

The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, the auditors of and the reporting accountants to the Company.



羅兵咸永道會計師事務所

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

22 February 2005

The Directors
I.T Limited
CLSA Equity Capital Markets Limited

Dear Sirs,

We set out below our report on the financial information relating to I.T Limited (“the Company”) and its subsidiaries (hereinafter collectively referred to as “the Group”) for the years ended 28 February 2002, 28 February 2003 and 29 February 2004 and the six months ended 31 August 2003 and 31 August 2004 (“the Relevant Periods”) for inclusion in the prospectus of the Company dated 22 February 2005 (“the Prospectus”) in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

The Company was incorporated in Bermuda on 18 October 2004 as an exempted company with limited liability under the Companies Act 1981 of Bermuda. On 5 February 2005, the Company acquired the entire issued share capital of ithk holdings limited, a company incorporated in the British Virgin Islands, the then holding company, through share exchanges (“the Reorganisation”), and consequently became the holding company of the subsidiaries now comprising the Group, details of which are set out in Section I — Note 1 below.

We have audited, in accordance with the Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), the consolidated accounts of ithk holdings limited and its subsidiaries as at and for the years ended 28 February 2003 and 29 February 2004, and as at and for the six months ended 31 August 2003 and 31 August 2004, prepared in accordance with accounting principles generally accepted in Hong Kong. The consolidated accounts of ithk holdings limited and its subsidiaries as at and for the year ended 28 February 2002, prepared in accordance with accounting principles generally accepted in Hong Kong, were audited by Arthur Andersen & Co, Certified Public Accountants, Hong Kong.

We have examined the audited consolidated accounts of ithk holdings limited, and have carried out such additional procedures as are necessary in accordance with the Auditing Guideline “Prospectuses and the Reporting Accountant” issued by the HKICPA.

The financial information as set out in Sections I to III below (“the Financial Information”) has been prepared based on the audited consolidated accounts of ithk holdings limited, on the basis set out in Section I — Note 1 below. The Directors of the respective companies, during the Relevant Periods, are responsible for preparing these accounts which give a true and fair view. In preparing these accounts, it is fundamental that appropriate accounting policies are selected and applied consistently. The Directors of the Company are responsible for the Financial Information. It is our responsibility to form an independent opinion, based on our examination, on the Financial Information and to report our opinion.

In our opinion, the Financial Information, for the purpose of this report and prepared on the basis set out in Section I — Note 1 below, gives a true and fair view of the combined state of affairs of the Group as at 28 February 2002, 28 February 2003, 29 February 2004 and 31 August 2004 and of the combined results and cash flows of the Group for the Relevant Periods.

I. FINANCIAL INFORMATION OF THE GROUP

The following is the combined accounts of the Group as at 28 February 2002, 28 February 2003, 29 February 2004 and 31 August 2004, and for the years ended 28 February 2002, 28 February 2003 and 29 February 2004 and the six months ended 31 August 2003 and 2004, prepared on the basis set out in Note 1 below:

Combined profit and loss accounts

	Note	Year ended	Year ended	Year ended	Six months ended	
		28 February 2002	28 February 2003	29 February 2004	2003	2004
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	3	695,051	731,983	812,168	342,209	413,318
Cost of sales		<u>(310,804)</u>	<u>(316,280)</u>	<u>(326,571)</u>	<u>(144,483)</u>	<u>(160,200)</u>
Gross profit		384,247	415,703	485,597	197,726	253,118
Other revenue	3	216	215	128	85	4
Operating expenses		<u>(318,236)</u>	<u>(344,441)</u>	<u>(361,684)</u>	<u>(174,171)</u>	<u>(204,617)</u>
Operating profit	4	66,227	71,477	124,041	23,640	48,505
Finance costs	5	(11,772)	(9,863)	(4,298)	(1,944)	(1,926)
Share of profit/(loss) of jointly controlled entities		(276)	110	(1,792)	(1,014)	(5,852)
Gain on disposal of subsidiaries	6	<u>—</u>	<u>—</u>	<u>9,012</u>	<u>—</u>	<u>—</u>
Profit before taxation		54,179	61,724	126,963	20,682	40,727
Taxation	9	<u>(10,310)</u>	<u>(13,770)</u>	<u>(21,373)</u>	<u>(3,890)</u>	<u>(7,807)</u>
Profit attributable to shareholders		<u>43,869</u>	<u>47,954</u>	<u>105,590</u>	<u>16,792</u>	<u>32,920</u>
Dividends	10	<u>20,000</u>	<u>20,000</u>	<u>20,000</u>	<u>—</u>	<u>—</u>

Combined balance sheets

		As at 28 February 2002	As at 28 February 2003	As at 29 February 2004	As at 31 August 2004
	Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Non-current assets					
Fixed assets	12	38,878	20,001	32,737	36,240
Investment in jointly controlled entities	13	2,215	2,497	33,503	36,590
Rental deposits		24,281	17,185	29,139	42,008
Due from related companies	30	35,369	23,601	51,221	76,646
Deferred tax assets	23	354	1,172	904	1,444
Total non-current assets		101,097	64,456	147,504	192,928
Current assets					
Inventories	14	55,027	53,189	66,216	99,584
Accounts receivable	15	2,814	2,737	8,622	4,320
Prepayments, deposits and other receivables	16	6,544	17,063	13,685	20,010
Due from directors	30	15,445	30,734	17,927	21,541
Due from related parties . . .	30	—	—	40	—
Pledged bank deposits	29	5,162	5,220	750	17,750
Cash and bank deposits		34,026	75,832	53,406	56,457
Total current assets		119,018	184,775	160,646	219,662
Current liabilities					
Short-term bank borrowings .	17	(8,892)	(5,403)	(443)	(11,638)
Long-term bank loans, current portion	18	(740)	—	(21,000)	(19,000)
Other loan	19	(622)	(170)	—	—
Convertible note, current portion	20	—	(59,648)	—	—
Accounts and bills payable .	21	(27,890)	(30,479)	(24,662)	(38,906)
Accruals and other payables	22	(24,530)	(19,595)	(21,464)	(25,575)
Taxation payable		(5,081)	(7,962)	(7,680)	(11,662)
Dividend payable		—	(20,000)	(10,000)	(10,000)
Total current liabilities		(67,755)	(143,257)	(85,249)	(116,781)
Net current assets		51,263	41,518	75,397	102,881

		As at 28 February 2002	As at 28 February 2003	As at 29 February 2004	As at 31 August 2004
	Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Total assets less current liabilities		152,360	105,974	222,901	295,809
Non-current liabilities					
Long-term bank loans	18	—	—	—	(40,000)
Convertible note	20	(53,034)	—	(31,195)	(31,195)
Deferred taxation	23	(1,342)	(47)	(178)	(166)
Total non-current liabilities		<u>(54,376)</u>	<u>(47)</u>	<u>(31,373)</u>	<u>(71,361)</u>
Net assets		<u>97,984</u>	<u>105,927</u>	<u>191,528</u>	<u>224,448</u>
Representing:					
Share capital	24	8	8	8	8
Reserves	25	<u>97,976</u>	<u>105,919</u>	<u>191,520</u>	<u>224,440</u>
Shareholders' equity		<u>97,984</u>	<u>105,927</u>	<u>191,528</u>	<u>224,448</u>

Combined cash flow statements

	Note	Year ended	Year ended	Year ended	Six months ended	
		28 February 2002	28 February 2003	29 February 2004	31 August 2003	2004
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Operating activities						
Net cash inflow generated from operations	26(a)	85,968	99,634	91,266	12,395	29,081
Interest received		216	215	128	85	4
Interest paid		(5,282)	(3,249)	(23,477)	(21,123)	(1,926)
Hong Kong profits tax paid		(9,470)	(13,002)	(21,377)	(2,654)	(4,377)
Hong Kong profits tax refunded		—	—	121	—	—
Net cash inflow/(outflow) from operating activities.		<u>71,432</u>	<u>83,598</u>	<u>46,661</u>	<u>(11,297)</u>	<u>22,782</u>
Investing activities						
Additions of fixed assets		(23,856)	(4,750)	(29,115)	(6,315)	(11,866)
Proceeds from disposal of fixed assets		12	74	344	14	—
Net cash outflow in respect of disposal/deemed disposal of subsidiaries	26(c)	—	—	(2,766)	—	—
Net cash inflow in respect of acquisition of a subsidiary	26(c)	—	—	—	—	2,361
Acquisition of an investment		—	(8,673)	—	—	—
Acquisition of investment in a jointly controlled entity		—	—	(8,000)	(4,000)	(4,000)
(Increase)/Decrease in amount due from jointly controlled entities		577	(172)	(484)	(733)	(9,422)
Increase in amounts due from directors		(12,110)	(28,156)	(17,193)	(5,253)	(3,614)
(Increase)/Decrease in amounts due from related parties		4,866	—	(40)	(40)	40
(Increase)/Decrease in amounts due from related companies		(7,486)	4,635	(27,620)	(13,320)	(25,425)
Translation adjustments		—	(11)	1	1	—
Net cash outflow from investing activities		<u>(37,997)</u>	<u>(37,053)</u>	<u>(84,873)</u>	<u>(29,646)</u>	<u>(51,926)</u>
Net cash inflow/(outflow) before financing activities		<u>33,435</u>	<u>46,545</u>	<u>(38,212)</u>	<u>(40,943)</u>	<u>(29,144)</u>

	Note	Year ended	Year ended	Year ended	Six months ended	
		28 February 2002	28 February 2003	29 February 2004	31 August	
		HK\$'000	HK\$'000	HK\$'000	2003	2004
					HK\$'000	HK\$'000
Financing activities	26(b)					
New long-term bank loans		—	—	34,720	34,720	50,000
Repayment of long-term bank loans		(2,728)	(740)	(9,000)	—	(12,000)
New trust receipts bank loans		121,657	126,123	93,660	54,371	56,393
Repayment of trust receipts bank loans		(132,943)	(129,096)	(98,620)	(58,872)	(45,198)
Repayment of other loan		(453)	(452)	(170)	(170)	—
Issuance of convertible note		—	—	39,000	39,000	—
Redemption/Repayment of convertible note		—	—	(48,274)	(40,469)	—
(Increase)/Decrease in pledged bank deposits		(2,362)	(58)	4,470	(38)	(17,000)
Net cash inflow/(outflow) from financing activities		<u>(16,829)</u>	<u>(4,223)</u>	<u>15,786</u>	<u>28,542</u>	<u>32,195</u>
Increase/(Decrease) in cash and cash equivalents		16,606	42,322	(22,426)	(12,401)	3,051
Cash and cash equivalents, beginning of year/period		<u>16,904</u>	<u>33,510</u>	<u>75,832</u>	<u>75,832</u>	<u>53,406</u>
Cash and cash equivalents, end of year/period	26(d)	<u><u>33,510</u></u>	<u><u>75,832</u></u>	<u><u>53,406</u></u>	<u><u>63,431</u></u>	<u><u>56,457</u></u>

Combined statements of changes in equity

	Year ended 28 February 2002	Year ended 28 February 2003	Year ended 29 February 2004	Six months ended 31 August	
	HK\$'000	HK\$'000	HK\$'000	2003 HK\$'000	2004 HK\$'000
Balance as at beginning of year/period	66,115	97,984	105,927	105,927	191,528
Profit attributable to shareholders	43,869	47,954	105,590	16,792	32,920
Translation adjustments	—	(11)	1	—	—
Reserves transferred to profit and loss account upon disposal of subsidiaries	—	—	10	—	—
Dividends	<u>(12,000)</u>	<u>(40,000)</u>	<u>(20,000)</u>	<u>—</u>	<u>—</u>
Balance as at end of year/ period	<u>97,984</u>	<u>105,927</u>	<u>191,528</u>	<u>122,719</u>	<u>224,448</u>

Notes to the combined accounts

1. Basis of presentation

As at the date of this report, the Company has direct and indirect interests in the following subsidiaries and jointly controlled entities, all of which are private companies or, if incorporated or established outside Hong Kong, have substantially the same characteristics as a Hong Kong incorporated private company:

<u>Name</u>	<u>Place and date of incorporation/ establishment and operations</u>	<u>Issued and fully paid capital</u>	<u>Percentage of equity interest attributable to the Group (i)</u>	<u>Principal activities</u>
Subsidiaries				
b + ab (bvi) limited# . . .	British Virgin Islands, 18 January 2000	US\$1	100%	Investment holding
b&ab LIMITED*	Hong Kong, 28 February 1996	HK\$500,000	100%	Retail of fashion wears and accessories
Blossom Glory Limited^	Hong Kong, 9 March 2004	HK\$300,000	100%	Inactive
Century Team Corporation Limited* .	Hong Kong, 18 September 2002	HK\$2	100%	Investment holding
Cheerful Joyce Limited*	Hong Kong, 12 February 2003	HK\$2	100%	Holding leases
Cheersway Development Limited*	Hong Kong, 26 February 2003	HK\$2	100%	Holding leases
Cheerwood Limited* . . .	Hong Kong, 3 January 1997	HK\$2	100%	Holding leases
Double Park Limited* . .	Hong Kong, 14 April 2000	HK\$500,000	100%	Investment holding and retail of fashion wears and accessories
Elegance Source Limited*	Hong Kong, 2 June 2000	HK\$2	100%	Retail of fashion wears and accessories
Elegant Century Enterprises Limited^ .	Hong Kong, 3 November 2003	HK\$500,000	100%	Inactive
Enwell Limited*	Hong Kong, 7 July 2003	HK\$2	100%	Holding leases
Good Praise Limited^ . .	Hong Kong, 26 November 2003	HK\$2	100%	Inactive

<u>Name</u>	<u>Place and date of incorporation/ establishment and operations</u>	<u>Issued and fully paid capital</u>	<u>Percentage of equity interest attributable to the Group (i)</u>	<u>Principal activities</u>
i.t apparels Limited* (previously known as i.t. Limited).	Hong Kong, 30 November 1993	HK\$500,000	100%	Retail and trading of fashion wears and accessories
I.T. China (B.V.I.) Limited#.	British Virgin Islands, 3 May 2002	US\$1	100%	Investment holding
ithk associates limited#.	British Virgin Islands, 15 February 2000	US\$1	100%	Investment holding
ithk investments limited#	British Virgin Islands, 16 February 2000	US\$1	100%	Investment holding
ithk holdings limited*	British Virgin Islands, 15 February 2000	US\$1,000	100%	Investment holding
ithk tm limited#.	British Virgin Islands, 17 March 2000	US\$1	100%	Holding trademarks
Izzue Limited*.	Hong Kong, 4 July 1996	HK\$300,000	100%	Investment holding and retail of fashion wears and accessories
izzue (bvi) limited#	British Virgin Islands, 17 December 1999	US\$1	100%	Investment holding
Jandix Limited*.	Hong Kong, 2 June 2000	HK\$2	100%	Retail of fashion wears and accessories
Janport Limited^	Hong Kong, 25 February 2004	HK\$1	100%	Holding leases
Jetchance Limited*.	Hong Kong, 2 June 2000	HK\$2	100%	Retail of fashion wears and accessories
Joyful Fair Limited*	Hong Kong, 16 June 2000	HK\$2	100%	Investment holding
Kenchart Investments Limited*.	Hong Kong, 29 July 1993	HK\$300,000	100%	Retail of fashion wears and accessories

<u>Name</u>	<u>Place and date of incorporation/ establishment and operations</u>	<u>Issued and fully paid capital</u>	<u>Percentage of equity interest attributable to the Group (i)</u>	<u>Principal activities</u>
King Chart Limited* . . .	Hong Kong, 7 July 1992	HK\$10,000	100%	Retail of fashion wears and accessories
Legend Grace International Limited*	Hong Kong, 17 July 2002	HK\$2	100%	Retail of fashion wears and accessories
Rainbow Hope Investment Limited* .	Hong Kong, 7 July 2003	HK\$2	100%	Holding leases
Regent Cheer Limited* .	Hong Kong, 1 September 2000	HK\$2	100%	Holding leases
Sanjose Limited*	Hong Kong, 17 March 2000	HK\$2	100%	Investment holding
Sunport Holdings Limited*	Hong Kong, 7 July 2003	HK\$2	100%	Investment holding
Top Honour Corporation Limited*	Hong Kong, 3 April 2000	HK\$4,000,000	100% (ii)	Retail of fashion wears and accessories
Tower Group International (HK) Limited*	Hong Kong, 16 January 1998	HK\$300,000	100%	Inactive
Turbo Corporation Limited^	Hong Kong, 20 June 2003	HK\$2	100%	Holding leases
Visionage Limited^	Hong Kong, 7 July 2003	HK\$1	100%	Inactive
Wasin Limited*	Hong Kong, 31 July 2002	HK\$2	100%	Inactive
Zoompac Limited^	Hong Kong, 20 March 2004	HK\$1	100%	Inactive
Jointly controlled entities				
FCUK IT COMPANY# (iii)	Hong Kong, 24 January 2003	HK\$24,000,000	50%	Retail of fashion wears and accessories
G.S - i.t Limited^ (iv) . .	Hong Kong, 10 November 2003	HK\$2	50%	Investment holding
I.T TAIWAN LIMITED^ .	Hong Kong, 7 July 2004	HK\$1	25.5%	Investment holding

<u>Name</u>	<u>Place and date of incorporation/ establishment and operations</u>	<u>Issued and fully paid capital</u>	<u>Percentage of equity interest attributable to the Group (i)</u>	<u>Principal activities</u>
Income Team Consultancy (Shanghai) Limited + (v), (vi)	Mainland China, 16 August 2002	US\$140,000	50%	Provision of consultancy service
Kenchart Trading (Shanghai) Limited + (v), (vi)	Mainland China, 14 April 2003	US\$1,090,000	50%	Retail and trading of fashion wears and accessories
NEW CONCEPTS CORPORATION LIMITED* (v)	Hong Kong, 22 February 2002	HK\$2	50%	Investment holding
TOP ALLIANCE ENTERPRISES LIMITED#	British Virgin Islands, 8 December 2003	US\$100	25.5%	Investment holding
旭日宜泰服飾(惠州)有限公司(G.S-i.t (Huizhou) Limited)^ (vi)	Mainland China, 12 March 2004	HK\$10,000,000	50%	Retail and trading of fashion wears and accessories

All companies now comprising the Group and the jointly controlled entities have adopted 28/29 February as their financial year end date, except that FCUK IT COMPANY has adopted 31 January as its financial year end date and G.S - i.t Limited, I.T TAIWAN LIMITED, Income Team Consultancy (Shanghai) Limited, Kenchart Trading (Shanghai) Limited, TOP ALLIANCE ENTERPRISES LIMITED and 旭日宜泰服飾(惠州)有限公司(G.S - i.t (Huizhou) Limited) have adopted 31 December as their financial year end date.

Notes:

- * These companies were audited by PricewaterhouseCoopers for the years ended 28 February 2003 and 29 February 2004, or since their respective dates of incorporation, where this is a shorter period, and Arthur Andersen & Co for the year ended 28 February 2002, or since their respective dates of incorporation, where this is a shorter period.
- + These companies were audited by Shanghai Hui Zhong Wei Hong Certified Public Accountants Co., Ltd. for the years ended 31 December 2002 and 2003, or since their respective dates of incorporation, where this is a shorter period.
- # These companies are not subject to any statutory audit requirements in their jurisdictions of incorporation/establishment.
- ^ These companies are newly incorporated and no audited accounts have been prepared.
- (i) The shares of ithk holdings limited are held directly by the Company. The shares of other subsidiaries and jointly controlled entities are held indirectly by the Company.
- (ii) During the period from 1 March 2001 to 29 February 2004, the Group had 60% interest in Top Honour Corporation Limited, which was then considered as a jointly controlled entity to the Group. On 1 March 2004, the Group acquired the remaining 40% interest in Top Honour Corporation Limited for HK\$569,000, and thereafter, Top Honour Corporation Limited became a wholly-owned subsidiary.

- (iii) FCUK IT COMPANY is a corporate partnership jointly operated by the Group and another partner. The Company is entitled to share 50% of the profit and net assets of this corporate partnership.
- (iv) The Group has 50% interest in G.S - i.t Limited, which is considered as a jointly controlled entity of the Group.
- (v) These companies were wholly-owned subsidiaries of the Group during the period from their respective dates of incorporation to 30 November 2003. On 1 December 2003, the Group disposed of its entire interest in these companies to G.S - i.t Limited (see Note 6), and consequently these companies have become jointly controlled entities of the Group (see note (iv) above).
- (vi) Income Team Consultancy (Shanghai) Limited and Kenchart Trading (Shanghai) Limited are wholly foreign owned enterprises established in Shanghai, Mainland China to be operated for 20 years up to 2022 and 2023, respectively. 旭日宜泰服飾(惠州)有限公司 (G.S - i.t (Huizhou) Limited) is a wholly foreign owned enterprise established in Huizhou, Guangdong Province, Mainland China to be operated for 20 years up to 2024.
- (vii) During the period from 1 March 2001 to 31 December 2003, the combined accounts included 100% interest in Joyce East Limited and Lanson Limited. On 1 January 2004, the Group disposed of its entire interest in these companies to Ms. Sham Sau Wai and Ms. Sham Sau Han, both are sisters of Mr. Sham Kar Wai and Mr. Sham Kin Wai, directors and substantial beneficial shareholders of the Company, for nil consideration, representing the Group's share of net assets of these companies at the date of disposal.

The combined accounts of the Group as at and for the years ended 28 February 2002, 28 February 2003 and 29 February 2004, and as at and for the six months ended 31 August 2003 and 2004 have been prepared to present the financial positions, results and cash flows of the companies now comprising the Group, as if the current structure of the Group had been in existence throughout the Relevant Periods or since their respective dates of incorporation where there is a shorter period, except for the acquisition of additional interest in Top Honour Corporation Limited and the disposal of interests in NEW CONCEPTS CORPORATION LIMITED, Income Team Consultancy (Shanghai) Limited, Kenchart Trading (Shanghai) Limited, Joyce East Limited and Lanson Limited as described in notes (ii), (v) and (vii) above, which were accounted for under the acquisition accounting.

All significant intra-group transactions and balances have been eliminated on combination.

2. Principal accounting policies

The Financial Information is prepared under the historical cost convention. The principal accounting policies adopted in arriving at the Financial Information set out in this report, which conform to accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the HKICPA, are set out below.

(a) *Subsidiaries*

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies, to appoint or remove the majority of the members of the board of directors, or to cast majority votes at the meetings of the board of directors.

(b) *Jointly controlled entities*

A jointly controlled entity is a joint venture whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

The combined profit and loss accounts include the Group's share of the results of jointly controlled entities for the years/periods, and the combined balance sheets include the Group's share of the net assets of the jointly controlled entities.

(c) Fixed assets

(i) Depreciation

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Major expenditures on modifications and betterments of fixed assets which will increase their future economic benefits are capitalised, while expenditures on maintenance and repairs of fixed assets are expensed when incurred. Fixed assets are depreciated at rates sufficient to write off their cost less accumulated impairment losses and estimated residual value over their estimated useful lives on a straight-line basis. The principal annual rates of depreciation are as follows:

Leasehold improvements	25% or over the unexpired period of the lease, whichever is shorter
Furniture and equipment	25%

(ii) Impairment and gain or loss on sale

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that the fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

The gain and loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

(d) Long-term investments

Long-term investments represent investments which are stated at cost less accumulated impairment losses.

The carrying amounts of long-term investments are reviewed at each balance sheet date to assess whether the fair values of the investments have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such investment will be reduced to the fair value. The impairment loss is recognised as an expense in the profit and loss account. Reversal of impairment loss is credited to the profit and loss account when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(e) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated based on the weighted average method of costing and comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses. Provision is made for obsolete, slowing-moving or defective items where appropriate.

(f) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision, if any.

(g) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligations, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(h) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

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

Deferred taxation is provided on temporary differences arising on investments in subsidiaries and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

(i) Revenue recognition

Revenue is recognised when the outcome of a transaction can be measured reliably and when it is probable that the economic benefits associated with a transaction will flow to the Group. Revenue is recognised on the following bases:

(i) Sales revenue

Sales revenue, representing the net invoiced value after allowances for returns and discounts, is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered and title has passed.

(ii) Consignment fee

Consignment fee is recognised when the related merchandise is sold.

(iii) Royalty fee

Royalty fee is recognised on an accrual basis in accordance with the terms of the underlying agreements.

(iv) Consultancy fee

Consultancy fee is recognised when the related services are rendered.

(v) Interest income

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and at the interest rates applicable.

(j) Advertising and promotion costs

Costs for advertising and promotion are expensed as incurred.

(k) Employee benefits**(i) Employee leave entitlements**

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

(ii) Pension obligations

The Group's contributions to the defined contribution retirement scheme are expensed as incurred.

(l) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. All other borrowing costs are charged to the profit and loss account in the year/period in which they are incurred.

(m) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

(n) Contingent liabilities and contingent assets

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

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

(o) Currency translation

Individual companies within the Group maintain their books and records in the primary currencies of their respective operations ("functional currencies"). In the accounts of the individual companies, transactions in other currencies during the year/period are translated into the functional currencies at the applicable rates of exchange prevailing at the time of the transactions; monetary assets and liabilities denominated in other currencies are translated into the respective functional currencies at the applicable rates of exchange in effect at the balance sheet date. Exchange gains and losses are dealt with in the profit and loss account of the individual companies.

The Group prepares combined accounts in Hong Kong dollars. For the purpose of combination, all the assets and liabilities of subsidiaries with functional currencies other than Hong Kong dollars are translated into Hong Kong dollars at the applicable rates of exchange in effect at the balance sheet date;

all income and expense items are translated at the applicable average exchange rates during the year/period. Exchange differences arising from such translation are dealt with as movements of cumulative translation adjustments.

Forward foreign currency exchange contracts which are entered into as a hedge against specific and firm foreign currency exposures aiming to limit the Group's exposure to both favourable and unfavourable movements of the exchange rates to a pre-determined amount, are designated as hedged contracts. For these contracts, no exchange gains or losses are recognised during the contract period and any exchange gains or losses, together with the premium or discount on such contracts, are included in the measurement of the hedged transactions. Other forward foreign currency exchange contracts are considered to be speculative and the related exchange gains and losses are recognised in the profit and loss account as they arise.

(p) *Segment reporting*

In accordance with the Group's internal financial reporting the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of fixed assets, inventories, receivables and other operating assets. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to fixed assets and acquisition of investments.

In respect of geographical segment reporting, turnover is based on the country in which the customer is located and total assets and capital expenditure are where the assets are located.

(q) *Cash and cash equivalents*

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from date of investment and bank overdrafts.

(r) *Recently issued accounting standards*

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs"), which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the combined accounts as at 28 February 2002, 28 February 2003, 29 February 2004 and 31 August 2004, and for the years ended 28 February 2002, 28 February 2003 and 29 February 2004 and the six months ended 31 August 2003 and 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial positions.

3. Turnover, revenue and segment information

(a) Turnover and revenue consisted of:

	Year ended 28 February 2002	Year ended 28 February 2003	Year ended 29 February 2004	Six months ended 31 August	
	HK\$'000	HK\$'000	HK\$'000	2003	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover					
— Sales of fashion wears and accessories	685,216	723,187	810,456	340,787	413,318
— Sales of food and beverages (restaurant)	9,578	8,601	994	994	—
— Consignment fees	257	120	158	83	—
— Royalty fees	—	40	45	5	—
— Consultancy fees	—	35	515	340	—
Total turnover	695,051	731,983	812,168	342,209	413,318
Other revenue					
— Interest income	216	215	128	85	4
Total revenue	<u>695,267</u>	<u>732,198</u>	<u>812,296</u>	<u>342,294</u>	<u>413,322</u>

(b) Segment information

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

No segment analysis for geographical segment is presented as substantially all of the Group's turnover, operating results, assets and liabilities were located in Hong Kong.

4. Operating profit

Operating profit is determined after charging or crediting the following items:

	Year ended 28 February 2002 <u>HK\$'000</u>	Year ended 28 February 2003 <u>HK\$'000</u>	Year ended 29 February 2004 <u>HK\$'000</u>	Six months ended 31 August 2003 <u>HK\$'000</u>	Six months ended 31 August 2004 <u>HK\$'000</u>
After charging					
Employment costs (including directors' emoluments) (<i>Note 7</i>) . . .	108,993	111,347	126,870	58,892	72,141
Operating lease rentals of premises	121,329	127,331	136,453	66,895	76,792
Advertising and promotion costs	6,277	5,074	6,340	3,192	5,691
Depreciation of fixed assets	19,294	20,754	15,899	9,394	8,661
Loss on disposal of fixed assets	32	2,799	—	—	2
Provision for obsolete and slow-moving inventories	6,938	9,856	—	—	605
Provision for impairment in value of an investment	—	8,673	—	—	—
Net exchange losses	—	111	—	—	—
Auditors' remuneration	300	315	350	163	380
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
After crediting					
Gain on disposal of fixed assets	—	—	194	—	—
Write-back on provision for obsolete and slow-moving inventories	—	—	13,281	116	—
Net exchange gains	2,012	—	363	1,295	1,433
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

5. Finance costs

	Year ended 28 February 2002 <u>HK\$'000</u>	Year ended 28 February 2003 <u>HK\$'000</u>	Year ended 29 February 2004 <u>HK\$'000</u>	Six months ended 31 August 2003 <u>HK\$'000</u>	Six months ended 31 August 2004 <u>HK\$'000</u>
Interest on					
— convertible note	9,376	9,493	1,902	739	1,117
— bank borrowings wholly repayable within five years	2,396	370	2,396	1,205	809
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	<u>11,772</u>	<u>9,863</u>	<u>4,298</u>	<u>1,944</u>	<u>1,926</u>

6. Gain on disposal of subsidiaries

On 30 November 2003, the Group disposed of its entire interest in NEW CONCEPTS CORPORATION LIMITED, Income Team Consultancy (Shanghai) Limited and Kenchart Trading (Shanghai) Limited to G.S - i.t Limited, a 50% owned jointly controlled entity, and recorded a gain on disposal of approximately HK\$9,012,000.

7. Employment costs

Employment costs, including directors' emoluments, consisted of:

	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
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Salaries, commission and allowances	104,400	105,603	119,335	55,710	71,054
Pension costs — contributions to defined contribution plan and provision for long-service payments	4,593	5,744	7,535	3,182	1,087
	<u>108,993</u>	<u>111,347</u>	<u>126,870</u>	<u>58,892</u>	<u>72,141</u>

8. Directors' and senior management's emoluments

(a) Directors' emolument

The aggregate amounts of emoluments paid/payable to directors of the Company 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
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Fees	—	—	—	—	—
Other emoluments — basic salaries and housing allowances	2,520	2,420	2,340	1,170	4,230
— contributions to defined contribution plan	24	24	24	12	12
	<u>2,544</u>	<u>2,444</u>	<u>2,364</u>	<u>1,182</u>	<u>4,242</u>

The emoluments of the directors fell within the following bands:

	Number of directors				
	Year ended 28 February 2002	Year ended 28 February 2003	Year ended 29 February 2004	Six months ended 31 August	
				2003	2004
Emolument bands					
Nil – HK\$1,000,000 . . .	2	2	2	3	1
HK\$1,000,001– HK\$1,500,000 . . .	—	—	—	—	—
HK\$1,500,001– HK\$2,000,000 . . .	1	1	1	—	1
HK\$2,000,001– HK\$2,500,000 . . .	—	—	—	—	1
	<u>3</u>	<u>3</u>	<u>3</u>	<u>3</u>	<u>3</u>

All of the directors during the Relevant Periods were executive directors. None of the directors waived any emoluments during the Relevant Periods.

(b) *Five highest paid individuals*

The five individuals whose emoluments were the highest in the Group for years ended 28 February 2002, 28 February 2003 and 29 February 2004, and the six months ended 31 August 2003 and 2004 include 1, 2, 2, 2 and 2 directors, respectively, whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining individuals are as follows:

	Year ended 28 February 2002	Year ended 28 February 2003	Year ended 29 February 2004	Six months ended 31 August	
	HK\$'000	HK\$'000	HK\$'000	2003	2004
				HK\$'000	HK\$'000
Basic salaries and housing allowances	5,327	3,172	3,185	1,568	1,723
Contributions to defined contribution plan	48	36	36	18	18
	<u>5,375</u>	<u>3,208</u>	<u>3,221</u>	<u>1,586</u>	<u>1,741</u>

The emoluments of the remaining individuals fell within the following bands:

	Number of employees				
	Year ended 28 February 2002	Year ended 28 February 2003	Year ended 29 February 2004	Six months ended 31 August	
				2003	2004
Emolument bands					
Nil–HK\$1,000,000 . . .	2	1	1	3	3
HK\$1,000,001– HK\$1,500,000 . . .	—	1	2	—	—
HK\$1,500,001– HK\$2,000,000 . . .	2	1	—	—	—
	<u>4</u>	<u>3</u>	<u>3</u>	<u>3</u>	<u>3</u>

- (c) During the Relevant Periods, no emoluments have been paid to the directors of the Company or the five highest paid individuals as an inducement to join or as compensation for loss of office.

9. Taxation

Hong Kong profits tax has been provided at the rates of 16% for the years ended 28 February 2002 and 28 February 2003 and 17.5% for the year ended 29 February 2004 and the six months ended 31 August 2003 and 2004 on the estimated assessable profit for those years/period. Mainland China enterprise income tax has been provided at the applicable rates on the profits of the Group's operations in Mainland China, in accordance with the Income Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises.

The amounts of taxation charged to the combined profit and loss accounts represent:

	Year ended 28 February 2002 <u>HK\$'000</u>	Year ended 28 February 2003 <u>HK\$'000</u>	Year ended 29 February 2004 <u>HK\$'000</u>	Six months ended 31 August 2003 <u>HK\$'000</u>	2004 <u>HK\$'000</u>
Current taxation					
— Hong Kong profits tax	10,164	15,926	21,005	6,825	8,359
— Over-provision in prior years	(143)	(43)	(31)	—	—
Deferred taxation relating to the origination and reversal of temporary differences	289	(2,113)	504	(2,830)	(552)
Deferred taxation resulting from an increase in tax rate	—	—	(105)	(105)	—
Taxation charge	<u>10,310</u>	<u>13,770</u>	<u>21,373</u>	<u>3,890</u>	<u>7,807</u>

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using applicable profits tax rate in Hong Kong, the home country of the Group, and the reconciliation is as follows:

	Year ended 28 February 2002 HK\$'000	Year ended 28 February 2003 HK\$'000	Year ended 29 February 2004 HK\$'000	Six months ended 31 August 2003 HK\$'000	2004 HK\$'000
Profit before taxation	54,179	61,724	126,963	20,682	40,727
Calculated at a taxation rate of 16% for the years ended 28 February 2002 and 2003 and 17.5% for the year ended 29 February 2004 and the six months ended 31 August 2003 and 2004	8,669	9,876	22,219	3,619	7,127
Effect of different taxation rates for operations in Mainland China	—	10	(23)	(8)	—
Income not subject to taxation	(685)	(98)	(1,721)	(467)	(274)
Expenses not deductible for taxation purposes	1,884	3,552	1,166	851	1,419
Unrecognised tax loss	592	630	—	—	—
Recognition of previously unrecognised tax losses	(7)	(157)	(132)	—	(465)
Over-provision in prior years	(143)	(43)	(31)	—	—
Increase in opening net deferred tax assets resulting from an increase in tax rate	—	—	(105)	(105)	—
Taxation charge	10,310	13,770	21,373	3,890	7,807

10. Dividends

The Company was not incorporated until October 2004, and therefore no dividend was paid or declared by the Company during the Relevant Periods.

During the Relevant Periods, dividends represent amount of dividends paid by ithk holdings limited, a wholly-owned subsidiary, out of its retained profit to its then shareholders. The rate of dividend and the number of shares ranking for dividends are not presented as such information is not meaningful having regard to the purpose of this report.

11. Earnings per share

No earnings per share information is presented as this would be hypothetical due to the Reorganisation and the presentation of results on a combined basis as described in Note 1.

12. Fixed assets

Movements were:

	Leasehold improvements	Furniture and equipment	Total
	HK\$'000	HK\$'000	HK\$'000
<i>Cost</i>			
At 1 March 2001	46,271	7,295	53,566
Additions	21,708	2,148	23,856
Disposals	(1,677)	(41)	(1,718)
At 28 February 2002	66,302	9,402	75,704
Additions	3,735	1,015	4,750
Disposals	(3,605)	(515)	(4,120)
At 28 February 2003	66,432	9,902	76,334
Additions	24,421	4,694	29,115
Disposals of subsidiaries	(110)	(253)	(363)
Disposals	(14,610)	(362)	(14,972)
At 29 February 2004	76,133	13,981	90,114
Additions	10,171	1,695	11,866
Acquisition of a subsidiary	268	32	300
Disposals	(2)	—	(2)
At 31 August 2004	86,570	15,708	102,278
<i>Accumulated depreciation</i>			
At 1 March 2001	16,822	2,384	19,206
Provision for the year	17,406	1,888	19,294
Disposals	(1,653)	(21)	(1,674)
At 28 February 2002	32,575	4,251	36,826
Provision for the year	18,651	2,103	20,754
Disposals	(1,042)	(205)	(1,247)
At 28 February 2003	50,184	6,149	56,333
Provision for the year	13,367	2,532	15,899
Disposals of subsidiaries	(32)	(1)	(33)
Disposals	(14,466)	(356)	(14,822)
At 29 February 2004	49,053	8,324	57,377
Provision for the period	7,251	1,410	8,661
Disposals	—	—	—
At 31 August 2004	56,304	9,734	66,038
<i>Net book value</i>			
At 31 August 2004	30,266	5,974	36,240
At 29 February 2004	27,080	5,657	32,737
At 28 February 2003	16,248	3,753	20,001
At 28 February 2002	33,727	5,151	38,878

13. Investment in jointly controlled entities

	As at 28 February 2002 <u>HK\$'000</u>	As at 28 February 2003 <u>HK\$'000</u>	As at 29 February 2004 <u>HK\$'000</u>	As at 31 August 2004 <u>HK\$'000</u>
Unlisted shares, at cost	2,400	2,400	10,400	12,000
Share of post-acquisition loss.	(1,145)	(1,035)	(2,827)	(7,131)
Due from jointly controlled entities.	<u>960</u>	<u>1,132</u>	<u>34,942</u>	<u>40,733</u>
	2,215	2,497	42,515	45,602
Less: Provision for doubtful debts	<u>—</u>	<u>—</u>	<u>(9,012)</u>	<u>(9,012)</u>
	<u><u>2,215</u></u>	<u><u>2,497</u></u>	<u><u>33,503</u></u>	<u><u>36,590</u></u>

The amounts due from jointly controlled entities are unsecured, non-interest bearing and not repayable within twelve months from the respective year/period end dates.

14. Inventories

	As at 28 February 2002 <u>HK\$'000</u>	As at 28 February 2003 <u>HK\$'000</u>	As at 29 February 2004 <u>HK\$'000</u>	As at 31 August 2004 <u>HK\$'000</u>
Fashion wears and accessories	76,640	84,658	84,404	118,576
Less: Provision for obsolete and slow-moving inventories	<u>(21,613)</u>	<u>(31,469)</u>	<u>(18,188)</u>	<u>(18,992)</u>
	<u><u>55,027</u></u>	<u><u>53,189</u></u>	<u><u>66,216</u></u>	<u><u>99,584</u></u>

Inventories carried at net realisable value amounted to approximately HK\$19,982,000, HK\$28,786,000, HK\$15,286,000 and HK\$22,402,000 as at 28 February 2002, 28 February 2003, 29 February 2004 and 31 August 2004, respectively.

The carrying amount of inventories that were secured for trust receipts bank loan arrangements amounted to approximately HK\$8,376,000, HK\$5,403,000, HK\$443,000 and HK\$11,638,000 as at 28 February 2002, 28 February 2003, 29 February 2004 and 31 August 2004, respectively (see Note 29).

The reduction of the provision for obsolete and slow-moving inventories during the year ended 29 February 2004 was resulted from the revision of the Group's inventory provision policy during the second half of 2004 due to the recovery of economic conditions in Hong Kong.

15. Accounts receivable

The Group's sales to customers are mainly in cash or credit/debit card payments. The Group does not have a defined fixed credit policy as its accounts receivable mainly arise from credit/debit card sales, which are all aged between 0 and 30 days.

16. Prepayments, deposits and other receivables

	As at 28 February 2002 <u>HK\$'000</u>	As at 28 February 2003 <u>HK\$'000</u>	As at 29 February 2004 <u>HK\$'000</u>	As at 31 August 2004 <u>HK\$'000</u>
Prepayments	1,930	2,521	5,934	12,748
Rental and utility deposits	4,490	13,810	6,430	6,104
Other receivables	<u>124</u>	<u>732</u>	<u>1,321</u>	<u>1,158</u>
	<u><u>6,544</u></u>	<u><u>17,063</u></u>	<u><u>13,685</u></u>	<u><u>20,010</u></u>

17. Short-term bank borrowings

	As at 28 February 2002	As at 28 February 2003	As at 29 February 2004	As at 31 August 2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank overdrafts	516	—	—	—
Trust receipts bank loans	8,376	5,403	443	11,638
	<u>8,892</u>	<u>5,403</u>	<u>443</u>	<u>11,638</u>

Details of the Group's banking facilities are set out in Note 29.

18. Long-term bank loans

	As at 28 February 2002	As at 28 February 2003	As at 29 February 2004	As at 31 August 2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amounts repayable				
Within one year	740	—	21,000	19,000
In the second year	—	—	—	10,000
In the third to fifth year	—	—	—	30,000
	740	—	21,000	59,000
Less: current portion of long-term bank loans	(740)	—	(21,000)	(19,000)
	<u>—</u>	<u>—</u>	<u>—</u>	<u>40,000</u>

As at 28 February 2002, long-term bank loans were secured and bore interest at the best lending rate offered by the bank. As at 29 February 2004, long-term bank loans were secured and bore interest at the best lending rate offered by the bank plus 3% per annum. As at 31 August 2004, long-term bank loans were secured and bore interest at the best lending rate offered by the bank plus 3% per annum and HIBOR plus 2.5% per annum.

Details of the Group's banking facilities are set out in Note 29.

19. Other loan

Other loan was non-interest bearing and secured by a personal guarantee provided by Ms. Sham Sau Han.

20. Convertible note

	As at 28 February 2002	As at 28 February 2003	As at 29 February 2004	As at 31 August 2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Principal amount	40,469	40,469	31,195	31,195
Accrued interest	12,565	19,179	—	—
	53,034	59,648	31,195	31,195
Less: Amounts repayable within one year included under current liabilities	—	(59,648)	—	—
	<u>53,034</u>	<u>—</u>	<u>31,195</u>	<u>31,195</u>

As at 28 February 2002 and 28 February 2003, the outstanding convertible note with a face value of US\$5,200,000 (equivalent to HK\$40,469,000) was issued by ithk holdings limited, a wholly-owned subsidiary. The note was secured by personal guarantees provided by Ms. Yau Shuk Ching, Chingmy, a substantial beneficial shareholder of the Company, and Mr. Sham Kar Wai, Mr. Sham Kin Wai, Ms. Sham Sau Wai and Ms. Sham Sau Han, and bore interest at 23% per annum if not converted. On 11 March 2003, such convertible note was redeemed by ithk holdings limited at face value plus accrued interest totalling approximately HK\$60,770,000.

On 10 July 2003, ithk holdings limited issued a new convertible note with face value of US\$5,000,000 (equivalent to HK\$39,000,000). The note was secured by personal guarantees provided by Ms. Yau Shuk Ching, Chingmy, a substantial beneficial shareholder of the Company, and Mr. Sham Kar Wai, Mr. Sham Kin Wai, Ms. Sham Sau Wai and Ms. Sham Sau Han, and bore interest at 7% per annum payable quarterly. The note was scheduled to mature in July 2006, and the noteholder had an option to extend it to July 2007. The note was convertible, at the option of the noteholder, in whole into ordinary shares of ithk holdings limited at any time prior to an initial public offering of shares by a prospective holding company of ithk holdings limited according to a pre-determined price-earnings multiple. In the event that an initial public offering was not effected on or before 9 July 2006 and the note had not been converted or its maturity had not been extended, ithk holdings limited was obliged to redeem the note at face value. During the year ended 29 February 2004, ithk holdings limited exercised its option to repay an amount of US\$1,000,000 (equivalent to HK\$7,805,000).

Subsequent to 31 August 2004, on 5 October 2004, the outstanding amount of the new convertible note of US\$4,000,000 (equivalent to HK\$31,195,000) was converted into 2,078 shares of ithk holdings limited, representing approximately 10.39% interest in ithk holdings limited as at that date. In this connection, ithk holdings limited is required to pay to the noteholder an additional sum of a maximum amount of HK\$1,000,000, based on a pre-determined formula, in the form of cash (if a listing of the Company's shares is completed by 20 April 2005) or in the form of additional shares of the Company (if there is no such listing).

21. Accounts and bills payable

The ageing analysis of accounts and bills payable is as follows:

	As at 28 February 2002	As at 28 February 2003	As at 29 February 2004	As at 31 August 2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
0 to 30 days	22,626	24,467	21,153	31,770
31 to 60 days	4,385	4,814	2,438	6,132
61 to 90 days	275	113	82	206
Over 90 days	604	1,085	989	798
	<u>27,890</u>	<u>30,479</u>	<u>24,662</u>	<u>38,906</u>

22. Accruals and other payables

	As at 28 February 2002	As at 28 February 2003	As at 29 February 2004	As at 31 August 2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Unutilised coupon	6,370	1,885	3,159	3,253
Accruals	17,750	17,584	17,044	21,899
Other payables	410	126	1,261	423
	<u>24,530</u>	<u>19,595</u>	<u>21,464</u>	<u>25,575</u>

23. Deferred taxation

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 16% for the years ended 28 February 2002 and 28 February 2003 and 17.5% for the year ended 29 February 2004 and the six months ended 31 August 2003 and 2004.

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

	As at 28 February 2002	As at 28 February 2003	As at 29 February 2004	As at 31 August 2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At the beginning of the year/period . . .	(699)	(988)	1,125	726
Deferred taxation (charged)/credited to profit and loss account (<i>Note 9</i>) . . .	(289)	2,113	(399)	552
At the end of the year/period	<u>(988)</u>	<u>1,125</u>	<u>726</u>	<u>1,278</u>

Deferred income tax assets are recognised for tax losses carry forwards to the extent that realisation of the related tax benefit through the future taxable profits is probable. Such tax loss has no expiry date.

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

	Deferred tax liabilities		Deferred tax assets	
	Accelerated tax depreciation	Decelerated tax depreciation	Tax losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 March 2001	(1,963)	26	1,238	1,264
(Charged)/Credited to profit and loss account	<u>564</u>	<u>95</u>	<u>(948)</u>	<u>(853)</u>
At 28 February 2002	(1,399)	121	290	411
(Charged)/Credited to profit and loss account	<u>1,266</u>	<u>952</u>	<u>(105)</u>	<u>847</u>
At 28 February 2003	(133)	1,073	185	1,258
(Charged)/Credited to profit and loss account	<u>(205)</u>	<u>(209)</u>	<u>15</u>	<u>(194)</u>
At 29 February 2004	(338)	864	200	1,064
(Charged)/Credited to profit and loss account	<u>137</u>	<u>81</u>	<u>334</u>	<u>415</u>
At 31 August 2004	<u>(201)</u>	<u>945</u>	<u>534</u>	<u>1,479</u>

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the combined balance sheets:

	As at 28 February 2002 HK\$'000	As at 28 February 2003 HK\$'000	As at 29 February 2004 HK\$'000	As at 31 August 2004 HK\$'000
Deferred tax assets	354	1,172	904	1,444
Deferred tax liabilities	<u>(1,342)</u>	<u>(47)</u>	<u>(178)</u>	<u>(166)</u>
	<u>(988)</u>	<u>1,125</u>	<u>726</u>	<u>1,278</u>

24. Share capital

The Company was incorporated in Bermuda on 18 October 2004 and therefore there was no issued share capital of the Company as at 28 February 2002, 28 February 2003, 29 February 2004 and 31 August 2004.

The combined share capital of the Group as at 28 February 2002, 28 February 2003, 29 February 2004 and 31 August 2004 represented the amount of the issued and paid up capital of itkh holdings limited, the then holding company.

25. Reserves

Movements were:

	<u>Capital reserve</u> HK\$'000	<u>Cumulative translation adjustments</u> HK\$'000	<u>Retained profit</u> HK\$'000	<u>Total</u> HK\$'000
As at 1 March 2001	1,202	—	64,905	66,107
Profit attributable to shareholders	—	—	43,869	43,869
Dividends	—	—	(12,000)	(12,000)
As at 28 February 2002	1,202	—	96,774	97,976
Profit attributable to shareholders	—	—	47,954	47,954
Dividends	—	—	(40,000)	(40,000)
Translation adjustments	—	(11)	—	(11)
As at 28 February 2003	1,202	(11)	104,728	105,919
Profit attributable to shareholders	—	—	105,590	105,590
Dividends	—	—	(20,000)	(20,000)
Translation adjustments	—	1	—	1
Disposal of subsidiaries	—	10	—	10
As at 29 February 2004	1,202	—	190,318	191,520
Profit attributable to shareholders	—	—	32,920	32,920
As at 31 August 2004	<u>1,202</u>	<u>—</u>	<u>223,238</u>	<u>224,440</u>
As at 1 March 2003	1,202	(11)	104,728	105,919
Profit attributable to shareholders	—	—	16,792	16,792
As at 31 August 2003	<u>1,202</u>	<u>(11)</u>	<u>121,520</u>	<u>122,711</u>

Capital reserve represents the difference between the nominal value of the ordinary shares issued by ithk holdings limited and the aggregate amount of the share capital of subsidiaries acquired by ithk holdings limited through exchanges of shares pursuant to a group reorganisation effected on 8 March 2000.

Retained profit consisted of:

	<u>As at 28 February 2002</u> HK\$'000	<u>As at 28 February 2003</u> HK\$'000	<u>As at 29 February 2004</u> HK\$'000	<u>As at 31 August 2003</u> HK\$'000	<u>As at 31 August 2004</u> HK\$'000
Company and subsidiaries	97,919	105,763	193,145	123,569	230,369
Jointly controlled entities	(1,145)	(1,035)	(2,827)	(2,049)	(7,131)
	<u>96,774</u>	<u>104,728</u>	<u>190,318</u>	<u>121,520</u>	<u>223,238</u>

26. Notes to the combined cash flow statements

(a) Reconciliation of operating profit to net cash inflow generated from operations:

	Year ended 28 February 2002	Year ended 28 February 2003	Year ended 29 February 2004	Six months ended 31 August 2003	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Profit before taxation	54,179	61,724	126,963	20,682	40,727
Interest expense	11,772	9,863	4,298	1,944	1,926
Interest income	(216)	(215)	(128)	(85)	(4)
Share of (profit)/loss of jointly controlled entities	276	(110)	1,792	1,014	5,852
Gain on disposal of subsidiaries	—	—	(9,012)	—	—
Depreciation of fixed assets	19,294	20,754	15,899	9,394	8,661
Loss/(Gain) on disposal of fixed assets	32	2,799	(194)	—	2
Provision for impairment in value of an investment	—	8,673	—	—	—
Net liabilities disposed upon disposal/deemed disposal of subsidiaries	—	—	(8,880)	—	—
(Increase)/Decrease in rental deposits	(2,147)	7,096	(11,954)	(8,914)	(12,180)
(Increase)/Decrease in inventories	(5,257)	1,838	(13,355)	(19,475)	(32,263)
Increase in prepayments, deposits and other receivables	(1,982)	(10,519)	(9,005)	(2,827)	(6,114)
Decrease/(Increase) in accounts receivable	533	77	(6,285)	(4,345)	4,392
Increase/(Decrease) in accounts and bills payable	6,418	2,589	(1,962)	12,812	14,203
Increase/(Decrease) in accruals and other payables	3,066	(4,935)	3,089	2,195	3,879
Net cash inflow generated from operations	<u>85,968</u>	<u>99,634</u>	<u>91,266</u>	<u>12,395</u>	<u>29,081</u>

(b) Analysis of changes in financing:

	Trust- receipts bank loans	Bank loans	Other loan	Convertible note
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 1 March 2001	19,662	3,468	1,075	46,544
New borrowings	121,657	—	—	—
Repayments	(132,943)	(2,728)	(453)	—
Accrued interest	—	—	—	9,376
Payment of interest	—	—	—	(2,886)
As at 28 February 2002	8,376	740	622	53,034
New borrowings	126,123	—	—	—
Repayments	(129,096)	(740)	(452)	—
Accrued interest	—	—	—	9,493
Payment of interest	—	—	—	(2,879)
As at 28 February 2003	5,403	—	170	59,648
New borrowings	93,660	34,720	—	39,000
Repayments	(98,620)	(9,000)	(170)	(48,274)
Accrued interest	—	—	—	1,902
Payment of interest	—	—	—	(21,081)
Disposal/deemed disposal of subsidiaries	—	(4,720)	—	—
As at 29 February 2004	443	21,000	—	31,195
New borrowings	56,393	50,000	—	—
Repayments	(45,198)	(12,000)	—	—
Accrued interest	—	—	—	1,117
Payment of interest	—	—	—	(1,117)
As at 31 August 2004	<u>11,638</u>	<u>59,000</u>	<u>—</u>	<u>31,195</u>
As at 1 March 2003	5,403	—	170	59,648
New borrowings	54,371	34,720	—	39,000
Repayments	(58,872)	—	(170)	(40,469)
Accrued interest	—	—	—	739
Payment of interest	—	—	—	(19,918)
As at 31 August 2003	<u>902</u>	<u>34,720</u>	<u>—</u>	<u>39,000</u>

(c) Non-cash transactions:

- (i) Details of the disposal/deemed disposal of subsidiaries during the year ended 29 February 2004 were as follows:

	HK\$'000
Fixed assets	330
Inventories	328
Accounts receivable	400
Prepayments, deposits and other receivables	12,383
Cash and bank deposits	2,766
Long-term bank loans	(4,720)
Accounts payable	(3,855)
Accruals and other payables	(1,220)
Due to fellow subsidiaries	(15,302)
Cumulative translation adjustments	10
	<u> </u>
Net liabilities	<u>(8,880)</u>
Satisfied by:	
Consideration for disposal of shares of subsidiaries	<u> </u>
Analysis of the net outflow in respect of the disposal/deemed disposal of subsidiaries:	
Cash consideration received	—
Cash and bank deposits disposed of	<u>(2,766)</u>
Net cash outflow in respect of the disposal/deemed disposal of subsidiaries	<u>(2,766)</u>

- (ii) Details of the acquisition of a subsidiary during the six months ended 31 August 2004 were as follows:

	HK\$'000
Fixed assets	300
Rental deposits	689
Inventories	1,105
Accounts receivable	90
Prepayments, deposits and other receivables	211
Cash and bank deposits	2,930
Accounts payable	(41)
Accruals and other payables	(232)
Due to fellow subsidiaries	<u>(3,631)</u>
Net assets	1,421
Less: Share of net assets of a jointly controlled entity	<u>(852)</u>
	<u>569</u>

Satisfied by:

Consideration for acquisition of shares of a subsidiary	<u>569</u>
---	------------

Analysis of the net inflow in respect of the acquisition of a subsidiary

Cash consideration paid	(569)
Cash and bank deposits acquired	<u>2,930</u>

Net cash inflow in respect of the acquisition of a subsidiary	<u>2,361</u>
---	--------------

- (iii) During the year ended 28 February 2002, dividends payable/paid to the then shareholders of ithk holdings limited were assigned by the shareholders to offset the Group's receivables from a related company of HK\$6,000,000 and the Group's receivables from directors of ithk holdings limited of HK\$6,000,000;

During the year ended 28 February 2003, dividends payable/paid to the then shareholders of ithk holdings limited were assigned by the shareholders to offset the Group's receivables from related companies of HK\$7,133,000 and the Group's receivables from directors of ithk holdings limited of HK\$12,867,000;

During the year ended 29 February 2004, dividends payable/paid to the then shareholders of ithk holdings limited were assigned by the shareholders to offset the Group's receivables from a director of ithk holdings limited of HK\$30,000,000;

- (d) Analysis of cash and cash equivalents:

	As at 28 February 2002 HK\$'000	As at 28 February 2003 HK\$'000	As at 29 February 2004 HK\$'000	As at 31 August 2003 HK\$'000	As at 31 August 2004 HK\$'000
Cash and bank deposits	34,026	75,832	53,406	63,431	56,457
Bank overdrafts	<u>(516)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Cash and cash equivalents	<u>33,510</u>	<u>75,832</u>	<u>53,406</u>	<u>63,431</u>	<u>56,457</u>

27. Commitments and contingent liabilities

(a) *Operating lease commitments*

The Group has operating lease commitments in respect of rented premises under various non-cancellable operating lease agreements extending to June 2009. The total minimal lease payment commitments are analysed as follows:

	As at 28 February 2002	As at 28 February 2003	As at 29 February 2004	As at 31 August 2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amounts payable				
— within one year	117,052	103,375	92,037	189,259
— more than one year but not exceeding five years	<u>117,950</u>	<u>68,260</u>	<u>110,737</u>	<u>265,990</u>
	<u><u>235,002</u></u>	<u><u>171,635</u></u>	<u><u>202,774</u></u>	<u><u>455,249</u></u>

The above lease commitments only include commitments for basic rentals, and do not include commitments for additional rental payable, if any, when the amounts determined by applying pre-determined percentages to turnover exceeds the basic rentals of the respective leases as it is not possible to determine in advance the amount of such additional rentals.

(b) *Investment commitment*

	As at 28 February 2002	As at 28 February 2003	As at 29 February 2004	As at 31 August 2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Authorised and contracted for				
— Capital injection for an investment in 50% of the capital of a partnership business .	<u>—</u>	<u>4,000</u>	<u>—</u>	<u>—</u>

(c) *Contingent liabilities*

	<u>As at 28 February 2002</u> HK\$'000	<u>As at 28 February 2003</u> HK\$'000	<u>As at 29 February 2004</u> HK\$'000	<u>As at 31 August 2004</u> HK\$'000
Letters of guarantee issued by banks in lieu of rental deposits	8,564	8,453	5,860	8,070
Corporate guarantees in respect of bank loans granted by banks to certain related companies (<i>Note 30(f)</i>)	<u>30,931</u>	<u>27,289</u>	<u>42,477</u>	<u>40,020</u>
	<u>39,495</u>	<u>35,742</u>	<u>48,337</u>	<u>48,090</u>

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

(d) *Forward foreign currency exchange contracts*

As at respective balance sheet dates, the Group has commitment in respect of outstanding forward foreign currency exchange contracts to buy Japanese Yen and/or Euros, in order to hedge against currency fluctuations arising from firm purchase orders of fashion wears and accessories and certain outstanding payables denominated in those currencies as follows:

	<u>As at 28 February 2002</u> HK\$'000	<u>As at 28 February 2003</u> HK\$'000	<u>As at 29 February 2004</u> HK\$'000	<u>As at 31 August 2004</u> HK\$'000
Forward foreign currency exchange contracts	<u>12,889</u>	<u>3,820</u>	<u>—</u>	<u>28,044</u>

28. Pension scheme

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

During the years ended 28 February 2002, 28 February 2003, 29 February 2004 and the six months ended 31 August 2003 and 2004, the amounts of the Group's employer contributions to the MPF Scheme were approximately HK\$4,593,000, HK\$4,761,000, HK\$5,346,000, HK\$2,442,000 and HK\$3,010,000, respectively.

29. Banking facilities and pledge of assets

As at 28 February 2002, 28 February 2003, 29 February 2004 and 31 August 2004, the Group had aggregate banking facilities of approximately HK\$111,290,000, HK\$106,550,000, HK\$174,000,000 and HK\$212,500,000, respectively, for overdrafts, bank loans and trade financing, of which approximately HK\$63,050,000, HK\$53,597,000, HK\$110,518,000 and HK\$93,750,000, respectively, was unutilised as at the same date. These facilities were secured by:

- (i) the Group's bank deposits of HK\$5,162,000, HK\$5,220,000, HK\$750,000 and HK\$17,750,000 as at 28 February 2002, 28 February 2003, 29 February 2004 and 31 August 2004, respectively;
- (ii) the Group's inventories of HK\$8,376,000, HK\$5,403,000, HK\$443,000 and HK\$11,638,000 as at 28 February 2002, 28 February 2003, 29 February 2004 and 31 August 2004, respectively, held under trust receipts bank loan arrangements (see Note 14);
- (iii) personal guarantees provided by Mr. Sham Kar Wai, Mr. Sham Kin Wai, Ms. Sham Sau Wai and Ms. Sham Sau Han;
- (iv) properties owned by a relative of Mr. Sham Kar Wai and Mr. Sham Kin Wai, and Ms. Yau Shuk Ching, Chingmy;
- (v) properties owned by Income Team Limited, Popbest Limited and Shine Team Development Limited, all jointly owned by 3WH Limited and Effective Convey Limited, the then holding companies of ithk holdings limited;
- (vi) properties owned by Online Profit Limited and Veston Limited, both owned by 3WH Limited;
- (vii) bank deposits of Ms. Yau Shuk Ching, Chingmy; and
- (viii) corporate guarantees provided by ithk holdings limited, i.t apparels Limited, 3WH Limited, Income Team Limited, Popbest Limited and Shine Team Development Limited.

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

Bank deposits of Ms. Yau Shuk Ching, Chingmy was released in April 2004 and replaced by deposits held by the Group.

The relevant banks have agreed in principle that the personal guarantees provided by Mr. Sham Kar Wai, Mr. Sham Kin Wai, Ms. Sham Sau Wai and Ms. Sham Sau Han, the corporate guarantees provided by 3WH Limited, Income Team Limited, Popbest Limited and Shine Team Development Limited, and legal charges over the properties owned by a relative of Mr. Sham Kar Wai and Mr. Sham Kin Wai, and Ms. Yau Shuk Ching, Chingmy, and Income Team Limited, Popbest Limited, Shine Team Development Limited, Online Profit Limited and Veston Limited will be released or replaced by guarantees or other securities from the Company and/or its subsidiaries upon listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

30. Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

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

	Year ended 28 February 2002 <u>HK\$'000</u>	Year ended 28 February 2003 <u>HK\$'000</u>	Year ended 29 February 2004 <u>HK\$'000</u>	Six months ended 31 August 2003 <u>HK\$'000</u>	2004 <u>HK\$'000</u>
<i>Discontinuing:</i>					
Consignment fees received/ receivable from Top Honour Corporation Limited*	257	120	158	83	—
Reimbursement of administrative expenses by Top Honour Corporation Limited* . . .	<u>783</u>	<u>939</u>	<u>1,038</u>	<u>519</u>	<u>—</u>
<i>Continuing:</i>					
Reimbursement of administrative expenses by FCUK IT COMPANY#	—	—	295	—	1,043
Sales of fashion wears and accessories to NEW CONCEPTS CORPORATION LIMITED +	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>4,770</u>

* Top Honour Corporation Limited was a jointly controlled entity of the Group during the period from 1 March 2001 to 29 February 2004. On 1 March 2004, the company became a wholly-owned subsidiary of the Group.

FCUK IT COMPANY was a jointly controlled entity of the Group since its date of establishment.

+ NEW CONCEPTS CORPORATION LIMITED was a wholly-owned subsidiary of the Group during the period from its date of incorporation to 30 November 2003. On 1 December 2003, the company became a jointly controlled entity of the Group.

In the opinion of the Company's Directors and the Group's management, the above transactions were carried out in the usual course of business of the Group, and in accordance with terms of the contracts entered into by the Group and the related parties.

(b) Balances with related parties

Details of amounts due from related companies, directors and related parties are as follows:

	As at 28 February 2002	As at 28 February 2003	As at 29 February 2004	As at 31 August 2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Due from related companies				
3WH Limited [^]	55	929	934	934
GP (FE) Ltd.*	1,024	1,575	2,590	4,678
Income Team Limited +	13,728	13,513	20,072	24,795
Izzue.com (Hong Kong) Limited*	1,073	—	—	—
Online Profit Limited*	4,413	—	5,663	18,304
Popbest Limited +	3,335	4,827	15,528	19,850
Shine Team Development Limited +	756	1,313	2,521	3,104
Veston Limited*	—	1,444	3,913	4,981
Weskin Limited*	224	—	—	—
Yearful (Hong Kong) Limited*	396	—	—	—
Yick Choi (Hong Kong) Investment Limited #	5,817	—	—	—
Young Ranger Investment Limited*	4,548	—	—	—
	<u>35,369</u>	<u>23,601</u>	<u>51,221</u>	<u>76,646</u>
Due from directors				
Sham Kar Wai	14,994	30,734	17,849	21,541
Sham Kin Wai	451	—	78	—
	<u>15,445</u>	<u>30,734</u>	<u>17,927</u>	<u>21,541</u>
Due from related parties				
Sham Sau Wai	—	—	2	—
Sham Sau Han	—	—	38	—
	<u>—</u>	<u>—</u>	<u>40</u>	<u>—</u>

Notes:

[^] 3WH Limited was a then holding company of ithk holdings limited.

* These companies are owned by 3WH Limited.

+ These companies are jointly owned by 3WH Limited and Effective Convey Limited, the then holding companies of ithk holdings limited.

These companies are beneficially owned by Mr. Sham Kin Wai, Ms. Sham Sau Wai and Ms. Sham Sau Han.

As required under the Hong Kong Companies Ordinance, the maximum balances during the Relevant Periods are disclosed as follows:

	Year ended 28 February 2002 HK\$'000	Year ended 28 February 2003 HK\$'000	Year ended 29 February 2004 HK\$'000	Six months ended 31 August 2004 HK\$'000
Due from related companies				
3WH Limited	55	930	934	934
GP (FE) Ltd.	1,025	1,576	2,702	7,732
Income Team Limited	29,439	23,733	20,072	27,208
Izzue.com (Hong Kong) Limited	1,132	1,073	—	—
Online Profit Limited	4,413	4,413	5,663	18,304
Popbest Limited	3,599	4,827	15,528	27,617
Shine Team Development Limited	3,211	3,211	2,568	3,104
Veston Limited	—	1,444	11,976	4,981
Weskin Limited	224	224	—	—
Yearful (Hong Kong) Limited	396	396	—	—
Yick Choi (Hong Kong) Investment Limited	10,434	5,817	—	—
Young Ranger Investment Limited	4,548	4,548	—	—
Due from directors				
Sham Kar Wai	14,994	49,963	49,233	22,561
Sham Kin Wai	524	451	78	98
Due from related parties				
Sham Sau Wai	1,036	—	2	2
Sham Sau Han	3,830	—	38	38

The amounts due from related companies, directors and related parties represent advances/loans made to these related companies, directors and related parties. The amounts due from related companies are unsecured, non-interest bearing and not repayable within twelve months from the respective year/period end dates. The amounts due from directors and related parties are unsecured, non-interest bearing and without pre-determined repayment terms. The then holding companies of ithk holdings limited have undertaken to repay the balances due from the related companies and the directors in case the related companies and the directors are in default of repayments.

Subsequent to 31 August 2004, on 17 February 2005, all the outstanding amounts due from related companies, directors and related parties as at that date were settled.

- (c) During the Relevant Periods, dividends payable/paid to the then shareholders of ithk holdings limited were assigned by the shareholders to offset the Group's receivables from related companies/directors. Refer to Note 26(c) for details.
- (d) The convertible note (see Note 20) 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.
- (e) The Group's banking facilities are secured by, among others, corporate guarantees provided by certain related companies, personal guarantees provided by Mr. Sham Kar Wai, Mr. Sham Kin Wai, Ms. Sham Sau Wai and Ms. Sham Sau Han, bank deposits of Ms. Yau Shuk Ching, Chingmy, and properties owned by certain related companies and a relative of Mr. Sham Kar Wai and Mr. Sham

Kin Wai, and Ms. Yau Shuk Ching, Chingmy. Bank deposits of Ms. Yau Shuk Ching, Chingmy were released in April 2004 and replaced by deposits held by the Group (see Note 29). The relevant banks have agreed in principle that the corporate guarantees provided by the related companies, personal guarantees provided by Mr. Sham Kar Wai, Mr. Sham Kin Wai, Ms. Sham Sau Wai and Ms. Sham Sau Han, and legal charges over the properties owned by the related companies and the relative of Mr. Sham Kar Wai, Mr. Sham Kin Wai and Ms. Yau Shuk Ching, Chingmy will be released or replaced by guarantees or other securities from the Company and/or its subsidiaries upon listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

- (f) As at 28 February 2002, 28 February 2003, 29 February 2004 and 31 August 2004, the Group provided corporate guarantees amounting to HK\$30,931,000, HK\$27,289,000, HK\$42,477,000 and HK\$40,020,000, respectively, in respect of bank loans granted by banks to GP (FE) Ltd., Income Team Limited, Popbest Limited and Shine Team Development Limited (see Note 27(c)). The relevant banks have agreed in principle that the corporate guarantees provided by the Group to these related companies will be released upon listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

31. Significant subsequent events

The following significant events have taken place subsequent to 31 August 2004:

- (a) On 5 October 2004, the outstanding amount of the convertible note of US\$4,000,000 (equivalent to approximately HK\$31,195,000) was converted into 2,078 shares of ithk holdings limited, representing approximately 10.39% interest in ithk holdings limited as at that date, by the noteholder, The SCM Growth Fund II L.P. (see Note 20).
- (b) On 19 October 2004, 44,805 shares, 44,805 shares and 10,390 shares, with a par value of HK\$1 each of the Company, were allotted and issued nil paid to 3WH Limited, Effective Convey Limited and The SCM Growth Fund II L.P., the then shareholders of the Company.
- (c) On 3 February 2005, the Company passed the following shareholders' resolutions to effect the following transactions:
- (i) The share capital of the Company of 100,000 shares of HK\$1 each was sub-divided into 1,000,000 shares of HK\$0.1 each;
- (ii) The authorised share capital of the Company was increased from HK\$100,000 to HK\$300,000,000, by the creation of an additional 2,999,000,000 shares of HK\$0.1 each;
- (iii) 448,050 shares, 448,050 shares and 103,900 shares of the Company with a par value of HK\$0.1 each would be issued to 3WH Limited, Effective Convey Limited and The SCM Growth Fund II L.P. respectively, as part of the consideration for the transfer of the entire interests in ithk holdings limited to the Company; and
- (iv) 748,000,000 shares of HK\$0.1 each would be issued to the then shareholders of the Company by the capitalisation of share premium of HK\$74,800,000.
- (d) On 4 February 2005, ithk holdings limited declared dividends of HK\$190,000,000, which were subsequently paid on 17 February 2005, to its then shareholders.
- (e) On 17 February 2005, the Group drew down additional bank loans of HK\$100,000,000. Such bank loans were secured by personal guarantees and bank deposits provided by Mr. Sham Kai Wai and Mr. Sham Kin Wai, and corporate guarantees provided by ithk holdings Limited. The bank has agreed in principle to release the personal guarantees and pledges of bank deposits upon listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.
- (f) On 17 February 2005, all the outstanding amounts due from related companies, directors and related parties as at that date were settled.

- (g) The banks have agreed in principle that all personal guarantees provided by directors and related parties, corporate guarantees provided by related companies to the Group, corporate guarantees provided by the Group to related companies, pledges of bank deposits of directors, and legal charges over the properties owned by a relative of directors, a substantial beneficial shareholder of the Company and related companies will be released or replaced by guarantees or other securities from the Company and/or its subsidiaries upon listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (see Notes 29, 30(e), 30(f) and 31(e)).

II. FINANCIAL INFORMATION ABOUT THE COMPANY

The Company has not carried on any business since its incorporation on 18 October 2004, except for the acquisition of the entire share capital of ithk holdings limited on 5 February 2005, through share exchanges as described in Section I above.

The Company was not incorporated until October 2004, and therefore no dividend was paid or declared by the Company during the Relevant Periods.

III. SUBSEQUENT ACCOUNTS

No audited accounts have been prepared for the Company or any of the companies now comprising the Group in respect of any period subsequent to 31 August 2004. In addition, except as disclosed in Section I — Note 31, no dividend or distribution has been declared or paid by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31 August 2004.

Yours faithfully,
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong