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(Incorporated in Bermuda with limited liability)

(Stock Code: 999)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 29 FEBRUARY 2020

FINANCIAL HIGHLIGHTS

- Total turnover of the Group decreased by 12.6% to HK\$7,719.4 million.
- Total retail sales in Hong Kong and Macau decreased by 23.3% to HK\$2,580.2 million. Comparable-store-sales-growth rate registered at -23.2% (FY18/19: 2.4%). Total trading area decreased by 2.5%.
- Total retail sales in Mainland China decreased by 9.4% to HK\$3,700.1 million. Comparable-store-sales-growth rate registered at -5.3% (FY18/19: 1.7%). Total trading area decreased by 1.5%.
- Total retail sales in Japan and the USA landed at HK\$1,066.0 million, representing 1.1% increase from FY18/19.
- Gross profit of the Group decreased by 16.1% to HK\$4,733.7 million at gross profit margin of 61.3% (FY18/19: 63.9%).
- Net loss of the Group amounting to HK\$745.8 million was recorded (FY18/19: Net profit of HK\$444.1 million).
- If non-cash impairment provision of goodwill, property, furniture and equipment, and right-of-use assets amounting to HK\$613.4 million were excluded, net loss of the Group would have been HK\$132.4 million.
- Basic loss per share of 62.5 HK cents (FY18/19: Basic earnings per share of 37.0 HK cents).
- The Board does not recommend the payment of a final dividend for the year ended 29 February 2020 (FY18/19: 18.0 HK cents per ordinary share).

The board of directors (the “Board”) of I.T Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 29 February 2020, prepared on the basis set out in Note 2, together with the comparative figures for the year ended 28 February 2019, as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 29 February 2020

	<i>Note</i>	2020 HK\$'000	2019 HK\$'000
Turnover	4	7,719,378	8,832,157
Cost of sales	6	(2,985,674)	(3,192,446)
Gross profit		4,733,704	5,639,711
Other losses, net	5	(21,262)	(13,532)
Impairment of goodwill		(231,520)	–
Operating expenses	6	(4,904,283)	(4,927,676)
Other income	7	43,305	55,111
Operating (loss)/profit		(380,056)	753,614
Finance income	8	19,797	24,946
Finance costs	8	(154,777)	(42,922)
Share of profit of an associate		22,031	–
Share of losses of joint ventures		(55,336)	(27,846)
(Loss)/profit before income tax		(548,341)	707,792
Income tax expense	9	(197,429)	(263,647)
(Loss)/profit for the year		(745,770)	444,145
Other comprehensive (loss)/income:			
Items that may be reclassified to profit or loss			
Currency translation differences		(106,703)	(115,727)
Cash flow hedge recognised as finance costs		–	(33,047)
Fair value changes on cash flow hedge, net of tax		11,003	18,209
Total other comprehensive loss for the year		(95,700)	(130,565)
Total comprehensive (loss)/income for the year		(841,470)	313,580

	<i>Note</i>	2020 HK\$'000	2019 HK\$'000
(Loss)/profit attributable to:			
– Equity holders of the Company		(747,254)	442,599
– Non-controlling interests		1,484	1,546
		<u>(745,770)</u>	<u>444,145</u>
Total comprehensive (loss)/income attributable to:			
– Equity holders of the Company		(842,964)	312,427
– Non-controlling interests		1,494	1,153
		<u>(841,470)</u>	<u>313,580</u>
(Loss)/earnings per share attributable to equity holders of the Company for the year (expressed in HK cent per share)			
– basic	10	<u>(62.5)</u>	<u>37.0</u>
– diluted	10	<u>(62.5)</u>	<u>35.7</u>
Dividends	11	<u>–</u>	<u>215,243</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 29 February 2020

		29 February 2020 HK\$'000	28 February 2019 HK\$'000
ASSETS			
Non-current assets			
Land use rights		–	38,631
Property, furniture and equipment		1,161,391	954,964
Right-of-use assets		1,900,465	–
Intangible assets		91,169	321,948
Investments in and loans to joint ventures		121,303	167,879
Investment in an associate		441,879	–
Rental deposits		271,172	346,422
Prepayments for non-current assets		21,236	52,672
Deferred income tax assets		137,517	110,327
		4,146,132	1,992,843
Current assets			
Inventories		1,722,110	1,538,037
Trade and other receivables	12	218,006	300,171
Amounts due from joint ventures		33,765	132,311
Amount due from an associate		272	–
Rental deposits, prepayments and other deposits		284,573	379,256
Current income tax recoverable		2,474	1,989
Cash and cash equivalents		1,456,807	1,771,957
		3,718,007	4,123,721
LIABILITIES			
Current liabilities			
Borrowings	13	(463,290)	(505,995)
Trade payables	14	(491,317)	(414,120)
Accruals and other payables		(469,974)	(680,339)
Contract liabilities		(37,844)	(21,922)
Lease liabilities		(958,142)	–
Derivative financial instruments	15	–	(11,003)
Amounts due to joint ventures		(26,840)	(24,165)
Current income tax liabilities		(81,593)	(78,327)
		(2,529,000)	(1,735,871)
Net current assets		1,189,007	2,387,850
Non-current liabilities			
Borrowings	13	(1,463,928)	(653,981)
Accruals		(6,163)	(6,125)
Lease liabilities		(1,440,713)	–
Derivative financial instruments	15	(4,145)	(1,773)
Deferred income tax liabilities		(52,621)	(67,294)
		(2,967,570)	(729,173)
Net assets		2,367,569	3,651,520
EQUITY			
Capital and reserves			
Share capital		119,580	119,580
Reserves		2,244,153	3,528,701
Non-controlling interests		3,836	3,239
Total equity		2,367,569	3,651,520

NOTES

1 GENERAL INFORMATION

The Company is an investment holding company and its subsidiaries (together with the Company are collectively referred to as the “Group”) are principally engaged in the sales of fashion wears and accessories.

The Company was incorporated in Bermuda on 18 October 2004 as an exempted company with limited liability under the Companies Act 1981 of Bermuda. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.

The Company has its listing on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

These consolidated financial statements are presented in Hong Kong Dollar (“HK\$”), unless otherwise stated.

2 BASIS OF PREPARATION

The consolidated financial statements of the Company have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”) issued by Hong Kong Institute of Certified Public Accountants (“HKICPA”) and disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622). The consolidated financial statements have been prepared under the historical cost convention, as modified by financial liabilities at fair value through profit or loss (including derivative instruments), which are carried at fair value.

(a) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 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

The Group had changed its accounting policies following the adoption of HKFRS 16 as disclosed in Note 3. Most of the other amendments to standards and interpretation listed above are not expected to significantly affect the current or future periods.

(b) New standards and amendments to existing standards that are not yet effective and have not been early adopted by the Group

The following new standards and amendments to existing standards have been published and are mandatory for accounting periods beginning on or after 29 February 2020 or later periods and have not been early adopted by the Group:

Amendments to HKAS 1 and HKAS 8	Definition of Material ¹
Amendments to HKFRS 3	Definition of a Business ¹
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting ¹
Amendments to HKAS 39, HKFRS 7 and HKFRS 9	Hedge accounting ¹
HKFRS 17	Insurance Contracts ²
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³

¹ Effective for the Group for annual periods beginning on or after 1 March 2020

² Effective for the Group for annual periods beginning on or after 1 March 2021

³ Effective date to be determined

The Group will apply the above new standards and amendments to existing standards 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.

3 CHANGES IN PRINCIPAL ACCOUNTING POLICIES

This note explains the impact of the adoption of HKFRS 16 Leases on the Group's consolidated financial statements.

The Group has adopted HKFRS 16 retrospectively from 1 March 2019, but has not restated the comparative for the last year, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening consolidated statement of financial position on 1 March 2019.

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 at 1 March 2019. The lessee's incremental borrowing rate applied to the lease liabilities on 1 March 2019 ranged from 3% to 5%.

(i) **Practical expedients applied**

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

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 March 2019 as short-term leases
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- using 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.

The Group has also elected not to rely on previous assessments on whether leases are onerous as at 1 March 2019 over the impairment review on the right-of-use assets.

(ii) **Measurement of lease liabilities**

	2019 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	<u>(398,639)</u>
Opening leases commitments of leases commenced as at 1 March 2019	<u>2,674,420</u>
Discounted using the lessee's incremental borrowing rate of at the date of initial application	2,463,281
(Less): short-term leases recognised on a straight-line basis as expense	<u>(18,972)</u>
Lease liabilities recognised as at 1 March 2019	<u><u>2,444,309</u></u>
Of which are:	
Current lease liabilities	1,083,403
Non-current lease liabilities	<u>1,360,906</u>
	<u><u>2,444,309</u></u>

(iii) *Measurement of right-of-use assets*

The carrying amount of the associated right-of-use assets were measured as if the new rule had been applied since the commencement date, but discounted using the lessee's incremental borrowing rate at the date of initial application in the consolidated statement of financial position.

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

	29 February 2020 HK\$'000	1 March 2019 HK\$'000
Properties leases	1,864,575	2,140,655
Land use rights	35,890	38,631
Total right-of-use assets	<u>1,900,465</u>	<u>2,179,286</u>

(iv) *Adjustments recognised in the consolidated statement of financial position on 1 March 2019*

The change in accounting policy affected the following items in the consolidated statement of financial position on 1 March 2019. Line items that were not affected by the changes have not been included.

Consolidated statement of financial position (extract)	28 February 2019 As originally presented HK\$'000	Effects on the adoption of HKFRS 16 of HK\$'000	1 March 2019 Restated HK\$'000
Non-current assets			
Land use rights	38,631	(38,631)	–
Right-of-use assets	–	2,179,286	2,179,286
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	–	(1,083,403)	(1,083,403)
Non-current liabilities			
Lease liabilities	–	(1,360,906)	(1,360,906)
Equity			
Reserves	3,528,701	(226,341)	3,302,360

4 TURNOVER AND SEGMENT INFORMATION

(a) Turnover

	For the year ended	
	29 February 2020 HK\$'000	28 February 2019 HK\$'000
Turnover - sales of fashion wears and accessories	<u>7,719,378</u>	<u>8,832,157</u>

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

(b) Segment information

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 (loss)/profit before income tax, share of losses of joint ventures, share of profit of an associate, finance income and finance costs ("segment (loss)/profit"), 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 and an associate which are managed centrally.

The segment information provided to the CODM for the reportable segments for the years ended 29 February 2020 and 28 February 2019 are as follows:

	Hong Kong and Macau		Mainland China		Japan and the USA		Other		Total	
	For the year ended		For the year ended		For the year ended		For the year ended		For the year ended	
	29 February	28 February	29 February	28 February	29 February	28 February	29 February	28 February	29 February	28 February
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	2,620,158	3,424,832	3,751,430	4,122,541	1,209,238	1,152,738	138,552	132,046	7,719,378	8,832,157
EBITDA (i)	296,398	102,348	734,401	411,043	570,151	494,639	55,552	40,792	1,656,502	1,048,822
Depreciation and amortisation	(724,536)	(93,063)	(600,991)	(182,598)	(87,295)	(19,781)	(10,303)	(3,750)	(1,423,125)	(299,192)
(Impairment)/reversal of impairment of property, furniture and equipment	(44,283)	3,324	(23,213)	660	-	-	-	-	(67,496)	3,984
Impairment of right-of-use assets	(199,297)	-	(115,120)	-	-	-	-	-	(314,417)	-
Impairment of goodwill	-	-	(231,520)	-	-	-	-	-	(231,520)	-
Segment (loss)/profit	(671,718)	12,609	(236,443)	229,105	482,856	474,858	45,249	37,042	(380,056)	753,614
Finance income									19,797	24,946
Finance costs									(154,777)	(42,922)
Share of losses of joint ventures									(55,336)	(27,846)
Share of profit of an associate									22,031	-
(Loss)/profit before income tax									(548,341)	707,792
Total segment non-current assets	1,426,886	558,100	1,580,280	980,078	415,572	171,216	22,695	5,243	3,445,433	1,714,637
Total segment assets	2,699,425	2,215,679	3,325,340	2,733,039	1,003,627	693,045	98,537	62,295	7,126,929	5,704,058

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 and finance costs associated with lease liabilities are recorded, both of which are excluded from the calculation of EBITDA for the year ended 29 February 2020.

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

	For the year ended	
	29 February 2020 HK\$'000	28 February 2019 HK\$'000
Segment assets for reportable segments	7,028,392	5,641,763
Other segment assets	98,537	62,295
	7,126,929	5,704,058
Unallocated:		
Deferred income tax assets and current income tax recoverable	139,991	112,316
Investments in and amounts due from joint ventures and an associate	597,219	300,190
	7,864,139	6,116,564

5 OTHER LOSSES, NET

	For the year ended	
	29 February 2020 HK\$'000	28 February 2019 HK\$'000
Fair value (losses)/gains on derivative financial instruments		
– foreign currency swap contracts	(2,372)	2,976
Net exchange losses	(18,890)	(16,508)
	(21,262)	(13,532)

6 EXPENSES BY NATURE

	For the year ended	
	29 February	28 February
	2020	2019
	HK\$'000	HK\$'000
Cost of inventories sold	2,882,586	3,127,159
Provision for inventories losses	56,866	14,532
Employment costs (including directors' emoluments)	1,478,638	1,531,325
Expenses related to short-term leases/operating lease rentals of premises and others – minimum lease payments (<i>Note</i>)	48,103	1,481,877
Expenses related to variable lease payments/operating lease rentals of premises and others – contingent rents	225,144	284,380
Building management fee	265,011	268,869
Advertising and promotion costs	186,644	237,176
Commission expenses	116,448	116,198
Bank charges	78,969	86,430
Utilities expenses	50,015	55,767
Freight charges	42,413	43,483
Depreciation expenses (<i>Note</i>)		
– property, furniture and equipment	281,224	287,064
– right-of-use assets	1,123,601	–
Impairment/(reversal of impairment) of non-financial assets		
– property, furniture and equipment	67,496	(3,984)
– right-of-use assets	314,417	–
Loss on disposal of property, furniture and equipment	3,783	12,131
Licence fees	33,248	28,870
Amortisation of intangible assets	18,300	12,128
Provision for impairment of amounts due from joint ventures	53,009	–
Auditors' remuneration		
– audit services	2,385	2,802
– non-audit services	550	550
Other expenses	561,107	533,365
	7,889,957	8,120,122
Total	7,889,957	8,120,122
Representing:		
Cost of sales	2,985,674	3,192,446
Operating expenses	4,904,283	4,927,676
	7,889,957	8,120,122

Note:

Upon adoption of HKFRS 16, operating lease rentals of premises under HKAS 17 is no longer incurred. Instead, depreciation of right-of-use assets is recorded in the “operating expenses” of the consolidated statement of comprehensive income for the year ended 29 February 2020. The Group also applied practical expedient to recognise short-term lease on a straight-line basis as an expense in profit or loss.

7 OTHER INCOME

	For the year ended	
	29 February 2020 HK\$'000	28 February 2019 HK\$'000
Government grants	26,051	37,034
Commission income	1,539	1,970
Service fees	15,715	16,107
	<u>43,305</u>	<u>55,111</u>

8 FINANCE INCOME AND COSTS

	For the year ended	
	29 February 2020 HK\$'000	28 February 2019 HK\$'000
Interest income from		
– bank deposits	15,690	20,487
– amounts due from joint ventures	724	455
– others (i)	3,383	4,004
Finance income	<u>19,797</u>	<u>24,946</u>
Interest expense on borrowings wholly repayable within five years	(58,969)	(41,908)
Interest expenses on lease liabilities (ii)	(103,575)	–
Net foreign exchange transaction loss	–	(34,061)
Transfer from hedging reserve		
– interest rate and currency swaps: cash flow hedge	–	33,047
Less: amounts capitalised on qualifying assets	7,767	–
Finance costs	<u>(154,777)</u>	<u>(42,922)</u>
Net finance costs	<u>(134,980)</u>	<u>(17,976)</u>

Note:

- (i) These represent interest arising from the interest accretion on financial assets recognised at amortised cost.
- (ii) Upon adoption of HKFRS 16, operating lease rentals of premises under HKAS 17 is no longer incurred. Instead, depreciation of right-of-use assets and finance costs associated with the lease liabilities are recorded in the “operating expenses” and “finance costs” of the consolidated statement of comprehensive income for the year ended 29 February 2020.

9 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 of 16.5% (For the year ended 28 February 2019: 16.5%) on the estimated assessable profits of the Group's operations in Hong Kong.

Mainland China enterprise income tax has been provided at the applicable rate of 25% (For the year ended 28 February 2019: 25%) on the estimated assessable profits of the Group's operations in Mainland China.

Taiwan profits tax has been provided at the rate of 20% (For the year ended 28 February 2019: 20%) on the estimated assessable profits of the Group's operations in Taiwan.

Macau Complementary (Corporate) Tax has been provided at the applicable rate of 12% (For the year ended 28 February 2019: 12%) on the estimated assessable profit in excess of HK\$582,000 (approximately MOP600,000) of the Group's operations in Macau.

Japan Corporate Income Tax has been provided at the applicable rate of 34.59% (For the year ended 28 February 2019: 34.59%) on the estimated assessable profits of the Group's operations in Japan.

The United States enterprise income tax rate has been provided at the applicable rate of 21% (For the year ended 28 February 2019: 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 consolidated statement of comprehensive income represent:

	For the year ended	
	29 February	28 February
	2020	2019
	HK\$'000	HK\$'000
Current income tax		
– Hong Kong profits tax	6,746	4,342
– Mainland China enterprise income tax	11,488	46,893
– Overseas income tax	174,151	185,272
– (Over)/under-provision in prior year	(3,566)	342
	188,819	236,849
Deferred income tax	8,610	26,798
	197,429	263,647

10 (LOSS)/EARNINGS PER SHARE

Basic

The calculation of basic (loss)/earnings per share for the year 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 year.

	For the year ended	
	29 February 2020	28 February 2019
(Loss)/profit attributable to equity holders of the Company (HK\$'000)	<u><u>(747,254)</u></u>	<u><u>442,599</u></u>
Weighted average number of ordinary shares in issue ('000)	<u><u>1,195,797</u></u>	<u><u>1,195,797</u></u>
Basic (loss)/earnings per share (HK cent)	<u><u>(62.5)</u></u>	<u><u>37.0</u></u>

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.

	For the year ended	
	29 February 2020	28 February 2019
(Loss)/profit attributable to equity holders of the Company (HK\$'000)	<u><u>(747,254)</u></u>	<u><u>442,599</u></u>
Weighted average number of ordinary shares in issue ('000)	<u><u>1,195,797</u></u>	<u><u>1,195,797</u></u>
*Adjustments for share options ('000)	<u><u>–</u></u>	<u><u>44,346</u></u>
Weighted average number of ordinary shares for diluted (loss)/earnings per share ('000)	<u><u>1,195,797</u></u>	<u><u>1,240,143</u></u>
Diluted (loss)/earnings per share (HK cent)	<u><u>(62.5)</u></u>	<u><u>35.7</u></u>

* Diluted loss per share for the year ended 29 February 2020 equals to the basic loss per share as the exercise of the outstanding share options would be anti-dilutive.

11 DIVIDENDS

	For the year ended	
	29 February 2020 HK\$'000	28 February 2019 HK\$'000
Final dividend, proposed	—	215,243

The dividends paid in the years ended 29 February 2020 and 28 February 2019 were HK\$215,243,000 (18.0 HK cents per share) and HK\$212,852,000 (17.8 HK cents per share) respectively.

No final dividend was proposed for the year ended 29 February 2020 (For the year ended 28 February 2019: 18.0 HK cents per ordinary share).

12 TRADE AND OTHER RECEIVABLES

	As at	
	29 February 2020 HK\$'000	28 February 2019 HK\$'000
Trade receivables	192,697	281,769
Less: provision for impairment of trade receivables	(2,416)	(1,253)
Trade receivables - net	190,281	280,516
Interest receivables	331	249
Other receivables	27,394	19,406
Trade and other receivables	218,006	300,171

Movements on the provision for impairment of trade receivables are as follows:

	As at	
	29 February 2020 HK\$'000	28 February 2019 HK\$'000
Beginning of the year	1,253	2,726
Provision for/(reversal of) impairment of trade receivables	2,416	(1,374)
Write-off of provision for impairment	(1,270)	—
Currency translation differences	17	(99)
End of the year	2,416	1,253

As of 29 February 2020, trade receivables of HK\$2,416,000 (28 February 2019: HK\$1,253,000) were impaired. The ageing of these receivables is as follows:

	As at	
	29 February	28 February
	2020	2019
	HK\$'000	HK\$'000
Over 90 days	2,416	1,253
	<u><u>2,416</u></u>	<u><u>1,253</u></u>

The ageing analysis of trade receivables is as follows:

	As at	
	29 February	28 February
	2020	2019
	HK\$'000	HK\$'000
0 to 30 days	88,818	210,961
31 to 60 days	76,939	55,224
61 to 90 days	20,050	7,912
Over 90 days	6,890	7,672
	<u>192,697</u>	<u>281,769</u>
	<u><u>192,697</u></u>	<u><u>281,769</u></u>

13 BORROWINGS

	As at	
	29 February 2020 HK\$'000	28 February 2019 HK\$'000
Non-current borrowings		
– Bank borrowings	<u>1,463,928</u>	<u>653,981</u>
	<u>1,463,928</u>	<u>653,981</u>
Current borrowings		
– Portion of bank borrowings due for repayment within one year	411,940	444,045
– Portion of bank borrowings due for repayment after one year which contain a repayable on demand clause	<u>51,350</u>	<u>61,950</u>
	<u>463,290</u>	<u>505,995</u>
	<u>1,927,218</u>	<u>1,159,976</u>

The fair values of current borrowings approximate their carrying amounts, as the impact of discounting is not significant. As at 29 February 2020, the effective borrowing cost was 3.2% (28 February 2019: 2.9%) per annum. The bank borrowings bear interest at floating rates that are market dependent.

As at 29 February 2020, bank borrowings of HK\$61,950,000 (28 February 2019: HK\$72,550,000) were secured by the Group's certain land and buildings with carrying amounts of HK\$177,211,000 (28 February 2019: HK\$183,694,000).

The maturity of borrowings is as follows:

	As at	
	29 February 2020 HK\$'000	28 February 2019 HK\$'000
Within 1 year	463,290	505,995
Between 1 and 2 years	645,000	176,918
Between 2 and 5 years	818,928	477,063
	<u>1,927,218</u>	<u>1,159,976</u>

14 TRADE PAYABLES

The ageing analysis of trade payables is as follows:

	As at	
	29 February 2020 HK\$'000	28 February 2019 HK\$'000
0 to 30 days	152,173	148,260
31 to 60 days	146,034	154,392
61 to 90 days	109,050	58,107
91 to 180 days	46,215	23,458
181 to 365 days	10,937	6,952
Over 365 days	26,908	22,951
	<u>491,317</u>	<u>414,120</u>

The carrying amounts of the trade payables approximate their fair values.

15 DERIVATIVE FINANCIAL INSTRUMENTS

	As at	
	29 February 2020	28 February 2019
	Liabilities HK\$'000	Liabilities HK\$'000
Qualified for hedge accounting – cash flow hedge:		
Currency swap contract, at market value (<i>Note a</i>)	–	(11,003)
Not qualified for hedge accounting:		
Currency swap contracts, at market value (<i>Note b</i>)	<u>(4,145)</u>	<u>(1,773)</u>
	(4,145)	(12,776)
Less: current portion		
Currency swap contract, at market value (<i>Note b</i>)	<u>–</u>	<u>11,003</u>
	<u>(4,145)</u>	<u>(1,773)</u>
	<u><u>(4,145)</u></u>	<u><u>(1,773)</u></u>

Notes:

- (a) As at 28 February 2019, the notional principal amounts of the outstanding foreign currency swap contract were Swedish Krona (“SEK”) 486,341,168, which has been designated as the hedging instrument for the committed payment of consideration under a Share Purchase Agreement with Acne Studios Holding AB for purchase of its 10.9% issued share capital entered on 22 December 2018. The swap exchange rate is SEK1.145 per HK\$1. Gains and losses recognised in the hedging reserve in equity on foreign currency swap contract as of 28 February 2019 will be continuously released to the consolidated statement of comprehensive income until the settlement of the acquisition. The foreign currency swap contract was matured upon the completion of the acquisition and the consideration settled on 10 May 2019.
- (b) As at 29 February 2020, the notional principal amount of the outstanding currency swap contracts to buy United States Dollar for economic hedge against foreign exchange risk exposures relating to liabilities denominated in United States Dollar was USD10,500,000 (28 February 2019: USD8,000,000).

16 SUBSEQUENT EVENT

Following the outbreak of COVID-19 in early 2020, a series of precautionary and control measures have been and continued to be implemented in the world, including suspension of school, work from home practice, encouraged social distancing, restrictions and controls over the inbound and outbound travelling and heightening of hygiene and epidemic prevention requirements in the world.

Subsequent to 29 February 2020 and up to now, the Group's sales, especially in the Mainland China, have gradually started to recover as the situation in these areas gradually improves. Yet, the pandemic caused material disruption to the Group's sales and stores development, which adversely affects the Group's business, financial condition and operating performance. The Group has been actively adopting cost control measures including re-prioritising work plans to improve liquidity position, closely monitoring the market situation and timely adjusting the business strategies in view of the development of the pandemic. Up to the date on which this set of consolidated financial statements were authorised for issue, the Group continue to monitor the impacts of the COVID-19 outbreak on the Group's performance in 2020 and is currently unable to estimate the quantitative impacts to the Group.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 29 February 2020 (FY18/19: 18.0 HK cents per share).

MANAGEMENT DISCUSSION & ANALYSIS

Business Review

(a) The Group

The business environment in which the Group operated was extremely challenging during the year ended 29 February 2020 (FY19/20). With social instability in Hong Kong intensifying over the second half of the financial year along with a slowdown in global economic growth and a mounting Sino-US trade dispute, the Group's business in many of our operating regions suffered a severe blow.

The outbreak of COVID-19 in January 2020 onwards further aggravated an already difficult operational environment. Inbound tourism and spending enthusiasm in several of the Group's principal operating markets such as Hong Kong and Mainland China experienced a sharp decline.

The Group responded by focusing on innovation and by increasing promotional and discount related activities to boost sales volume. At the same time, we undertook a comprehensive review of our shop portfolio, renegotiating or exiting certain loss-making retail locations. We focused on cost saving and adjusting our buying levels. We also re-prioritised our work plans with the objective of strengthening our liquidity position.

However, the savings from these measures were not sufficient to offset the adverse impact caused by the decline in sales and gross margin – and hence the Group's profitability. Consequently, our second-half results – traditionally stronger than first-half results due to seasonality – fell far below our expectations.

Turnover of the Group declined by 12.6% over last year to HK\$7,719.4 million. Gross margin also decreased, which was principally due to the extra discount activities that we offered during the financial year. The Group recorded a net loss of HK\$745.8 million for the year ended 29 February 2020 compared to a net profit of HK\$444.1 million for the year ended 28 February 2019.

The Group is required to assess its non-financial assets for impairment if events indicate the carrying value of the assets may not be recovered. During the year ended 29 February 2020, we conducted impairment assessments to non-financial assets with impairment indicators and result in a non-cash impairment on non-financial assets of HK\$613.4 million in FY19/20. The breakdown is as follows:

	HK\$ million
Impairment of property, furniture and equipment	67.5
Impairment of right-of-use assets	314.4
Impairment of goodwill	<u>231.5</u>
 Total non-cash impairment	 <u><u>613.4</u></u>

If the above non-cash items were excluded, net loss of the Group would have been HK\$132.4 million.

Turnover by Market

For the year ended 29 February 2020, turnover in our Hong Kong and Macau segment decreased by 23.5% to HK\$2,620.2 million while it contributed 33.9% towards the Group's total turnover (FY18/19: 38.8%). The decline was attributable to a reduction in the store distribution network in Hong Kong and negative comparable-store-sales-growth as a result of multiple factors including social instability and the outbreak of COVID-19.

Turnover of our Mainland China operations decreased by 9.0% to HK\$3,751.4 million which contributed 48.6% towards the Group's total turnover (FY18/19: 46.7%). Our sales declined substantially in January and February 2020 in a market environment defined by temporary store closures and travel restrictions in several cities of the country due to the outbreak of the COVID-19.

The Group is especially gratified by the performance of our Japan and the USA operations where turnover in this segment increased by 4.9% to HK\$1,209.2 million amidst a challenging operational environment. Sales in this segment contributed 15.7% of the Group's total turnover (FY18/19: 13.0%). Our unique brand collections in these regions, namely A Bathing Ape and its subsidiary lines, have proven to be resilient in an economic environment disrupted by several negative macroeconomic factors.

Breakdown of turnover by region of operations:

	Turnover			% of Turnover	
	FY19/20	FY18/19	Change	FY19/20	FY18/19
	HK\$ million	HK\$ million			
Hong Kong and Macau	2,620.2	3,424.8	-23.5%	33.9%	38.8%
<i>Retail sales only</i>	<i>2,580.2</i>	<i>3,363.6</i>	<i>-23.3%</i>		
Mainland China	3,751.4	4,122.6	-9.0%	48.6%	46.7%
<i>Retail sales only</i>	<i>3,700.1</i>	<i>4,082.7</i>	<i>-9.4%</i>		
Japan and the USA	1,209.2	1,152.7	+4.9%	15.7%	13.0%
<i>Retail sales only</i>	<i>1,066.0</i>	<i>1,054.5</i>	<i>+1.1%</i>		
Other	138.6	132.1	+4.9%	1.8%	1.5%
Total	7,719.4	8,832.2	-12.6%	100.0%	100.0%

Brand Mix

The Group's strength and resilience derives from our consistent efforts to diversify the Group's business across geographies and to define the optimal mix across different fashion concepts. We are delighted by the new brands we introduced during the financial year and we believe that these additions have further enhanced and diversified our already comprehensive brand portfolio. For the year ended 29 February 2020, our in-house brands segment continued to provide us with the largest revenue contribution, amounting to 60.0% (FY18/19: 60.5%).

Breakdown of retail sales by brand categories:

	Retail Sales			% of Retail Sales	
	FY19/20	FY18/19	Change	FY19/20	FY18/19
	HK\$ million	HK\$ million			
In-house brands	4,492.2	5,219.2	-13.9%	60.0%	60.5%
International brands	2,960.3	3,332.7	-11.2%	39.6%	38.6%
Licensed brands	32.4	81.0	-60.0%	0.4%	0.9%
	7,484.9	8,632.9	-13.3%	100.0%	100.0%

Margin and Cost Dynamics

Multiple macro factors, such as the Sino-US trade dispute, regional social events and the outbreak of the COVID-19 in the beginning of 2020, placed significant downward pressure on the retail environment and consumer sentiment in many of our operating regions. Although our initial strategy was to focus on full-price sales and reduce discount-driven promotions in order to secure gross margin, we eventually had to increase mark-downs to boost sales volume amidst an incredibly difficult trading environment. The Group recorded a reduction in turnover of 12.6%, with gross profit also decreasing by 16.1% and gross margin decreasing by 2.6 percentage points to 61.3% as compared to the previous year.

Total operating costs as a percentage of sales increased to 63.5% (FY18/19: 55.8%). This was predominately due to the impact of the sales decline and the non-cash impairment provision. If the impact of non-cash impairment provision was excluded, total operating costs as a percentage of sales would have been 58.6%.

The Group recorded operating loss amounted to HK\$380.1 million, with the decrease being principally due to the pressure from gross profit decline and the non-cash impairment provision. If the impact of non-cash impairment provision was excluded, operating profit of HK\$233.3 million would have been recorded for the Group.

(b) Hong Kong and Macau

The results of the Group's Hong Kong and Macau operations for the second half of FY19/20 were overall a continuation of the negative development seen in the first half of the financial year. With social instability in Hong Kong intensifying over the second half of the financial year, along with a slowdown in global economic growth and persistent trade tensions between China and the USA, the fashion retail landscape in these regions was adversely impacted.

The outbreak of the COVID-19 since January 2020 has caused a global health emergency and disruption to travel worldwide, further impacting inbound tourism in our Hong Kong and Macau regions.

The Group has implemented multiple measures to control our costs in response to the difficult trading environment. These measures have included a comprehensive review of our retail store portfolio, which has seen us renegotiate and exit certain loss-making retail locations while selectively opening new ones. We recorded a net closure of 28 stores in our Hong Kong and Macau segment for the year that ended on 29 February 2020. Savings were also achieved in other costs' lines such as staff costs and marketing expenses.

Turnover in our Hong Kong and Macau segment decreased by 23.5% over the previous year to HK\$2,620.2 million. Retail sales also decreased by 23.3% to HK\$2,580.2 million. Comparable-store-sales-growth registered at -23.2% (FY18/19: 2.4%).

Gross margin decreased to 57.7% (FY18/19: 62.5%). This decline in gross margin was a result of multiple factors, but it was primarily the result of an increase in discount related activities amidst the difficult business environment.

Consequently, an operating loss of HK\$671.7 million was recorded for our Hong Kong and Macau segment for the year ended on 29 February 2020 (FY18/19: operating profit of HK\$12.6 million). If the impact of non-cash impairment provision was excluded, an operating loss of HK\$428.1 million would have been recorded for our Hong Kong and Macau segment.

(c) *Mainland China*

After a promising start to the financial year for our Mainland China business, the Group experienced a very contrasting second half of FY19/20, reflecting the uncertain macroeconomic environment and a slowdown in global economic growth. We registered a sharply deteriorating situation in January and February of 2020 due to the temporary closure of stores across multiple cities in Mainland China as a result of the outbreak of COVID-19.

In response, we paid extra attention to cost management and agility and were very selective in investment, notably in store network expansion. As a result, we made a net addition of only five stores during the financial year. Nevertheless, we remain positive about the future development prospects in this country since we see good dynamics and potential rewards, particularly for players with quality and innovative products.

Turnover attributable to our Mainland China region decreased by 9.0% to HK\$3,751.4 million. Total retail sales decreased by 9.4% to HK\$3,700.1 million, with comparable-store-sales-growth registering -5.3% (FY18/19: 1.7%). Gross margin decreased by 2.0 percentage points to 60.1%, principally due to the extra discount-related promotions that we offered during the financial year with the objective of boosting sales volume. Consequently, an operating loss amounting to HK\$236.4 million was recorded for our Mainland China segment (FY18/19: operating profit of HK\$229.1 million). If the impact of non-cash impairment provision was excluded, operating profit of our Mainland China segment would have been HK\$133.4 million.

(d) *Japan and the USA*

The Group added a total of four “A Bathing Ape” and “AAPE” stores across Tokyo and Osaka, Japan and Miami, the USA during the financial year and we are delighted that these new stores are very well received. We are also excited by the prospect of extending the reach of these brands, both online and offline, in other strategic markets that are showing growth momentum. There is always more to look forward to in the development of our A Bathing Ape brand. Our ambitious plans include new fashion concepts and product lines, and fresh and innovative collaborations with more renowned fashion names and business units around the world.

The Group is gratified by our performance in Japan and the USA, with the segment registering another year of resilient underlying growth in a challenging operational environment and after many consecutive years of impressive business results. Sales in this segment increased by 4.9% to HK\$1,209.2 million while gross margin decreased to 70.0% (FY18/19: 71.2%). Operating profit increased by 1.7% to HK\$482.9 million.

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

Share of losses of joint ventures amounting to HK\$55.3 million was recorded for the year ended 29 February 2020 (FY18/19: share of losses of joint ventures of HK\$27.8 million).

Share of profit of an associate amounting to HK\$22.0 million was recorded for the year ended 29 February 2020 (FY18/19: Nil) in connection with the Group’s acquisition of a minority equity interest in ACNE Studios Holding AB (“ACNE Studios Group”) in May 2019.

Inventory

The average inventory turnover cycle of the Group increased by 31 days to 199 days as compared to that in the previous year. Such decline in inventory turnover efficiency was recorded in a market environment defined by temporary store closures and weaker sales performance in several of the Group’s operating regions as a result of negative macroeconomic conditions and the outbreak of the COVID-19. Emphasis is being placed on adjusting buying and inventory levels going forward.

Cash Flows and Financial Position

The Group’s cash and bank balances as at 29 February 2020 were HK\$1,456.8 million compared to HK\$1,772.0 million as at 28 February 2019 and its net debt balance amounted to HK\$470.4 million (net debt is defined as cash and cash equivalents of HK\$1,456.8 million less borrowings of HK\$1,927.2 million) versus net cash balance of HK\$612.0 million as at 28 February 2019.

Cash inflow from operating activities for the year ended 29 February 2020 amounted to HK\$1,485.2 million (FY18/19: HK\$439.1 million). The increase was mainly because payment of operating lease expenses was recorded as the repayment of lease liabilities being included in financing activities upon adoption of HKFRS 16 rather than as operating activities in the past.

Liquidity and Banking Facilities

As at 29 February 2020, the Group had aggregate banking facilities of approximately HK\$3,307.0 million (28 February 2019: HK\$2,162.6 million) for overdrafts, bank loans and trade financing, of which approximately HK\$1,232.8 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 29 February 2020, bank borrowing secured by land and buildings with a carrying amount of HK\$177.2 million (28 February 2019: HK\$183.7 million).

Significant Investment

The Group completed the acquisition of 10.9% equity interest in Acne Studios Group on 10 May 2019 at SEK483,306,000 (approximately HK\$421,733,000) and Acne Studios Group is accounted for an associate of the Group.

The Group shared a profit of HK\$22,031,000 and received dividends of HK\$11,658,000 from the associate for the year ended on 29 February 2020.

The principal business of Acne Studios Group includes men's and women's ready-to-wear fashion, footwear, accessories, denim retail and wholesale business under the brand name of "Acne Studios" across various countries in Europe, Asia and the USA. The Group has been a long-term wholesale partner with Acne Studios Group, and we believe that the acquisition will further strengthen the partnership between the two groups. It also allows the management of the two groups to further leverage their strong expertise in the retail sector and to grow the business further.

Contingent Liabilities

As at 29 February 2020, 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 29 February 2020, the Group had a total of 7,116 full time employees (FY18/19: 7,760). 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 – Navigating the Headwinds

It is difficult for the Group to precisely evaluate the actual impact of the COVID-19 pandemic on the Group's business performance in 2020, but we expect our business will continue to face strong headwinds in the period ahead.

Although the Group's sales in Mainland China have gradually started to recover since March 2020 as the situation in the country gradually improves, our cost control work is continuing, potentially at an even faster pace and in all parts of the Group.

In the meantime, we are striving to achieve the highest precautionary standards to protect the health and safety of staff, customers and business partners. We will closely monitor the market situation in order to adjust our business strategies accordingly.

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 year ended 29 February 2020, 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 the 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.

Detailed information of the Company's corporate governance practices will be disclosed in the Corporate Governance Report contained in the Company's 2019/20 Annual Report.

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 year ended 29 February 2020, they have complied with the required standards as set out in the Model Code regarding securities transactions by the Directors.

REVIEW OF PRELIMINARY ANNOUNCEMENT

The figures in respect of the Group’s consolidated statement of financial position, consolidated statement of comprehensive income and the related notes thereto for the year ended 29 February 2020 as set out in the preliminary announcement have been agreed by the Group’s auditor, PricewaterhouseCoopers, to the amounts set out in the Group’s audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

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 consolidated financial statements of the Group and the annual report for the year ended 29 February 2020.

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 year ended 29 February 2020.

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held at Unit A1-A2, 2/F., Vita Tower, 29 Wong Chuk Hang Road, Hong Kong on Wednesday, 19 August 2020 at 3:30 p.m. (the “2020 AGM”). Notice of the 2020 AGM will be published and sent to shareholders in the manner as required by the Listing Rules in due course.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of ascertaining shareholders who are entitled to attend and vote at the 2020 AGM to be held on Wednesday, 19 August 2020 (or any adjournment thereof), the register of members of the Company will be closed from Thursday, 13 August 2020 to Wednesday, 19 August 2020, both days inclusive. In order to qualify for the right to attend and vote at the 2020 AGM (or any adjournment thereof), all transfers accompanied by the relevant share certificates should be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited (the "Share Registrar"), no later than 4:30 p.m. on Wednesday, 12 August 2020.

The address of the Share Registrar is Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

By Order of the Board
Sham Kar Wai
Chairman

Hong Kong, 27 May 2020

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. TSANG Hin Fun, Anthony as independent non-executive Directors.