OVERVIEW

The Group is well-established as a trend setter in the fashion apparel retail market in Hong Kong. Through its multi-layer and multi-brand business model, the Group offers a range of apparel products with different fashion influences, sold at varying retail sales prices and targeted at different customer groups. Its stores carry apparel from established and up-and-coming international brands, in-house brands and, increasingly, licensed brands. These international brands include *Tsumori Chisato*, *A.P.C.*, *Helmut Lang* and *as know as de base*. In-house brands include *http://www.izzue.com* and *b+ab*. Its licensed brands include *Arnold Palmer* and *i.t loves mickey*. In addition, the Group began establishing *FCUK* stores in Hong Kong pursuant to a corporate partnership with French Connection in November 2003.

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

Despite a difficult retail environment in Hong Kong over the last several years, the Group has grown its business, increasingly by sales from its in-house brands and licensed brands. For the year ended 29 February 2004, the Group's after tax profit was approximately HK$106 million on total turnover of approximately HK$812 million, substantially all of which was derived from the Group's operations in Hong Kong.

PRINCIPAL STRENGTHS

The Directors believe that the Group has the following competitive strengths:

Management's ability to successfully identify and introduce apparel from international brands into Hong Kong

The Directors believe that the management understands the international fashion industry and has an in-depth understanding of the Hong Kong retail market, and has demonstrated an ability to identify new fashion apparel designs and products that appeal to the Group's target customers in Hong Kong. The Group's ability to continually identify and introduce into Hong Kong established international brands (as well as up-and-coming international brands) that become popular has helped establish the Group as a trend setter in the Hong Kong retail apparel industry.

Recognition of *I.T* as well as the Group's other brands as trend setters in Hong Kong

The Group's stores and brands are widely recognised in Hong Kong as trend setters in the fashion apparel retail market in Hong Kong, in significant part, because of the mix of stylish fashions and international brands carried by the Group's stores. This is reflected by the Group's coverage in Hong Kong's fashion press including photographs of celebrities and performers in Hong Kong wearing the Group's apparel. The Directors believe that the Group is an attractive potential distributor or partner for international designers and licensors who are looking to expand the sales of their apparel products or the scope of their brands into Hong Kong as a result of the Group's image as a trend setter in Hong Kong. As the selection and status of apparel from international brands carried in retail stores is a critical competitive factor in the fashion apparel retail market in Hong Kong, the Directors believe that this provides a further advantage for the Group as its ability to attract such partners is part of what enables it to maintain its reputation as a trend setter in Hong Kong and draws consumers to its stores. This in turn drives sales and may attract licensors of strong international brands as future partners. The Directors believe that its reputation as a trend setter was a consideration in French Connection's decision to partner with the Group in 2003 to establish *FCUK* stores in Hong Kong.

In addition, major commercial landlords in Hong Kong actively desire the Group as anchor tenants, in significant part due to the strong recognition of the Group's brand names and their ability to attract customers and therefore to create traffic. Furthermore, the Directors believe that the Group's name recognition and image in Hong Kong extends not only to the domestic public, but also to visitors to Hong Kong, and therefore enhances the name recognition of the Group's brands outside of Hong Kong, including the PRC as well as Taiwan.

Ability to successfully develop its own in-house brands and licensed brands

The Group has successfully developed its own in-house brands including *http://www.izzue.com* and *b+ab* and licensed brands including *i.t loves mickey* and *Arnold Palmer*, positioning the Group as more than a distributor or retailer of apparel from international brands. As at the Latest Practicable Date, the Group employs a team of 17 full-time designers and leverages its management's artistic direction to produce apparel, footwear and accessories under different in-house and licensed brands, certain of which have already proven to be popular in Hong Kong. As a result of this ability to establish successful in-house and licensed brands, the Group is only partly reliant on third party international brands to provide it with apparel for its stores and therefore its opportunities for growth are not constrained by such third parties. Furthermore, the Group's in-house and licensed products have higher profit margins than apparel from international brands and are also exclusive to the Group's stores, unlike some of the apparel from international brands that the Group sells on a non-exclusive basis. In addition, by owning the in-house brands, the Group has full control over the types of apparel it stocks and sells, the retail price points, as well as the availability of specific items, designs or styles.

Sales from the Group's in-house and licensed brands have continued to increase during the Track Record Period. For each of the three years ended 29 February 2004, apparel from in-house and licensed brands accounted for 36%, 43.1% and 51.8% of the Group's total turnover respectively.

Multiple brands and business lines to target a wide range of customers with varying spending power

The Group sells apparel from international brands, in-house brands and licensed brands through a network of multi-brand stores and single brand stores which are targeted at different market segments to appeal to a wide range of customers with varying spending power.

The Group's multi-brand stores currently operate under four different store names, *I.T*, *i.t*, *ETE* and *double-park*, with each store selling apparel from a different collection of international brands (and in some cases from the Group's in-house brands) which are aimed at different segments of the retail market. *I.T* stores target its most upscale customers in their twenties to late thirties, and sold products ranging from stationery for HK$9 to a HK$21,411 leather jacket during the year ended 29 February 2004. *i.t* stores target customers in their twenties and thirties, and sold products ranging from a pair of socks for HK$10 to a HK$4,290 leather jacket during the year ended 29 February 2004. *ETE*, which focuses on footwear and related accessories only, is targeted at customers in their late teens to mid-thirties, and sold products ranging from HK$27 shoe cleaners to HK$5,391 boots during the year ended 29 February 2004. *double-park* sells primarily US and Japanese-influenced youth "street wear" and is targeted at customers in their teens to early twenties, and sold products ranging from parts for skateboards for HK$4 to a HK$4,725 jacket during the year ended 29 February 2004.

The single brand stores sell apparel from only one international brand, in-house brand or licensed brand. Such single brand stores include *Tsumori Chisato*, *http://www.izzue.com* and *i.t loves mickey*. The single brand retail stores are also aimed at core customers of varying ages and income levels. For example, the apparel in the *http://www.izzue.com* stores is targeted at customers in their late teens to mid-thirties, and sold products ranging from a pair of socks for HK$7 to a HK$3,750 coat during the year ended 29 February 2004. The apparel in *Tsumori Chisato* stores is targeted at customers in their early twenties and above, and sold products ranging from a pair of socks for HK$133 to a HK$39,591 fur coat during the same period. *i.t loves mickey*, on the other hand, targets the same customers as *b+ab*, and sold products ranging from a pair of socks for HK$29 to a HK$1,990 jacket during the year ended 29 February 2004.

The Group believes that the resultant diversity of product offerings broadens the Group's range of target customers, thereby reducing its reliance on any particular customer group. The Group also believes that its business further benefits from this diversity of retail price points which accommodates changes to its customers' spending habits. Further, the Group is able to leverage its multi-brand stores to incubate its in-house brands and up-and-coming international brands as potential future "spin-offs" for single brand stores, to expand the Group's business.

Extensive retail network in Hong Kong and increasingly in the PRC

As at 31 January 2005, the Group had 95 free-standing stores, 30 store-in-stores and four concessions, in Hong Kong. In the PRC, as at 31 January 2005, the joint venture GSIT operated 23 concessions and sold apparel to 56 franchisee-owned free-standing stores and 10 franchisee-owned store-in-stores. In Taiwan, as at 31 January 2005, another joint venture had opened a free-standing store, two store-in-stores along with nine concessions. In Malaysia, as at 31 January 2005, a franchisee had opened four stores to which the Group sold apparel. The Directors believe that the Group's extensive retail network and the high visibility of the Group's stores attract international brands and licensors who are looking to expand the sales of their products or the scope of their brand into Hong Kong.

Additionally, the significant number of stores in the Group's retail network and its aggregate retail square footage gives the Group more flexibility to introduce new brands than smaller competitors. Further, the Group leverages its significant experience and know-how in opening and operating numerous stores in Hong Kong and its strong relationships with major Hong Kong landlords and contractors when opening new stores.

STRATEGIES

Already well-established as a trend setter in the fashion retail market in Hong Kong, the Group intends to continue to establish a regional network in Greater China, particularly in Hong Kong, focusing on sales of its higher margin in-house brand and licensed brand products. The Group also intends to continue to aggregate a portfolio of internationally known brands, to become the partner of choice for international fashion brands and to become a fashion icon in its industry.

To achieve these goals, the Group intends to pursue the following strategies:

Continue to open further retail stores in Greater China, particularly in Hong Kong

The Group intends to continue to expand its network of retail stores in Greater China, particularly in Hong Kong. The Group intends to expand by different strategies in Hong Kong and the PRC, respectively, as follows:

Expansion in Hong Kong by leveraging its strong brand recognition and its multi-brand model

The Group intends to expand its retail network of stores in new locations in Hong Kong. The Group aims to not only consider prime retail locations for expansion, but also in areas which are currently developing, to increase the profitability of its operations. In addition, for select "developing" retail locations identified by the Group, the Group intends to locate a number of both its multi-brand and single brand stores in very close proximity to create a "cluster" effect, thereby creating its own shopping area. By adopting such strategies, the Group is able to draw potential customers and create traffic in such locations, drawn by the fact that a number of stores are located in the same area. The Group has successfully employed this strategy at its cluster of stores on Paterson Street and Silvercord Tsim Sha Tsui in Hong Kong, enabling the Group to enjoy reduced rental expenses.

Expansion in the PRC through GSIT, focusing on in-house brands

The Group intends to continue to expand in the PRC by adopting its multi-brand, multi-layer model in Hong Kong. As the PRC is much larger geographically than Hong Kong and as the Group is relatively new to the PRC, the Group has elected to involve third parties in its expansion in the PRC. The Group has entered into a joint venture, GSIT, with Glorious Sun, an experienced retailer with over 900 *Jeans West* retail stores throughout the PRC. The Group believes that this joint venture will leverage Glorious Sun's knowledge and experience as the Group expands its network of retail stores in the PRC. Furthermore, because the Group will require many more stores to establish a nationwide network of retail stores throughout the PRC and as the Group seeks to expand quickly, GSIT has engaged franchisees to open retail stores under one or more of the Group's in-house brands, such as *http://www.izzue.com* and *b+ab*. The Group has elected to sell apparel predominantly from its in-house brands in the PRC through GSIT as it believes that the retail prices of products from these in-house brands are currently more suitable for the PRC market. Also, by selling apparel from its in-house brands as opposed to apparel from international brands, GSIT is not required to pay as much of the duties that are imposed on goods imported into the PRC, as apparel from its in-house brands are manufactured in the PRC. Imported apparel, on which such duties are imposed, is more expensive as a result. The Group intends to continue to have GSIT operate stores in the PRC.

Establish single brand stores which retail one brand only, after the brand has become a proven seller in the Group's existing multi-brand stores

Part of the Group's growth strategy in all the markets in which it operates is to identify the brands from international brands, licensed brands or in-house brands, that sell well within one or more of its network of multi-brand stores, and to establish chains of "spin-off" stores dedicated solely to such brands. The Group has already "spun-off" a number of brands from its multi-brand stores, including international brands such as *Tsumori Chisato* and *as know as de base*, its licensed brands such as *i.t loves mickey* and its in-house brands such as *b+ab*. The Group intends to continue to identify popular brands within its multi-brand stores with the aim of establishing single brand stores to maximise the revenue potential from such brands.

Continue to focus on growing sales from its in-house and licensed brands

For the year ended 29 February 2004, approximately 43.3% of the Group's annual turnover was derived from sales of apparel from in-house brands and approximately 8.5% was derived from sales of apparel from licensed brands. The Group intends to continue to focus on growing sales of its in-house brands, such as *http://www.izzue.com* and *b+ab*, and sales of apparel from licensed brands such as *i.t loves mickey* and *Arnold Palmer*. By focusing on growing sales from its higher margin in-house and licensed brands, the Group seeks to increase the profitability of its operations whilst benefiting from the flexibility of controlling the price points, product range as well as the availability of such apparel. Further, the Group also seeks to expand the number of its in-house and licensed brands to continue to expand its business.

Maintain and build on its reputation as a trend setter in the fashion retail market in Hong Kong and to further establish the Group's reputation in the PRC and Taiwan

To maintain its reputation as a trend setter in the fashion retail market in Hong Kong and to further establish recognition of the Group in the PRC and Taiwan, the Group intends to continue to keep abreast of changing fashion trends and carry lines from well established international brands and up-and-coming international brands. In the PRC, in particular, this also means identifying apparel products that are distinctive in the market to differentiate the Group from competitors, but which may also be sold at a price point attractive to the target customers, offer suitable profit margins for the Group and which can be sold in sufficient volume.

Become the partner of choice for international brands in Hong Kong and the PRC

The Group intends to continue to expand its business by becoming the partner of choice for international brands seeking to sell their products or license their brands in Hong Kong and the PRC, by maintaining the Group's reputation as a trend setter in the fashion retail market and leveraging the Group's 16 years of retail experience in Hong Kong and extensive retail network in Hong Kong. Additionally, by continuing to demonstrate its ability to successfully design and commercialise apparel for its licensed brands, such as *Arnold Palmer* and *i.t loves mickey*, the Group believes that it will further attract potential licensors of international brands to partner with the Group.

HISTORY AND DEVELOPMENT

The Group was founded in 1988 by Mr. Sham Kar Wai and Mr. Sham Kin Wai, initially to sell *Dr. Martens* shoes, using the name *GREEN PEACE*. In 1993, *GREEN PEACE* opened its first flagship store in Sino Plaza, Hong Kong.

In 1996, the Group launched a new retail store called *green peace*, which targeted a younger market and offered apparel priced lower than that sold at *GREEN PEACE*. Following the settlement in 1996 of a lawsuit by Greenpeace, the non-profit environmental protection organisation with a presence in approximately 40 countries across Europe, the Americas, Asia and the Pacific, alleging that the Group's use of the store name *GREEN PEACE* infringed its rights to the name "Greenpeace", *GREEN PEACE* was renamed *I.T* and *green peace* was renamed *i.t*. There are no outstanding disputes in relation to this issue. Over time, these stores evolved into their current multi-brand format.

In the 1990s, the Group began the design and sale of apparel from its first in-house brand, *b+ab*, which was originally sold only in its *i.t* stores. In 1997, the Group opened its first *b+ab* free-standing store. In 1997, the Group opened its first *ETE* store, dedicated to footwear and related accessories. The Group launched the *http://www.izzue.com* chain of retail stores in Hong Kong in 1999. The first of the *double-park* chain of stores was launched in 2000.

In 2002, the Group acquired a license from Walt Disney and established its *it's Mickey* line (later renamed as *i.t loves mickey*). In November 2003, the Group established free-standing *it's Mickey* stores. In 2003, the Group acquired a license from the brand owner of *Arnold Palmer* to design and sell fashion sports clothing for women in Hong Kong.

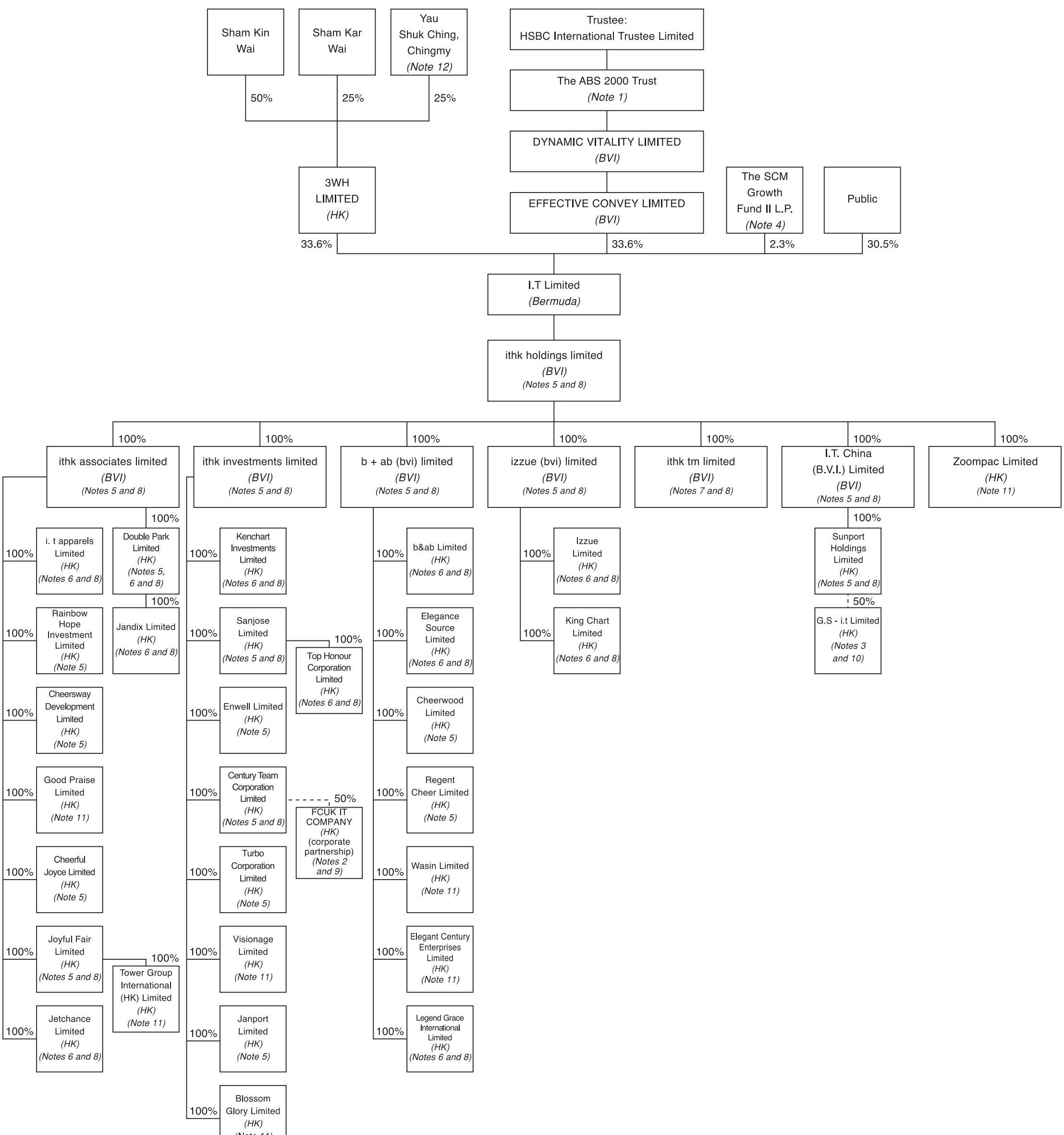
In 2003, the Group agreed with French Connection to distribute the *FCUK* brand of clothing and accessories through dedicated *FCUK* stores in Hong Kong. The first *FCUK* store in Hong Kong was opened in November 2003.

Since 2002, when a franchisee opened the first *http://www.izzue.com* store in Malaysia, the Group has also begun expanding its network of stores in other parts of the Asia-Pacific region. To date, most of the Group's expansion outside Hong Kong has been through franchisee owned stores. In 2002, the first store in the PRC was opened, an *I.T* store at Xintiandi in Shanghai operated by a franchisee. In March 2003, the first store in Beijing was opened, followed by the opening of the first *http://www.izzue.com* franchised store in Wenzhou. In November 2003, the Group sought to accelerate its expansion into the PRC, through GSIT, a joint venture with Glorious Sun, in which the Group holds a 50% interest. GSIT operates in the PRC through wholly-owned subsidiaries. GSIT operates all of the concessions in the PRC and sells apparel to its franchisees there. To accelerate its expansion into Taiwan, in April 2004, GSIT entered into a joint venture with a Taiwanese partner, in which GSIT holds a 51% interest. In June 2004, this joint venture opened its first store in Taiwan, a *http://www.izzue.com* flagship store.

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

GROUP STRUCTURE

The following chart sets out the shareholders and subsidiaries of the Company and their holding within the Group as they are expected to be immediately following the Offering assuming there is no exercise of the Over-allotment Option.



Notes:

1. 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.

2. Pursuant to a corporate partnership agreement dated 24 January 2003, Century Team Corporation Limited (a subsidiary of the Group) and French Connection (Hong Kong) Limited have established a corporate partnership, FCUK IT COMPANY, to carry on the business of operating outlet(s) for the sale of certain licensed products in Hong Kong.

3. Pursuant to a joint venture agreement dated 30 November 2003, Sunport Holdings Limited and Glorious Sun Trading (HK) Limited have established a joint venture, G.S - i.t Limited, to engage in the retail and wholesale of apparel in the PRC, Taiwan and Macau. G.S - i.t Limited is an associated company of the Company in which the Company has an indirect 50% equity interest.

4. Pursuant to a convertible note dated 9 October 2003, the Selling Shareholder elected to convert US$4,000,000 into 2,078 shares of US$1.00 each in ithk holdings limited by way of written notice dated 23 September 2004 (in addition to a final cash adjustment of not more than HK$1 million to be paid by ithk holdings limited or, should the Listing fail to proceed, an issue of further Shares by the Company). As a result of a corporate reorganisation of the Group pursuant to which the Company becomes the holding company of the Group as described in the section headed "Further information about the Company — Corporate Reorganisation" in Appendix VI to this prospectus, the Selling Shareholder exchanged its shareholding in ithk holdings limited for Shares in the Company. Following the Offering and assuming there is no exercise of the Over-Allotment Option, the Selling Shareholder will hold 23,377,000 Shares, representing approximately 2.3% of the then issued share capital of the Company. The Selling Shareholder has undertaken to each of the International Placing Underwriters and the Company that commencing on the date of the International Placing Underwriting Agreement (which is expected to be on or around 26 February 2005) and ending on the date falling three months after the Listing Date, it will not directly or indirectly transfer or otherwise dispose of any Shares, as detailed in the section headed "Underwriting — Underwriting arrangements and expenses — Hong Kong Public Offering — Undertakings".

5. The principal line of business of the following subsidiaries of the Group is investment holding: ithk holdings limited, ithk associates limited, ithk investments limited, b+ab (bvi) limited, izzue (bvi) limited, I.T. China (B.V.I.) Limited, Century Team Corporation Limited, Joyful Fair Limited, Sanjose Limited, Sunport Holdings Limited and Double Park Limited. The principal line of business of the following subsidiaries of the Group is the holding of leases: Cheerful Joyce Limited, Cheersway Development Limited, Cheerwood Limited, Enwell Limited, Janport Limited, Rainbow Hope Investment Limited, Regent Cheer Limited and Turbo Corporation Limited.

6. The principal line of business of the following subsidiaries of the Group is the retail of fashion wear and accessories: Double Park Limited, Elegance Source Limited, Izzue Limited, Jandix Limited, Jetchance Limited, Kenchart Investments Limited, King Chart Limited, Legend Grace International Limited, Top Honour Corporation Limited, i.t apparels Limited and b&ab Limited.

7. The principal line of business of ithk tm limited is the holding of trademarks.

8. The principal operating subsidiaries of the Group are: ithk holdings limited, ithk associates limited, ithk investments limited, b+ab (bvi) limited, izzue (bvi) limited, I.T. China (B.V.I.) Limited, Century Team Corporation Limited, Joyful Fair Limited, Sanjose Limited, Sunport Holdings Limited, Double Park Limited, Elegance Source Limited, Izzue Limited, Jandix Limited, Jetchance Limited, Kenchart Investments Limited, King Chart Limited, Legend Grace International Limited, Top Honour Corporation Limited, i. t apparels Limited and b&ab Limited.

9. The principal line of business of FCUK IT COMPANY is the retail of fashion wear and accessories.

10. The principal line of business of G.S-i.t Limited is investment holding.

11. The following subsidiaries of the Group are inactive and they do not hold any trademarks or leases: Tower Group International (HK) Limited, Visionage Limited, Wasin Limited, Elegant Century Enterprises Limited, Good Praise Limited, Blossom Glory Limited and Zoompac Limited.

12. Ms. Yau Shuk Ching, Chingmy is the spouse of Mr. Sham Kar Wai.

THE BUSINESS MODEL

The Group's business can be divided into two parts:

- sales of fashion apparel from international brands, both well established and up-and-coming, through its network of retail stores; and

- design and sale of fashion apparel from its own in-house brands and licensed brands, manufactured by third parties in the PRC and sold through its network of retail stores.

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

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

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

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

Apparel from international brands

For the year ended 29 February 2004, sales of apparel from international brands accounted for approximately 43.3% of the Group's annual turnover.

To maintain its reputation as a trend setter in the fashion retail market in Hong Kong, the Group must respond quickly to ever changing fashion trends by carrying lines from well established international brands and up-and-coming international brands. Each of the Group's multi-brand stores offer apparel from a number of international brands. Typically, across all the Group's multi-brand stores, the Group may offer apparel from hundreds of international brands in any year. While sales of apparel from two such international brands, *Tsumori Chisato* and *as know as de base*, have in the past each accounted for between 3–5% of the Group's annual turnover, in the six months ended 31 August 2004 only a total of seven international brands accounted individually for more than 1% of the Group's annual turnover. The Group's sales are therefore diversified across a large number of brands. Because of the Group's broad range of international brands, if the Group were to cease carrying apparel from any one international brand, its range of product offerings would not be materially affected.

During the year ended 28 February 2002, the Group introduced 133 new international brands and discontinued 73 international brands. During the year ended 28 February 2003, the Group introduced 126 new international brands and discontinued 94 international brands. During the year ended 29 February 2004, the Group brought in 104 new international brands and discontinued 113 international brands. In the six months ended 31 August 2004, the Group brought in 74 international brands and discontinued 101 international brands. As at the Latest Practicable Date, the Group carried apparel from 466 international brands.

Apparel from international brands is sold by the Group through a network of retail stores that includes multi-brand stores and single brand stores. The multi-brand stores, *I.T*, *i.t*, *ETE* and *double-park*, sell apparel from a regularly changing line up of international brands as well as apparel from the Group's in-house brands. The single brand stores sell apparel from only one designer or brand, including apparel from a particular international design house, such as *Tsumori Chisato*. The opening of any such single brand stores for international brands requires the prior authorisation of the applicable international brand. While certain of the international brands have required documentation in connection with the opening of "spin-off" single brand stores, to date the majority have not.

The two international brands whose apparel sales are most financially significant to the Group are:

Tsumori Chisato — *Tsumori Chisato* is a Japanese designer of women's apparel. The average selling price of apparel from this brand for the year ended 29 February 2004 was HK$1,518.

as know as de base — *as know as de base* is a Japanese brand featuring apparel for young women. The average selling price of apparel from this brand for the year ended 29 February 2004 was HK$446.

As at the Latest Practicable Date, the Group had entered into written agreements with *Tsumori Chisato* and *as know as de base*.

In-house brands and licensed brands

In-house brands

Sales of apparel from the Group's in-house brands accounted for 36%, 42.2% and 43.3% of total turnover for the years ended 28 February 2002, 28 February 2003 and 29 February 2004, respectively.

The Group employs its own team of 17 full-time designers to create clothes for each of its in-house brands, which each have four seasons per year. The Group contracts with garment manufacturers in the PRC to source the necessary fabric and other raw materials and to manufacture these garments. The Group's profit margins on apparel products in these lines are higher than its profit margins on apparel from international brands not owned by the Group. The Group's in-house brands include *http://www.izzue.com*, *b+ab*, *5cm* and *Fingercroxx*. Each of the Group's in-house brands also focus on customers in different age ranges and with different buying power. The two in-house brands whose apparel sales together represented a significant majority of the Group's total turnover from all in-house brands for the year ended 29 February 2004 are:

http://www.izzue.com — The *http://www.izzue.com* brand is a range of men's and ladies' casual fashion clothing and accessories. The brand image creative director is internationally renowned actress Margaret (Maggie) Cheung Man Yuk, the first Chinese woman to win Best Actress at the Berlin Film Festival (a Silver Berlin Bear in 1992), and also winner of Best Actress at the Cannes Film Festival in 2004. This in-house brand is targeted at consumers in their late teens to late twenties and is generally retailed at a lower price point than apparel from international brands. The average selling price of apparel from this brand for the year ended 29 February 2004 was HK$198. Apparel from the *http://www.izzue.com* line is retailed at the Group's *http://www.izzue.com* stores.

b+ab — The Group's first in-house brand, *b+ab* was launched in the *i.t* chain of stores in the mid-1990s. *b+ab* apparel is designed for women only and has Japanese influences. The average selling price of apparel from this brand for the year ended 29 February 2004 was HK$218. The *b+ab* targets female consumers in their late teens to mid-thirties.

Apparel from the in-house brands is sold through both the Group's multi-brand stores and single brand stores, except *b+ab* and *http://www.izzue.com* apparel which are sold only at *b+ab* and *http://www.izzue.com* stores, respectively.

Licensed brands

For the year ended 29 February 2004, sales of apparel from licensed brands accounted for approximately 9% of the Group's annual turnover. The Group also designs apparel for each of its *Arnold Palmer* and *i.t loves mickey* lines, though all designs are subject to the approval of the respective licensor. Apparel from these licensed brands is sold at the Group's multi-brand stores. *i.t loves mickey* and *Arnold Palmer* apparel are also sold at free-standing stores dedicated solely to apparel from these licensed brands. The Group's licensed brands include *i.t loves mickey*, *Arnold Palmer*, *Underground*, *Hyoma* and *Major League Baseball*. The two licensed brands whose apparel sales represented a significant majority of the Group's total turnover from all licensed brands for the year ended 29 February 2004 are:

i.t loves mickey — After obtaining a license from Walt Disney in September 2002, the Group created the *i.t loves mickey* line of apparel for sale only in Hong Kong and Macau. The brand was originally called *it's Mickey*, but was changed to *i.t loves mickey* later. Apparel for the *i.t loves mickey* line is designed by an in-house design team, subject to pre-approval of final designs by Disney. It is retailed through the *i.t loves mickey* licensed brand stores and the Group's *i.t* stores. Royalties, comprising a guaranteed annual minimum royalty and a certain percentage of sales of *i.t loves mickey* products, are payable monthly with advances for the use of the licensed material payable yearly. In January 2005, the Group entered into a new license with Walt Disney which expires on 31 December 2007. Pursuant to the Group's license agreement with Walt Disney, the Group may be under an obligation to seek prior consent in respect of the disclosure of their relationship in this prospectus. The Group has not yet obtained such prior consent. The Group has recently begun discussion with Walt Disney on these issues. In the event that the Group is held to be in breach of its obligations under the license agreement, Walt Disney has the right to take legal action against the Group and/or terminate its license agreement. In such circumstances, the Group may lose its license to sell its *i.t loves mickey* apparel and its financial results and reputation may be harmed.

Arnold Palmer — The *Arnold Palmer* range of fashion sports clothing for young women is designed by an in-house design team and retailed under license through the *Arnold Palmer* stores and *i.t* stores. In 2003, the Group was granted this exclusive license to design and commercialise apparel under the *Arnold Palmer* brand for sale in Hong Kong. The Group pays guaranteed minimum annual royalties and a royalty payment based on sales. The license expires in April 2006. The Group has also opened a franchised *Arnold Palmer* store in the PRC. While the license agreement with the brand owner of *Arnold Palmer* restricts the use of that license to Hong Kong, the brand owner has confirmed verbally that the Group or a franchisee designated by the Group is also entitled to open an *Arnold Palmer* store in the PRC. The Group is in the process of obtaining written confirmation of that verbal consent.

FCUK — In January 2003, the Group agreed with French Connection to establish *FCUK* stores in Hong Kong, though the Group does not design *FCUK* apparel as it does for other licensed brands. The French Connection group manufactures and retails clothing and accessories across the world under the names *French Connection* and *FCUK*. *French Connection* and *FCUK* are major brand names in the UK and other parts of the world famous for its controversial slogans and advertising campaigns. The first *FCUK* retail store was opened in Hong Kong pursuant to this corporate partnership in November 2003. Sales of apparel at these *FCUK* stores in Hong Kong are not yet financially significant to the Group. The Group's license with French Connection expires in January 2008.

RETAIL NETWORK

The Group sells fashion apparel through a network of "free-standing" retail stores, "store-in-stores" and "concessions" in Hong Kong, the PRC and Taiwan. Free-standing stores are stand-alone retail stores and tend to have the largest floor space; since these stores generate the highest risk profile, the Group tends to use these stores as multi-brand retail stores or for brands, both owned and licensed, that it believes justify a stand-alone retail presence. Therefore the Group opens such stores for its most popular brands. "Store-in-stores" are generally smaller and represent segregated retail spaces within the Group's multi-brands retail stores. As a smaller retail presence, these stores offer the Group an intermediate "stand-alone" presence with a lower risk profile than free-standing stores. It also allows the Group greater flexibility in the event that the initiative is unsuccessful. Therefore the Group opens such stores for its other brands. The Group opens "concessions", which are similar to store-in-stores, except located in a third party retail outlet, when it does not currently have free-standing retail space in that location. All the free-standing stores, store-in-stores and concessions in Hong Kong are owned by the Group. The Group's expansion in the PRC is operated by the joint venture GSIT, in which the Group holds a 50% interest. This includes concessions operated by GSIT. GSIT also sells apparel to franchisees who operate free-standing retail stores and store-in-stores in the PRC. A franchisee also operates four *http://www.izzue.com* stores in Malaysia.

The network of retail stores includes multi-brand stores and single brand stores. The single brand stores sell apparel from only one international brand, in-house brand or licensed brand. Such stores include those featuring apparel from a particular international brand, such as *Tsumori Chisato*, as well as those established for one of the Group's in-house brands, such as *http://www.izzue.com*.

The multi-brand stores sell apparel from a regularly changing line up of hundreds of international brands (both established and up-and-coming) as well as apparel from the Group's in-house brands and licensed brands. Sales at *I.T* and *i.t* make up the substantial majority of turnover from multi-brand stores. The Group's multi-brand stores include:

I.T — *I.T* was the Group's first store and is the most established of the Group's retail chains. *I.T* carries a range of apparel from established international brands, such as *Viktor & Rolf*, *Helmut Lang* and *Tsumori Chisato*, as well as from up-and-coming designers. Focused primarily on women in their early twenties to late thirties, *I.T*'s apparel is intended to be sophisticated and edgy, with a European influence. The average selling price of apparel sold at these stores for the year ended 29 February 2004 was HK$674.

i.t — *i.t* carries a range of more affordable apparel from established international brands, such as *as know as de base*, *Converse*, *Nike* and *X-Girl*, as well as apparel from up-and-coming designers. In contrast to the *I.T* stores, *i.t* also carries apparel from the Group's in-house brands and licensed brands (including *i.t loves mickey* and *Arnold Palmer*). Targeted at a younger target customer base, *i.t*'s apparel is more colourful, with layering and has a Japanese influence. The average selling price of apparel sold at these stores for the year ended 29 February 2004 was HK$317.

ETE — *ETE* is the only chain of retail stores in the Group to be dedicated solely to footwear and accessories, including footwear from international brands such as *Camper* and the Group's own in-house line of footwear, *Puzzle*. The average selling price of apparel sold at these stores for the year ended 29 February 2004 was HK$363.

double-park — Influenced by Japanese and US "street wear", *double-park* was the first chain of stores in the Group to target the teenage market. Each *double-park* store is designed to appeal to urban youth culture. *double-park* sells apparel from both established and up-and-coming designers, as well as its own in-house brand *Fingercroxx*, and apparel from certain licensed brands including *Major League Baseball*. The average selling price of apparel sold at these stores for the year ended 29 February 2004 was HK$282.

The following table shows a breakdown of the Group's turnover among single brand and multi-brand stores for the years ended 28 February 2002, 28 February 2003, 29 February 2004, and the six months ended 31 August 2003 and 31 August 2004:

	Year ended 28 February 2002			Year ended 28 February 2003			Year ended 29 February 2004			Six months ended 31 August 2003			Six months ended 31 August 2004		
	Turnover		Gross Profit Margin	Turnover		Gross Profit Margin	Turnover		Gross Profit Margin	Turnover		Gross Profit Margin	Turnover		Gross Profit Margin
	HK$'000s	%	%	HK$'000s	%	%	HK$'000s	%	%	HK$'000s	%	%	HK$'000s	%	%
Multi-brand stores[1]	399,973	57.5	46.2	388,532	53.1	48.5	403,507	49.7	51.2	177,900	52.0	50.3	190,676	46.1	54.7
Single brand stores	283,088	40.7	63.9	325,770	44.5	67.3	384,238	47.3	67.7	153,181	44.8	67.9	212,196	51.3	68.0
Others[2]	11,990	1.8		17,681	2.4		24,423	3.0		11,128	3.2		10,446	2.6	
Total	**695,051**	**100.0**		**731,983**	**100.0**		**812,168**	**100.0**		**342,209**	**100.0**		**413,318**	**100.0**	

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1 Sales of apparel at discount outlets is included in the row for "Multi-brand stores".

2 "Others" primarily includes sales of food and beverages at a now discontinued restaurant, royalties from the Malaysian franchisee, consultancy fees from a PRC franchisee and commissions on consignment sales. The Group operated a cafe called *izzue cafe* during the years ended 28 February 2002 to 29 February 2004. The Group ceased this business during the year ended 29 February 2004.

The Group's single brand stores on average sell a larger proportion of in-house and licensed brands products than its multi-brand stores, which on average sell relatively more international brands products. The higher average gross profit margins that its in-house and licensed products achieve have resulted in the Group's single brand stores realising a higher average gross profit margin than its multi-brand stores during the Track Record Period.

The following table shows a breakdown of the Group's turnover among free-standing stores, store-in-stores and concessions for the years ended 28 February 2002, 28 February 2003, 29 February 2004, and the six months ended 31 August 2003 and 31 August 2004:

	Year ended 28 February 2002			Year ended 28 February 2003			Year ended 29 February 2004			Six months ended 31 August 2003			Six months ended 31 August 2004		
	Turnover		Gross Profit Margin	Turnover		Gross Profit Margin	Turnover		Gross Profit Margin	Turnover		Gross Profit Margin	Turnover		Gross Profit Margin
	HK$'000s	%	%	HK$'000s	%	%	HK$'000s	%	%	HK$'000s	%	%	HK$'000s	%	%
Free-standing stores[1]	573,076	82.4	53.1	601,031	82.1	56.3	677,564	83.4	58.5	284,791	83.2	57.4	344,385	83.3	61.1
Store-in-store	104,280	15.0	59.8	107,860	14.7	62.9	102,969	12.7	65.2	43,560	12.7	65.8	52,955	12.8	66.5
Concessions	5,705	0.8	44.6	5,411	0.7	48.3	7,212	0.9	50.4	2,730	0.8	58.7	5,532	1.3	56.6
Others[2]	11,990	1.8		17,681	2.5		24,423	3.0		11,128	3.3		10,446	2.6	
Total	695,051	100.0		731,983	100.0		812,168	100.0		342,209	100.0		413,318	100.0	

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1 Sales of apparel at discount outlets is included in the rows for "free-standing stores" and "concessions".

2 "Others" primarily includes sales of food and beverages at a now discontinued restaurant, royalties from the Malaysian franchisees, consultancy fees from a PRC franchisee and commissions on consignment sales. The Group operated a cafe called *izzue cafe* during the years ended 28 February 2002 to 29 February 2004. The Group ceased this business during the year ended 29 February 2004.

The Group's free standing stores accounted for, on average, 84% of the Group's total floor space during the Track Record Period, resulting in such stores accounting for more than 80% of the Group's turnover during such period. While the average gross profit margins of free-standing stores and store-in-stores were relatively similar during the Track Record Period, the lower average gross profit margin for free-standing stores was a result of the inclusion of the Group's permanent multi-brand discount store, which typically generate lower gross profit margins than the average for other Group stores. Similarly, the Group's sole concession during the Track Record Period, was a multi-brand discount store, and as such had a lower gross profit margin than the average for other Group stores.

Leased retail space in Hong Kong

The Group leases all of the commercial real estate in which its directly-owned retail stores in Hong Kong are located. Under the terms of the Group's lease agreements in Hong Kong, the Group must pay either a flat rental or an amount equal to the percentage of monthly sales made through that particular store. Details of the terms of the leases or tenancies are set out in Appendix IV to this prospectus.

Concessions

Concessions are in-store retail stores mostly located within department stores owned and operated by third parties. The cost of a concession is generally equal to a percentage of the monthly sales made through that concession.

Store-in-store

A store-in-store is a retail store that would be classified as a concession except that, rather than being located in a department store owned by a third party, it is located within one of the Group's own free-standing stores.

Franchisees

For the year ended 29 February 2004, the Group derived approximately 2% of its total profit attributable to shareholders from stores in the PRC and Malaysia owned by franchisees. While the Group has no franchisee-owned stores in Hong Kong, to date a significant portion of the Group's growth outside Hong Kong has been through stores owned by franchisees. This network included 56 franchisee-owned free-standing stores and 10 franchisee-owned store-in-stores in the PRC and four franchisee-owned free-standing stores in Malaysia as at 31 January 2005.

As at the Latest Practicable Date, the Group's joint venture in the PRC, GSIT, had appointed 12 franchisees in the PRC to operate the Group's free-standing stores and store-in-stores. Standard form franchise agreements have been entered into with most of these franchisees, the majority of which are for a term of two years. The franchisees are required to establish and operate the stores in accordance with the terms of the franchise agreement to ensure a uniform theme, design and layout. The franchisees bear all the costs and expenses for the setting up and operation of these stores, including tax, rental payments and employment costs. The Group has also appointed a franchisee to operate the Group's *http://www.izzue.com* stores in Malaysia. Each franchisee is required to purchase all of its merchandise from the Group and must retail the Group's merchandise on an exclusive basis. The franchisees are not permitted to design and retail their own merchandise under the brand names of the Group, or otherwise use the Group's brand names and trademarks other than in strict accordance with the franchise arrangements. Other than by the Malaysian franchisee, no royalty is payable by the franchisees to the Group, should any action be brought by any third party against a franchisee in relation to its use of the brand names, the Group would be responsible for the legal proceedings and the litigation costs of defending such an action on behalf of itself and the franchisee.

Joint ventures

Glorious Sun, GSIT

In an attempt to accelerate its expansion into the PRC, in November 2003, the Group (through its subsidiary Sunport Holdings Limited) established GSIT with its joint venture partner, Glorious Sun, with each party holding a 50% interest in GSIT. The joint venture has the right to develop and operate (through subsidiaries) all of the Group's business in the PRC (including sales of apparel to franchisees there) and has the right to use the Group's brands in the PRC (other than licensed brands to which the Group currently has no rights outside Hong Kong). Under the joint venture agreement, each party may appoint four directors and there is no casting vote. To date, this structure has not resulted in any deadlock in corporate governance. In the event of deadlock in the future, the joint venture agreement specifies that a buyout mechanism may be triggered by either party. Once the buyout mechanism is triggered, a bidding date is set and both parties subsequently meet to submit undisclosed bids to buy the entire joint venture. The party that submits the higher bid becomes obligated to purchase the entire interest in the joint venture.

Joint venture in Taiwan

In 2004, GSIT entered into a joint venture, Top Alliance Enterprises Limited, with a Taiwanese partner in connection with the expansion of its business in Taiwan. GSIT has a 51% interest in this joint venture and consequently, the Group holds an indirect 25.5% interest in the Taiwanese joint venture. In 2004, the joint venture opened its first retail store in Taiwan, a *http://www.izzue.com* store in Taipei. The joint venture agreement provides that the board of directors shall consist of five directors, three of whom are appointed by GSIT. Accordingly, GSIT has management control of the management of the joint venture.

FCUK corporate partnership

In January 2003, the Group entered into a corporate partnership with French Connection to enable the Group to distribute the *FCUK* brand of clothing and accessories through dedicated *FCUK* stores in Hong Kong. The initial term of the partnership is five years, with an option to continue upon the agreement of both parties. Under the terms of the corporate partnership, each party holds a 50% interest and is entitled to appoint two members to the four member partnership management committee. In the event of any management deadlock, there is a mechanism in the partnership agreement to enable one party to purchase the interest of the other. The Group began establishing *FCUK* stores in Hong Kong pursuant to this corporate partnership in November 2003.

Location of retail stores, franchised stores and concessions

It is the Group's strategy to establish retail outlets in a combination of popular and fashionable shopping areas, such as Times Square in Hong Kong and (through a franchisee) Xintiandi in Shanghai, and new and/or developing shopping areas such as Paterson Street in Hong Kong.

The Group directly owns and operates all of its retail stores in Hong Kong, and the expansion of stores in Hong Kong is therefore under its direct control. With respect to the expansion in the PRC, the Group has operational control of GSIT and therefore retains control over expansion initiatives there, subject to the terms of the joint venture.

The Group's retail network in Hong Kong comprised the following as at 31 January 2005:

Location	Directly Owned			
	Free Standing Retail Stores	"store-in-store"	Concessions	Total
Hong Kong Island	**31**	**1**	**1**	**33**
Multi-Brand Stores				
I.T	2	0	0	2
i.t	3	1	0	4
ETE	0	0	1	1
double-park	1	0	0	1
In-House Brand Stores				
http://www.izzue.com	4	0	0	4
b+ab	4	0	0	4
5cm	1	0	0	1
Licensed Brand Stores				
i.t loves mickey	2	0	0	2
Arnold Palmer	1	0	0	1
"Spin-Off" Single-Brand Stores for International Brands				
A.P.C.	1	0	0	1
Tsumori Chisato	1	0	0	1
Vivayou	1	0	0	1
Abahouse Devinette	1	0	0	1
as know as de base	1	0	0	1
Coi Girl Magic	1	0	0	1
Vert Dense	1	0	0	1
Camper	1	0	0	1
Zucca	1	0	0	1
Earth Music and Ecology	1	0	0	1
Frapbois	1	0	0	1
FCUK corporate partnership stores	2	0	0	2
Kowloon	**48**	**12**	**3**	**63**
Multi-Brand Stores				
I.T	3	0	0	3
I.T Sale Store	1	0	0	1
i.t	5	0	0	5
ETE	0	1	1	2
double-park	4	1	0	5
In-House Brand Stores				
http://www.izzue.com	7	2	0	9
b+ab	8	2	0	10
5cm	3	0	0	3
Licensed Brand Stores				
i.t loves mickey	0	1	1	2
Arnold Palmer	1	1	0	2
Hyoma	0	0	1	1

Location	Directly Owned: Free Standing Retail Stores	"store-in-store"	Concessions	Total
"Spin-Off" Single-Brand Stores for International Brands				
A.P.C.	1	1	0	2
Tsumori Chisato	1	1	0	2
as know as de base	1	0	0	1
Zucca	0	1	0	1
X-Girl	1	0	0	1
Camper	1	0	0	1
EXIT	2	0	0	2
Carhartt	0	1	0	1
Freshjive	1	0	0	1
XLARGE	1	0	0	1
Montage	1	0	0	1
GDC	1	0	0	1
Vivayou	1	0	0	1
Y'SACCs	1	0	0	1
FCUK corporate partnership stores	3	0	0	3
New Territories	**16**	**17**	**0**	**33**
Multi-Brand Stores				
ETE	1	4	0	5
double-park	1	5	0	6
Licensed Brand Stores				
i.t loves mickey	1	1	0	2
Arnold Palmer	2	1	0	3
In-House Brand Stores				
http://www.izzue.com	6	0	0	6
b+ab	5	2	0	7
5cm	0	4	0	4
TOTAL	**95**	**30**	**4**	**129**

Specific details of the location of each of the Group's stores is set out in Appendix VI to this prospectus.

The retail network outside Hong Kong comprised the following as at 31 January 2005:

Location	Free Standing Retail Stores	"Store-in-Store"	Concessions	Total
Total — Shanghai, Beijing and Hangzhou	**6**	**10**	**23**	**39**
Total — other cities in the PRC	**50**	**0**	**0**	**50**
Total — Taiwan	**1**	**2**	**9**	**12**
Total — Malaysia	**4**	**0**	**0**	**4**

Note: All of the free standing retail stores and store-in-stores in the PRC, and the stores in Malaysia, were owned and operated by franchisees as at 31 January 2005.

For the year ended 29 February 2004, single brand stores generated aggregate turnover of HK$384,238 thousand, resulting in a gross profit margin of 68%, and multi-brand stores generated aggregate turnover of HK$403,507 thousand, resulting in a gross profit margin of 51%. For the six months ended 31 August 2004, single brand stores generated aggregate turnover of HK$212,196 thousand, resulting in a gross profit margin of 68%, and multi-brand stores generated aggregate turnover of HK$190,676 thousand, resulting in a gross profit margin of 55%.

MERCHANDISING

The Group has a merchandising team that is comprised of 29 full-time employees as at the Latest Practicable Date. Each year, the merchandising team is responsible for formulating merchandising plans in accordance with the sales targets set by the management of the Group for the coming year. The merchandising team analyses the size, location, sales and inventory history of each of the retail outlets to determine the quantity of merchandise to be stocked and the allocation of merchandise to the retail outlets including the mix of in-house brands, licensed brands and designer brands in the multi-brand stores. It is also the responsibility of the merchandising team to evaluate and monitor existing product offerings, and identify poorly performing products. Besides visiting showrooms every season, the Group's merchandising team also attends international tradeshows.

The Group's merchandising efforts may be divided between those directed toward:

- apparel from international brands; and
- apparel for in-house and licensed brands.

Apparel from international brands

The merchandising team sources apparel products from hundreds of international brands located in Europe, the United States and Japan, as well as locally in Hong Kong. The merchandising team selects a range of brands and products for each of its multi-brand stores in Hong Kong on the basis of the image that each particular store intends to convey, and the average retail price point of its products. The merchandising team undertakes research on current trends in the fashion industry and attends fashion shows and trade shows in Europe, the US, Japan and locally with the intent to keep the Group at the cutting edge of fashion in Hong Kong.

Apparel for in-house and licensed brands

The merchandising of apparel from in-house and licensed brands may be sub-divided into the following three stages:

- design;
- third party manufacture; and
- quality assurance.

Design The Group employs a team of 17 full-time designers in Hong Kong who design apparel for each of its in-house and licensed brands. The members of this 17 person design team are divided into teams designing apparel for specific brands, and then further subdivided into those designing apparel for the Hong Kong market and, separately, those designing apparel for the PRC market. With regard to apparel for licensed brands, while the Group designs this apparel, the respective licensors have final approval over all such designs.

Third Party Manufacture As at the Latest Practicable Date, the Group used approximately 50 PRC-based garment manufacturers to manufacture apparel for its in-house and licensed brands. The Group selects its apparel manufacturers on the basis of seven essential qualification criteria: the size of each supplier's production facilities, location, production capacity, flexibility, quality of work, price range, and whether the supplier has access to effective distribution channels. For the year ended 29 February 2004, the Group's five most significant manufacturers were Yat Fat International Company, Channel One Co. Limited, Man Ka Knitting Garment Factory Limited, Richard Holdings Limited and City Richest International Limited. Each of these manufacturers is independent of the Group. All manufacturers are required to enter into the Group's standard terms and conditions before entering into production. These terms typically include a 30-day credit period. The Group has no long-term contracts with any manufacturers. While suppliers are permitted to subcontract production, the principal supplier remains responsible to undertake delivery of each order to the specification and quality standards set out in the principal supply agreement.

Quality Assurance Under the terms of the Group's agreements with its garment manufacturers in the PRC, each such manufacturer is responsible for ensuring that all merchandise is produced in accordance with the standards dictated by the Group's merchandising team. Accordingly, each of the Group's retail stores is free to return items to manufacturers which are damaged or sub-standard, even after the merchandise has been displayed on store floors. Each manufacturer is required to provide to the merchandising team a sample of each product at the pre-production stage and another sample just before delivery. The Group's merchandising team in Hong Kong inspects each delivery to confirm that it is in accordance with the samples provided by the manufacturer.

Inventory management

Stock-taking is conducted for each of the Group's retail stores at least once every month. The warehouse has quarterly random stock takes. All stock movements have an associated computer record. All transactions are logged in with details of the user, the date and the time, which cannot be changed. Both the Group's logistics control unit and its accounts department monitor the location of stock and transaction type on a monthly basis. Besides such measures, management reviews inventory levels in order to determine the focus of sales efforts or whether to make inventory provisions.

Suppliers

The Group's suppliers are international brands and PRC-based garment manufacturers. The percentage of purchases attributable to the Group's top five suppliers combined is less than 30% of the Group's costs of sales over the Track Record Period. The Group has not entered into any long-term contracts with any suppliers. The Group settles its payment obligations to suppliers by letters of credit, bank transfers or cheques. Such obligations are typically denominated in US dollars, Hong Kong dollars, Japanese Yen and Euros. The average credit period granted by the Group's suppliers to the Group is 30 days.

None of the Directors, their associates, or any of the shareholders of the Company (who, to the knowledge of the Directors own more than 5% of the Company's share capital of the Company) immediately following completion of the Offering had any interests in any of the Group's five largest suppliers.

DISTRIBUTION

All merchandise for the Group's stores in Hong Kong is received into and distributed via a centralised distribution centre in Hong Kong. Before the Group receives the merchandise, shipment receipts with details regarding the shipment are received from suppliers and inputted into the Group's computer system. Upon receipt by the Group's warehouse of this information, together with the Group's price tag information, the warehouse takes delivery or collects such shipment from the supplier (or the forwarding agent of the supplier) and checks the merchandise. Upon receipt of the merchandise, the goods can be despatched to the relevant stores within three working days. The warehouse then packs the relevant merchandise and prepares a delivery note to the relevant stores based on the information received from the Group's retail operation and logistics system. The cartons and delivery note are then passed on to an out-sourced vendor that delivers the merchandise directly to the Group's stores.

Customers

The customers of the Group are predominantly members of the public other than certain wholesale arrangements with franchisees in the PRC and Malaysia. The percentage of turnover from sales to the Group's five largest customers was less than 30% of the Group's annual turnover over the Track Record Period.

MARKETING AND PROMOTION

The Group's marketing events and campaigns are managed by its marketing team, which is comprised of 11 full-time employees in Hong Kong as at the Latest Practicable Date. During the Track Record Period, the Group's advertising and marketing expenses were approximately 1% of total turnover.

The Group engages in a number of marketing activities, including advertising in the media, outdoor advertising, promotional events and customer VIP programmes.

Media advertising

The Group regularly runs print advertising campaigns in the Hong Kong editions of fashion magazines such as *Elle*, *Cosmopolitan* and *Harper's Bazaar* to maintain and increase awareness of the Group's brands. The Group also advertises in Hong Kong lifestyle magazines such as *Milk* and *East Touch*, which appeal to a youthful, upwardly mobile, fashion conscious target market. The Directors believe that the most direct and cost effective way of reaching the Group's target customer base is through magazine editorials, promoting each brand. Accordingly, the Group's marketing team issues press releases to the fashion media and local newspapers in Hong Kong, the PRC and Taiwan.

Outdoor advertising

The Group runs advertising campaigns on various alternative advertising media such as banners, light boxes in shopping malls, buses and in MTR stations.

Websites

The Group's principal website, *www.ithk.com*, was launched in 1998 and allows the Group's customers access to the Group's product news, as well as information about store locations, seasonal highlights and corporate promotions. The Group also operates the *http://www.izzue.com* website, which performs the same function for its *http://www.izzue.com* stores.

Promotional events

The Directors believe that associating the Group with fashion-related events is an effective way of marketing the Group's brands. The Group organises fashion shows to present clothing collections, choosing venues popular with the younger generation, such as shopping malls, night clubs and restaurants. The Group also associates certain of its brands with major corporate partners through joint promotion campaigns.

Customer loyalty VIP programmes

The Group has launched VIP programmes for *http://www.izzue.com*, *b+ab*, *double-park*, *5cm* and *FCUK* to encourage customer spending at its stores and to help build customer loyalty. The I.T Citibank Visa card functions as the VIP card for *I.T*. The VIP programme for each brand, other than the I.T Citibank Visa card, has a minimum annual spending requirement for each holder. Members of the VIP programme are entitled to a 10% discount on purchases made throughout the year. In addition, club members are invited to fashion shows and other events sponsored by the Group. Through direct mailing, the Group also invites its VIP customers to promotional sales which are held in most of the Group's larger retail outlets.

I.T Visa card

In 2001, the I.T Citibank Visa card was established. Holders of this card are entitled, among other things, to a 10% discount on purchases at the Group's stores, but are also circulated direct mailings regarding promotions regarding exclusive sales, and birthday greetings, which the Group believes help further drive sales.

INFORMATION TECHNOLOGY SYSTEMS

The Group's information technology systems include a retail operation and logistics system, human resources information system, accounting and finance system and fashion design software.

The retail operation and logistics system is a custom-developed information technology system that tracks data, including sales and customer information, from delivery by any vendor at the Group's distribution centre to the store where the sale is made. Using this data, the Group can re-order popular items or implement promotions in order to sell other items that are not selling well. The Group began developing its information platform in 1997. This system is now also used in the PRC, Taiwan and Malaysia.

CASH MANAGEMENT

As is standard in the retail industry, the Group requires its retail customers to pay for merchandise at the time of purchase. A majority of the Group's sales are settled through non-cash payments, with the remainder settled by cash payments. The approximate percentage of sales settled by cash payments and non-cash payments are as follows:

	Year ended 28 February 2002	Year ended 28 February 2003	Year ended 29 February 2004	Six months ended 31 August 2003	Six months ended 31 August 2004
Cash payments.	16%	18%	21%	20%	22%
Non-cash payments[1] .	84%	82%	79%	80%	78%
Total	100%	100%	100%	100%	100%

[1] Non-cash payments include payment by credit cards, EPS and redemption of cash coupons.

As is common in the retail industry, the Group has adopted detailed policies and control measures with regard to, among other things, each of: (i) unauthorised access to cash proceeds; (ii) staff theft; (iii) staff recruitment screening; (iv) burglary; (v) improper handling of cash refunds; and (vi) counterfeit bank notes and coins. The Group provides written procedures to all employees designed to prevent and deal with embezzlement and other forms of theft. As part of these policies, the Group identifies and recruits staff with experience in cash management and performs background checks to identify and dismiss security risks. Some members of staff also attend criminal prevention seminars delivered by the Hong Kong Police Department. Authorised cashiers are given unique user identification codes and the Group's cash access system records all transactions performed by users. A daily cash-on-hand reconciliation compares cash in stores to the record of transactions. A report of this reconciliation is sent to the Group's central accounts department every Monday and Thursday. Cash in every store is locked in a cash drawer at the close of business. Excess cash is then deposited at the bank on the next working day. The Group's policy in dealing with cases of embezzlement cases and other forms of theft is to terminate the employment of the individual or individuals involved and to press criminal charges. The Group had one recorded case of embezzlement during the Track Record Period involving an amount totalling HK$469 and a cashier in 2001. Upon discovery, the Group promptly reported the individual to the local authorities and terminated her employment. Subsequently the Group revised procedures as outlined above regarding cashiers in order to prevent future incidents.

INTELLECTUAL PROPERTY

The Group's most important intellectual property are trade marks and service marks related to the brand names of its retail stores, as well as its in-house brands. Licensed brand products are sold in accordance with licensing agreements with third party licensors, all of which currently restrict the Group's usage only to Hong Kong.

Under the Labelsz F&B Sendirian Berhad and the Group Thirty Six Sendirian Berhad trade mark license agreements, the Group has authorised the use of its *http://www.izzue.com* and *izzue.com* trademarks to its franchisee in Malaysia. Further, under the terms of the GSIT joint venture agreement, the Group has authorised the use of its trade marks in the sale of its products to third parties in the PRC and Taiwan.

Save as to these, as at the Latest Practicable Date, the Group had not given any consent to any other party outside the Group for the use of any trade mark which is the same as or similar to the trade marks. As yet, the PRC license agreements have not been executed or filed with the PRC trademark office. However, all such trademarks are owned by the Group, the trademark license agreements are intra-Group agreements and the execution of these agreements is in process. While the filing of such trademark licenses agreements is required to be completed within three months after the execution of the trademark license agreements, the Company's PRC legal counsel has confirmed that no legal liabilities will arise under the relevant PRC laws if the filing is not done.

The Group has been advised by counsel that, because the term "IT" is in common usage today in multiple meanings and contexts, it may be difficult to fully protect the brands *I.T* and *i.t* in every instance, including from usage by third parties in ways which might be deemed by the Group to be competitive. The Group has obtained trade mark protection for *I.T* and *i.t* in Hong Kong. Further, the Group is aware that a third party in Hong Kong has applied to register "5cm" and mark "Lt" in Hong Kong in respect of various types of eyewear. The Group has opposed these applications on the basis that the marks "5cm" and "Lt" may be considered confusingly similar to its marks *5cm* and *I.T*. The opposition against the mark "5cm" (appln. no. 200303542) was filed on 1 September 2003. As at the Latest Practicable Date, this opposition has reached the stage of exchanging evidence. Following the filing of evidence in support of the opposition by ithk tm limited on 13 September 2004, the applicant is required to file evidence in answer on or before 18 March 2005. The opposition against the mark "Lt" (appln. no. 200219633) was filed on 14 May 2003. As at the Latest Practicable Date, this opposition has also reached the stage of exchanging evidence. Following the initial filing of evidence in support of the opposition by ithk tm limited on 23 December 2003 and of evidence in answer by the applicant on 27 August 2004, ithk tm limited is required to file evidence in reply on or before 27 February 2005. The Directors believe that neither of the third party applications leading to the Group filing oppositions has had an adverse impact on the financial performance or operations of the Group's business.

The Group has not yet successfully obtained full trade mark protection for *I.T* and *i.t* in the PRC. In addition, the Group is further aware of at least two small "I.T" stores being established in the PRC without permission or license from the Group or GSIT in cities in which the Group has competing, legitimate operations. However, the Directors believe these stores established in the PRC should not have any substantial adverse impact on the financial performance and operations of the Group's business in the PRC. As the Group will fully consider all available legal options to protect its trade marks in the PRC, the Directors believe any adverse impact on the financial performance and operations of the Group's business in the PRC would be minimised. There are also potential conflicts with prior marks in respect of the use and/or registration of the *I.T* and *i.t* trade marks in the PRC. Apart from these, the Directors confirm that they have not received any notice of, nor do they have any reason to believe that there was any material infringement of the trade marks during the Track Record Period and the Group has taken and will take all reasonable measures to prevent any infringement of its trade marks.

The Group also owns certain domain names. Details of these domain names are particularly set out under the section headed "Further information about the business — Intellectual property rights" in Appendix VI to this prospectus.

INSURANCE

The Group has taken out insurance policies which cover, amongst other things, the assets in its offices and retail stores, including the merchandise sold in its retails stores. The Group also has coverage for risks and liabilities arising in or in relation to its stores, or in respect of its employees, through commercial all risks insurance, office insurance, retail store insurance, employees' compensation insurance, public liability insurance, transportation insurance and employee travel insurance.

The Directors believe that the insurance coverage taken out by the Group over its assets and inventories is adequate and sufficient for its operations.

COMPETITION

The retail apparel market in Hong Kong in which the Group operates is fragmented and highly competitive, with a large number of single and multi-brand clothing and apparel companies, both foreign and domestic, competing with each other. While regulatory barriers to entry are low, the Directors believe that establishing brand recognition, particularly with the target customers that the Group seeks to attract, creates a barrier to entry for new retail brands for reasons set out below.

While the Directors believe that the Group has no direct competitors (either foreign or domestic) that replicate its business model insofar as operating a range of single and multi-brand outlets aimed at similar target customers, it accepts that there are a number of competitors, both foreign and domestic, in relation to aspects of its business. In particular, the Group competes with a number of operators in relation to the following:

- **Brand owners** — The Group competes with other retail operators that seek to attract international license owners, namely department stores, multi-brand retail stores and stand-alone retail chains. A number of local and international brand owners have set up and continue to set up their own retail stores in Hong Kong, which compete with the Group's own and licensed brands. The Directors believe that department stores, such as *Sogo*, *Lane Crawford* and *Seibu*, seek to enter into licensing or distribution arrangements with brands that compete directly with the brands offered by the Group. Finally, there are a number of operators that have established single and multi-brand retail outlets, such as *Joyce* and *The Swank Shop*, which the Directors believe compete with the Group to secure licensing, franchise and distribution rights with brand owners.

  The Group's multi-brand stores have achieved a reputation over time for successfully introducing a number of key brands to Hong Kong. The Directors believe that these stores provide the Group the perfect launchpad for new brands at relatively low risk. The fact that the Group also operates single brand stores, both free-standing and store-in-store, means that it offers brand owners the potential to spin-off brands in their own right when the Group is comfortable that there is sufficient market demand for such brands. The Group believes that these factors offer the Group significant advantages relative to its competitors in securing brands, both new and established.

- **Retail property operators** — With a limited amount of high-end retail space in Hong Kong, the Group competes with other retail operators, both of apparel and other products, to secure prime retail locations.

  The Directors believe that its ability to offer retail property operators a portfolio of single and multi-brand retail outlets of varying size that have an established track record of attracting a particular demographic of customers which can be tailored to cater to their particular needs means that it is able to secure prime retail space at competitive rates.

- **Customers** — the Group has a multi-layered retail strategy that is aimed at three principal demographics of customers:

  — the Group's *I.T* stores and spin-off stand-alone stores target upper-middle class customers in their late twenties to thirties. These stores compete with luxury department stores, such as *Lane Crawford*, *Sogo* and *Seibu*, as well as multi-brand outlets, such as *Joyce* and *The Swank Shop*, and single brand outlets such as *Prada*, *Gucci* and *Giorgio Armani*. The Group's ability to successfully identify brands that are both established and cutting edge has enabled it to establish significant brand loyalty.

  — the Group's *i.t* stores seek to appeal to customers in their twenties and thirties who are more conscious of trends and high-street fashion brands, and as such competes with international brands such as *Polo Jeans Company*, *CK Jeans*, *Replay, Miss Sixty* and *MNG*, as well as local operators such as *Sistyr Moon*. Its ability to offer to a range of internationally recognised brands, as well as stand alone outlets such as *FCUK*, allows it to appeal to its customers.

  — the Group's *double-park* stores and stand-alone stores, such as *Carhartt*, *Freshjive* and *XLARGE* aim to appeal to a younger market in their teens and early twenties, who are influenced by US and Japanese street-fashion. These stores compete with multi-brand operators such as *X-Game*, as well as brands such as *Puma*.

  The Group believes that it has built a reputation over time as a provider of established and new fashion brands, which have enabled it to consistently appeal to its target customers. The launch of its own brands, as well as creative input over a number of licensed brands that it offers, means that it has greater sensitivity and ability to react to changes in customer tastes. The amount of retail outlets that it operates also gives it a competitive advantage over new market entrants, both local and international, who are seeking to create brand recognition in an already competitive market.

Non-competition by controlling shareholders and Directors

Each of 3WH Limited, Effective Convey Limited, Mr. Sham Kar Wai, Mr. Sham Kin Wai and Ms. Yau Shuk Ching, Chingmy, the controlling shareholders of the Company, has confirmed in writing that it/he/she does not have any interest in a business apart from the Group's business which competes or is likely to compete, directly or indirectly, with the business of the Group.

Each of the Directors has confirmed in writing that he does not have any interest in a business apart from the Group's business which competes or is likely to compete, directly or indirectly, with the business of the Group.

Relationship with Glorious Sun

Dr. Yeung Chun Kam, a non-executive director of the Company, is also chairman of the Glorious Sun Group. Glorious Sun does not retail its *Jeans West* brand in Hong Kong where approximately 98% of the Group's annual turnover was earned during the year ended 29 February 2004 and the six months ended 31 August 2004. Whilst Glorious Sun does retail its *Jeans West* branded apparel in the PRC, such apparel is retailed at a substantially lower price point and is targeted at a different market (both geographically and in terms of customer types) to that of the Group and therefore the Directors do not consider Glorious Sun to be a competitor to the Group as a whole.

AWARDS AND RECOGNITION

The Group and its management have won a number of awards over the past few years, including the following:

Year	Award	Issuing Organisation
2004	4As Creative Awards — Citibank I.T VISA card campaign	The Association of Accredited Advertising Agents
2004	Quality, Prestige and Service Award — *b+ab*	China Association for Quality Supervision and Management
2003–2004. . .	Everyday Fashion Category — *I.T* Emotive Brand Awards	Yahoo!
2002	Outstanding New Co-brand programme — Citibank I.T Visa Card	VISA International
2002	2nd ranked brand as "cool and stylish" in Hong Kong — *http://www.izzue.com*	NFO WorldGroup
2001	Creative Force Award presented to *http://www.izzue.com*	City Magazine
2001	Best clothing shops — *I.T* and *double-park*	HK Magazine Readers' Choice Award

LEGAL AND REGULATORY

As at the Latest Practicable Date, no member of the Group was engaged in any litigation, claim or arbitration of material importance and no litigation, claim or arbitration of material importance is known to the Directors to be pending or threatened against any member of the Group.

PRC business licenses

Kenchart Trading, a PRC subsidiary of GSIT, is permitted to trade with PRC domestic enterprises with import and export trading licenses and PRC domestic enterprises inside the 上海外高橋保稅區 (Shanghai Wai Gao Qiao Free Trade Zone). Kenchart Trading conducts the import of international brands and is GSIT's wholesale centre for importing apparel into the PRC. Kenchart Trading formerly conducted domestic trading business outside the 上海外高橋保稅區 (Shanghai Wai Gao Qiao Free Trade Zone) from its incorporation in April 2003 up to January 2005. GSIT (Huizhou), another PRC subsidiary of GSIT, is a foreign investment enterprise permitted to sell only products that it manufactures itself including, based on advice from the Group's PRC legal counsel, products manufactured on its behalf by way of consignment processing. From its incorporation in March 2004 up to January 2005, GSIT (Huizhou) has been trading in apparel products not manufactured by it or on its behalf by way of consignment processing. For the year ended 29 February 2004 and for the six months ended 31 August 2004, the Group shared approximately HK$633,000 and approximately HK$392,000 of the combined profits of Kenchart Trading and GSIT (Huizhou) respectively.

According to the Group's PRC legal counsel, these two PRC subsidiaries of GSIT may be deemed to have conducted business beyond the scope of their respective business licenses and that each PRC subsidiary may be subject to a fine ranging from RMB10,000 (approximately HK$9,300) to RMB100,000 (approximately HK$93,000) imposed by the relevant PRC authority. In serious cases, their business licenses may be revoked. However, 3WH Limited, Effective Convey Limited, Mr. Sham Kar Wai and Mr. Sham Kin Wai have agreed to jointly and severally indemnify the Group against its exposure to such fines which may be levied against Kenchart Trading and GSIT (Huizhou). The Group's PRC legal counsel has advised that, save that the PRC subsidiaries may be deemed to have conducted certain businesses beyond their permitted scope of business in the past as disclosed above, based on confirmations received from the PRC subsidiaries and as far as they are aware, no information has come to their knowledge that the PRC subsidiaries have committed any material violations of the applicable laws of the PRC.

In order to ensure that the PRC operations of GSIT are conducted within the scope of the respective business licenses of its PRC subsidiaries, the following operational restructuring were implemented in January 2005:

- In respect of the Group's in-house brand and licensed brand apparel that are produced in the PRC, Kenchart Trading has revised and assigned all of its outstanding orders with the relevant PRC manufacturers such that these manufacturers would now act as the consignment processors of GSIT (Huizhou). According to the Group's PRC legal counsel, the sale of apparel produced by such consignment processors is within the permitted business scope of GSIT (Huizhou). All wholesale operations previously carried out by Kenchart Trading in respect of the Group's in-house brand and licensed brand apparel have ceased with effect from January 2005, which enables Kenchart Trading to terminate its *ultra vires* business activities.

- In respect of the Group's international brand apparel that are imported by Kenchart Trading into the PRC, the wholesale of these would now only be made to PRC domestic enterprises with import and export trading rights (including, without limitation, Sunny Chance as mentioned below) and PRC domestic enterprises inside the 上海外高橋保稅區 (Shanghai Wai Gao Qiao Free Trade Zone). This would enable Kenchart Trading to operate within the scope of its business license. All retail operations previously carried out by GSIT (Huizhou) in respect of such international brand apparel have ceased with effect from January 2005, in compliance with its licensed business scope.

- The directly-owned free-standing retail stores and store-in-stores (together with all the inventories maintained at such stores) of GSIT (Huizhou) have been transferred to Sunny Chance, a PRC domestic enterprise with import and export trading rights and an independent franchisee of GSIT, at book value under a composite transfer agreement. These stores are hence capable of conducting the retail of all of the Group's in-house brand apparel, licensed brand apparel and international brand apparel.

- GSIT has entered into a distribution agreement with Sunny Chance in relation to the distribution of the Group's in-house brand, licensed brand and international brand apparel through the operation of the free-standing stores and store-in-stores that were transferred to Sunny Chance under the composite transfer agreement described above.

Other than certain contractual consents to assignments, the Group's PRC legal counsel has confirmed that there are no legal impediments in the PRC to effect the above-mentioned restructuring exercise. The Group's PRC legal counsel has also confirmed that such restructuring exercise, which was completed in January 2005, would rectify the above-described non-compliance issues relating to the PRC operations of GSIT to the extent that they are now conducted within the scope of the respective business licenses of its PRC subsidiaries.

The reorganisation is anticipated to have some operational and financial impact on the Group. Operationally, GSIT will no longer retail imported apparel in the PRC or apparel sold through the operations transferred to Sunny Chance. Financially, GSIT will no longer realise the retail margins on these sales. However, on the basis that the above-described restructuring steps have been successfully completed and that profit attributable to the Group from such PRC operations represented approximately 1% of the Group's total profit attributable to shareholders for the year ended 29 February 2004, the Directors consider that the operational and financial impact of such restructuring on the Group as a whole is minimal.

Separately, in January 2005, the PRC subsidiaries have applied for an extension of the scope of their respective business licenses pursuant to the New Measures, which came into effect on 1 June 2004. The Group's PRC legal counsel has advised that they do not see any legal obstacles to such PRC subsidiaries obtaining such extension of business license scope based on the relevant requirements of the laws of the PRC. If either Kenchart Trading or GSIT (Huizhou) is successful in its application, GSIT will be able to directly retail international brand apparel in the PRC through that PRC subsidiary.

It is a term of both the composite transfer agreement and distribution agreement with Sunny Chance that any of GSIT (Huizhou), Kenchart Trading or any other subsidiary of GSIT, upon it having successfully obtained or otherwise extended the scope of its relevant business licenses, is entitled to exercise a call option obliging Sunny Chance to return at book value the ownership of the free-standing stores and store-in-stores that were previously transferred to Sunny Chance under the agreement. Against this background, it is also a term of the distribution agreement that Sunny Chance is prohibited from transferring or otherwise disposing the ownership of such free standing stores and store-in-stores to any other third party without the prior written consent of GSIT (Huizhou). Only the consent of GSIT (Huizhou), and not Kenchart Trading, is required because GSIT (Huizhou) was the original transferee of the free standing stores and the store-in-stores under the distribution agreement. The Directors do not believe that this particular consent arrangement will have any effect on the Group's operations or on the Group's future expansion in the PRC, because both GSIT (Huizhou) and Kenchart Trading are subsidiaries controlled by GSIT.

Trade marks dispute

In Hong Kong, the Group is in opposition proceedings to the registration by a third party of a trade mark for usage in Hong Kong of "5cm" and "LT" in connection with eyewear.

Leases

The Group may not have fully complied with the occupation permit of one of the Group's leased properties in Hong Kong. This may or may not result in the cessation of operations of that store. Given the Group's large number of store locations in Hong Kong, the Directors do not consider this possible non-compliance to be material.

Certain leases of GSIT in the PRC have not been registered. As at the Latest Practicable Date, a total of eight of GSIT's leases in respect of its three warehouses and eight offices in the PRC have not been registered with the relevant PRC authorities. The Group's PRC legal counsel has advised that under PRC law, leases that have not been registered are binding on lessors and lessees but do not bind third parties such as transferees or mortgagees of the leases. In situations where a lease has not been registered, the lessee has the right to be compensated by the lessor due to the lessor's breach of the lease agreement. However, the lessee cannot claim any right to continue the lease over the disagreement of the transferee. The lessee also has no right to continue the lease if the subject property had been mortgaged before the lease agreement and then disposed of by the mortgagee.

Furthermore, as at the Latest Practicable Date, four of the title certificates of GSIT's leased properties in the PRC have not yet been provided by the respective landlords. The Group's PRC legal counsel has advised that under PRC law, if any of the leased properties do not have a proper title certificate, the relevant lease agreement to which such leased property is subject may be null and void. However, in such a situation, GSIT is able to be indemnified against losses suffered due to the defect in the ownership of the leased properties.

The Directors believe that the leased properties of GSIT in the PRC could be substituted by other similar properties with the same or similar rents. Therefore, the impact of the lack of lease registration should be immaterial to the businesses of GSIT and/or the Group.

Advances to the Sham's private interests

During the Track Record Period and in the subsequent period up until 31 January 2005 ("Post Track Record Period"), ithk holdings limited, i.t apparels Limited (formerly known as i.t. LIMITED) and Kenchart Investments Limited (all of which are Group companies) made certain unsecured non-interest bearing current account advances from their respective available internal resources to Mr. Sham Kar Wai, Mr. Sham Kin Wai, Ms. Sham Sau Wai and Ms. Sham Sau Han and their respective related interests (including private companies controlled by any or all of them) (collectively as the "Shams' private interests"). Ms. Sham Sau Wai and Ms. Sham Sau Han are both sisters of Mr. Sham Kar Wai and Mr. Sham Kin Wai respectively. During the Track Record Period and up to the Latest Practicable Date, Ms. Sham Sau Wai was a director of certain Group companies (including i.t apparels limited (formerly known as i.t. LIMITED), b&ab Limited, Blossom Glory Limited, Century Team Corporation Limited, Cheerful Joyce Limited, Cheersway Development Limited, Cheerwood Limited, Double Park Limited, Elegance Source Limited, Elegant Century Enterprises Limited, Enwell Limited, Good Praise Limited, Izzue Limited, Jandix Limited, Janport Limited, Jetchance Limited, Joyful Fair Limited, Kenchart Investments Limited, King Chart Limited, Legend Grace International Limited, Rainbow Hope Investment Limited, Regent Cheer Limited, Sanjose Limited, Tower Group International (HK) Limited, Turbo Corporation Limited, Visionage Limited, Wasin Limited and Zoompac Limited). During the Track Record Period and up to the Latest Practicable Date, Ms. Sham Sau Han was a director of certain Group companies (including ithk holdings limited, i.t apparels limited (formerly known as i.t. LIMITED), ithk associates limited, izzue (bvi) limited, ithk tm limited, b+ab (bvi) limited, ithk investments limited, b&ab Limited, Blossom Glory Limited, Century Team Corporation Limited, Cheerful Joyce Limited, Cheersway Development Limited, Cheerwood Limited, Double Park Limited, Elegance Source Limited, Elegant Century Enterprises Limited, Enwell Limited, Good Praise Limited, Izzue Limited, Jandix Limited, Janport Limited, Jetchance Limited, Joyful Fair Limited, Kenchart Investments Limited, King Chart Limited, Legend Grace International Limited, Rainbow Hope Investment Limited, Regent Cheer Limited, Sanjose Limited, Sunport Holdings Limited, Tower Group International (HK) Limited, Turbo Corporation Limited, Visionage Limited, Wasin Limited and Zoompac Limited). Other than the foregoing, Ms. Sham Sau Wai and Ms. Sham Sau Han have not had any substantial management responsibilities in the Group during the Track Record Period and through to the Latest Practicable Date. These advances were made when the relevant Group companies were still privately held and were essentially owned and/or controlled by the Shams' private interests. No additional advances have been made after the Post Track Record Period.

The Group made the advances to the Shams' private interests for the purposes of purchasing properties and/or other personal uses. As far as the Group was concerned, the Group has been profitable during the Track Record Period and the Post Track Record Period, and the advances to the Shams' private interests were made having regard to the amount of the available distributable reserves so that the total amount of such advances would not exceed the total amount that the shareholders (and therefore the Shams' private interests) would be able to extract from the Group companies or the Group by procuring dividends to be paid. This is an indirect means to secure that the Shams' private interests will be able to repay such advances. In addition, while the advances were made on an unsecured and non-interest bearing basis, loans and securities provided by the Shams' private interests to or in support of bank facilities made available to the Group companies were also extended on an interest-free and unsecured basis. The Directors therefore consider that the advances and their terms were fair and reasonable.

Details of the advances made to the Shams' private interests as at the end of each period comprised within the Track Record Period are disclosed in note 30 to the Accountants' Report set out in appendix I to this prospectus. Advances made to the Shams' private interests during the Post Track Record Period amounted to approximately HK$33.6 million. As disclosed in note 30 to the Accountants' Report, the Shams' private interests had also during the Track Record Period provided personal guarantees and pledges of property assets as security for various bank facilities of the Group free of charge to the Group. The Shams' private interests will continue to provide such security after the Post Track Record Period until the security is released and discharged upon Listing.

The Shams' private interest could have repaid, during the Track Record Period and the Post Track Record Period, the advances made to them by the Group by procuring the Group to declare dividend(s). The total amount due from the Shams' private interests to the Group was approximately HK$51 million as at 28 February 2002, and was increased to approximately HK$54 million as at 28 February 2003, was increased to approximately HK$69 million as at 29 February 2004 and was increased to approximately HK$98 million as at 31 August 2004. The significant increase in the total amount of the advances during the six months ended 31 August 2004 was in anticipation of dividends to be declared by the Group. During the same six month period, the retained profit of the Group increased from approximately HK$190.32 million to approximately HK$223.24 million. The total amount due from the Shams' private interests to the Group was approximately HK$121.81 million as at 31 January 2005.

Shareholders and directors of the relevant Group companies at the time had given their approval to the advances but such approval had not been reduced into formal resolutions of the relevant companies. The advances to the Shams' private interests were made by three Group companies, namely Kenchart Investments Limited and i.t apparels Limited (formerly known as i.t. LIMITED) both being companies incorporated in Hong Kong, and ithk holdings limited which was incorporated in the British Virgin Islands. The Company has been advised by its British Virgin Islands counsel that there is no statutory provision under British Virgin Islands law against the making of loans to directors. The advances made by ithk holdings limited were therefore legal and valid under the laws of the British Virgin Islands. As far as the advances made by the Hong Kong incorporated companies are concerned, the Hong Kong Companies Ordinance requires prior approval by the shareholders in general meeting. As formal approval procedures have not been strictly followed by the shareholders of the companies, it is possible that such advances might have been made in contravention of the requirements of the Hong Kong Companies Ordinance. However, such contravention does not affect the recoverability of such advances from the Shams' private interests. On 22 December 2004 and 31 January 2005 respectively, shareholders and directors of the relevant Group companies passed formal written resolutions approving, confirming and ratifying such advances. The Directors are therefore satisfied that these advances had been duly approved and ratified. Save for the possible contravention disclosed above, the Directors are not aware and have no reasons to believe that there has been any contravention of any other applicable legal requirements in respect of the advances.

On 17 February 2005, the advances were fully repaid by the Shams' private interests by way of a set-off against dividends in the aggregate sum of HK$190 million distributed by the Group. The security provided by the Shams' private interests for the Group's bank facilities as described above will also be fully released or replaced with guarantees or other securities from the Company and/or its subsidiaries upon Listing. Details of the dividend, including how it was funded, are disclosed in the section headed "Financial information — Liquidity and capital resources — Borrowings, loans and banking facilities" in this prospectus.

On account of the matters mentioned above and, in particular, that (i) the total amount of advances was less than the distributable reserves of the Group as at the end of each period within the Track Record Period; and that (ii) such advances were anticipated to be repaid by way of dividend distribution, no provision was made by the Company in respect of such advances during the Track Record Period. As anticipated, the advances were fully repaid by the Shams' private interests on 17 February 2005 by way of set-off against dividends declared by the Group on 4 February 2005.

Corporate guarantees for bank loans to the Shams' private interests

In addition to advances made to the Shams' private interests, as at 28 February 2002, 28 February 2003, 29 February 2004 and 31 August 2004 respectively, the Group has also provided corporate guarantees amounting to approximately HK$30.93 million, approximately HK$27.29 million, approximately HK$42.48 million and approximately HK$40.02 million respectively, in respect of bank loans granted by banks to GP (FE) Ltd, Income Team Limited, Popbest Limited and Shine Team Development Limited, all being private companies and forming part of the Shams' private interests as defined above.

In the same way as the advances were made to the Sham's private interests, these corporate guarantees were made for the purpose of enabling the relevant borrowers to purchase properties and/or for other personal uses of the Shams' private interests. Security provided by the Shams' private interests in support of the bank facilities of the Group during the Track Record Period were in the form of charge(s) over properties owned by Income Team Limited, Popbest Limited and Shine Team Development Limited respectively.

Shareholders and directors of the relevant Group companies at the time had given their approval to the giving of the corporate guarantees. All such approvals had been properly documented, except for the shareholders' approval in respect of the corporate guarantee given by i.t apparels Limited (formerly known as i.t. LIMITED) which had not been reduced into writing. As far as this particular corporate guarantee is concerned, the Hong Kong Companies Ordinance requires prior approval by the shareholders in general meeting. As formal approval procedures have not been strictly followed by the shareholders of i.t apparels Limited (formerly known as i.t. LIMITED) at the time, it is possible that the giving of this corporate guarantee may have contravened the requirements of the Hong Kong Companies Ordinance. On 31 January 2005, the shareholders of i.t apparels Limited (formerly known as i.t. LIMITED) have passed formal written resolutions approving, confirming and ratifying the giving of this corporate guarantee. The Directors are therefore satisfied that this corporate guarantee has been duly approved and ratified.

The Directors anticipate that no material liabilities will arise from the above corporate guarantees, and the relevant banks have agreed in principle that the corporate guarantees will be released or replaced by guarantees or other securities from the Company and/or its subsidiaries upon Listing. The Directors have reviewed and discussed the continuing obligations of the Group under the Listing Rules (including the recommended corporate governance practices) and will procure the Group's compliance with the relevant requirements of the Listing Rules.

Disposal of interests in Joyce East Limited and Lanson Limited

On 1 January 2004, the Group disposed of its entire interest in Joyce East Limited and Lanson Limited to Ms. Sham Sau Wai and Ms. Sham Sau Han. Joyce East Limited and Lanson Limited were parties to a tenancy agreement for a single *izzue cafe* previously owned and operated by the Group. The Group disposed of Joyce East Limited and Lanson Limited following the closure of the cafe.

General

Save as disclosed in this section headed "Business — Legal and regulatory", the Directors confirm that there is no material non-compliance with the relevant laws and regulations of jurisdictions in which the Group operates (including that it has otherwise obtained all necessary permits and licenses in the jurisdictions where the Group has operations).

CONVERTIBLE NOTES

On 14 March 2000, the Group issued to the Selling Shareholder a convertible note with a face value of US$5.2 million (approximately HK$40.4 million). The note was secured by personal guarantees provided by Mr. Sham Kar Wai, Mr. Sham Kin Wai, Ms. Yau Shuk Ching, Chingmy, Ms. Sham Sau Wai and Ms. Sham Sau Han respectively, and bore interest at 7% per annum plus 16% per annum if an initial public offering of the Company's capital stock was not completed according to the terms of the note. While the interest rate on this note reached a combined 23% when such an initial public offering was not completed, at the time the note was originally issued, these terms which were based on arms length negotiations, appeared reasonable to the parties as the Selling Shareholder considered the risk attached to the note to be high (in part because the obligation was not secured by any real estate) and the parties considered the likelihood of an initial public offering at the time to be relatively high. On 11 March 2003, this convertible note was redeemed by ithk holdings limited at face value plus accrued interest totalling approximately HK$60.8 million. Proceeds from this note were used to fund the Group's operations and expansion.

On 10 July 2003, the Group issued to the Selling Shareholder a convertible note with a face value of US$5 million (approximately HK$38.9 million). The note was secured by personal guarantees of Mr. Sham Kar Wai, Mr. Sham Kin Wai, Ms. Yau Shuk Ching, Chingmy, Ms. Sham Sau Wai and Ms. Sham Sau Han respectively, and bore interest at 7% per annum, payable quarterly. The Group issued this note, which bore a significantly lower interest rate than the 23% rate applicable to the prior convertible note at its repayment in March 2003, in anticipation of funding needs in connection with its expansion into the PRC. Further, as Hong Kong was in the midst of the SARS crisis at that time, the Group considered it appropriate for commercial reasons to have access to such additional cash.

On 9 October 2003, the Selling Shareholder accepted from the Group a partial repayment on the note of US$1 million (approximately HK$7.8 million) and a new note issued by the Group in exchange for redemption of the 10 July 2003 note. The new note had a face value of US$4 million (approximately HK$31.1 million). The new note was also secured by personal guarantees of Mr. Sham Kar Wai, Mr. Sham Kin Wai, Ms. Yau Shuk Ching, Chingmy, Ms. Sham Sau Wai and Ms. Sham Sau Han respectively, and bore interest at 7% per annum, payable quarterly. On 23 September 2004, the Selling Shareholder elected to convert the entire amount outstanding of US$4 million (approximately HK$31.1 million) under this new note into 2,078 ordinary shares of ithk holdings limited (in addition to a final cash adjustment of not more than HK$1 million to be paid by ithk holdings limited or, should the Listing fail to be completed by 20 April 2005, an issue of further Shares by the Company). The new note was then converted on 5 October 2004 pursuant to an exercise notice dated 23 September 2004. The Selling Shareholder's effective cost of investment per Share, based on this share conversion only, was approximately HK$0.40. This effective cost of investment per Share represents a discount of approximately 78.4% of the assumed Offer Price (being HK$1.85, which is the midpoint of the stated range of the Offer Price of between HK$1.75 and HK$1.95 per Share) per Share. Proceeds from this note were used to fund the Group's operations and expansion. The Selling Shareholder has undertaken to each of the Hong Kong Underwriters and the Company that during the period of three months from the Listing Date, it will not directly or indirectly transfer or otherwise dispose of any Shares which it holds as at the Listing Date, as detailed in the section headed "Underwriting — Underwriting arrangements and expenses — Hong Kong Public Offering — Undertakings" in this prospectus.

During the Track Record Period, the Selling Shareholder participated only as a passive investor of the Group, and was not directly involved in management decisions of the Group. However, the respective subscription agreements for the notes and the notes themselves gave the Selling Shareholder certain contractual rights while placing certain contractual restrictions on the Group including, among other things, the right to approve changes to the Group's boards of directors and restrictions on the Group's ability to pay dividends. These contractual rights and restrictions ended with the redemption of the notes and the conversion of the new note by way of a notice of exercise of right to convert dated 23 September 2004 respectively. The Directors therefore believe that the Selling Shareholder will continue to play the role of a passive investor and will not be involved in management following the Listing.