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

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 AUGUST 2014

FINANCIAL HIGHLIGHTS

- Total turnover of the Group increased by 9.8% to HK\$3,227.6 million.
- Total retail sales in Hong Kong increased by 3.8% to HK\$1,630.9 million whereas comparable store sales growth rate was 3.5%. Total floor area of retail stores in Hong Kong decreased by 1.4% to 617,355 square feet compared to 626,258 square feet as at 28 February 2014.
- Total retail sales in Mainland China increased by 20.2% to HK\$1,122.4 million whereas comparable store sales growth rate was 4.3% (FY13/14: -1.9%). Total floor area of retail stores in Mainland China increased by 1.7% to 886,344 square feet compared to 871,518 square feet as at 28 February 2014.
- Japan landed at total retail sales of HK\$208.0 million or JPY 2,741.5 million, representing an 11.2% increase in Hong Kong Dollar or a 16.1% increase in base currency from last year.
- Total retail sales in Macau increased by 5.1% to HK\$95.1 million.
- Gross profit of the Group increased by 14.9% to HK\$1,998.3 million at gross profit margin of 61.9% (FY13/14: 59.2%).
- Net profit of the Group increased by 75.6% to HK\$49.4 million. Excluding a non-recurring gain of HK\$15.3 million from the repurchases of the Group's Senior Notes in March and June 2014 and the related tax provision, net profit of the Group increased by 30.3% to HK\$36.6 million.
- Basic earnings per share increased by 73.9% to 4.0 HK cents. Diluted earnings per share increased by 77.3% to 3.9 HK cents.
- Interim cash dividend of 1.0 HK cent (FY13/14: Nil) per share is declared, representing a total payout of HK\$12.3 million.

The board of directors (the “Board”) of I.T Limited (the “Company”) is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 31 August 2014, prepared on the basis set out in Note 1, together with the comparative figures for the corresponding period, as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | <i>Note</i> | Six months ended 31 August | |
|--|-------------|--|--|
| | | 2014 (Unaudited) HK\$'000 | 2013 (Unaudited) HK\$'000 |
| Turnover | 2 | 3,227,586 | 2,939,608 |
| Cost of sales | 4 | <u>(1,229,308)</u> | <u>(1,199,906)</u> |
| Gross profit | | 1,998,278 | 1,739,702 |
| Other gains, net | 3 | 14,590 | 5,859 |
| Operating expenses | 4 | <u>(1,879,437)</u> | <u>(1,684,793)</u> |
| Operating profit | | 133,431 | 60,768 |
| Finance income | 5 | 29,458 | 16,602 |
| Finance costs | 5 | (44,260) | (31,245) |
| Share of loss of joint ventures | | <u>(20,021)</u> | <u>(10,653)</u> |
| Profit before income tax | | 98,608 | 35,472 |
| Income tax expense | 6 | <u>(49,189)</u> | <u>(7,324)</u> |
| Profit for the period | | 49,419 | 28,148 |
| Other comprehensive income: | | | |
| Items that may be reclassified to profit or loss | | | |
| Currency translation differences | | (10,549) | (4,036) |
| Cash flow hedges recognised as finance costs | | 3,371 | 703 |
| Fair value changes on cash flow hedge, net of tax | | <u>(30,886)</u> | <u>(29,424)</u> |
| Total other comprehensive loss for the period | | <u>(38,064)</u> | <u>(32,757)</u> |
| Total comprehensive income/(loss) for the period | | <u>11,355</u> | <u>(4,609)</u> |
| Profit attributable to: | | | |
| – Equity holders of the Company | | 49,245 | 28,062 |
| – Non-controlling interests | | 174 | 86 |
| | | <u>49,419</u> | <u>28,148</u> |
| Total comprehensive income/(loss) attributable to: | | | |
| – Equity holders of the Company | | 11,202 | (4,695) |
| – Non-controlling interests | | 153 | 86 |
| | | <u>11,355</u> | <u>(4,609)</u> |
| Earnings per share attributable to equity holders of the Company for the period (expressed in HK cent) | | | |
| – basic | 7 | <u>4.0</u> | <u>2.3</u> |
| – diluted | 7 | <u>3.9</u> | <u>2.2</u> |
| Dividends | 8 | <u>12,276</u> | <u>–</u> |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | | As at 31 August 2014 (Unaudited) HK\$'000 | As at 28 February 2014 (Audited) HK\$'000 |
|---|----|---|---|
| ASSETS | | | |
| Non-current assets | | | |
| Property, furniture and equipment | | 854,441 | 913,145 |
| Intangible assets | | 337,632 | 343,043 |
| Investments in and amounts due from joint ventures | | 180,145 | 220,396 |
| Rental deposits | | 315,378 | 307,028 |
| Prepayments for non-current assets | | 21,171 | 14,862 |
| Derivative financial instruments | | – | 2,622 |
| Deferred income tax assets | | 142,681 | 135,722 |
| | | 1,851,448 | 1,936,818 |
| Current assets | | | |
| Inventories | | 1,246,219 | 1,116,693 |
| Trade, bills and other receivables | 9 | 219,547 | 181,242 |
| Amounts due from joint ventures | | 55,607 | 36,449 |
| Prepayments and other deposits | | 319,271 | 250,611 |
| Derivative financial instruments | | 1,508 | – |
| Cash and cash equivalents | | 2,229,900 | 2,315,498 |
| | | 4,072,052 | 3,900,493 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Borrowings | 11 | (634,679) | (496,385) |
| Trade and bill payables | 10 | (496,444) | (357,924) |
| Accruals and other payables | | (625,572) | (573,909) |
| Amounts due to joint ventures | | (28,948) | (24,022) |
| Current income tax liabilities | | (73,008) | (32,373) |
| | | (1,858,651) | (1,484,613) |
| Net current assets | | 2,213,401 | 2,415,880 |
| Total assets less current liabilities | | 4,064,849 | 4,352,698 |
| Non-current liabilities | | | |
| Borrowings | 11 | (1,268,741) | (1,494,642) |
| Accruals | | (7,698) | (9,893) |
| Derivative financial instruments | | (37,145) | (6,691) |
| Deferred income tax liabilities | | (54,277) | (45,155) |
| | | (1,367,861) | (1,556,381) |
| Net assets | | 2,696,988 | 2,796,317 |
| EQUITY | | | |
| Capital and reserves | | | |
| Share capital | | 122,760 | 122,876 |
| Reserves | | 2,573,390 | 2,672,756 |
| Non-controlling interests | | 838 | 685 |
| Total equity | | 2,696,988 | 2,796,317 |

NOTES

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

This condensed consolidated interim financial information for the six months ended 31 August 2014 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34, “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

This condensed consolidated interim financial information should be read in conjunction with the Group’s annual financial statements for the year ended 28 February 2014, which were prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

The accounting policies applied and methods of computation used in the preparation of this interim financial report are consistent with those used in the annual financial statements for the year ended 28 February 2014, except for the adoption of the new and revised standards, amendments and interpretations issued by the HKICPA that are mandatory for annual accounting periods beginning 28 February 2014.

The following new standards, amendments and interpretations are mandatory for the financial year beginning 28 February 2014 and have no material impact to the Group.

| | |
|--------------------------------------|---|
| HKAS 32 (Amendment) | Financial instruments: presentation – offsetting financial assets and financial liabilities |
| HKAS 39 (Amendment) | Novation of derivatives and continuation of hedge accounting |
| HKFRS 10, 12 and HKAS 27 (Amendment) | Consolidation for investment entities |
| HK(IFRIC) 21 | Levies |

The following new standards, amendments and interpretations have been issued but are not effective for the financial year beginning 28 February 2014 and have not been early adopted:

| | |
|-----------------------------|---|
| HKAS 19 (Amendment) | Employee benefits: defined benefit plans – employee contributions |
| HKAS 16 and 38 (Amendment) | Classification of acceptable methods of depreciation and amortisation |
| HKFRS 9 | Financial instruments |
| HKFRS 11 (Amendment) | Accounting for acquisition of interest in joint operations |
| HKFRS 14 | Regulatory deferral accounts |
| HKFRS 15 | Revenue from contracts with customers |
| Annual Improvements Project | Annual improvements 2010–2012 cycle |
| Annual Improvements Project | Annual improvements 2011–2013 cycle |

2. TURNOVER AND SEGMENT INFORMATION

| | Six months ended 31 August | |
|--|-----------------------------------|-------------------------|
| | 2014 | 2013 |
| | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 |
| Turnover | | |
| – Sales of fashion wears and accessories | <u>3,227,586</u> | <u>2,939,608</u> |

The chief operating decision maker (“CODM”) has been identified as the executive directors that makes 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 profit before impairment of goodwill and property, furniture and equipment, depreciation of property, furniture and equipment, amortisation of intangible assets (“EBITDA”). The measure excludes the effects of share of loss from joint ventures. Finance income and expenses and net gains on buy-back of Senior Notes are not allocated to segments, as these types of activity are driven by the central treasury function, which manages the cash position of the Group. 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 and investments in and amounts due from joint ventures which are managed on a central basis.

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

| | (Unaudited) | | | | | | | | | | | |
|---|------------------|------------------|------------------|------------------|------------------|-----------------|------------------|----------------|------------------|-----------------|------------------|------------------|
| | Hong Kong | | Mainland China | | Japan | | Macau | | Other | | Total | |
| | Six months ended | | Six months ended | | Six months ended | | Six months ended | | Six months ended | | Six months ended | |
| | 31 August | | 31 August | | 31 August | | 31 August | | 31 August | | 31 August | |
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Turnover | <u>1,656,342</u> | <u>1,594,250</u> | <u>1,219,707</u> | <u>1,018,923</u> | <u>219,492</u> | <u>204,215</u> | <u>95,134</u> | <u>90,530</u> | <u>36,911</u> | <u>31,690</u> | <u>3,227,586</u> | <u>2,939,608</u> |
| EBITDA | <u>72,691</u> | <u>93,791</u> | <u>96,771</u> | <u>34,033</u> | <u>71,060</u> | <u>46,218</u> | <u>34,831</u> | <u>32,184</u> | <u>(2,734)</u> | <u>(5,984)</u> | <u>272,619</u> | <u>200,242</u> |
| Depreciation, amortisation and impairment | <u>(69,454)</u> | <u>(71,038)</u> | <u>(66,797)</u> | <u>(48,075)</u> | <u>(9,818)</u> | <u>(12,543)</u> | <u>(3,710)</u> | <u>(3,663)</u> | <u>(4,676)</u> | <u>(4,155)</u> | <u>(154,455)</u> | <u>(139,474)</u> |
| Segment profit/(loss) | <u>3,237</u> | <u>22,753</u> | <u>29,974</u> | <u>(14,042)</u> | <u>61,242</u> | <u>33,675</u> | <u>31,121</u> | <u>28,521</u> | <u>(7,410)</u> | <u>(10,139)</u> | <u>118,164</u> | <u>60,768</u> |
| Net gains on buy-back of Senior Notes | | | | | | | | | | | <u>15,267</u> | <u>-</u> |
| Operating profit | | | | | | | | | | | <u>133,431</u> | <u>60,768</u> |
| Finance income | | | | | | | | | | | <u>29,458</u> | <u>16,602</u> |
| Finance cost | | | | | | | | | | | <u>(44,260)</u> | <u>(31,245)</u> |
| Share of loss of joint ventures | | | | | | | | | | | <u>(20,021)</u> | <u>(10,653)</u> |
| Profit before income tax | | | | | | | | | | | <u>98,608</u> | <u>35,472</u> |

| | Hong Kong | Mainland China | Japan | Macau | Other | Total |
|------------------------|------------------|-------------------|----------------|----------------|---------------|------------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Total segment assets | | | | | | |
| As at 31 August 2014 | <u>3,148,528</u> | <u>1,924,258</u> | <u>344,022</u> | <u>89,478</u> | <u>38,781</u> | <u>5,545,067</u> |
| As at 28 February 2014 | <u>3,032,831</u> | <u>1,909,826</u> | <u>340,787</u> | <u>109,452</u> | <u>51,848</u> | <u>5,444,744</u> |

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

| | As at 31 August 2014 (Unaudited) HK\$'000 | As at 28 February 2014 (Audited) HK\$'000 |
|--|---|---|
| Segment assets for reportable segments | <u>5,506,286</u> | <u>5,392,896</u> |
| Other segments assets | <u>38,781</u> | <u>51,848</u> |
| | <u>5,545,067</u> | <u>5,444,744</u> |
| Unallocated: | | |
| Deferred income tax assets | <u>142,681</u> | <u>135,722</u> |
| Investments in and amounts due from joint ventures | <u>235,752</u> | <u>256,845</u> |
| | <u>5,923,500</u> | <u>5,837,311</u> |

3. OTHER GAINS, NET

| | Six months ended 31 August | |
|---|----------------------------|--------------|
| | 2014 | 2013 |
| | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 |
| Fair value gains/(losses) from derivative financial instruments | | |
| – forward foreign exchange contracts | 57 | 815 |
| – currency swap contract | (1,165) | 3,009 |
| – interest rate swap contract | 431 | 2,035 |
| Net gains on buy-back of Senior Notes (<i>Note 11</i>) | 15,267 | – |
| | <u>14,590</u> | <u>5,859</u> |

4. EXPENSES BY NATURE

| | Six months ended 31 August | |
|--|----------------------------|------------------|
| | 2014 | 2013 |
| | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 |
| Cost of inventories sold | 1,207,336 | 1,196,444 |
| Write-down/(reversal of write-down) of inventories to net realisable value | 14,772 | (11,015) |
| Employment costs (including directors' emoluments) | 580,974 | 506,209 |
| Operating lease rentals of premises | | |
| – minimum lease payments | 668,329 | 615,686 |
| – contingent rents | 70,181 | 64,277 |
| Advertising and promotion costs | 42,366 | 34,552 |
| Depreciation of furniture and equipment | 146,479 | 133,866 |
| Impairment of furniture and equipment | 3,003 | – |
| Loss on disposals of furniture and equipment | 4,516 | 3,264 |
| Licence fees (included in operating expenses) | | |
| – amortisation of licence rights | 1,470 | 1,766 |
| – contingent licence fees | 6,647 | 4,594 |
| Amortisation of intangible assets (included in operating expenses) | 3,503 | 3,842 |
| Provision for/(reversal of) impairment of amount due from a joint venture | 132 | (651) |
| Net exchange gains | (9,137) | (14,014) |
| Other expenses | 368,174 | 345,879 |
| Total | <u>3,108,745</u> | <u>2,884,699</u> |
| Representing: | | |
| Cost of sales | 1,229,308 | 1,199,906 |
| Operating expenses | 1,879,437 | 1,684,793 |
| | <u>3,108,745</u> | <u>2,884,699</u> |

5. FINANCE COSTS, NET

| | Six months ended 31 August | |
|---|----------------------------|-------------|
| | 2014 | 2013 |
| | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 |
| Interest income from | | |
| – bank deposits | 28,787 | 15,592 |
| – amounts due from joint ventures | 417 | 407 |
| – others (i) | 254 | 603 |
| | <hr/> | <hr/> |
| Finance income | 29,458 | 16,602 |
| | <hr/> | <hr/> |
| Interest expense on borrowings | | |
| – wholly repayable within five years | (44,313) | (34,968) |
| – not wholly repayable within five years | (599) | (618) |
| Net foreign exchange transaction gain | 4,023 | 5,044 |
| Transfer from hedging reserve | | |
| – interest rate and currency swaps: cash flow hedge | (3,371) | (703) |
| | <hr/> | <hr/> |
| Finance cost | (44,260) | (31,245) |
| | <hr/> | <hr/> |
| Net finance cost | (14,802) | (14,643) |
| | <hr/> | <hr/> |

Note:

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

6. INCOME TAX EXPENSE

The Company is exempted from taxation in Bermuda until March 2016. 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% (six months ended 31 August 2013: 16.5%) and overseas profits tax has been provided at the rates of taxation prevailing in the countries in which the Group operates.

During the period, subsidiaries established in Mainland China are subject to China corporate income tax at the rate of 25% (six months ended 31 August 2013: 25%).

Japan Corporate Income Tax has been provided at the applicable rate of 38% on the estimated assessable profits of the Group's operations in Japan. According to the "Amendment to the 2011 Tax Reform Bill ("2011 Reform Amendment Law") and "Special Measures to Secure the Financial Resources to Implement the Restoration from the Tohoku Earthquake" ("Special Restoration Tax Law"), the Corporate income tax rates are gradually reduced from 42% to 35.64%, effective for tax years beginning on or after 1 April 2012 (for corporations with capital exceeding JPY 100 million in the Tokyo Metropolitan Area). The effective applicable tax rate is gradually decreased to 40.69% for 2012, 38.01% for 2013 to 2015, 35.64% for tax years beginning on or after 1 April 2015, according to Restoration surtax stipulated in the Special Restoration Tax Law and related circular.

Macau Complementary (Corporate) Tax has been provided at the applicable rates ranging from 9% to 12% (six months ended 31 August 2013: 9% to 12%) on the estimated assessable profit in excess of HK\$196,000 (approximately MOP200,000) and below HK\$295,000 (approximately MOP300,000) and a fixed rate of 12% on assessable profit in excess of HK\$295,000 (approximately MOP300,000).

Taiwan profits tax has been provided at the rate of 17% (six months ended 31 August 2013: 17%) on the estimated assessable profits of the Group's operations in Taiwan.

The amounts of taxation charged/(credited) to the condensed consolidated interim statement of comprehensive income represent:

| | Six months ended 31 August | |
|--|-----------------------------------|-------------|
| | 2014 | 2013 |
| | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 |
| Current income tax | | |
| – Hong Kong profits tax | 13,981 | 16,931 |
| – Mainland China enterprise income tax | 10,130 | 9,301 |
| – Overseas income tax | 19,407 | 3,287 |
| Deferred income tax | 5,671 | (22,195) |
| | <hr/> | <hr/> |
| | 49,189 | 7,324 |
| | <hr/> <hr/> | <hr/> <hr/> |

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 2014 is 29.9% (six months ended 31 August 2013: 26.7%). The increase is mainly caused by a change of the distribution of profits of the Group's entities operating in different locations.

7. EARNINGS PER SHARE

Basic

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

| | Six months ended 31 August | |
|---|-----------------------------------|-------------|
| | 2014 | 2013 |
| | (Unaudited) | (Unaudited) |
| Profit attributable to equity holders of the Company (HK\$'000) | 49,245 | 28,062 |
| Weighted average number of ordinary shares in issue ('000) | 1,228,240 | 1,228,564 |
| Basic earnings per share (HK cent) | 4.0 | 2.3 |

Diluted

Diluted 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 scheme are the only dilutive potential ordinary shares. A calculation is prepared 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 increased by the number of shares that would have been issued assuming the exercise of the share options.

| | Six months ended 31 August | |
|--|-----------------------------------|-------------|
| | 2014 | 2013 |
| | (Unaudited) | (Unaudited) |
| Profit attributable to equity holders of the Company (HK\$'000) | 49,245 | 28,062 |
| Weighted average number of ordinary shares in issue ('000) | 1,228,240 | 1,228,564 |
| Adjustments for share options ('000) | 26,224 | 31,447 |
| Weighted average number of ordinary shares for diluted earnings per share ('000) | 1,254,464 | 1,260,011 |
| Diluted earnings per share (HK cent) | 3.9 | 2.2 |

8. DIVIDENDS

A final dividend relating to the year ended 28 February 2014 amounting to HK\$122,760,000 was fully paid in July 2014.

The Board declared an interim dividend of 1.0 HK cent per share for the six months ended 31 August 2014 on 27 October 2014 (six months ended 31 August 2013: Nil). This declared interim dividend is not reflected as a dividend payable as of 31 August 2014, but will be recorded as a distribution of retained earnings for the year ending 28 February 2015. The declared interim dividend of HK\$12,276,000 for the six months ended 31 August 2014 is calculated based on 1,227,603,307 shares of the Company in issue.

9. TRADE, BILLS AND OTHER RECEIVABLES

| | As at 31 August 2014 (Unaudited) HK\$'000 | As at 28 February 2014 (Audited) HK\$'000 |
|---|--|--|
| Trade receivables | 120,175 | 134,671 |
| Credit card receivables | 88,510 | 31,727 |
| Bills receivables | 3,312 | 4,671 |
| Less: provision for impairment of trade receivables | (1,614) | (1,060) |
| | <hr/> | <hr/> |
| Trade and bills receivables – net | 210,383 | 170,009 |
| Interest receivables | 8,894 | 9,482 |
| Other receivables | 270 | 1,751 |
| | <hr/> | <hr/> |
| Trade, bills and other receivables | 219,547 | 181,242 |
| | <hr/> <hr/> | <hr/> <hr/> |

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 and bills receivables is as follows:

| | As at 31 August 2014 (Unaudited) HK\$'000 | As at 28 February 2014 (Audited) HK\$'000 |
|---------------|--|--|
| 0 to 30 days | 206,367 | 163,083 |
| 31 to 60 days | 3,409 | 2,949 |
| 61 to 90 days | 11 | 1,275 |
| Over 90 days | 2,210 | 3,762 |
| | <hr/> | <hr/> |
| | 211,997 | 171,069 |
| | <hr/> <hr/> | <hr/> <hr/> |

10. TRADE AND BILL PAYABLES

The ageing analysis of trade and bill payables is as follows:

| | As at 31 August 2014 (Unaudited) HK\$'000 | As at 28 February 2014 (Audited) HK\$'000 |
|-----------------|---|---|
| 0 to 30 days | 337,776 | 204,086 |
| 31 to 60 days | 92,370 | 89,352 |
| 61 to 90 days | 31,783 | 31,945 |
| 91 to 180 days | 18,723 | 22,470 |
| 181 to 365 days | 7,722 | 3,834 |
| Over 365 days | 8,070 | 6,237 |
| | <u>496,444</u> | <u>357,924</u> |

11. BORROWINGS

| | As at 31 August 2014 (Unaudited) HK\$'000 | As at 28 February 2014 (Audited) HK\$'000 |
|--|---|---|
| Current borrowings | | |
| – Portion of bank borrowings due for repayment within one year | 525,029 | 381,435 |
| – Portion of bank borrowings due for repayment after one year which contain a repayment on demand clause | 109,650 | 114,950 |
| | <u>634,679</u> | <u>496,385</u> |
| Non-current borrowings | | |
| – Borrowing | 154,065 | 245,122 |
| – Senior Notes | 1,114,676 | 1,249,520 |
| | <u>1,268,741</u> | <u>1,494,642</u> |
| | <u>1,903,420</u> | <u>1,991,027</u> |

Movements in borrowings are analysed as follows:

| | (Unaudited) HK\$'000 |
|---|-------------------------|
| Six months ended 31 August 2014 | |
| As at 1 March 2014 | 1,991,027 |
| Proceeds from borrowings | 251,692 |
| Repayments of borrowings | (324,117) |
| Net gains on buy-back of Senior Notes (<i>Note 3</i>) | (15,267) |
| Exchange differences | 85 |
| | <hr/> |
| As at 31 August 2014 | 1,903,420 |
| | <hr/> <hr/> |
| Six months ended 31 August 2013 | |
| As at 1 March 2013 | 1,034,123 |
| Proceeds from borrowings | 1,320,276 |
| Repayments of borrowings | (248,229) |
| Exchange differences | (4,047) |
| | <hr/> |
| As at 31 August 2013 | 2,102,123 |
| | <hr/> <hr/> |

The fair values of current borrowings approximate their carrying amounts, as the impact of discounting is not significant. The effective borrowing cost was 4.5% (as at 28 February 2014: 4.9%) per annum.

Interest expense on borrowings for the six months ended 31 August 2014 is approximately HK\$44,912,000 (six months ended 31 August 2013: HK\$35,586,000).

On 15 May 2013, the Company issued senior notes, with an aggregate nominal value of RMB1,000,000,000 (equivalent to HK\$1,264,500,000) at par value (the "Senior Notes"), which bear interest at 6.25% per annum and the interest is payable semi-annually in arrears. The net proceeds, after deducting the direct issuance costs, amounted to approximately RMB987,395,936 (equivalent to HK\$1,248,606,276). The Senior Notes will mature on 15 May 2018 and are listed on The Stock Exchange of Hong Kong Limited.

During the period ended 31 August 2014, the Group purchased Senior Notes in the principal amount of RMB106,000,000, representing approximately 10.6% of the Senior Notes in the principal amount of RMB1,000,000,000 issued in May 2013. This RMB106,000,000 purchased Senior Notes was then duly cancelled pursuant to the terms and conditions of the Senior Notes. As at the date of this announcement, the aggregate principal amount of the Senior Notes which remains outstanding and subject to the terms of the indenture governing the Senior Notes is RMB894,000,000.

The Group also terminated interest rate and currency swap with a notional amount of RMB106,000,000 which was designated as a cash flow hedge for the Senior Note with a face value of RMB106,000,000. After deducting the related transaction costs, the buy-back resulted in a pre-tax profit of HK\$15,267,000.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of 1.0 HK cent per share for the six months ended 31 August 2014 (six months ended 31 August 2013: Nil), amounting to approximately HK\$12.3 million.

Further announcement on the closure of register of members of the Company for the purpose of determination of entitlements to qualify for receiving the interim dividend will be released as soon as practicable.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

(a) Group

Irrespective of economies of developed countries having shown a level of stabilization towards mid-2014, a sign of global economic recovery has yet to be seen. Mainland China has been impacted by the depressed external export demand and the prolonged volatile domestic consumption patterns whereas in Hong Kong, the consumer retail market continued to be undermined by the general contraction in spending momentum. Amidst the global economic turmoil and political conflicts, any recovery of the macroeconomic environment has become fragile. Thus, the global consumer retail markets continue to be undermined by a weakening sentiment. Whilst the situation does not seem to have deteriorated further compared to a year ago, general consumers still remain very cautious and continue to place emphasis on discounts and promotions due to the uncertain macroeconomic conditions.

The consumer retail sector across the Group's principal operating regions, namely Hong Kong and Mainland China, have as well been adversely impacted by a lack of momentum in sales growth. And the prevailing weakening consumer appetite alongside the upsurge in operating costs of running retail channels has continued to put downward pressure on the operating profits of retail operators. In face of these challenges, the Group strives to deliver the latest fashion products to customers through active reviews of consumer preferences and fashion trends. Moreover, on the back of a solid financial position, the Group has been able to enhance the quality of its products and services, including effective marketing strategies, and has persisted with its long-term strategic expansion into Mainland China by growing its retail network. As a result, the Group managed to deliver a turnover growth of 9.8% over last year to HK\$3,227.6 million, with net profit increasing by 75.6% to HK\$49.4 million (or by 30.3% to HK\$36.6 million if a non-recurring gain of HK\$15.3 million from repurchases of the Group's Senior Notes and its related tax effect are excluded) for the six months ended 31 August 2014.

Turnover by Markets

Hong Kong, as the hometown of the Group, continued to be the largest revenue contributor. Turnover in Hong Kong amounted to HK\$1,656.3 million as at 31 August 2014, representing a 3.9% increase over last year, accounting for 51.3% of total Group turnover.

Total turnover of our Mainland China operations achieved another year of noticeable performance on the back of double-digit growth in its retail network and positive comparable store sales growth recorded for the period under review, increasing 19.7% over last year to HK\$1,219.7 million. It contributed 37.8% to total Group turnover and remained the second largest contributor.

Turnover of our Japan businesses increased by 12.2% in base currency, landing at JPY2,891.9 million. However, owing to the weakening of the Japanese Yen, the turnover in HK\$ increased only by 7.5% to HK\$219.5 million compared to last year, contributing 6.8% of total Group turnover and remained the third largest operating region.

Breakdown of turnover by region of operation:

| | Turnover | | | % of Turnover | |
|--------------------------|-----------------------|-----------------------|---------------|----------------------|----------------------|
| | Six months ended | | Change | Six months ended | |
| | 2014 | 2013 | | 2014 | 2013 |
| | HK\$ million | HK\$ million | | | |
| Hong Kong | 1,656.3 | 1,594.3 | +3.9% | 51.3% | 54.2% |
| <i>Retail sales only</i> | <i>1,630.9</i> | <i>1,570.7</i> | <i>+3.8%</i> | | |
| Mainland China | 1,219.7 | 1,018.9 | +19.7% | 37.8% | 34.6% |
| <i>Retail sales only</i> | <i>1,122.4</i> | <i>933.4</i> | <i>+20.2%</i> | | |
| Japan | 219.5 | 204.2 | +7.5% | 6.8% | 6.9% |
| <i>Retail sales only</i> | <i>208.0</i> | <i>187.1</i> | <i>+11.2%</i> | | |
| Macau | 95.1 | 90.5 | +5.1% | 2.9% | 3.1% |
| Other | 37.0 | 31.7 | +16.7% | 1.2% | 1.2% |
| Total | <u>3,227.6</u> | <u>2,939.6</u> | +9.8% | <u>100.0%</u> | <u>100.0%</u> |

Brand Mix

It is the Group's strategy to build on the solid foundation of its unique multi-brand and multi-layer fashion platform fuelled by a wide range of the latest renowned international brands and a number of innovative in-house and licensed brands. The Group monitors changes in fashion trends around the World and actively reviews the assortments of its international-brand portfolio and the design of its in-house brands' collections with an aim to cater for the rapid changing consumer markets. For the period under review, our in-house brands segment continued to represent the largest revenue contributor, landing at 56.1%.

Breakdown of retail sales by brand category:

| | Retail Sales | | | % of Retail Sales | |
|----------------------|-------------------------------|----------------|--------------|-------------------------------|---------------|
| | Six months ended 31 August | | Change | Six months ended 31 August | |
| | 2014 | 2013 | | 2014 | 2013 |
| | HK\$ million | HK\$ million | | | |
| In-house brands | 1,734.2 | 1,615.7 | +7.3% | 56.1% | 57.2% |
| International brands | 1,327.2 | 1,169.7 | +13.5% | 42.9% | 41.4% |
| Licensed brands | 31.9 | 40.5 | -21.2% | 1.0% | 1.4% |
| | <u>3,093.3</u> | <u>2,825.9</u> | <u>+9.5%</u> | <u>100.0%</u> | <u>100.0%</u> |

Dynamics in Margin and Cost

Gross profit of the Group recorded an increase of 14.9% over the same period last year in view of the 9.8% increase in turnover, with gross margin advancing by 2.7 percentage points to 61.9%. The increase in gross margin was mainly achieved by less promotional discount offered during the period.

The upsurge in operating costs of running existing and new retail channels was substantially attributed to high rental expenses and staff costs, which continued to dilute profitability of the Group. Rent (including rental charges and building management fees) continued to represent a considerably significant portion of total operating expenses of the Group, remaining somewhat flattish at 25.9% of total turnover (2013: 26.0%), while staff costs (excluding share option expenses) increased to 17.6% of total turnover (2013: 16.8%). At this juncture, total operating cost ratio inevitably increased, landing at 58.2% of total turnover (2013: 57.3%).

On a positive note, the enhancement achieved in gross profit was able to offset the additional cost of operations. As a result, the operating profit of the Group increased by 119.6% to HK\$133.4 million at an operating profit margin of 4.1% (2013: 2.1%).

(b) Hong Kong

Economic growth in Hong Kong remained moderate throughout the period. General consumers continued to be conservative when it came to purchasing decisions, reflecting their concerns about the slow economic recovery of the region under the difficult global economic and political landscape. Spending momentum and store traffic among local consumers and in-bound visitors grew in a diminishing manner. For the period under review, our Hong Kong businesses recorded a 3.9% increase in turnover to HK\$1,656.3 million and a 3.8% increase in retail sales to HK\$1,630.9 million, with comparable store sales growth registered at 3.5%.

With regard to store network expansion, the Group remains prudent in the light of the current difficult business environment but has a positive view on the fashion business in the long run. For instance, an over 15,000 square feet in size, new multi-brand concept of *i.t* store fuelled by a wide range of inspiring fashion products and new collections including kids' wear was opened in Cityplaza, Taikoo Shing in Hong Kong East in July 2014. The total trading area in Hong Kong ended with a slight net decrease of 1.4% to 617,355 square feet in August 2014 compared to 626,258 square feet as at 28 February 2014.

Gross margin increased by 1.5 percentage points to 60.6%. This enhancement was mainly achieved through a general contraction in discounting campaigns offered during the period. However, the increase in turnover and gross profit were not sufficient to fully offset the increase in operating costs, hence operating cost to sales ratio (which is defined as operating expenses divided by turnover) increased by 2.4 percentage points to 60.4%. Consequently, operating profit declined by 85.8% to HK\$3.2 million at a 0.2% margin (2013: 1.4%).

(c) Mainland China

The performance of the Group's Mainland China operations was a reflection of the volatile and sluggish domestic consumption patterns for the period under review. Although some of our long-term investments made in recent years with an aim to broaden market presence and to strengthen brand awareness have started to generate revenue, the business environment across Mainland China remained very challenging. Despite this, the Group achieved a noticeable growth of 19.7% in turnover over the same period last year, landing at HK\$1,219.7 million. Total retail sales generated HK\$1,122.4 million, representing a growth of 20.2%. Comparable store sales achieved a 4.3% growth (2013: -1.9%). The Group believes that the accelerating industrialization and urbanization process in Mainland China, and the rapidly growing low-tier cities alongside the growing interest in lifestyle enhancement among the middle-income class in particular, will provide a favorable business environment for premium distinctive brands in the long run. At this juncture, the Group responded by increasing its retail network by 1.7% to 886,344 square feet as at 31 August 2014, compared to 871,518 square feet as at 28 February 2014. It is expected that the retail network will be further expanded in the remaining period of the year.

Operating profit landed at HK\$30.0 million, compared to an operating loss of HK\$14.0 million for the same period last year. The increase was primarily a result of the increase in gross margin to 60.4% (2013: 55.8%) which was mainly attributed to the less proactive discounts offered during the period. Operating cost to sales ratio remained somewhat flattish at 57.9% (2013: 57.2%).

(d) Japan

Our Japan businesses continued to outperform mainly attributed to the further improvement in gross margin to 73.9% (2013: 70.2%) and an increased incidence of operating efficiency, measured by cost to sales ratio. Sales in the Japanese Yen grew by 12.2% to JPY2,891.9 million, while sales in the Hong Kong dollar so translated grew by 7.5% to HK\$219.5 million. As a consequence of the above, operating profit increased by 81.9% to HK\$61.2 million.

(e) Macau

Total retail sales in Macau increased by 5.1% to HK\$95.1 million with an operating profit amounting to HK\$31.1 million, representing a growth of 9.1% over the same period last year. The Group will continue to seek growth opportunities in this region.

Share of Results of Joint Ventures

A share of loss of joint ventures amounting to HK\$20.0 million (2013: HK\$10.7 million) was recorded for the six months ended 31 August 2014. The increase was mainly due to the loss incurred by our joint venture business with Galeries Lafayette which commenced operation in mid-October 2013. The business will need more time to develop into a profitable operation under the current difficult trading environment.

Inventory

The inventory turnover cycle of the Group reduced to 177 days, representing a reduction of 4 days over last year. This inventory turnover enhancement was achieved through multiple effective promotional campaigns alongside strategic management of discounting policies.

Cash Flows and Financial Position

The Group's cash and bank balances as at 31 August 2014 were HK\$2,229.9 million, compared to HK\$2,315.5 million as at 28 February 2014 and its net cash balance amounted to HK\$326.5 million (net cash is defined as cash and cash equivalents of HK\$2,229.9 million less bank borrowing of HK\$788.7 million and RMB Senior Notes of HK\$1,114.7 million) versus HK\$324.5 million as at 28 February 2014.

Cash inflow from operating activities for the six months ended 31 August 2014 amounted to HK\$179.4 million (2013: HK\$244.3 million).

Liquidity and Banking Facilities

As at 31 August 2014, the Group had aggregate banking facilities of approximately HK\$1,714.2 million (28 February 2014: approximately HK\$2,045.3 million) for overdrafts, bank loans and trade financing, of which approximately HK\$792.1 million (28 February 2014: approximately HK\$1,187.9 million) was unutilized as at the same date. These facilities are mainly secured by corporate guarantees provided by the Company and certain subsidiaries.

Charges of Assets

As at 31 August 2014, bank borrowing was secured on land and buildings with a carrying amount of HK\$212.9 million (28 February 2014: HK\$216.1 million).

Contingent Liabilities

As at 31 August 2014, the Group did not have significant contingent liabilities.

Foreign Exchange

The Group is exposed to foreign exchange risk arising from the exposure in the Japanese Yen, Macau Pataca, Pound Sterling, Euro, United States Dollar, New Taiwan Dollar and Chinese Renminbi against the Hong Kong Dollar. Management monitors 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

The Group had a total of 6,013 (2013: 6,047) employees as at 31 August 2014. 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.

Future Outlook

Consumer spending momentum tends to reflect economic and political conditions around the World, fashion business in particular. Although further deterioration in the macroeconomic environment is not generally expected, any form of improvement in consumer spending does not seem to be imminent as well. As a result, the volatile consumer appetite in the retailing markets in many of the countries around the World seems to be persisting in the near term. And the already dampened Asian consumer markets may inevitably be further suppressed by the fragile global economic conditions and the increased incidence of political disturbances in different parts of the World.

In particular, the recent political demonstration has adversely affected the Group's retail sales in Hong Kong, resulting in weak performance during the "Golden Week" period in the first week of October 2014. If this campaign was to persist, it would further drag on the recovery of the local consumer retail market and to create more uncertainty to our businesses in the region. In addition, the possibility of Ebola spreading may inevitably impact the global economy and suppress the global retail market.

Despite these challenges, the Group remains positive regarding the prospect of the economic outlook of its key operating regions, namely Hong Kong and Mainland China, in the long run. We are also confident that the solid foundation and the competitive edge of our unique fashion platform will enable us to forge through the current turmoil and to reinforce our leadership role in the fashion industry.

With regard to our growth plan, the Group remains prudent while being open to new ideas and opportunities. The Group will continue to place emphasis on different aspects including product assortment, store design, customer services, discounting strategies, etc. to enhance the performance of individual stores. For Mainland China, we are pleased that our retail exposures in first and second-tier cities are broadening further. We will continue to look into possible opportunities to further grow the businesses in the region with a view to expand our market presence and brand awareness.

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 (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) throughout the six months ended 31 August 2014, 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.

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 the Directors. Upon enquiry by the Company, all Directors have confirmed that, for the six months ended 31 August 2014, they have complied with the required standard set out in the Model Code regarding securities transactions by the Directors.

REVIEW OF FINANCIAL INFORMATION

The interim financial report for the six months ended 31 August 2014 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 also reviewed with the Management the accounting principles and practices adopted by the Company and discussed auditing, internal control and financial reporting matters including the review of the unaudited financial information of the Group and interim report for the six months ended 31 August 2014.

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

During the six months ended 31 August 2014, the Company purchased its listed shares and 6.25 per cent. senior notes due 2018 (the "Notes") on the Stock Exchange as follows:—

Shares purchased

| Date of repurchase | Number of shares repurchased | Percentage of the then issued shares ^{*2} | Purchase price per share | | Total paid HK\$ |
|--------------------|-------------------------------|--|--------------------------|-------------|------------------|
| | | | Highest HK\$ | Lowest HK\$ | |
| 5 June 2014 | 614,000 | 0.05% | 2.65 | 2.59 | 1,623,980 |
| 6 June 2014 | 546,000 | 0.04% | 2.69 | 2.65 | 1,458,140 |
| Total | <u>1,160,000^{*1}</u> | <u>0.09%</u> | | | <u>3,082,120</u> |

*Notes:

- 1,160,000 shares were cancelled on 23 June 2014.
- The closing balance of the issued shares as at 5 and 6 June 2014 was 1,228,763,307 shares.

Notes purchased

| | Amount of the Notes purchased CNY | Percentage of the Notes purchased compared to the principal amount of CNY1,000,000,000 when issued |
|------------|-----------------------------------|--|
| March 2014 | 99,000,000 | 9.9% |
| June 2014 | <u>7,000,000</u> | <u>0.7%</u> |
| Total | <u>106,000,000*</u> | <u>10.6%</u> |

*Notes:

- After the purchases, the Notes were cancelled pursuant to the terms of the indenture governing the Notes.
- After cancellation of the Notes with an amount of CNY106,000,000, the aggregate principal amount of the Notes which remains outstanding and subject to the terms of indenture governing the Notes is CNY894,000,000.

During the six months ended 31 August 2014, none of the Company's subsidiaries has purchased, sold or redeemed any of the Company's listed shares or the Notes.

By Order of the Board
Sham Kar Wai
Chairman

Hong Kong, 27 October 2014

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