# I.T LIMITED

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 999)**

# ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 AUGUST 2019

**FINANCIAL HIGHLIGHTS**

- Total turnover of the Group decreased by 1.2% to HK$4,015.4 million.
- Total retail sales in Hong Kong and Macau decreased by 6.2% to HK$1,463.3 million. Comparable-store-sales-growth rate registered at -5.8% (FY18/19: +8.0%). Total trading area increased by 3.5%.
- Total retail sales in Mainland China increased by 1.3% to HK$1,856.3 million. Comparable-store-sales-growth rate registered at +5.9% (FY18/19: -2.5%). Total trading area increased by 5.9%.
- Total retail sales in Japan and the USA landed at HK$546.0 million, representing 3.9% increase from FY18/19.
- Gross profit of the Group decreased by 4.1% to HK$2,495.1 million at gross profit margin of 62.1% (FY18/19: 64.0%).
- Net loss of the Group amounting to HK$71.2 million was recorded (FY18/19: Net profit of HK$113.4 million).
- Basic loss per share of 6.0 HK cents (FY18/19: Basic earnings per share of 9.4 HK cents).

The board of directors (the "Board") of I.T Limited (the "Company") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 31 August 2019 (the "Reporting Period"), prepared on the basis as set out in Note 1, together with the comparative figures for the corresponding period, as follows:

## CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

| | | Six months ended 31 August | |
|---|---|---|---|
| | | **2019** | 2018 |
| | | **(Unaudited)** | (Unaudited) |
| | *Note* | **HK$'000** | HK$'000 |
| Turnover | 2 | **4,015,362** | 4,064,081 |
| Cost of sales | 4 | **(1,520,262)** | (1,463,397) |
| Gross profit | | **2,495,100** | 2,600,684 |
| Other losses, net | 3 | **(22,704)** | (19,680) |
| Impairment of goodwill | | **(46,838)** | – |
| Operating expenses | 4 | **(2,314,653)** | (2,381,351) |
| Other income | 5 | **33,774** | 41,580 |
| Operating profit | | **144,679** | 241,233 |
| Finance income | 6 | **12,198** | 14,945 |
| Finance costs | 6 | **(76,396)** | (24,821) |
| Share of losses of joint ventures | | **(17,310)** | (105) |
| Share of profit of an associate | | **4,111** | – |
| Profit before income tax | | **67,282** | 231,252 |
| Income tax expense | 7 | **(138,453)** | (117,887) |
| (Loss)/profit for the period | | **(71,171)** | 113,365 |
| **Other comprehensive (loss)/income:** | | | |
| Items that may be reclassified to profit or loss | | | |
| Currency translation differences | | **(96,349)** | (148,370) |
| Cash flow hedge recognised as finance costs | | **–** | (33,047) |
| Fair value changes on cash flow hedge, net of tax | | **11,003** | 29,212 |
| Total other comprehensive loss for the period | | **(85,346)** | (152,205) |
| Total comprehensive loss for the period | | **(156,517)** | (38,840) |
| (Loss)/profit attributable to: | | | |
| – Equity holders of the Company | | **(71,958)** | 112,511 |
| – Non-controlling interests | | **787** | 854 |
| | | **(71,171)** | 113,365 |
| Total comprehensive (loss)/income attributable to: | | | |
| – Equity holders of the Company | | **(157,420)** | (39,297) |
| – Non-controlling interests | | **903** | 457 |
| | | **(156,517)** | (38,840) |
| (Loss)/earnings per share attributable to equity holders of the Company for the period (expressed in HK cent per share) | | | |
| – basic | 8 | **(6.0)** | 9.4 |
| – diluted | 8 | **(6.0)** | 9.1 |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | Note | **As at 31 August 2019 (Unaudited) HK$'000** | As at 28 February 2019 (Audited) HK$'000 |
|---|---|---|---|
| **ASSETS** | | | |
| Non-current assets | | | |
| Land use right | | **–** | 38,631 |
| Property, furniture and equipment | | **1,080,744** | 954,964 |
| Right-of-use assets | | **2,258,013** | – |
| Intangible assets | | **279,973** | 321,948 |
| Investments in and loans to joint ventures | | **194,878** | 167,879 |
| Investment in an associate | | **436,128** | – |
| Rental deposits | | **310,074** | 346,422 |
| Prepayments for non-current assets | | **17,127** | 52,672 |
| Deferred income tax assets | | **128,550** | 110,327 |
| | | **4,705,487** | 1,992,843 |
| Current assets | | | |
| Inventories | | **1,618,629** | 1,538,037 |
| Trade and other receivables | 10 | **246,337** | 300,171 |
| Amounts due from joint ventures | | **64,967** | 132,311 |
| Prepayments and other deposits | | **301,919** | 379,256 |
| Current income tax recoverable | | **1,820** | 1,989 |
| Cash and cash equivalents | | **1,708,344** | 1,771,957 |
| | | **3,942,016** | 4,123,721 |
| **LIABILITIES** | | | |
| Current liabilities | | | |
| Borrowings | 12 | **(418,659)** | (505,995) |
| Trade payables | 11 | **(476,011)** | (414,120) |
| Accruals and other payables | | **(662,375)** | (680,339) |
| Contract liabilities | | **(52,613)** | (21,922) |
| Lease liabilities | | **(1,047,835)** | – |
| Derivative financial instruments | | **(359)** | (11,003) |
| Amounts due to joint ventures | | **(26,081)** | (24,165) |
| Amount due to an associate | | **(2,756)** | – |
| Current income tax liabilities | | **(76,528)** | (78,327) |
| | | **(2,763,217)** | (1,735,871) |
| Net current assets | | **1,178,799** | 2,387,850 |
| Non-current liabilities | | | |
| Borrowings | 12 | **(1,305,056)** | (653,981) |
| Lease liabilities | | **(1,447,909)** | – |
| Accruals | | **(6,375)** | (6,125) |
| Derivative financial instruments | | **(703)** | (1,773) |
| Deferred income tax liabilities | | **(71,183)** | (67,294) |
| | | **(2,831,226)** | (729,173) |
| Net assets | | **3,053,060** | 3,651,520 |
| **EQUITY** | | | |
| Capital and reserves | | | |
| Share capital | | **119,580** | 119,580 |
| Reserves | | **2,929,697** | 3,528,701 |
| Non-controlling interests | | **3,783** | 3,239 |
| Total equity | | **3,053,060** | 3,651,520 |

## NOTES

### 1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

This condensed consolidated interim financial information for the six months ended 31 August 2019 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

This condensed consolidated interim financial information should be read in conjunction with the Group's annual financial statements for the year ended 28 February 2019, which were prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The accounting policies applied and methods of computation used in the preparation of this interim financial report are consistent with those used in the annual financial statements for the year ended 28 February 2019, except for the estimation of income tax using the tax rate that would be applicable to expected total annual earnings and the adoption of the revised standards and amendments issued by the HKICPA.

The following new standards and amendments are mandatory for the financial year beginning on 1 March 2019.

| | |
|---|---|
| Amendments to Annual Improvement Project | Annual Improvements 2015-2017 Cycle |
| Amendments to HKFRS 9 | Prepayment Features with Negative Compensation |
| Amendments to HKAS 19 | Plan Amendment, Curtailment or Settlement |
| Amendments to HKAS 28 | Long-term Interests in Associates and Joint Ventures |
| HKFRS 16 | Leases |
| HK(IFRIC)-Int 23 | Uncertainty over Income Tax Treatments |

Except as disclosed in Note 1.1 for the adoption of HKFRS 16, the adoption of the above new standards and amendments did not have any significant impact on the preparation of these condensed consolidated interim financial information.

The following new standards and amendments have been issued but are not effective for the financial year beginning on or after 1 March 2019 and have not been early adopted by the Group.

| | |
|---|---|
| Amendments to HKFRS 3 (Revised) | Definition of a Business |
| Amendments to HKAS 1 and HKAS 8 (Amendment) | Definition of Materials |
| Conceptual Framework for Financial Reporting 2018 | Revised Conceptual Framework for Financial Reporting |
| HKFRS 17 | Insurance Contracts |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture |

The Group will apply the above new standards and amendments when they become effective. The Group anticipates that the application of the above new standards and amendments to existing standards have no material impact on the results and the financial position of the Group.

### 1.1 Adoption of HKFRS 16 "Leases"

The Group has adopted HKFRS 16 retrospectively from 1 March 2019, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening condensed consolidated statement of financial position on 1 March 2019.

*(a)* ***Adjustments recognised on adoption of HKFRS 16***

The following table shows the adjustment for change in accounting policy recognised for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided.

| | Audited 28 February 2019 As originally presented | HKFRS 16 | Unaudited 1 March 2019 Restated |
|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 |
| **Condensed consolidated statement of financial position (extract)** | | | |
| **Non-current assets** | | | |
| Land use right | 38,631 | (38,631) | – |
| Right-of-use assets | – | 2,012,500 | 2,012,500 |
| Deferred income tax assets | 110,327 | 51,699 | 162,026 |
| **Current assets** | | | |
| Prepayments and other deposits | 379,256 | (77,779) | 301,477 |
| **Current liabilities** | | | |
| Accruals and other payables | (680,339) | 103,394 | (576,945) |
| Lease liabilities | – | (1,029,961) | (1,029,961) |
| **Non-current liabilities** | | | |
| Lease liabilities | – | (1,247,562) | (1,247,562) |
| **Equity** | | | |
| Reserves | 3,528,701 | (226,341) | 3,302,360 |

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of HKAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 March 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 March 2019 were ranging from 3% to 7%.

| | HK$'000 |
|---|---|
| Operating lease commitments disclosed as at 28 February 2019 | 3,073,059 |
| (Less): Leases committed but not yet commenced as at 1 March 2019 | (567,575) |
| Operating lease commitments of leases commenced as at 1 March 2019 | 2,505,484 |
| Discounted using the lessee's incremental borrowing rate of at the date of initial application | 2,296,495 |
| (Less): short-term leases recognised on a straight-line basis as expense | (18,972) |
| **Lease liabilities recognised as at 1 March 2019** | **2,277,523** |
| Of which are: | |
| Current lease liabilities | 1,029,961 |
| Non-current lease liabilities | 1,247,562 |
| | 2,277,523 |

The associated right-of-use assets were measured on a retrospective basis as if the new rules had always been applied, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position as at 28 February 2019.

The recognised right-of-use assets relate to the following types of assets:

| | **31 August 2019** | 1 March 2019 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Properties leases | **2,221,932** | 1,973,869 |
| Land use right | **36,081** | 38,631 |
| **Total right-of-use assets** | **2,258,013** | 2,012,500 |

*(i) Practical expedients applied*

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- the use of recognition exemption to lease with a remaining lease term of less than 12 months at 1 March 2019;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying HKAS 17.

*(ii) The Group's leasing activities and how these are accounted for*

Rental contracts are typically made for fixed periods. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Before the adoption of the standard, leases of premises were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 March 2019, leases are recognised as right-of-use assets and corresponding liabilities at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the lease liabilities and finance costs. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;

- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability; and
- any lease payments made at or before the commencement date less any lease incentives received.

Payments associated with short-term leases is recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

## 2. TURNOVER AND SEGMENT INFORMATION

| | **Six months ended 31 August** | |
|---|---|---|
| | **2019** | 2018 |
| | **(Unaudited)** | (Unaudited) |
| | **HK$'000** | HK$'000 |
| Turnover | | |
| – Sales of fashion wears and accessories | **4,015,362** | 4,064,081 |

The Group's turnover is recognised at a point in time.

The chief operating decision maker ("CODM") has been identified as the executive directors that make strategic decisions. The CODM reviews the internal reporting of the Group in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

The CODM considers the business from geographic perspective and assesses the performance of the geographical segment based on a measure of both profit before income tax, share of losses of joint ventures and share of profit of an associate, finance income and finance costs ("segment (loss)/profit"), provision for impairment of goodwill, property, furniture and equipment and right-of-use assets, depreciation and amortisation ("EBITDA"). The information provided to the CODM is measured in a manner consistent with that in the financial statements.

Segment assets exclude deferred income tax assets, current income tax recoverable, investments in joint ventures and an associate and amounts due from joint ventures which are managed centrally.

The segment information provided to the CODM for the reportable segments is as follows:

| | (Unaudited) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Hong Kong and Macau Six months ended 31 August | | Mainland China Six months ended 31 August | | Japan and the USA Six months ended 31 August | | Other Six months ended 31 August | | Total Six months ended 31 August | |
| | **2019** | 2018 | **2019** | 2018 | **2019** | 2018 | **2019** | 2018 | **2019** | 2018 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Turnover | **1,480,955** | 1,580,300 | **1,870,218** | 1,854,599 | **607,256** | 574,652 | **56,933** | 54,530 | **4,015,362** | 4,064,081 |
| EBITDA (i) | **230,135** | (4,116) | **433,265** | 119,694 | **295,716** | 268,850 | **21,058** | 14,564 | **980,174** | 398,992 |
| Depreciation and amortisation | **(370,562)** | (44,772) | **(283,591)** | (96,040) | **(41,926)** | (9,519) | **(6,125)** | (941) | **(702,204)** | (151,272) |
| Provision for impairment of property, furniture and equipment | **(1,573)** | 623 | **(19,444)** | (7,110) | **–** | – | **–** | – | **(21,017)** | (6,487) |
| Provision for impairment of right-of-use assets | **(11,671)** | – | **(53,765)** | – | **–** | – | **–** | – | **(65,436)** | – |
| Provision for impairment of goodwill | **–** | – | **(46,838)** | – | **–** | – | **–** | – | **(46,838)** | – |
| Segment (loss)/profit | **(153,671)** | (48,265) | **29,627** | 16,544 | **253,790** | 259,331 | **14,933** | 13,623 | **144,679** | 241,233 |
| Finance income | | | | | | | | | **12,198** | 14,945 |
| Finance costs | | | | | | | | | **(76,396)** | (24,821) |
| Share of losses of joint ventures | | | | | | | | | **(17,310)** | (105) |
| Share of profit of an associate | | | | | | | | | **4,111** | – |
| Profit before income tax | | | | | | | | | **67,282** | 231,252 |

*Note:*

(i) Upon adoption of HKFRS 16, operating lease rental of premises under HKAS 17 is no longer incurred. Instead, depreciation of right-of-use assets (Note 4) and finance costs associated with lease liabilities (Note 6) are recorded, both of which are excluded from the calculation of EBITDA for the six months ended 31 August 2019.

| | Hong Kong and Macau | Mainland China | Japan and the USA | Other | Total |
|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Total segment assets | | | | | |
| **As at 31 August 2019** | **3,338,988** | **3,451,880** | **944,633** | **85,659** | **7,821,160** |
| As at 28 February 2019 | 2,215,679 | 2,733,039 | 693,045 | 62,295 | 5,704,058 |

Reportable segments' assets are reconciled to total assets as follows:

| | **As at 31 August 2019 (Unaudited) HK$'000** | As at 28 February 2019 (Audited) HK$'000 |
|---|---|---|
| Segment assets for reportable segments | **7,735,501** | 5,641,763 |
| Other segments assets | **85,659** | 62,295 |
| | **7,821,160** | 5,704,058 |
| Unallocated: | | |
| Deferred income tax assets and current income tax recoverable | **130,370** | 112,316 |
| Investments in joint ventures and an associate and amounts due from joint ventures | **695,973** | 300,190 |
| | **8,647,503** | 6,116,564 |

## 3. OTHER LOSSES, NET

| | **Six months ended 31 August** | |
|---|---|---|
| | **2019** | 2018 |
| | **(Unaudited)** | (Unaudited) |
| | **HK$'000** | HK$'000 |
| Fair value gains on derivative financial instruments – foreign currency swap contract | **711** | 4,222 |
| Net exchange losses | **(23,415)** | (23,902) |
| | **(22,704)** | (19,680) |

## 4. EXPENSES BY NATURE

| | Six months ended 31 August | |
|---|---|---|
| | **2019** | 2018 |
| | **(Unaudited)** | (Unaudited) |
| | **HK$'000** | HK$'000 |
| Cost of inventories sold | **1,471,542** | 1,413,476 |
| Provision for write-downs of inventories to net realisable value | **8,791** | 4,934 |
| Employment costs (including directors' emoluments) | **761,438** | 753,705 |
| Depreciation expenses | | |
| – property, furniture and equipment | **134,426** | 145,323 |
| – right-of-use assets | **559,534** | – |
| Operating lease rentals of premises | | |
| – minimum lease payments | **33,341** | 743,012 |
| – contingent rents | **112,133** | 122,363 |
| Building management fee | **137,523** | 132,751 |
| Advertising and promotion costs | **97,771** | 107,887 |
| Commission expenses | **60,390** | 57,198 |
| Bank charges | **41,386** | 40,229 |
| Utilities expenses | **25,616** | 29,003 |
| Freight charges | **18,854** | 17,217 |
| Impairment of non-financial assets | | |
| – property, furniture and equipment | **21,017** | 6,487 |
| – right-of-use assets | **65,436** | – |
| Loss on disposals of property, furniture and equipment | **5,172** | 10,980 |
| Contingent licence fees | **15,332** | 12,067 |
| Amortisation of intangible assets | **8,244** | 5,949 |
| Other expenses | **256,969** | 242,167 |
| Total | **3,834,915** | 3,844,748 |
| Representing: | | |
| Cost of sales | **1,520,262** | 1,463,397 |
| Operating expenses | **2,314,653** | 2,381,351 |
| | **3,834,915** | 3,844,748 |

## 5. OTHER INCOME

| | Six months ended 31 August | |
|---|---|---|
| | **2019** | 2018 |
| | **(Unaudited)** | (Unaudited) |
| | **HK$'000** | HK$'000 |
| Government grants | **25,388** | 37,871 |
| Others | **8,386** | 3,709 |
| | **33,774** | 41,580 |

## 6. FINANCE INCOME AND COSTS

| | Six months ended 31 August | |
|---|---|---|
| | **2019** | 2018 |
| | **(Unaudited)** | (Unaudited) |
| | **HK$'000** | HK$'000 |
| Interest income from | | |
| – bank deposits | **10,216** | 12,932 |
| – amounts due from joint ventures | **228** | 228 |
| – others (i) | **1,754** | 1,785 |
| Finance income | **12,198** | 14,945 |
| Interest expense on borrowings wholly repayable within five years | **(25,764)** | (23,807) |
| Interest expenses on lease liabilities | **(50,632)** | – |
| Net foreign exchange transaction loss | **–** | (34,061) |
| Transfer from hedging reserve | | |
| – interest rate and currency swaps: cash flow hedge | **–** | 33,047 |
| Finance costs | **(76,396)** | (24,821) |
| Net finance costs | **(64,198)** | (9,876) |

*Note:*

(i) These represent the interest arisen from the unwinding of discount on financial assets recognised at amortised cost.

## 7. INCOME TAX EXPENSE

The Company is exempted from income taxes in Bermuda until March 2035. The Company's subsidiaries established in the British Virgin Islands are incorporated under the BVI Business Companies Act of the British Virgin Islands and, accordingly, are exempted from British Virgin Islands income taxes.

Hong Kong profits tax has been provided at the rate 16.5% (six months ended 31 August 2018: 16.5%) on the estimated assessable profits of the Group's operation in Hong Kong.

Mainland China enterprise income tax has been provided at the applicable rate of 25% (six months ended 31 August 2018: 25%) on the estimated assessable profits of the Group's operations in Mainland China.

Japan Corporate Income Tax has been provided at the applicable rate of 34.59% (six months ended 31 August 2018: 34.81%) on the estimated assessable profits of the Group's operations in Japan.

Macau Complementary (Corporate) tax has been provided at the applicable rate of 12% (six months ended 31 August 2018: 12%) on the estimated assessable profits in excess of HK$582,000 (approximately MOP600,000) of the Group's operations in Macau.

Taiwan profits tax has been provided at the rate of 20% (six months ended 31 August 2018: 20%) on the estimated assessable profits of the Group's operations in Taiwan.

US enterprise income tax rate has been provided at the applicable rate of 21% (six months ended 31 August 2018: 21%) on the estimated assessable profits of the Group's operations in the United States of America.

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

| | **Six months ended 31 August** | |
|---|---|---|
| | **2019** | 2018 |
| | **(Unaudited)** | (Unaudited) |
| | **HK$'000** | HK$'000 |
| Current income tax | | |
| – Hong Kong profits tax | **4,689** | 4,587 |
| – Mainland China enterprise income tax | **4,579** | 28,066 |
| – Overseas income tax | **90,732** | 99,584 |
| – (Over)/under-provision in prior year | **(154)** | 168 |
| Deferred income tax | **38,607** | (14,518) |
| | **138,453** | 117,887 |

Income tax expense is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used for the six months ended 31 August 2019 is 61.6% (six months ended 31 August 2018: 36.4%). The increase is mainly caused by a change of the distribution of profits/(losses) of the Group's entities operating in different locations.

## 8. (LOSS)/EARNINGS PER SHARE

*Basic*

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

| | Six months ended 31 August | |
|---|---|---|
| | **2019** | 2018 |
| | **(Unaudited)** | (Unaudited) |
| (Loss)/profit attributable to equity holders of the Company (HK$'000) | **(71,958)** | 112,511 |
| Weighted average number of ordinary shares in issue ('000) | **1,195,797** | 1,195,797 |
| Basic (loss)/earnings per share (HK cent) | **(6.0)** | 9.4 |

*Diluted*

Diluted (loss)/earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Shares issuable under the share option schemes are the only dilutive potential ordinary shares. A calculation is made in order to determine the number of shares that could have been acquired at fair value (determined as the average daily quoted market share price of the Company's shares) based on the monetary value of the subscription rights attached to the outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

| | Six months ended 31 August | |
|---|---|---|
| | **2019** | 2018 |
| | **(Unaudited)** | (Unaudited) |
| (Loss)/profit attributable to equity holders of the Company (HK$'000) | **(71,958)** | 112,511 |
| Weighted average number of ordinary shares in issue ('000) | **1,195,797** | 1,195,797 |
| * Adjustments for share options ('000) | **–** | 45,312 |
| Weighted average number of ordinary shares for diluted (loss)/earnings per share ('000) | **1,195,797** | 1,241,109 |
| Diluted (loss)/earnings per share (HK cent) | **(6.0)** | 9.1 |

* Diluted loss per share for the six months ended 31 August 2019 equals to the basic loss per share as the exercise of the outstanding share options would be anti-dilutive.

## 9. DIVIDENDS

A final dividend relating to the year ended 28 February 2019 amounting to HK$215,243,000 is included in other payables and paid in September 2019.

The Board does not declare the payment of an interim dividend for the six months ended 31 August 2019 (six months ended 31 August 2018: Nil).

## 10. TRADE AND OTHER RECEIVABLES

| | **As at 31 August 2019 (Unaudited) HK$'000** | As at 28 February 2019 (Audited) HK$'000 |
|---|---|---|
| Trade receivables | **222,873** | 281,769 |
| Less: Impairment loss of trade receivables | **(2,349)** | (1,253) |
| Trade receivables – net | **220,524** | 280,516 |
| Interest receivables | **694** | 249 |
| Other receivables | **25,119** | 19,406 |
| Trade and other receivables | **246,337** | 300,171 |

The Group's sales are mainly settled by cash or credit/debit cards. The Group grants to a limited number of corporate customers credit periods ranging from 30 to 60 days.

The ageing analysis of the trade receivables is as follows:

| | **As at 31 August 2019 (Unaudited) HK$'000** | As at 28 February 2019 (Audited) HK$'000 |
|---|---|---|
| 0 to 30 days | **169,732** | 210,961 |
| 31 to 60 days | **41,440** | 55,224 |
| 61 to 90 days | **5,602** | 7,912 |
| Over 90 days | **6,099** | 7,672 |
| | **222,873** | 281,769 |

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

## 11. TRADE PAYABLES

The ageing analysis of trade payables based on invoice date is as follows:

| | **As at 31 August 2019 (Unaudited) HK$'000** | As at 28 February 2019 (Audited) HK$'000 |
|---|---|---|
| 0 to 30 days | **259,243** | 148,260 |
| 31 to 60 days | **120,630** | 154,392 |
| 61 to 90 days | **51,378** | 58,107 |
| 91 to 180 days | **14,661** | 23,458 |
| 181 to 365 days | **8,206** | 6,952 |
| Over 365 days | **21,893** | 22,951 |
| | **476,011** | 414,120 |

## 12. BORROWINGS

| | **As at 31 August 2019 (Unaudited) HK$'000** | As at 28 February 2019 (Audited) HK$'000 |
|---|---|---|
| Non-current borrowings | | |
| – Bank borrowings | **1,305,056** | 653,981 |
| | **1,305,056** | 653,981 |
| Current borrowings | | |
| – Portion of bank borrowings due for repayment within one year | **362,009** | 444,045 |
| – Portion of bank borrowings due for repayment after one year which contain a repayable on demand clause | **56,650** | 61,950 |
| | **418,659** | 505,995 |
| | **1,723,715** | 1,159,976 |

Movements in borrowings are analysed as follows:

| | (Unaudited) HK$'000 |
|---|---|
| **Six months ended 31 August 2019** | |
| As at 1 March 2019 | 1,159,976 |
| Proceeds from borrowings | 1,009,798 |
| Repayments of borrowings | (445,088) |
| Currency translation differences | (971) |
| **As at 31 August 2019** | 1,723,715 |
| **Six months ended 31 August 2018** | |
| As at 1 March 2018 | 1,377,371 |
| Proceeds from borrowings | 787,200 |
| Repayments of borrowings | (1,158,780) |
| Currency translation differences | 34,061 |
| **As at 31 August 2018** | 1,039,852 |

The fair values of current borrowings approximate their carrying amounts, as the impact of discounting is not significant. As at 31 August 2019, the effective borrowing cost was 3.4% (as at 28 February 2019: 2.9%) per annum.

## INTERIM DIVIDEND

The Board does not declare payment of an interim dividend for the six months ended 31 August 2019 (six months ended 31 August 2018: Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

- **Business Review**

*(a)* *Group*

During the six months ended 31 August 2019, the complex macroeconomic environment weighed significantly on the retail landscape across the Group's operating regions. Starting from the second half of the previous financial year, the Group's growth slowed as our business navigated various challenges such as ongoing China-US trade tensions, geopolitical issues, and devaluation of the Renminbi. These factors had a negative effect on spending enthusiasm in several of our operating markets.

Our Hong Kong and Macau business was also adversely impacted by the recent social instability and the associated decrease in inbound tourist traffic as evidenced by the negative sales growth and comparable-store-sales-growth declines in the segment. Gross margin in this segment also decreased, which was mainly due to early promotion of discount activities. These factors downgraded operating efficiency and as a result, the operating loss of the Group's Hong Kong and Macau business widened as compared to the corresponding period of the previous year.

Sales in Mainland China continued to grow. This increase in sales was primarily fueled by positive comparable-store-sales-growth and further store network expansions. However, the unfavorable market situation in regard to the depreciation of the Renminbi largely offset the increase in our Mainland China sales figures once such sales were converted into Hong Kong dollar for reporting purposes. On a positive note, we noted with satisfaction that the sales contribution from e-commerce to our Mainland China business continued to rise, both through our own e-commerce channel and via third party e-commerce platforms. Tmall, for instance, is a channel where we have been growing steadily over time, with the Group now operating over 12 flagship stores on the Tmall platform, each with its own unique style and store format, e.g. multi-brand store vs. mono-brand store, in-house labels vs. international brands.

We are gratified that our Japan and the USA segment continued to grow on the back of several consecutive years of strong growth. We are also excited about our new plans to further expand the store networks for our A Bathing Ape brand in New York as well as in new cities in North America and Europe.

The Group's profitability was adversely affected by the lower turnover, mainly due to Hong Kong's performance. Turnover of the Group declined by 1.2% over last period to HK$4,015.4 million. Gross margin also decreased, which was principally due to the early promotion of discount activities in some of our operating regions such as Hong Kong.

It should be noted that an impairment provision for goodwill in association with our wholesale business in Mainland China was recognised, amounting to HK$46.8 million, as sales contribution from wholesale business to our Mainland China business continued to shrink.

It should also be noted that a deferred tax asset amounting to HK$37.1 million in connection with our Hong Kong business was written off amid a challenging retail environment.

The Group recorded a net loss of HK$71.2 million for the six months ended 31 August 2019 compared to net profit of HK$113.4 million for the same period in the previous year. If the above non-cash items in relation to the impairment of goodwill and the write-off of deferred tax assets were excluded, net profit of HK$12.7 million would have been recorded for the Group.

If the impact of the adoption of HKFRS 16 along with the above non-cash items were excluded, net profit of the Group would have been HK$0.5 million.

*Turnover by Market*

For the Reporting Period, turnover in our Hong Kong and Macau segment decreased by 6.3% to HK$1,481.0 million while it contributed 36.9% towards the Group's total turnover (FY18/19: 38.9%). The decrease in turnover was attributable to negative comparable-store-sales growth as a result of the contraction in spending enthusiasm, which was due to multiple factors including social instability and a decrease in inbound tourist traffic.

Turnover of our Mainland China operations increased by 0.8% to HK$1,870.2 million. The Mainland China segment contributed 46.6% towards the Group's total turnover (FY18/19: 45.6%). One pillar of our expansion strategy is to extend the reach of our brands, both online and offline, in Mainland China. We remain enthusiastic about the immense growth opportunities that we plan to capitalise on in this region during the second half of the financial year.

Our Japan and the USA segment, which accounted for 15.1% of the Group's total turnover (FY18/19: 14.1%), continued to deliver sustainable growth. Turnover of our Japan and the USA business rose by 5.7% to HK$607.3 million. We note with satisfaction the continuous and overwhelmingly positive response to our A Bathing Ape collections and its subsidiary lines.

**Breakdown of turnover by region of operations:**

| | **Turnover Six months ended 31 August** | | | **% of Turnover Six months ended 31 August** | |
|---|---|---|---|---|---|
| | **2019 HK$ million** | 2018 HK$ million | **Change** | **2019** | 2018 |
| Hong Kong and Macau | **1,481.0** | 1,580.3 | -6.3% | **36.9%** | 38.9% |
| *Retail sales only* | ***1,463.3*** | *1,559.6* | *-6.2%* | | |
| Mainland China | **1,870.2** | 1,854.6 | +0.8% | **46.6%** | 45.6% |
| *Retail sales only* | ***1,856.3*** | *1,831.6* | *+1.3%* | | |
| Japan and the USA | **607.3** | 574.7 | +5.7% | **15.1%** | 14.1% |
| *Retail sales only* | ***546.0*** | *525.6* | *+3.9%* | | |
| Other | **56.9** | 54.5 | +4.4% | **1.4%** | 1.4% |
| Total | **4,015.4** | 4,064.1 | -1.2% | **100.0%** | 100.0% |

*Brand Mix*

Our portfolio consists of over 400 distinctive fashion names, including in-house brands and international brands. It has always been an integral and important part of our endeavors to define the optimal mix across different concepts and geographies with the objective of maximizing returns. For the period under review, our in-house brands segment continued to provide us with the largest revenue contribution, amounting to 58.7% (FY18/19: 58.3%).

**Breakdown of retail sales by brand category:**

| | Retail Sales Six months ended 31 August | | | % of Retail Sales Six months ended 31 August | |
|---|---|---|---|---|---|
| | **2019** | 2018 | | **2019** | 2018 |
| | **HK$ million** | HK$ million | **Change** | | |
| In-house brands | **2,302.4** | 2,314.8 | -0.5% | **58.7%** | 58.3% |
| International brands | **1,607.1** | 1,625.7 | -1.1% | **41.0%** | 40.9% |
| Licensed brands | **13.0** | 30.8 | -57.7% | **0.3%** | 0.8% |
| | **3,922.5** | 3,971.3 | -1.2% | **100.0%** | 100.0% |

*Margin and Cost Dynamics*

The Group recorded a reduction in turnover of 1.2%, with gross profit also decreasing by 4.1% and gross margin decreasing by 1.9 percentage points to 62.1% as compared to the corresponding period of the previous year. This was predominantly due to the decline in sales in our Hong Kong segment amid a difficult retail environment, weaker consumption appetite and social instability. The negative development in gross margin was mainly due to extra discounts and promotional activities that we offered during the period, particularly in our Hong Kong and Macau segment, with the objective of boosting sales volume.

Total operating costs as a percentage of sales decreased to 57.6%. If the impact of HKFRS 16 was excluded, total operating costs as a percentage of sales would have been 59.3% (FY18/19: 58.6%).

Operating profit of the Group declined by 40.0% to HK$144.7 million. If the impact of the adoption of HKFRS 16 and the impairment of goodwill were excluded, operating profit of the Group would have been HK$126.0 million, representing a decrease of 47.8% over the same period of the previous year, with the decrease being principally due to the decline in gross profit.

(b) *Hong Kong and Macau*

Our performance in Hong Kong and Macau was impacted by the extremely challenging trading conditions in the first half of the financial year. These conditions included weaker consumption appetite as a result of macroeconomic challenges and geopolitical conflicts such as the escalating China-US trade tensions. This difficult environment was reflected in the negative performance of Hong Kong's retail sales index throughout the period under review. The decrease in inbound tourist traffic, particularly from Mainland China, which was caused by multiple factors including the depreciation of the Renminbi, also adversely impacted our performance across the region. In addition, the recent social instability in Hong Kong had a considerable negative impact on our business. As a consequence, turnover in our Hong Kong and Macau segment decreased by 6.3% over the corresponding period of the previous year to HK$1,481.0 million. Retail sales also decreased by 6.2% to HK$1,463.3 million. Comparable store sales growth registered at -5.8% (FY18/19: +8.0%).

Gross margin decreased to 58.7% (FY18/19: 63.7%). This decline in gross margin was due to multiple factors, but it was primarily the result of an increase in markdowns attributable to sales and discount activities. Consequently, an operating loss of HK$153.7 million was recorded for our Hong Kong and Macau segment for the six months that ended on 31 August 2019. If the impact of HKFRS 16 was excluded, operating loss of HK$182.5 million would have been recorded for our Hong Kong and Macau segment (FY18/19: operating loss of HK$48.3 million).

(c) *Mainland China*

Turnover attributable to our Mainland China region increased by 0.8% to HK$1,870.2 million, such increase in turnover was negatively affected by the weakening of the Renminbi against other currencies as compared to the corresponding period of the previous year. Total retail sales increased by 1.3% to HK$1,856.3 million, with comparable-store-sales growth registering +5.9% (FY18/19: -2.5%). It is important to reiterate that since November 2018 the sales and profits of brand KENZO were no longer consolidated in our Mainland China business but were recorded as a share of results of joint ventures in the Group's profit or loss.

Gross margin in Mainland China increased by 0.4 percentage point to 61.3%. Consequently, operating profit of our Mainland China segment increased by 79.1% to HK$29.6 million. If the impact of HKFRS 16 and impairment of goodwill were excluded, operating profit of our Mainland China segment would have been HK$39.3 million, representing an increase of 137.6% over the corresponding period of the previous year.

(d) *Japan and the USA*

We are gratified by our performance in Japan and the USA, with the segment registering another period of resilient underlying growth after many consecutive years of impressive business results. Sales in this segment increased by 5.7% to HK$607.3 million while gross margin decreased to 70.8% (FY18/19: 72.8%). Operating profit decreased slightly by 2.1% to HK$253.8 million. If the impact of HKFRS 16 was excluded, operating profit of our Japan and the USA segment would have been HK$254.3 million, representing a decrease of 1.9% over the corresponding period of the previous year. This decline in operating profit was principally due to the decrease in gross margin and the pre-opening expenses associated with a new flagship store for our A Bathing Ape brand in London, which is expected to launch in year 2020. We look forward to expanding the A Bathing Ape brand further through new collections, fresh fashion ideas and innovative collaborations with new partners around the world. We are also preparing to further extend the reach of this brand along with its subsidiary lines in New York and other cities such as Miami in the near term.

- **Share of Results of Joint Ventures and Share of Result of an Associate**

Share of losses of joint ventures amounting to HK$17.3 million was recorded for the Reporting Period (FY18/19: share of losses of joint ventures of HK$0.1 million). The increase in share of losses of joint ventures was principally due to the loss incurred by our second Galeries Lafayette store in Shanghai which had a soft launch in March 2019 and is yet to be operating in full capacity.

Share of profit of an associate amounting to HK$4.1 million was recorded for the Reporting Period (FY18/19: Nil) in connection with the Group's acquisition of minority equity interest in ACNE Studios Holding AB in May 2019.

- **Inventory**

Average inventory turnover cycle of the Group increased by 8 days to 191 days as compared to the corresponding period of the previous year. Such decrease in inventory turnover efficiency was principally due to the slower sales performance in our Hong Kong and Macau segment.

- **Cash Flows and Financial Position**

The Group's cash and bank balances as at 31 August 2019 were HK$1,708.3 million compared to HK$1,772.0 million as at 28 February 2019 and its net debt balance amounted to HK$15.4 million (net debt is defined as cash and cash equivalents of HK$1,708.3 million less borrowings of HK$1,723.7 million) versus net cash balance of HK$612.0 million as at 28 February 2019.

Cash inflow from operating activities for the Reporting Period amounted to HK$854.0 million (FY18/19: HK$124.3 million). The increase is mainly due to the repayment of lease liabilities is included in financing activities upon adoption of HKFRS 16.

- **Liquidity and Banking Facilities**

As at 31 August 2019, the Group had aggregate banking facilities of approximately HK$3,177.3 million (28 February 2019: HK$2,162.6 million) for overdrafts, bank loans and trade financing, of which approximately HK$1,271.7 million (28 February 2019: HK$854.3 million) was unutilised at the same date. These facilities are mainly secured by corporate guarantees provided by the Company and certain subsidiaries as well as pledge of land and buildings.

- **Charges of Assets**

As at 31 August 2019, bank borrowing secured by land and buildings with a carrying amount of HK$180.5 million (28 February 2019: HK$183.7 million).

- **Contingent Liabilities**

As at 31 August 2019, the Group did not have significant contingent liabilities (FY18/19: Nil).

- **Foreign Exchange**

The Group is exposed to foreign exchange risk arising from exposure in the Japanese Yen, Macau Pataca, Pound Sterling, Euro, United States Dollar, New Taiwan Dollar and Chinese Renminbi against the Hong Kong Dollar. The fluctuations in the value of the Hong Kong Dollar against other currencies could affect our margins and profitability. Nevertheless, management will continue to monitor the foreign exchange risks of the Group on a regular basis and may enter into forward exchange contracts and foreign currency swap contracts with major and reputable financial institutions for foreign exchange risk hedging.

- **Employment, Training and Development**

Human resources are our greatest assets, and we regard the personal development of our employees as highly important. As of 31 August 2019, the Group had a total of 7,788 full time employees (FY18/19: 7,074). The Group invests in regular training and other development courses for employees to enhance their technical and product knowledge as well as management skills. The Group offers competitive remuneration packages to its employees, including basic salary, allowances, insurance, and commission/bonuses.

- **Outlook**

There are growing signs of a slowdown in the global economy, reflecting continuing uncertainty over international trade policies and geopolitical developments including an escalation in China-US trade tensions and a deceleration in economic growth in different parts of the world. All these factors are expected to adversely impact consumer sentiment across our operating regions. Additionally, the recent events in Hong Kong portend an even more volatile second half.

Nevertheless, we will continue to invest in positive development plans to enhance the Group's long-term sustainability and profitability while focusing on controlling costs, generating cash and strengthening the balance sheet.

## CORPORATE GOVERNANCE

The Company is committed to implementing good corporate governance practices and emphasising on transparency and accountability to its shareholders and stakeholders. In the opinion of the Board, the Company has applied and complied with the code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") throughout the six months ended 31 August 2019, except for the deviation as mentioned below.

Code Provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. Mr. Sham Kar Wai currently holds both positions. The Board believes that vesting the roles of both Chairman of the Board and Chief Executive Officer in the same person would allow the Company to be more effective and efficient in developing long term business strategies and execution of business plans. In addition, under the supervision by the Board which half of the members are independent non-executive Directors, the interests of the shareholders will be adequately and fairly represented.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules for securities transactions by Directors. Upon enquiry by the Company, all Directors have confirmed that, for the six months ended 31 August 2019, they have complied with the required standard as set out in the Model Code regarding securities transactions by Directors.

## REVIEW OF FINANCIAL INFORMATION

The interim financial report for the six months ended 31 August 2019 has been reviewed by PricewaterhouseCoopers, the Company's independent auditor, whose review report will be included in the interim report to be sent to shareholders.

The Audit Committee has reviewed with the Management the accounting principles and practices adopted by the Company and discussed auditing, risk management and internal control systems and financial reporting matters including the review of the unaudited financial information of the Group and the interim report for the six months ended 31 August 2019.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the six months ended 31 August 2019.

By Order of the Board
**Sham Kar Wai**
*Chairman*

Hong Kong, 30 October 2019

*As at the date of this announcement, the Board comprises Mr. SHAM Kar Wai, Mr. SHAM Kin Wai and Mr. CHAN Wai Kwan as Executive Directors and Mr. Francis GOUTENMACHER, Dr. WONG Tin Yau, Kelvin, JP and Mr. MAK Wing Sum, Alvin as Independent Non-executive Directors.*