I.T LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 999)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 AUGUST 2018

FINANCIAL HIGHLIGHTS

- Total turnover of the Group increased by 11.3% to HK$4,064.1 million.

- Total retail sales in Hong Kong and Macau increased by 7.6% to HK$1,559.6 million. Same-store-sales-growth rate registered at +8.0% (FY17/18: -6.9%). Total trading area reduced by 6.3%.

- Total retail sales in Mainland China increased by 12.0% to HK$1,831.6 million. Same-store-sales-growth rate registered at -2.5% (FY17/18: +0.9%). Total trading area increased by 9.9%.

- Total retail sales in Japan and the USA recorded HK$525.6 million or JPY7,333.6 million representing 24.8% increase in Hong Kong Dollar or 22.2% increase in local currency from FY17/18.

- Gross profit of the Group increased by 13.9% to HK$2,600.7 million with a gross profit margin of 64.0% (FY17/18: 62.5%).

- Net profit of the Group increased by 87.8% to HK$113.4 million.

- Basic earnings per share increased by 88.0% to 9.4 HK cents.

The board of directors (the "Board") of I.T Limited (the "Company") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 31 August 2018 ("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	
		2018	2017
		(Unaudited)	(Unaudited)
	Note	**HK$'000**	HK$'000
Turnover	2	**4,064,081**	3,652,005
Cost of sales	4	**(1,463,397)**	(1,368,645)
Gross profit		**2,600,684**	2,283,360
Other (losses)/gains, net	3	**(19,680)**	3,644
Operating expenses	4	**(2,381,351)**	(2,123,108)
Other income	5	**41,580**	23,857
Operating profit		**241,233**	187,753
Finance income	6	**14,945**	9,993
Finance costs	6	**(24,821)**	(35,834)
Share of (losses)/profits of joint ventures		**(105)**	4,112
Profit before income tax		**231,252**	166,024
Income tax expense	7	**(117,887)**	(105,659)
Profit for the period		**113,365**	60,365
Other comprehensive (loss)/income:			
Items that may be reclassified to profit or loss			
Currency translation differences		**(148,370)**	77,343
Cash flow hedge recognised as finance costs		**(33,047)**	(38,318)
Fair value changes on cash flow hedge, net of tax		**29,212**	67,157
Total other comprehensive (loss)/income for the period		**(152,205)**	106,182
Total comprehensive (loss)/income for the period		**(38,840)**	166,547
Profit attributable to:			
– Equity holders of the Company		**112,511**	59,754
– Non-controlling interests		**854**	611
		113,365	60,365
Total comprehensive (loss)/income attributable to:			
– Equity holders of the Company		**(39,297)**	165,859
– Non-controlling interests		**457**	688
		(38,840)	166,547
Earnings per share attributable to equity holders of the Company for the period (expressed in HK cent per share)			
– basic	8	**9.4**	5.0
– diluted	8	**9.1**	4.9

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	**As at 31 August 2018 (Unaudited) HK$'000**	As at 28 February 2018 (Audited) HK$'000
ASSETS			
Non-current assets			
Property, furniture and equipment		**799,050**	859,433
Intangible assets		**308,237**	331,952
Investments in and loans to joint ventures		**171,258**	159,050
Rental deposits		**277,650**	313,012
Prepayments for non-current assets		**72,618**	59,558
Deferred income tax assets		**126,366**	117,233
		1,755,179	1,840,238
Current assets			
Inventories		**1,511,107**	1,404,759
Trade and other receivables	10	**235,238**	331,426
Amounts due from joint ventures		**57,752**	65,080
Prepayments and other deposits		**431,488**	380,071
Current income tax recoverable		**1,993**	1,930
Cash and cash equivalents		**1,857,917**	2,315,333
		4,095,495	4,498,599
LIABILITIES			
Current liabilities			
Borrowings	12	**(257,850)**	(1,254,016)
Trade payables	11	**(424,588)**	(470,964)
Accruals and other payables		**(893,024)**	(724,891)
Derivative financial instruments		**–**	(29,212)
Amounts due to joint ventures		**(20,419)**	(19,009)
Current income tax liabilities		**(124,545)**	(108,984)
		(1,720,426)	(2,607,076)
Net current assets		**2,375,069**	1,891,523
Non-current liabilities			
Borrowings	12	**(782,002)**	(123,355)
Accruals		**(6,134)**	(7,169)
Derivative financial instruments		**(527)**	(4,749)
Deferred income tax liabilities		**(42,245)**	(47,826)
		(830,908)	(183,099)
Net assets		**3,299,340**	3,548,662
EQUITY			
Capital and reserves			
Share capital		**119,580**	119,580
Reserves		**3,176,693**	3,425,755
Non-controlling interests		**3,067**	3,327
Total equity		**3,299,340**	3,548,662

NOTES

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

This condensed consolidated interim financial information for the six months ended 31 August 2018 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 2018, 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 2018, 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.

(a) Impact of new and amended standards

The Group has applied the following standards and amendments which are effective for the Group's financial year beginning on or after 1 March 2018 but did not result in any significant impact on the results and financial position of the Group:

Annual Improvements Projects HKFRS 1 and HKAS 28 (Amendments)	Annual Improvements 2014-2016 cycle
HKFRS 2 (Amendments)	Classification and Measurement of Share-based Payment Transactions
HKFRS 4 (Amendments)	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
HKFRS 15 (Amendments)	Clarifications to HKFRS 15
HKAS 28 (Amendments)	Investments in Associates and Joint Ventures
HKAS 40 (Amendments)	Transfers of Investment Property
HK(IFRIC) 22	Foreign Currency Transactions and Advance Consideration

HKFRS 9 "Financial Instruments"

HKFRS 9 replaces the provision for HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of HKFRS 9 "Financial Instruments" from 1 March 2018 resulted in changes in accounting policies.

The Group's financial assets, including trade receivables, other receivables and loans and amounts due from joint ventures that are subject to the new expected credit loss model of the new HKFRSs.

The Group applies the HKFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for trade receivables based on credit risk characteristics and the days past due. For the other financial assets, expected credit losses are assessed according to change in credit quality since initial recognition. Financial assets are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group.

The Group has assessed the expected credit loss model applied as at 1 March 2018 and the change in impairment methodologies has no significant impact of the Group's condensed consolidated interim financial information and the opening allowance is not restated in this respect.

HKFRS 15 "Revenue from contracts with customers"

The Group has first time adopted HKFRS 15 from 1 March 2018 which resulted in changes in accounting policies. In accordance with the transition provisions of HKFRS 15, the Group has adopted the modified retrospective application and no comparative figures are restated.

HKFRS 15 establishes a new framework for revenue recognition. This replaces HKAS 18 which cover contracts for goods and services and HKAS 11 which cover construction contracts. The new standard introduces a five-step model to determine when to recognise revenue and at what amount. Under the five-step model, revenue is recognised when control of goods or services is transferred to a customer and at the amount to which the entity expects to be entitled. Depending on the nature of the contracts, revenue is either recognised over time or at a point in time.

The adoption of HKFRS 15 has no impact on the Group's financial position and results of operations based on the current business model, other than presenting additional disclosures.

(b) New and revised HKFRSs issued but not yet effective

The following new standards and amendments have been issued but are not effective for the financial year beginning 1 March 2018 and have not been early adopted:

HKFRS 9 (Amendments)	Prepayment Features with Negative Compensation
HKFRS 16	Leases
HK(IFRIC) 23	Uncertainty over Income Tax Treatments
HKFRS 17	Insurance Contracts
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

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, except for HKFRS 16 “Leases” as explained below:

HKFRS 16 “Leases”

Nature of change

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

Impact

The standard will affect primarily the accounting for the Group’s operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of HK$2,912,343,000.

However, the Group has not yet assessed what other adjustments, if any, are necessary for example because of the change in the definition of the lease term and the different treatment of variable lease payments and of extension and termination options. It is therefore not yet possible to estimate the amount of right-of-use assets and lease liabilities that will have to be recognised on adoption of the new standard and how this may affect the Group’s profit or loss and classification of cash flows going forward.

Date of adoption by Group

It is mandatory for financial years commencing on or after 1 March 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

2. TURNOVER AND SEGMENT INFORMATION

	Six months ended 31 August	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$’000	HK$’000
Turnover		
– Sales of fashion wears and accessories	**4,064,081**	3,652,005

The Group’s revenue is recognised at a point in time.

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

The CODM considers the business from geographic perspective and assesses the performance of the geographical segment based on a measure of both profit before income tax, share of (losses)/profits of joint ventures, finance income and finance costs ("segment (loss)/profit"), impairment of goodwill and property, furniture and equipment, depreciation of property, furniture and equipment and amortisation of intangible assets ("EBITDA"). Finance income and finance costs are not allocated to segments, as this type of activity is 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, current income tax recoverable and investments in and amounts due from joint ventures which are managed centrally.

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

	Hong Kong and Macau Six months ended 31 August		Mainland China Six months ended 31 August		(Unaudited) Japan and the USA Six months ended 31 August		Other Six months ended 31 August		Total Six months ended 31 August	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Turnover	**1,580,300**	1,466,640	**1,854,599**	1,674,125	**574,652**	456,768	**54,530**	54,472	**4,064,081**	3,652,005
EBITDA	**(4,116)**	(49,934)	**119,694**	185,876	**268,850**	197,402	**14,564**	12,633	**398,992**	345,977
Depreciation and amortisation	**(44,772)**	(56,800)	**(96,040)**	(84,338)	**(9,519)**	(3,846)	**(941)**	(1,815)	**(151,272)**	(146,799)
(Provision for)/reversal of impairment of property, furniture and equipment	**623**	(5,188)	**(7,110)**	(6,237)	**–**	–	**–**	–	**(6,487)**	(11,425)
Segment (loss)/profit	**(48,265)**	(111,922)	**16,544**	95,301	**259,331**	193,556	**13,623**	10,818	**241,233**	187,753
Finance income									**14,945**	9,993
Finance costs									**(24,821)**	(35,834)
Share of (losses)/profits of joint ventures									**(105)**	4,112
Profit before income tax									**231,252**	166,024

	Hong Kong and Macau	Mainland China	Japan and the USA	Other	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total segment assets					
As at 31 August 2018	**2,083,327**	**2,700,781**	**654,637**	**54,560**	**5,493,305**
As at 28 February 2018	2,506,324	2,767,862	658,868	62,490	5,995,544

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

	As at 31 August 2018 (Unaudited) HK$'000	As at 28 February 2018 (Audited) HK$'000
Segment assets for reportable segments	**5,438,745**	5,933,054
Other segment assets	**54,560**	62,490
	5,493,305	5,995,544
Unallocated:		
Deferred income tax assets and current income tax recoverable	**128,359**	119,163
Investments in and amounts due from joint ventures	**229,010**	224,130
	5,850,674	6,338,837

3. OTHER (LOSSES)/GAINS, NET

	Six months ended 31 August	
	2018 (Unaudited) HK$'000	2017 (Unaudited) HK$'000
Fair value gains/(losses) on derivative financial instruments		
– foreign currency swap contract	**4,222**	(1,281)
Net exchange (losses)/gains	**(23,902)**	4,925
	(19,680)	3,644

4. EXPENSES BY NATURE

	Six months ended 31 August	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Cost of inventories sold	**1,413,476**	1,354,644
Provision for write-downs of inventories to net realisable value	**4,934**	17,642
Employment costs (including directors' emoluments)	**753,705**	627,653
Operating lease rentals of premises		
– minimum lease payments	**743,012**	735,872
– contingent rents	**122,363**	107,855
Building management fee	**132,751**	121,699
Advertising and promotion costs	**107,887**	62,225
Commission expenses	**57,198**	46,053
Bank charges	**40,229**	38,017
Utilities expenses	**29,003**	28,097
Freight charges	**17,217**	13,722
Depreciation of property, furniture and equipment	**145,323**	139,977
Impairment of property, furniture and equipment	**6,487**	11,425
Loss on disposals of property, furniture and equipment	**10,980**	777
Contingent licence fees	**12,067**	9,256
Amortisation of intangible assets	**5,949**	6,822
Provision for impairment of amount due from a joint venture	**–**	4,000
Other expenses	**242,167**	166,017
Total	**3,844,748**	3,491,753
Representing:		
Cost of sales	**1,463,397**	1,368,645
Operating expenses	**2,381,351**	2,123,108
	3,844,748	3,491,753

5. OTHER INCOME

	Six months ended 31 August	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Government grants	**37,871**	19,958
Others	**3,709**	3,899
	41,580	23,857

6. FINANCE INCOME AND COSTS

	Six months ended 31 August	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Interest income from		
– bank deposits	**12,932**	8,227
– amounts due from joint ventures	**228**	228
– others (i)	**1,785**	1,538
Finance income	**14,945**	9,993
Interest expense on borrowings wholly repayable within five years	**(23,807)**	(36,515)
Net foreign exchange transaction loss	**(34,061)**	(37,637)
Transfer from hedging reserve		
– interest rate and currency swaps: cash flow hedge	**33,047**	38,318
Finance costs	**(24,821)**	(35,834)
Net finance costs	**(9,876)**	(25,841)

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 of 16.5% (six months ended 31 August 2017: 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 2017: 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 34.81% (six months ended 31 August 2017: 34.81%) on the estimated assessable profits of the Group's operations in Japan.

Macau Complementary (Corporate) tax has been provided at the applicable rate of 12% (six months ended 31 August 2017: 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 2017: 17%) on the estimated assessable profits of the Group's operations in Taiwan.

The applicable United States enterprise income tax rate for subsidiary operating in the United States of America is 45.03% for the six months ended 31 August 2017. On 22 December 2017, the 2017 Tax Cuts and Jobs Act ("Tax Act") was enacted into law making significant changes to the Internal Revenue Code. Changes include, but not limited to, a decrease in the federal income tax rate for tax years beginning after 31 December 2017. Upon the completion of the Tax Act, the applicable US enterprise income tax rate for the subsidiary operating in the United States of America is 30%.

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

	Six months ended 31 August	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Current income tax		
– Hong Kong profits tax	**4,587**	2,618
– Mainland China enterprise income tax	**28,066**	31,641
– Overseas income tax	**99,584**	74,871
– Under-provision in prior year	**168**	2,042
Deferred income tax	**(14,518)**	(5,513)
	117,887	105,659

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 2018 is 36.4% (six months ended 31 August 2017: 43.7%). The decrease is mainly caused by a change of the distribution of profits of the Group's entities operating in different locations.

8. 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	
	2018	2017
	(Unaudited)	(Unaudited)
Profit attributable to equity holders of the Company (HK$'000)	**112,511**	59,754
Weighted average number of ordinary shares in issue ('000)	**1,195,797**	1,195,797
Basic earnings per share (HK cent)	**9.4**	5.0

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 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	
	2018	2017
	(Unaudited)	(Unaudited)
Profit attributable to equity holders of the Company (HK$'000)	**112,511**	59,754
Weighted average number of ordinary shares in issue ('000)	**1,195,797**	1,195,797
Adjustments for share options ('000)	**45,312**	35,333
Weighted average number of ordinary shares for diluted earnings per share ('000)	**1,241,109**	1,231,130
Diluted earnings per share (HK cent)	**9.1**	4.9

9. DIVIDENDS

A final dividend relating to the year ended 28 February 2018 amounting to HK$212,852,000 is included in other payables and was paid in September 2018.

The Board does not declare the payment of an interim dividend for the six months ended 31 August 2018 (six months ended 31 August 2017: Nil).

10. TRADE AND OTHER RECEIVABLES

	As at 31 August 2018 (Unaudited) HK$'000	As at 28 February 2018 (Audited) HK$'000
Trade receivables	**218,037**	316,659
Less: provision for impairment of trade receivables	**(2,598)**	(2,726)
Trade receivables – net	**215,439**	313,933
Interest receivables	**1,685**	2,020
Other receivables	**18,114**	15,473
Trade and other receivables	**235,238**	331,426

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 2018 (Unaudited) HK$'000	As at 28 February 2018 (Audited) HK$'000
0 to 30 days	**175,091**	259,944
31 to 60 days	**29,238**	48,057
61 to 90 days	**5,747**	4,295
Over 90 days	**7,961**	4,363
	218,037	316,659

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 2018 (Unaudited) HK$'000	As at 28 February 2018 (Audited) HK$'000
0 to 30 days	**265,795**	209,079
31 to 60 days	**97,091**	144,124
61 to 90 days	**24,247**	55,962
91 to 180 days	**11,088**	29,064
181 to 365 days	**3,421**	9,541
Over 365 days	**22,946**	23,194
	424,588	470,964

12. BORROWINGS

	As at 31 August 2018 (Unaudited) HK$'000	As at 28 February 2018 (Audited) HK$'000
Non-current borrowings		
– Bank borrowings	**782,002**	123,355
	782,002	123,355
Current borrowings		
– Portion of bank borrowings due for repayment within one year	**190,600**	85,600
– Portion of bank borrowings due for repayment after one year which contain a repayable on demand clause	**67,250**	72,550
– Senior Notes (a)	**–**	1,095,866
	257,850	1,254,016
	1,039,852	1,377,371

Movements in borrowings are analysed as follows:

	(Unaudited) HK$'000
Six months ended 31 August 2018	
As at 1 March 2018	1,377,371
Proceeds from borrowings	787,200
Repayments of borrowings	(1,158,780)
Currency translation differences	34,061
As at 31 August 2018	1,039,852
Six months ended 31 August 2017	
As at 1 March 2017	1,308,657
Proceeds from borrowings	197,723
Repayments of borrowings	(212,861)
Currency translation differences	37,637
As at 31 August 2017	1,331,156

The fair values of current borrowings approximate their carrying amounts, as the impact of discounting is not significant. As at 31 August 2018, the effective borrowing cost was 2.7% (as at 28 February 2018: 5.4%) per annum.

Interest expense on borrowings for the six months ended 31 August 2018 is approximately HK$23,807,000 (six months ended 31 August 2017: HK$36,515,000).

Note:

(a) 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).

During the six months 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. The purchased Senior Notes amounting to RMB106,000,000 during the six months ended 31 August 2014 was then duly cancelled pursuant to the terms and conditions of the Senior Notes. As at 28 February 2018, 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 outstanding Senior Notes were fully repaid on 15 May 2018.

INTERIM DIVIDEND

In view of global economic uncertainties, the business environment is likely continue to be full of challenges, the Board does not declare the payment of an interim dividend for the six months ended 31 August 2018 (six months ended 31 August 2017: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

(a) Group

Although our operating regions achieved varying levels of performance amidst complex macroeconomic conditions and retail landscape during the six months ended on 31 August 2018, the period again saw resilient underlying growth as reflected in the results of our different businesses. The Group's turnover continued its upward trend, fuelled by positive same-store-sales growth and additional revenue generated by store network expansion. Turnover of the Group rose 11.3% over last year to HK$4,064.1 million. During the reporting period, gross margin continued to progress positively due to controlled discount discipline while operating profitability was upgraded. As a result, the net profit of the Group came in at HK$113.4 million, representing an increase of 87.8% over last year.

In the Hong Kong and Macau segment, determined efforts were made to boost sales and to mitigate cost pressures. Notable progress was recorded in this direction with same-store-sales development continuing to show a positive upward trend. These factors, along with improved operating efficiency, resulted in the operating loss of the Group's Hong Kong and Macau business being considerably narrowed as compared to the corresponding period of the previous year.

Despite a decrease in same-store-sales development on the Mainland due to various reasons including stringent control on price discount campaigns, sales in this region continued to grow on the back of a further noticeable increase in total trading area. We note with satisfaction the increased sales contribution from e-commerce, which indicates that the extra digital investments we made in the second half of FY17/18 have started to generate revenue and to become an important complement to our Mainland China business. We have a long-term perspective regarding our retail development in both the physical and the digital world, and our improvement measures are as ever ongoing. We remain enthusiastic about the immense growth opportunities that we plan to capitalise on in this region.

Our business in Japan and the USA continued to deliver sustainable growth, from sales revenue to operating efficiency and to profit margins. We are also encouraged by the overwhelmingly positive response to our new shops that were opened earlier this year in Los Angeles.

Turnover by Market

For the reporting period, the geographical split of the Group's turnover was 38.9% Hong Kong and Macau (FY17/18: 40.2%), 45.6% Mainland China (FY17/18: 45.8%) and 14.1% Japan and the USA (FY17/18: 12.5%).

Turnover in our Hong Kong and Macau segment increased by 7.7% to HK$1,580.3 million despite a reduction in store distribution network of 6.3%. The increase in turnover was mainly attributable to positive same-store-sales development throughout the reporting period. Such enhancement in same-store-sales development was a result of multiple factors which include a recovery in overall consumer appetite.

Turnover of our Mainland China operations increased by 10.8% to HK$1,854.6 million while our total trading area further increased by a significant percentage as compared to the corresponding period of the previous year. As previously reported, one pillar of the Group's long-term strategies is to drive expansion in markets outside our home base of Hong Kong, while also extending our leadership role in the fashion retail communities across these regions.

Our Japan and the USA segment continued to deliver sustainable and marked growth. Turnover of our Japan and the USA business rose by 23.2% to JPY8,018.0 million, equating to an increase of 25.8% in Hong Kong Dollars to HK$574.7 million, on the back of the overwhelmingly positive response to the collections of our "A Bathing Ape" brand. We are also particularly excited about the new product lines and innovative marketing campaigns we are going to launch throughout the second half of the financial year for the 25th anniversary of the founding of this brand, alongside collaborative activities with numerous renowned fashion names and business units.

Breakdown of turnover by region of operations:

	Turnover Six months ended 31 August			% of Turnover Six months ended 31 August	
	2018	2017		**2018**	2017
	HK$ million	HK$ million	**Change**		
Hong Kong and Macau	**1,580.3**	1,466.6	**+7.7%**	**38.9%**	40.2%
Retail sales only	***1,559.6***	*1,449.2*	***+7.6%***		
Mainland China	**1,854.6**	1,674.1	**+10.8%**	**45.6%**	45.8%
Retail sales only	***1,831.6***	*1,635.7*	***+12.0%***		
Japan and the USA	**574.7**	456.8	**+25.8%**	**14.1%**	12.5%
Retail sales only	***525.6***	*421.1*	***+24.8%***		
Other	**54.5**	54.5	**0%**	**1.4%**	1.5%
Total	**4,064.1**	3,652.0	**+11.3%**	**100.0%**	100.0%

Brand Mix

The Group continued to invest as an owner of our in-house brands as well as an operator or partner to the owner of our international brands through different aspects such as focused and innovative marketing initiatives to sustain, indeed enhance, the competitiveness of these brands in the rapidly changing fashion marketplace. For the reporting period, our in-house brands segment continued to provide us with the largest revenue contribution, equating to 58.3% (FY17/18: 58.0%).

Breakdown of retail sales by brand category:

	Retail Sales Six months ended 31 August			% of Retail Sales Six months ended 31 August	
	2018	2017		**2018**	2017
	HK$ million	HK$ million	**Change**		
In-house brands	**2,314.8**	2,065.3	**+12.1%**	**58.3%**	58.0%
International brands	**1,625.7**	1,475.1	**+10.2%**	**40.9%**	41.4%
Licensed brands	**30.8**	20.1	**+53.2%**	**0.8%**	0.6%
	3,971.3	3,560.5	**+11.5%**	**100.0%**	100.0%

Margin and Cost Dynamics

The Group continued to deliver sustainable growth in turnover at 11.3%, with gross profit also increasing by 13.9% with an enhancement in gross margin of 1.5 percentage points to 64.0% as compared to the corresponding period of the previous year. This positive development in gross margin was primarily attributable to a reduction in discount activities with the aim of securing brand integrity.

Rent-to-sales ratio (including rental charges and building management fees) of the Group decreased by 1.8 percentage points to 24.6%, whereas the staff cost-to-sales ratio (excluding share option expenses) increased from 17.1% to 18.5%. Such increase in the staff cost-to-sales ratio was primarily due to the extra workforce expenditures in relation to the digital investments we have made since the second half of FY17/18. We believe these investments are necessary for our long-term sustainable growth. Total operating costs as a percentage of sales increased to 58.6% (FY17/18: 58.1%).

On a positive note, the increase seen in the Group's gross profit was sufficient to offset the increase in operating costs and consequently, the operating profit of the Group rose by 28.5% to HK$241.2 million.

(b) Hong Kong and Macau

Turnover in our Hong Kong and Macau segment increased by 7.7% compared to the corresponding period of the previous year to HK$1,580.3 million. Retail sales also increased by 7.6% to HK$1,559.6 million with same-store-sales growth registering at +8.0% (FY17/18: -6.9%). Throughout the six months ended on 31 August 2018, the Group continued to grow sales revenue while margins progressed on a positive trend, in line with our expectations. This positive development was attributable to multiple factors, but we believe that it was mainly due to our ongoing efforts to upgrade our highly distinctive brand portfolio and to introduce new shopping excitements through new store concepts. For instance, we further expanded our portfolio by exclusively launching three renowned fashion units namely WTAPS, Mastermind Japan vs A Bathing Ape and Undefeated, originating in Japan and the USA respectively, in brand new premises located in the centre of Causeway Bay in Hong Kong. The responses from our customers and the fashion communities to these new stores have been overwhelmingly positive.

Gross margin increased to 63.7% (FY17/18: 59.9%). Such expansion in gross margin was primarily a result of a decrease in markdowns in relation to sales.

Operating results improved significantly, not only because of the upturn in sales and gross margin, but also a result of enhanced operational excellence. Consequently, the operating loss of our Hong Kong and Macau segment reduced to HK$48.3 million for the six months that ended on 31 August 2018 (FY17/18: operating loss of HK$111.9 million).

(c) Mainland China

In regard to the Mainland, our store distribution network was further developed, as reflected by the increase in total trading area of 9.9% over the corresponding period of the previous year. Turnover attributable to our Mainland China business amounted to HK$1,854.6 million, marking another year of sustainable turnover growth of 10.8%. Total retail sales increased by 12.0% to HK$1,831.6 million, with same-store-sales growth registering -2.5% (FY17/18: +0.9%). The decline in same-store-sales growth was a result of multiple factors, but it principally reflected our strategic decision to hold back major end-of-season promotional activities such as the "Gig-on" sale in both March and August of this year. It also reflected an overall controlled discount discipline throughout the reporting period with the aim of strengthening brand integrity.

The enhancement in gross margin gained from the hold back of price discount activities was outweighed by the negative impact from the depreciation of the purchasing currency. As a result, gross margin decreased by 0.7 percentage point to 60.9%.

Operating costs rose as a percentage of sales, which was primarily due to higher overhead and staff costs in relation to the new digital investments that have been made since the second half of FY17/18. Another important factor was higher marketing expenses for both online and offline initiatives to support this special year of our 30th anniversary. We believe these investments are necessary today for our long-term sustainable growth. E-commerce, for example, offers good potential for future growth opportunities, and we continue to see increased sales contribution from this platform to our Mainland China business.

As a result, operating profit of our Mainland China segment decreased by 82.6% to HK$16.5 million. It should be noted that if the aforementioned negative currency exchange effect from the depreciation of the Chinese Renminbi during the reporting period is excluded, operating profit of our Mainland China business decreased by 20.7%.

(d) Japan and the USA

Our Japan and USA segment experienced another period of resilient underlying growth in business results, with sales registering an increase of 23.2% to JPY8,018.0 million, while sales in Hong Kong Dollar terms also rose by 25.8% to HK$574.7 million. This positive trend was mainly the result of our ongoing efforts to optimise our product design and innovate our marketing initiatives to support collaborative campaigns with various fashion units around the world. In regard to profitability, gross margin improved by 0.9 percentage point to 72.8% while operating profit also increased by 34.0% to HK$259.3 million. Such enhancements in operating profitability were achieved through increased efficiency as measured by operating costs on sales.

For the rest of the financial year, there is even more to look forward to from our A Bathing Ape brand which will join hands with numerous renowned fashion names and business units around the world for the celebration of the 25th anniversary of the founding of the brand. We are particularly excited about the series of innovative marketing events that are already in the pipeline.

Share of Results of Joint Ventures

Share of losses of joint ventures amounting to HK$0.1 million was recorded for the reporting period (FY17/18: share of profits of joint ventures of HK$4.1 million). The decline in share of earnings of joint ventures was principally due to the pre-opening expenses associated with our new Galeries Lafayette store to be opened in Shanghai, Mainland China.

Inventory

A level of increased incidence of inventory turnover efficiency (as measured by average inventory turnover days) was achieved. Average inventory turnover days of the Group decreased by 17 days to 183 days as compared to the corresponding period of the previous year.

Cash Flows and Financial Position

The Group's cash and bank balances as at 31 August 2018 were HK$1,857.9 million compared to HK$2,315.3 million as at 28 February 2018 and its net cash balance amounted to HK$818.0 million (net cash is defined as cash and cash equivalents of HK$1,857.9 million less bank borrowings of HK$1,039.9 million) versus HK$937.9 million as at 28 February 2018.

Cash inflow from operating activities for the reporting period amounted to HK$124.3 million (FY17/18: HK$320.7 million).

Liquidity and Banking Facilities

As at 31 August 2018, the Group had aggregate banking facilities of approximately HK$2,253.5 million (28 February 2018: HK$1,433.2 million) for overdrafts, bank loans and trade financing, of which approximately HK$1,044.5 million (28 February 2018: approximately HK$1,035.4 million) was unutilised 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 2018, bank borrowing was secured on land and buildings with a carrying amount of HK$186.9 million (28 February 2018: HK$190.2 million).

Contingent Liabilities

As at 31 August 2018, the Group did not have significant contingent liabilities (FY17/18: 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, Chinese Renminbi and Korean Won against the Hong Kong Dollar. Although 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, fluctuations in the value of the Hong Kong Dollar against other currencies could affect our margins and profitability.

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 2018, the Group had a total of 7,074 (FY17/18: 6,536) full time employees. 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

The Group has made a positive start to FY18/19, with all operating regions delivering sustainable sales growth during the reporting period, and we aim to sustain the momentum as we head into the rest of the financial year. Nonetheless, we are more cautious about the overall operating environment than we were a few months ago, since the global geopolitical and macroeconomic prospects are more uncertain today. The fallout from the trade war along with the trend of rising interest rates may weigh on consumer spending momentum across the various regions. With a well-diversified portfolio that covers a wide range of distinctive fashion brands and price segments alongside a well-established retail platform, both online and offline, we are in an excellent position to navigate any challenges that may lie ahead.

The Group does not expect a notable change in the size of distribution network in our Hong Kong and Macau segment during this financial year. Nevertheless, we remain very flexible to new ideas and growth opportunities. On the Mainland, the Group will continue the expansion strategy to further extend the reach of our new and existing brands.

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 2018, 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 Directors. Upon enquiry by the Company, all Directors have confirmed that, for the six months ended 31 August 2018, 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 2018 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 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 2018.

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

The Company redeemed an aggregate principal amount of RMB894,000,000, representing all its outstanding 6.25 per cent Senior Notes due 2018 at the redemption price equal to 100% of the principal amount together with interest accrued upon its maturity on 15 May 2018.

Save as disclosed above, 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 2018.

By Order of the Board
Sham Kar Wai
Chairman

Hong Kong, 24 October 2018

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