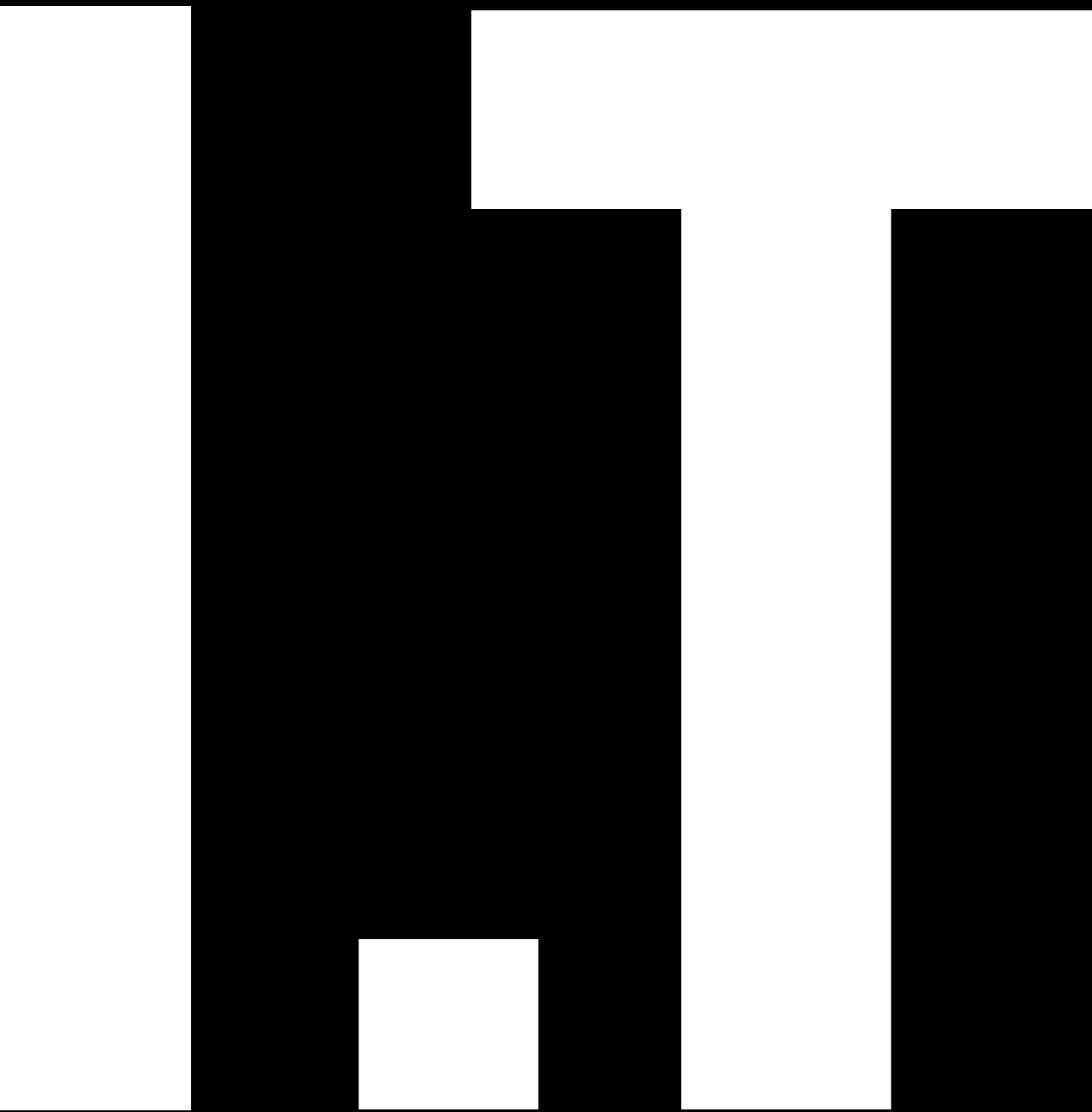
There was no purchase, sale or redemption of the Company's listed shares by the Company or any of its subsidiaries during the six months ended 31 August 2007.

On Behalf of the Board



**Sham Kar Wai**  
Chairman

Hong Kong, 29 October 2007



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