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(Incorporated in Bermuda with limited liability)
(Stock Code: 999)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 AUGUST 2020

FINANCIAL HIGHLIGHTS

- Total turnover of the Group decreased by 31.9% to HK\$2,734.7 million.
- Total retail sales in Hong Kong and Macau decreased by 50.9% to HK\$719.2 million. Comparable-store-sales-growth rate registered at -48.9% (FY19/20: -5.8%). Total trading area decreased by 14.3%.
- Total retail sales in Mainland China decreased by 14.9% to HK\$1,580.3 million. Comparable-store-sales-growth rate registered at -9.3% (FY19/20: +5.9%). Total trading area decreased by 3%.
- Total retail sales in Japan and the USA landed at HK\$299.8 million, representing 45.1% decrease from FY19/20.
- Gross profit of the Group decreased by 40.2% to HK\$1,493.2 million at gross profit margin of 54.6% (FY19/20: 62.1%).
- Net loss of the Group amounting to HK\$337.1 million was recorded (FY19/20: Net loss of HK\$71.2 million).
- Basic loss per share of 28.2 HK cents (FY19/20: Basic loss per share of 6.0 HK cents).

The board of directors (the “Board”) of I.T Limited (the “Company”) announces the unaudited consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 31 August 2020 (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	
		2020	2019
		(Unaudited)	(Unaudited)
	<i>Note</i>	HK\$’000	HK\$’000
Turnover	2	2,734,698	4,015,362
Cost of sales	4	(1,241,498)	(1,520,262)
Gross profit		1,493,200	2,495,100
Other losses, net	3	(6,002)	(22,704)
Impairment of goodwill		–	(46,838)
Operating expenses	4	(1,812,247)	(2,314,653)
Other income	5	101,515	33,774
Operating (loss)/profit		(223,534)	144,679
Finance income	6	6,592	12,198
Finance costs	6	(67,336)	(76,396)
Share of losses of joint ventures		(7,398)	(17,310)
Share of profit of an associate		35	4,111
(Loss)/profit before income tax		(291,641)	67,282
Income tax expense	7	(45,434)	(138,453)
Loss for the period		(337,075)	(71,171)
Other comprehensive income/(loss):			
Items that may be reclassified to profit or loss			
Currency translation differences		46,281	(96,349)
Fair value changes on cash flow hedge, net of tax		–	11,003
Total other comprehensive income/(loss) for the period		46,281	(85,346)
Total comprehensive loss for the period		(290,794)	(156,517)

		Six months ended 31 August	
		2020	2019
		(Unaudited)	(Unaudited)
	<i>Note</i>	HK\$'000	HK\$'000
(Loss)/profit attributable to:			
– Equity holders of the Company		(337,265)	(71,958)
– Non-controlling interests		190	787
		<u>(337,075)</u>	<u>(71,171)</u>
Total comprehensive (loss)/income attributable to:			
– Equity holders of the Company		(291,084)	(157,420)
– Non-controlling interests		290	903
		<u>(290,794)</u>	<u>(156,517)</u>
Loss per share attributable to equity holders of the Company for the period (expressed in HK cent per share)			
– basic	8	<u>(28.2)</u>	<u>(6.0)</u>
– diluted	8	<u>(28.2)</u>	<u>(6.0)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 31 August 2020 (Unaudited) HK\$'000	As at 29 February 2020 (Audited) HK\$'000
ASSETS			
Non-current assets			
Property, furniture and equipment		1,109,629	1,161,391
Right-of-use assets		1,622,228	1,900,465
Intangible assets		92,054	91,169
Investments in and loans to joint ventures		114,336	121,303
Investment in an associate		439,977	441,879
Rental deposits		222,965	271,172
Prepayments for non-current assets		41,149	21,236
Deferred income tax assets		153,693	137,517
		3,796,031	4,146,132
Current assets			
Inventories		1,522,266	1,722,110
Trade and other receivables	10	213,552	218,006
Amounts due from joint ventures		71,563	33,765
Amount due from an associate		–	272
Rental deposits, prepayments and other deposits		267,548	284,573
Current income tax recoverable		2,728	2,474
Cash and cash equivalents		1,566,870	1,456,807
		3,644,527	3,718,007
LIABILITIES			
Current liabilities			
Borrowings	12	(576,037)	(463,290)
Trade payables	11	(416,432)	(491,317)
Accruals and other payables		(438,681)	(469,974)
Contract liabilities		(44,212)	(37,844)
Lease liabilities		(856,276)	(958,142)
Amounts due to joint ventures		(8,255)	(26,840)
Amount due to an associate		(1,071)	–
Current income tax liabilities		(113,097)	(81,593)
		(2,454,061)	(2,529,000)
Net current assets		1,190,466	1,189,007
Non-current liabilities			
Borrowings	12	(1,432,546)	(1,463,928)
Lease liabilities		(1,407,502)	(1,440,713)
Accruals		(6,367)	(6,163)
Derivative financial instruments		(13,146)	(4,145)
Deferred income tax liabilities		(50,705)	(52,621)
		(2,910,266)	(2,967,570)
Net assets		2,076,231	2,367,569
EQUITY			
Capital and reserves			
Share capital		119,580	119,580
Reserves		1,953,069	2,244,153
Non-controlling interests		3,582	3,836
Total equity		2,076,231	2,367,569

NOTES

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

This condensed consolidated interim financial information for the six months ended 31 August 2020 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 29 February 2020, 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 29 February 2020, 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 2020.

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKAS 39, HKFRS 7 and HKFRS 9	Interest Rate Benchmark Reform
Amendments to HKFRS 3 (Revised)	Definition of a Business
Amendment to HKFRS 16	COVID-19-Related Rent Concessions
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting

Except as disclosed in Note 1.1 for the Amendment to 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 2020 and have not been early adopted by the Group.

Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
Amendment to HKFRS 3	Reference to the Conceptual Framework
Amendments to HKAS 1	Classification of liabilities as current or non-current
Amendment to HKAS 16	Proceeds before Intended Use
Amendment to HKAS 37	Cost of fulfilling a Contract
Amendments to Annual Improvement Project	Annual improvements 2018-2020 cycle (HKFRS 1, HKFRS 9, HKFRS 16 and HKAS 41)
HKFRS 17	Insurance Contracts

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 Amendment to HKFRS 16 – COVID-19-Related Rent Concessions

The Group has early adopted Amendment to HKFRS 16 – COVID-19-Related Rent Concessions retrospectively from 1 March 2020. The amendment provides an optional practical expedient allowing lessees to elect not to assess whether a rent concession related to COVID-19 is a lease modification. Lessees adopting this election may account for qualifying rent concessions in the same way as they would if they were not lease modifications. The practical expedient only applies to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met:

- a) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- b) any reduction in lease payments affects only payments due on or before 30 June 2021; and
- c) there is no substantive change to other terms and conditions of the lease.

The Group has applied the practical expedient to all qualifying COVID-19-related rent concessions. Rent concessions totaling approximately HK\$74,592,000 have been accounted for as negative variable lease payments and recognised in operating expenses in the condensed interim statement of comprehensive income for the half-year ended 31 August 2020, with a corresponding adjustment to the lease liabilities. There is no impact on the opening balance of equity as at 1 March 2020.

A number of new or amended standards became applicable for the current reporting period. Except for the Amendment to HKFRS16 set out above, the Group did not change its accounting policies or make retrospective adjustments as a result of adopting these standards.

2. TURNOVER AND SEGMENT INFORMATION

	Six months ended 31 August	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Turnover		
– Sales of fashion wears and accessories	<u>2,734,698</u>	<u>4,015,362</u>

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 (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"), provision for impairment of goodwill, property, furniture and equipment and right-of-use assets, depreciation and amortisation ("EBITDA/(LBITDA)"). The information provided to the CODM is measured in a manner consistent with that in the annual financial statements.

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

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

	(Unaudited)									
	Hong Kong and Macau		Mainland China		Japan and the USA		Other		Total	
	Six months ended 31 August		Six months ended 31 August		Six months ended 31 August		Six months ended 31 August		Six months ended 31 August	
	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	728,995	1,480,955	1,600,039	1,870,218	355,680	607,256	49,984	56,933	2,734,698	4,015,362
EBITDA/(LBITDA)	(12,255)	230,135	430,456	433,265	130,061	295,716	22,019	21,058	570,281	980,174
Depreciation and amortisation	(233,728)	(370,562)	(293,285)	(283,591)	(61,910)	(41,926)	(4,197)	(6,125)	(593,120)	(702,204)
Provision for impairment of property, furniture and equipment (Note 4)	(28,407)	(1,573)	(14,015)	(19,444)	-	-	-	-	(42,422)	(21,017)
Provision for impairment of right-of-use assets (Note 4)	(139,939)	(11,671)	(18,334)	(53,765)	-	-	-	-	(158,273)	(65,436)
Provision for impairment of goodwill	-	-	-	(46,838)	-	-	-	-	-	(46,838)
Segment (loss)/profit	(414,329)	(153,671)	104,822	29,627	68,151	253,790	17,822	14,933	(223,534)	144,679
Finance income									6,592	12,198
Finance costs									(67,336)	(76,396)
Share of losses of joint ventures									(7,398)	(17,310)
Share of profit of an associate									35	4,111
(Loss)/profit before income tax									(291,641)	67,282

	Hong Kong and Macau HK\$'000	Mainland China HK\$'000	Japan and the USA HK\$'000	Other HK\$'000	Total HK\$'000
Total segment assets					
As at 31 August 2020	<u>2,399,850</u>	<u>3,227,274</u>	<u>952,136</u>	<u>79,001</u>	<u>6,658,261</u>
As at 29 February 2020	<u>2,699,425</u>	<u>3,325,340</u>	<u>1,003,627</u>	<u>98,537</u>	<u>7,126,929</u>

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

	As at 31 August 2020 (Unaudited) HK\$'000	As at 29 February 2020 (Audited) HK\$'000
Segment assets for reportable segments	6,658,261	7,126,929
Unallocated:		
Deferred income tax assets and current income tax recoverable	156,421	139,991
Investments in, loans to and amounts due from joint ventures and an associate	<u>625,876</u>	<u>597,219</u>
	<u>7,440,558</u>	<u>7,864,139</u>

3. OTHER LOSSES, NET

	Six months ended 31 August 2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
Fair value (losses)/gains on derivative financial instruments		
– foreign currency swap contract	(9,001)	711
Gain on disposal of a joint venture (i)	9,549	–
Net exchange losses	<u>(6,550)</u>	<u>(23,415)</u>
	<u>(6,002)</u>	<u>(22,704)</u>

Note:

- (i) On 5 August 2020, the Group entered into a sale and purchase agreement with Fornalutx, GmbH to dispose its 50% direct equity interest of Camper I.T China Limited and its 50% indirect equity interest of Camper (Shanghai) Limited, at a consideration of approximately RMB8,161,000 (equivalent to approximately HK\$9,549,000). Upon the completion, Camper I.T China Limited and Camper (Shanghai) Limited were derecognised as joint ventures of the Group.

4. EXPENSES BY NATURE

	Six months ended 31 August	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Cost of inventories sold	1,186,741	1,471,542
Provision for write-downs of inventories to net realisable value	18,120	8,791
Employment costs (including directors' emoluments)	551,711	761,438
Depreciation expenses		
– property, furniture and equipment	119,798	134,426
– right-of-use assets	465,985	559,534
Expenses related to short-term leases	39,968	33,341
Expenses related to variable lease payments	9,265	112,133
Building management fee	122,618	137,523
Advertising and promotion costs	51,399	97,771
Commission expenses	40,541	60,390
Bank charges	27,280	41,386
Utilities expenses	16,148	25,616
Freight charges	16,644	18,854
Impairment of non-financial assets		
– property, furniture and equipment (i)	42,422	21,017
– right-of-use assets (i)	158,273	65,436
Loss on disposals of property, furniture and equipment	3,912	5,172
Contingent licence fees	4,485	15,332
Amortisation of intangible assets	7,337	8,244
Other expenses	171,098	256,969
	<u>3,053,745</u>	<u>3,834,915</u>
Total	<u>3,053,745</u>	<u>3,834,915</u>
Representing:		
Cost of sales	1,241,498	1,520,262
Operating expenses	1,812,247	2,314,653
	<u>3,053,745</u>	<u>3,834,915</u>

Note (i): Impairment of property, furniture and equipment and right-of-use assets

As at 31 August 2020, the Group includes property, furniture and equipment of HK\$191 million and right-of-use assets of HK\$1,399 million that are subject to impairment tests. The Group regards each individual store as a separately identifiable CGU and performed impairment assessments on each of the CGU with impairment indicators by considering the recoverable amount of such assets at store level.

Key inputs to the determination of the recoverable amount over the remaining lease period includes annual sales growth, gross margin and pre-tax discount rate. The below table shows the annual sales growth, gross margin and pre-tax discount rate used by each store in Hong Kong and Macau, Mainland China and Japan and the USA.

	As at 31 August 2020		
	Hong Kong and Macau	Mainland China	Japan and the USA
Annual sales growth	-35% to +15%	-11% to +10%	-23% to +20%
Gross margin	31% to 82%	21% to 84%	67%
Pre-tax discount rate	16%	17%	18%

	As at 29 February 2020	
	Hong Kong and Macau	Mainland China
Annual sales growth	-20% to +8%	-15% to +10%
Gross margin	27% to 81%	54% to 82%
Pre-tax discount rates	16%	17%

The recoverable amounts of the CGUs are determined based on value-in-use calculations, which are higher than the fair value less costs of disposal calculations. The value-in-use calculations covering a period of the remaining lease term were lower than the carrying amounts of the CGUs. Accordingly, the Group recognised an impairment of the property, furniture and equipment of HK\$42 million and right-of-use assets of HK\$158 million during the period ended 31 August 2020 (for the period ended 31 August 2019: impairment of property, furniture and equipment and right-of-use assets of HK\$21 million and HK\$65 million respectively).

5. OTHER INCOME

	Six months ended 31 August	
	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
Government grants		
– Employment Support Scheme (“ESS”) (i)	48,979	–
– Retail Sector Subsidy Scheme (“RSS”) (ii)	4,720	–
– Other government grants	31,381	25,388
Others	16,435	8,386
	<u>101,515</u>	<u>33,774</u>

Note:

- (i) The amount represents salaries and wage subsidies granted under Anti-Epidemic Fund by the Government of the Hong Kong Special Administrative Region for the use of paying wages of employees from June to August 2020.
- (ii) The amount represents government subsidies granted under Anti-Epidemic Fund launched by the Government of the Hong Kong Special Administrative Region for subsidising retail stores' operation.

6. FINANCE INCOME AND COSTS

	Six months ended 31 August	
	2020	2019
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Interest income from		
– bank deposits	4,807	10,216
– amounts due from joint ventures	228	228
– others (i)	1,557	1,754
	<u>6,592</u>	<u>12,198</u>
Finance income	6,592	12,198
Interest expense on borrowings wholly repayable within five years	(19,572)	(25,764)
Interest expenses on lease liabilities	(47,764)	(50,632)
	<u>(67,336)</u>	<u>(76,396)</u>
Finance costs	(67,336)	(76,396)
Net finance costs	<u>(60,744)</u>	<u>(64,198)</u>

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 2019: 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 2019: 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 2019: 34.59%) 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 2019: 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 2019: 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 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 condensed consolidated interim statement of comprehensive income represent:

	Six months ended 31 August	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current income tax		
– Hong Kong profits tax	9,227	4,689
– Mainland China enterprise income tax	21,050	4,579
– Overseas income tax	32,419	90,732
– Under/(over)-provision in prior year	1,563	(154)
Deferred income tax	(18,825)	38,607
	45,434	138,453

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 2020 is 11.4% (six months ended 31 August 2019: 61.6%). The decrease is mainly caused by a change of the distribution of profits/(losses) of the Group's entities operating in different locations.

8. LOSS PER SHARE

Basic

The calculation of basic loss per share for the period is based on the consolidated loss 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	
	2020	2019
	(Unaudited)	(Unaudited)
Loss attributable to equity holders of the Company (HK\$'000)	<u>(337,265)</u>	<u>(71,958)</u>
Weighted average number of ordinary shares in issue ('000)	<u>1,195,797</u>	<u>1,195,797</u>
Basic loss per share (HK cent)	<u>(28.2)</u>	<u>(6.0)</u>

Diluted

Diluted loss 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	
	2020	2019
	(Unaudited)	(Unaudited)
Loss attributable to equity holders of the Company (HK\$'000)	<u>(337,265)</u>	<u>(71,958)</u>
Weighted average number of ordinary shares for diluted loss per share ('000)	<u>1,195,797</u>	<u>1,195,797</u>
Diluted loss per share (HK cent)	<u>(28.2)</u>	<u>(6.0)</u>

* Diluted loss per share for the six months ended 31 August 2020 equals to the basic loss per share as the exercise of the outstanding share options would be anti-dilutive.

9. DIVIDENDS

The Board does not declare the payment of an interim dividend for the six months ended 31 August 2020 (six months ended 31 August 2019: Nil).

10. TRADE AND OTHER RECEIVABLES

	As at 31 August 2020 (Unaudited) HK\$'000	As at 29 February 2020 (Audited) HK\$'000
Trade receivables	182,721	192,697
Less: Impairment loss on trade receivables	<u>(1,260)</u>	<u>(2,416)</u>
Trade receivables – net	181,461	190,281
Interest receivables	265	331
Other receivables	<u>31,826</u>	<u>27,394</u>
Trade and other receivables	<u><u>213,552</u></u>	<u><u>218,006</u></u>

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 2020 (Unaudited) HK\$'000	As at 29 February 2020 (Audited) HK\$'000
0 to 30 days	137,591	88,818
31 to 60 days	38,184	76,939
61 to 90 days	4,203	20,050
Over 90 days	<u>2,743</u>	<u>6,890</u>
	<u><u>182,721</u></u>	<u><u>192,697</u></u>

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 2020 (Unaudited) HK\$'000	As at 29 February 2020 (Audited) HK\$'000
0 to 30 days	206,746	152,173
31 to 60 days	85,519	146,034
61 to 90 days	29,098	109,050
91 to 180 days	52,327	46,215
181 to 365 days	14,166	10,937
Over 365 days	28,576	26,908
	<u>416,432</u>	<u>491,317</u>

12. BORROWINGS

	As at 31 August 2020 (Unaudited) HK\$'000	As at 29 February 2020 (Audited) HK\$'000
Non-current borrowings		
– Bank borrowings	1,432,546	1,463,928
Current borrowings		
– Portion of bank borrowings due for repayment within one year	527,337	411,940
– Portion of bank borrowings due for repayment after one year which contain a repayable on demand clause	48,700	51,350
	<u>576,037</u>	<u>463,290</u>
	<u>2,008,583</u>	<u>1,927,218</u>

Movements in borrowings are analysed as follows:

	(Unaudited) HK\$'000
Six months ended 31 August 2020	
As at 1 March 2020	1,927,218
Proceeds from borrowings	348,710
Repayments of borrowings	(272,486)
Currency translation differences	<u>5,141</u>
As at 31 August 2020	<u><u>2,008,583</u></u>
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	<u>(971)</u>
As at 31 August 2019	<u><u>1,723,715</u></u>

The fair values of current borrowings approximate their carrying amounts, as the impact of discounting is not significant. As at 31 August 2020, the effective borrowing cost was 2.5% (as at 29 February 2020: 3.4%) per annum.

INTERIM DIVIDEND

The Board does not declare payment of an interim dividend for the six months ended 31 August 2020 (six months ended 31 August 2019: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

(a) Group

The business environment in which the Group operated was severely affected by the COVID-19 pandemic during the six months ended 31 August 2020. The Group's net sales decreased significantly compared to the corresponding period of the previous year. This loss of sales reflects the considerable decline in consumers' spending enthusiasm resulting from various social distancing and health-related measures, along with extensive travel restrictions, border controls and quarantine arrangements.

As a result, our stores had to be temporarily closed or operate with reduced opening hours in most markets – especially during the first quarter of the financial year, i.e. in the period from 1 March 2020 to 31 May 2020.

The Group gradually reopened stores in some of the markets in the second quarter in line with the decisions made by the local authorities. The pace of the sales recovery therefore varied to a large extent across our markets. For example, our China market has been recovering at a faster pace compared to other regions such as Hong Kong and Macau where sales are traditionally heavily dependent on tourism.

With some of our stores temporarily closed and with travel restrictions in place during the period under review, we therefore accelerated the pace of our digital development, both through our own e-commerce channel and via third-party online marketplaces. We have also been focusing on redirecting our customer flow to our digital channels through online promotional campaigns. As a result, the sales contribution from e-commerce continued to rise, to 25% compared to 9% in the corresponding period of the previous year.

The Group has taken forceful actions to manage the rapid changes in customer behavior and the decrease in demand caused by COVID-19. This was reflected in many parts of the business, including areas such as inventory purchasing, rents, advertising and promotions. We have also undertaken a comprehensive review of our shop portfolio, further optimising and integrating our channels.

Although we took rapid and decisive action to reduce our costs considerably, the savings in operating costs were not sufficient to offset the decline in sales and gross margin – and hence the Group's profitability.

Turnover of the Group declined by 31.9% over the last period to HK\$2,734.7 million. Gross margin also decreased by 7.5 percentage points to 54.6%, which was principally due to the extra discount activities that we offered during the period. The Group incurred a net loss of HK\$337.1 million for the period under review, compared to a net loss of HK\$71.2 million for the same period in the previous year.

The pandemic had a significant negative impact on the assessment of the Group's non-financial assets and impact on the results of the first half of FY20/21. Consequently, the Group recognised non-cash impairment on non-financial assets of HK\$200.7 million during the first half of FY20/21.

Turnover by market

For the period under review, turnover in our Hong Kong and Macau segment decreased by 50.8% to HK\$729.0 million while the segment contributed 26.7% towards the Group's total turnover (FY19/20: 36.9%). The decrease in turnover was principally attributable to a reduction in the store distribution network in Hong Kong and negative comparable-store-sales-growth. Additionally, our shops were either temporarily closed or operated with reduced opening hours during the period. Irrespective of the gradual reopening of shops, demand remained significantly subdued in Hong Kong and Macau.

Turnover of our Mainland China operations decreased by 14.4% to HK\$1,600.0 million, which contributed 58.5% towards the Group's total turnover (FY19/20: 46.6%). Although e-commerce sales have seen outstanding growth, this growth was not sufficient to compensate for the sales losses incurred by our retail stores as a result of temporary closure or reduced operating hours, which reflected the various health-related and travel restrictions under COVID-19.

Similarly, our Japan and USA segment, which accounted for 13.0% of the Group's total turnover (FY19/20: 15.1%), has had to navigate the same difficult pandemic-generated business environment. Turnover of our Japan and USA business decreased by 41.4% to HK\$355.7 million.

Breakdown of turnover by region of operations:

	Turnover			% of Turnover	
	Six months ended			Six months ended	
	31 August			31 August	
	2020	2019	Change	2020	2019
	HK\$ million	HK\$ million			
Hong Kong and Macau	729.0	1,481.0	-50.8%	26.7%	36.9%
<i>Retail sales only</i>	<i>719.2</i>	<i>1,463.3</i>	<i>-50.9%</i>		
Mainland China	1,600.0	1,870.2	-14.4%	58.5%	46.6%
<i>Retail sales only</i>	<i>1,580.3</i>	<i>1,856.3</i>	<i>-14.9%</i>		
Japan and the USA	355.7	607.3	-41.4%	13.0%	15.1%
<i>Retail sales only</i>	<i>299.8</i>	<i>546.0</i>	<i>-45.1%</i>		
Other	50.0	56.9	-12.1%	1.8%	1.4%
Total	<u>2,734.7</u>	<u>4,015.4</u>	-31.9%	<u>100.0%</u>	<u>100.0%</u>

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 period and we believe that these additions have further enhanced our already comprehensive brand portfolio. For the period under review, our in-house brands segment continued to provide us with the largest revenue contribution, amounting to 54.4% (FY19/20: 58.7%).

Breakdown of retail sales by brand category:

	Retail Sales			% of Retail Sales	
	Six months ended			Six months ended	
	31 August			31 August	
	2020	2019	Change	2020	2019
	HK\$ million	HK\$ million			
In-house brands	1,441.5	2,302.4	-37.4%	54.4%	58.7%
International brands	1,198.8	1,607.1	-25.4%	45.3%	41.0%
Licensed brands	9.0	13.0	-30.8%	0.3%	0.3%
Total	<u>2,649.3</u>	<u>3,922.5</u>	-32.5%	<u>100.0%</u>	<u>100.0%</u>

Margin and Cost Dynamics

The Group recorded a reduction in turnover of 31.9%, with gross profit also decreasing by 40.2% and gross margin decreasing by 7.5 percentage points to 54.6% as compared to the corresponding period of the previous year. This was predominantly due to the decline in sales amid a difficult business environment, rapid changes in consumers' behavior and weak consumer spending enthusiasm caused by COVID-19 pandemic.

The negative development of gross margin was mainly due to extra discount offerings during the period with the objective of boosting sales volume.

Although we aggressively implemented cost control measures across all regions and all levels to mitigate the negative impact of the COVID-19 situation, total operating costs as a percentage of sales increased to 66.3% (FY19/20: 57.6%) as a result of the considerable decline in sales.

The Group's incurred operating loss amounted to HK\$223.5 million, it was principally due to the pressure from turnover and gross profit decline.

(b) Hong Kong and Macau

Our performance in Hong Kong and Macau was severely impacted by the COVID-19 situation in the first half of the financial year. The government mandated social distancing measures, which included the shutdown of public and private facilities, travel restrictions and border control were in force throughout the period under review. Our stores had to reduce their operating hours or were temporarily closed for a period of time.

The Group has taken rapid and decisive cost adjustment measures to mitigate the negative impact of the COVID-19 situation. These have included a comprehensive review of our retail store portfolio, resulting in the downsizing of the business through the closure of certain loss-making retail locations. We recorded a net closure of 17 stores in our Hong Kong and Macau segment for the period under review. Savings were also achieved in stock purchasing and other costs' lines such as marketing expenses.

Turnover in our Hong Kong and Macau segment decreased by 50.8% over the corresponding period of the previous year to HK\$729.0 million. Retail sales also decreased by 50.9% to HK\$719.2 million. Comparable-store-sales-growth registered at -48.9% (FY19/20: -5.8%).

Gross margin decreased to 47.8% (FY19/20: 58.7%). This decline in gross margin was a result of multiple factors, but it was primarily the result of an increase in discount related activities with the objective of boosting sales volume amidst the challenging operational environment.

Consequently, an operating loss of HK\$414.3 million was recorded for our Hong Kong and Macau segment for the six months that ended on 31 August 2020 (FY19/20: operating loss of HK\$153.7 million).

(c) *Mainland China*

Similar to Hong Kong and Macau, our performance in Mainland China has been materially impacted by the pandemic in the first quarter of the financial year with temporary store closures across multiple cities. We started to gradually reopen stores in a number of cities in the first quarter, but some restrictions remained.

When some of our stores were temporarily closed in the first quarter, we focused more on redirecting customer flow to our digital channels through online promotional and discounting campaigns. As a result, online sales have seen outstanding growth in this segment and the positive development of online sales has continued since we began to reopen our stores.

Turnover attributable to our Mainland China region decreased by 14.4% to HK\$1,600.0 million. Total retail sales decreased by 14.9% to HK\$1,580.3 million, with comparable-store-sales-growth registering -9.3% (FY19/20: +5.9%).

Gross margin decreased by 6.0 percentage points to 55.3%, principally due to the extra discount-related promotions that we offered during the period.

In response to the unprecedented situation, we aggressively implemented cost reduction initiatives across different levels of our business, including cuts in marketing spend and other discretionary expense items, to mitigate the impact of the pandemic. Consequently, operating profit amounting to HK\$104.8 million was recorded for our Mainland China segment (FY19/20: operating profit of HK\$29.6 million after a one-time non-cash impairment of goodwill).

(d) *Japan and the USA*

Sales in our Japan and the USA segment decreased by 41.4% to HK\$355.7 million while gross margin decreased to 60.7% (FY19/20: 70.8%). Operating profit decreased by 73.1% to HK\$68.2 million.

We are still extending the presence of our “A Bathing Ape” and “AAPE” brands globally, both online and offline. For example, a new “AAPE” shop was recently opened in SOHO New York, USA.

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

Share of losses of joint ventures amounting to HK\$7.4 million was recorded for the period under review (FY19/20: share of losses of joint ventures of HK\$17.3 million) in connection with the Group’s joint venture businesses with multiple partners such as Galeries Lafayette.

Share of profit of an associate amounting to HK\$35 thousand was recorded for the period under review (FY19/20: share of profit of an associate of HK\$4.1 million) in connection with the Group’s minority equity interest in Acne Studios Holding AB (“Acne Studios Group”).

Inventory

Rapid adjustments to stock ordering meant that we were able to reduce the stock-in-trade as compared to the corresponding period of the previous year. However, there is still an oversupply of spring/summer merchandize as a result of the substantial drop in consumer demand during the pandemic. Average inventory turnover cycle of the Group increased to 240 days as compared to 191 days for the corresponding period of the previous year.

Cash Flows and Financial Position

The Group’s cash and bank balances as at 31 August 2020 were HK\$1,566.9 million compared to HK\$1,456.8 million as at 29 February 2020 and the Group’s net debt balance amounted to HK\$441.7 million (net debt is defined as cash and cash equivalents of HK\$1,566.9 million less borrowings of HK\$2,008.6 million) versus a net debt balance of HK\$470.4 million as at 29 February 2020.

Cash inflow from operating activities for the Reporting Period amounted to HK\$651.0 million (FY19/20: HK\$854.0 million).

Liquidity and Banking Facilities

As at 31 August 2020, the Group had aggregate banking facilities of approximately HK\$3,347.3 million (29 February 2020: HK\$3,307.0 million) for overdrafts, bank loans and trade financing, of which approximately HK\$1,247.2 million (29 February 2020: HK\$1,232.8 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 pledges of land and buildings.

Charges of Assets

As at 31 August 2020, bank borrowings were secured by land and buildings with a carrying amount of HK\$174.0 million (29 February 2020: HK\$177.2 million).

Significant Investment

The Group's share of profit of an associate amounting to HK\$35 thousand for the period ended on 31 August 2020 in connection with the Group's minority equity interest in Acne Studios Group.

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 investment will further strengthen the relationship 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 together further.

Contingent Liabilities

As at 31 August 2020, the Group did not have significant contingent liabilities (As at 29 February 2020: 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 2020, the Group had a total of 6,327 full time employees (FY19/20: 7,788). 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

Looking ahead, the Group will continue to focus on our key markets and to closely monitor consumer behavior as we work towards a positive turnaround of our business. Inevitably, this strategy will involve rationalization such as the closure of certain loss-making locations, all with the objective of right-sizing the business in some of our operating regions such as Hong Kong.

It is widely expected that COVID-19 will continue to impact people, communities and companies around the world. Consumer demand remains weak in many of our operating regions even after the reopening of stores. Additionally, with travel restrictions still largely in place, the Group's performance is expected to remain under significant pressure for the remainder of the financial year.

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 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 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 2020, 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 2020 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 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 six months ended 31 August 2020.

By Order of the Board
Sham Kar Wai
Chairman

Hong Kong, 29 October 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.