

**I.T**

**INTERIM REPORT**

**13/14**

**STOCK CODE: 999**





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ITS

**a fashion icon**

**TREND SETTING**

**inspiration**

**a lifestyle**

**MOVING FORWARD**

**CORPORATE PROFILE**

### **Executive Directors**

Mr. SHAM Kar Wai  
Mr. SHAM Kin Wai

# DIRECTORS

### **Independent Non-executive Directors**

Mr. Francis GOUTENMACHER  
Dr. WONG Tin Yau, Kelvin, J.P.  
Mr. MAK Wing Sum, Alvin

### **Company Secretary**

Miss HO Suk Han, Sophia

### **Registered Office**

Clarendon House  
2 Church Street  
Hamilton HM11  
Bermuda

### **Head Office and Principal Place of Business in Hong Kong**

31/F Tower A Southmark  
11 Yip Hing Street  
Wong Chuk Hang  
Hong Kong

### **Auditor**

PricewaterhouseCoopers,  
Certified Public Accountants

### **Principal Bankers**

Hang Seng Bank Limited  
The Hongkong and Shanghai Banking Corporation Limited  
Standard Chartered Bank (Hong Kong) Limited

### **Principal Share Registrar**

HSBC Securities Services (Bermuda) Limited

### **Hong Kong Branch Share Registrar**

Computershare Hong Kong Investor Services Limited  
Shops 1712-1716 17/F Hopewell Centre  
183 Queen's Road East  
Wanchai  
Hong Kong  
Tel: 2862-8555

### **IR Contact**

Mr. FONG Wai Bun, Benny  
Head of Investor Relations  
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Fax: 2237-6616  
Email: ir\_mail@ithk.com

### **Corporate Website**

[www.ithk.com](http://www.ithk.com)

### **Stock Code**

Shares: 00999  
Senior Notes: 85923 (I.T N1805-R)

# HIGHLIGHTS

- Total turnover of the Group decreased by 0.9% to HK\$2,939.6 million.
- Total retail sales in Hong Kong decreased by 7.1% to HK\$1,570.7 million with comparable store sales registered at -9.5%. Total retail sales in Mainland China increased by 14.8% to HK\$933.4 million with comparable store sales registered at -1.9%.
- Japan landed at total sales of HK\$204.2 million, representing 23.2% decrease from last year.
- Total retail sales in other regions (namely Macau and Taiwan) increased by 1.7% to HK\$122.2 million.
- Gross profit of the Group decreased by 1.53% to HK\$1,739.7 million at gross profit margin of 59.2% (2012: 59.6%).
- Net profit of the Group decreased by 76.8% to HK\$28.1 million.
- Basic earnings per share decreased by 76.5% to HK\$0.023. Fully diluted earnings per share decreased by 76.8% to HK\$0.022.

| Per share data                   | 31 August<br>2013 | 31 August<br>2012 | Change |
|----------------------------------|-------------------|-------------------|--------|
| EPS-basic (HK\$)                 | 0.023             | 0.098             | -76.5% |
| EPS-diluted (HK\$)               | 0.022             | 0.095             | -76.8% |
| Book value (HK\$) <sup>(1)</sup> | 2.05              | 1.86              | +10.2% |

| Key statistics                            | 31 August<br>2013 | 31 August<br>2012 | Change |
|---|-------------------|-------------------|--------|
| Inventory turnover (Days) <sup>(2)</sup>  | 181.0             | 197.0             | 8.1%   |
| Cash and cash equivalent (HK\$ million)   | 2,100.6           | 914.8             | 129.6% |
| Net debt (HK\$ million) <sup>(3)</sup>    | 1.5               | 105.1             | -98.6% |
| Debt to equity ratio (%) <sup>(4)</sup>   | 83.6              | 44.7              | 87.0%  |
| Return on equity ratio (%) <sup>(5)</sup> | 1.1               | 5.3               | -79.2% |

Notes:

<sup>(1)</sup> Net asset value per share as at end of period.

<sup>(2)</sup> Average of the inventory at the beginning and at the end of the period divided by cost of sales times number of days during the period.

<sup>(3)</sup> Cash and cash equivalents less borrowings.

<sup>(4)</sup> Borrowings divided by total equity at the end of the period.

<sup>(5)</sup> Profit attributable to equity holders of the Company for the period divided by average of the total equity at the beginning and at the end of the period.

## Store Coverage

|                                 | A. No. of stores |                  |                |                  |
|---------------------------------|------------------|------------------|----------------|------------------|
|                                 | Self-managed     |                  | Franchised     |                  |
|                                 | 31 August 2013   | 28 February 2013 | 31 August 2013 | 28 February 2013 |
| <b>Greater China:</b>           |                  |                  |                |                  |
| Hong Kong                       |                  |                  |                |                  |
| I.T                             | 273              | 295              | –              | –                |
| FCUK IT <sup>(1)</sup>          | 6                | 6                | –              | –                |
| ZIT H.K. <sup>(1)</sup>         | 3                | 3                | –              | –                |
| Mainland China                  |                  |                  |                |                  |
| I.T                             | 206              | 237              | 125            | 126              |
| FCIT China <sup>(1)</sup>       | 18               | 18               | –              | –                |
| Camper I.T China <sup>(1)</sup> | 5                | 4                | –              | –                |
| Taiwan                          | 21               | 21               | –              | –                |
| Macau                           |                  |                  |                |                  |
| I.T                             | 10               | 10               | –              | –                |
| FCIT Macau <sup>(1)</sup>       | 1                | 1                | –              | –                |
| <b>Overseas:</b>                |                  |                  |                |                  |
| Japan                           | 22               | 23               | –              | –                |
| USA                             | 1                | 1                | –              | –                |
| Thailand                        | –                | –                | 16             | 17               |
| Europe <sup>(2)</sup>           | –                | –                | 2              | 2                |
| The Philippines                 | –                | –                | 1              | 1                |
| Singapore                       | –                | –                | 12             | 1                |
| South Korea                     | –                | –                | 1              | 1                |
| Canada                          | –                | –                | 1              | 1                |

|                                 | B. Sales footage <sup>(3)</sup> |                  |                |                  |
|---------------------------------|---------------------------------|------------------|----------------|------------------|
|                                 | Self-managed                    |                  | Franchised     |                  |
|                                 | 31 August 2013                  | 28 February 2013 | 31 August 2013 | 28 February 2013 |
| <b>Greater China:</b>           |                                 |                  |                |                  |
| Hong Kong                       |                                 |                  |                |                  |
| I.T                             | 625,676                         | 621,147          | –              | –                |
| FCUK IT <sup>(1)</sup>          | 7,253                           | 7,253            | –              | –                |
| ZIT H.K. <sup>(1)</sup>         | 3,597                           | 3,597            | –              | –                |
| Mainland China                  |                                 |                  |                |                  |
| I.T                             | 730,400                         | 704,819          | 147,157        | 144,604          |
| FCIT China <sup>(1)</sup>       | 26,143                          | 26,512           | –              | –                |
| Camper I.T China <sup>(1)</sup> | 3,902                           | 2,408            | –              | –                |
| Taiwan                          | 39,696                          | 39,696           | –              | –                |
| Macau                           |                                 |                  |                |                  |
| I.T                             | 32,526                          | 32,526           | –              | –                |
| FCIT Macau <sup>(1)</sup>       | 3,330                           | 3,330            | –              | –                |
| <b>Overseas:</b>                |                                 |                  |                |                  |
| Japan                           | 52,882                          | 53,414           | –              | –                |
| USA                             | 3,313                           | 3,313            | –              | –                |
| Thailand                        | –                               | –                | 16,271         | 15,890           |
| Europe <sup>(2)</sup>           | –                               | –                | 929            | 929              |
| The Philippines                 | –                               | –                | 573            | 573              |
| Singapore                       | –                               | –                | 22,011         | 2,040            |
| South Korea                     | –                               | –                | 2,156          | 2,156            |
| Canada                          | –                               | –                | 3,615          | 3,615            |

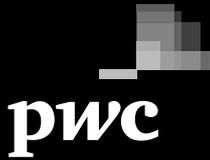
Notes:

<sup>(1)</sup> a 50% owned joint venture of the Company.

<sup>(2)</sup> includes England and France.

<sup>(3)</sup> represents gross area.

# INDEPENDENT REVIEW REPORT



羅兵咸永道

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION  
TO THE BOARD OF DIRECTORS OF I.T LIMITED  
(incorporated in Bermuda with limited liability)

## INTRODUCTION

We have reviewed the interim financial information set out on pages 13 to 31, which comprises the interim condensed consolidated statement of financial position of I.T Limited (the "Company") and its subsidiaries (together, the "Group") as at 31 August 2013 and the related interim condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six months then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## SCOPE OF REVIEW

We conducted our review in accordance with the Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

A handwritten signature in black ink, appearing to be 'M.T.', is written over a horizontal line.

**PricewaterhouseCoopers**  
Certified Public Accountants

Hong Kong, 25 October 2013

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# CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 31 August 2013

|   | Note | Six months ended 31 August      |                                 |
|---|------|---------------------------------|---------------------------------|
|   |      | 2013<br>(Unaudited)<br>HK\$'000 | 2012<br>(Unaudited)<br>HK\$'000 |
| Turnover  | 4    | 2,939,608                       | 2,965,306                       |
| Cost of sales   | 6    | (1,199,906)                     | (1,198,523)                     |
| Gross profit  |      | 1,739,702                       | 1,766,783                       |
| Other gains/(losses)  | 5    | 5,859                           | (9,372)                         |
| Operating expenses  | 6    | (1,684,793)                     | (1,610,641)                     |
| Operating profit  |      | 60,768                          | 146,770                         |
| Finance income  | 7    | 16,602                          | 5,655                           |
| Finance costs   | 7    | (31,245)                        | (13,862)                        |
| Share of loss of joint ventures   |      | (10,653)                        | (3,549)                         |
| Profit before income tax  |      | 35,472                          | 135,014                         |
| Income tax expense  | 8    | (7,324)                         | (13,946)                        |
| Profit for the period   |      | 28,148                          | 121,068                         |
| <b>Other comprehensive income:</b>  |      |                                 |                                 |
| Items that may be reclassified to profit or loss  |      |                                 |                                 |
| Currency translation differences  |      | (4,036)                         | (8,339)                         |
| Cash flow hedge recognised as a finance costs   |      | 703                             | –                               |
| Fair value changes on cash flow hedge, net of tax   |      | (29,424)                        | –                               |
| Total other comprehensive loss for the period   |      | (32,757)                        | (8,339)                         |
| Total comprehensive (loss)/income for the period  |      | (4,609)                         | 112,729                         |
| Profit attributable to:   |      |                                 |                                 |
| – Equity holders of the Company   |      | 28,062                          | 119,734                         |
| – Non-controlling interests   |      | 86                              | 1,334                           |
|   |      | 28,148                          | 121,068                         |
| Total comprehensive (loss)/income attributable to:  |      |                                 |                                 |
| – Equity holders of the Company   |      | (4,695)                         | 111,182                         |
| – Non-controlling interests   |      | 86                              | 1,547                           |
|   |      | (4,609)                         | 112,729                         |
| Earnings per share attributable to equity holders of the Company for the period (expressed in HK\$ per share) |      |                                 |                                 |
| – basic   | 10   | 0.023                           | 0.098                           |
| – diluted   | 10   | 0.022                           | 0.095                           |
| Dividends   | 9    | –                               | –                               |

The accompanying notes are an integral part of this condensed interim financial information.

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 August 2013

|  | Note | As at<br>31 August<br>2013<br>(Unaudited)<br>HK\$'000 | As at<br>28 February<br>2013<br>(Audited)<br>HK\$'000 |
|--|------|---|---|
| <b>ASSETS</b>                                      |      |   |   |
| Non-current assets                                 |      |   |   |
| Property, furniture and equipment                  | 11   | 886,615   | 934,128   |
| Intangible assets                                  | 11   | 352,604   | 359,338   |
| Investments in and amounts due from joint ventures | 12   | 244,926   | 199,074   |
| Rental deposits                                    | 14   | 281,722   | 298,675   |
| Prepayments for furniture and equipment            | 14   | 1,694   | 5,868   |
| Derivative financial instruments                   | 15   | 230   | –   |
| Deferred income tax assets                         |      | 127,598   | 116,154   |
|  |      | <b>1,895,389</b>                                      | 1,913,237   |
| Current assets                                     |      |   |   |
| Inventories  |      | 1,145,866   | 1,211,240   |
| Trade and other receivables                        | 13   | 172,770   | 133,736   |
| Amounts due from joint ventures                    | 12   | 23,998  | 25,388  |
| Prepayments and other deposits                     | 14   | 292,813   | 221,299   |
| Derivative financial instruments                   | 15   | 601   | 1,163   |
| Cash and cash equivalents                          |      | 2,100,626   | 961,158   |
|  |      | <b>3,736,674</b>                                      | 2,553,984   |
| <b>LIABILITIES</b>                                 |      |   |   |
| Current liabilities                                |      |   |   |
| Borrowings   | 18   | (430,810)   | (365,661)   |
| Trade and bill payables                            | 16   | (329,078)   | (273,552)   |
| Accruals and other payables                        | 17   | (524,343)   | (476,177)   |
| Derivative financial instruments                   | 15   | (222)   | (1,600)   |
| Amounts due to joint ventures                      | 12   | (56,955)  | (51,549)  |
| Current income tax liabilities                     |      | (27,669)  | (23,585)  |
|  |      | <b>(1,369,077)</b>                                    | (1,192,124)   |
| Net current assets                                 |      | <b>2,367,597</b>                                      | 1,361,860   |
| Total assets less current liabilities              |      | <b>4,262,986</b>                                      | 3,275,097   |
| Non-current liabilities                            |      |   |   |
| Borrowings   | 18   | (1,671,313)   | (668,462)   |
| Accruals   | 17   | (11,979)  | (14,140)  |
| Derivative financial instruments                   | 15   | (30,750)  | (6,140)   |
| Deferred income tax liabilities                    |      | (33,393)  | (32,984)  |
|  |      | <b>(1,747,435)</b>                                    | (721,726)   |
| Net assets   |      | <b>2,515,551</b>                                      | 2,553,371   |
| <b>EQUITY</b>                                      |      |   |   |
| Capital and reserves                               |      |   |   |
| Share capital                                      | 19   | 122,876   | 122,818   |
| Reserves   | 20   | 2,392,281   | 2,430,553   |
| Non-controlling interests                          |      | 394   | –   |
| Total equity                                       |      | <b>2,515,551</b>                                      | 2,553,371   |



**SHAM KAR WAI**  
Chairman



**SHAM KIN WAI**  
Director

The accompanying notes are an integral part of this condensed interim financial information.

# CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 August 2013

|   | <b>Share capital<br/>(Unaudited)</b><br>HK\$'000 | <b>Reserves<br/>(Unaudited)</b><br>HK\$'000 | <b>Non-<br/>controlling<br/>interests<br/>(Unaudited)</b><br>HK\$'000 | <b>Total<br/>(Unaudited)</b><br>HK\$'000 |
|---|--|---|---|--|
| Balance at 1 March 2013   | 122,818  | 2,430,553                                   | –   | 2,553,371                                |
| Profit for the period   | –  | 28,062                                      | 86  | 28,148                                   |
| Other comprehensive income:   |  |   |   |  |
| – currency translation differences  | –  | (4,036)                                     | –   | (4,036)                                  |
| – cash flow hedge recognised as a finance costs                           | –  | 703   | –   | 703                                      |
| – fair value changes on cash flow hedge, net of tax                       | –  | (29,424)                                    | –   | (29,424)                                 |
| Total comprehensive (loss)/income for the six months ended 31 August 2013 | –  | (4,695)                                     | 86  | (4,609)                                  |
| Transaction with owners:  |  |   |   |  |
| Final dividends for the year ended 28 February 2013                       | –  | (36,863)                                    | –   | (36,863)                                 |
| Exercise of share options   | 58   | 1,216                                       | –   | 1,274                                    |
| Reversal of tax credit from exercise of share options                     | –  | (11,464)                                    | –   | (11,464)                                 |
| Share option scheme   |  |   |   |  |
| – value of employment services  | –  | 13,712                                      | 130   | 13,842                                   |
| Change in ownership interest in a subsidiary without change of control    | –  | (178)                                       | 178   | –  |
| Total transaction with owners   | 58   | (33,577)                                    | 308   | (33,211)                                 |
| Balance at 31 August 2013   | 122,876  | 2,392,281                                   | 394   | 2,515,551                                |
| Balance at 1 March 2012   | 122,067  | 2,148,649                                   | (1,938)   | 2,268,778                                |
| Profit for the period   | –  | 119,734                                     | 1,334   | 121,068                                  |
| Other comprehensive income:   |  |   |   |  |
| – currency translation differences  | –  | (8,552)                                     | 213   | (8,339)                                  |
| Total comprehensive income for the six months ended 31 August 2012        | –  | 111,182                                     | 1,547   | 112,729                                  |
| Transaction with owners:  |  |   |   |  |
| Final dividends for the year ended 29 February 2012                       | –  | (158,430)                                   | –   | (158,430)                                |
| Exercise of share options   | 747  | 17,131                                      | –   | 17,878                                   |
| Tax credit from exercise of share options                                 | –  | 36,000                                      | –   | 36,000                                   |
| Share option scheme   |  |   |   |  |
| – value of employment services  | –  | 8,924                                       | –   | 8,924                                    |
| Acquisition of non-controlling interests                                  | –  | (4,626)                                     | 391   | (4,235)                                  |
| Total transaction with owners   | 747  | (101,001)                                   | 391   | (99,863)                                 |
| Balance at 31 August 2012   | 122,814  | 2,158,830                                   | –   | 2,281,644                                |

The accompanying notes are an integral part of this condensed interim financial information.

# CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

For the six months ended 31 August 2013

|  | Six months ended 31 August      |                                 |
|--|---------------------------------|---------------------------------|
|  | 2013<br>(Unaudited)<br>HK\$'000 | 2012<br>(Unaudited)<br>HK\$'000 |
| Net cash generated from operating activities | 244,398                         | 139,969                         |
| Net cash used in investing activities        | (135,545)                       | (267,215)                       |
| Net cash generated from financing activities | 1,036,353                       | 415,716                         |
| Net increase in cash and cash equivalents    | 1,145,206                       | 288,470                         |
| Currency translation differences             | (5,738)                         | (619)                           |
| Cash and cash equivalents, at 1 March        | 961,158                         | 626,944                         |
| Cash and cash equivalents, at 31 August      | <u>2,100,626</u>                | <u>914,795</u>                  |
| Analysis of cash and cash equivalents:       |                                 |                                 |
| Cash and bank deposits                       | <u>2,100,626</u>                | <u>914,795</u>                  |

The accompanying notes are an integral part of this condensed interim financial information.

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

## 1 GENERAL INFORMATION

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

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

The Company is listed on The Stock Exchange of Hong Kong Limited.

These condensed consolidated interim financial information are presented in Hong Kong Dollars (“HK\$”), unless otherwise stated.

This condensed consolidated interim financial information was approved for issue by Board of Directors on 25 October 2013.

This condensed consolidated interim financial information has not been audited.

## 2 BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 31 August 2013 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 2013, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

## 3 ACCOUNTING POLICIES

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 2013, except for the adoption of the new and revised standards, amendments and interpretations issued by the HKICPA that are relevant to the operations of the Group and mandatory for annual accounting periods beginning 1 January 2013.

Except as described below, the adoption of these new and revised standards, amendments and interpretations does not have an impact on the accounting policies of the Group.

### **HKFRS 10 Consolidated Financial Statements**

Under HKFRS 10, subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group has power over an entity, is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect these returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. HKFRS 10 had no impact on the consolidation of investments held by the Group.

### **HKFRS 11 Joint Arrangements**

Under HKFRS 11 Investments in joint arrangements are classified either as joint operations or joint ventures, depending on the contractual rights and obligations each investor has rather than the legal structure of the joint arrangement. The application of this new standard had no impact on the Group’s results of operations or financial position.

### **HKFRS 13 Fair Value Measurement**

HKFRS 13 establishes a single source of guidance under HKFRS for all fair value measurements. HKFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under HKFRS when fair value is required or permitted. The application of HKFRS 13 has not materially impacted the fair value measurements carried out by the Group.

### **HKAS 1 Presentation of Items of Other Comprehensive Income – Amendments to HKAS 1**

The amendments to HKAS 1 introduce a grouping of items presented in other comprehensive income. Items that could be reclassified to profit or loss at a future point in time now have to be presented separately from items that will never be reclassified. The adoption of these amendments affected presentation only and had no impact on the Group’s results of operations or financial position.

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

(Continued)

## 4 TURNOVER AND SEGMENT INFORMATION

**Six months ended 31 August**  
**2013** 2012  
**(Unaudited)** (Unaudited)  
**HK\$'000** HK\$'000

|  |                  |                  |  |
|--|------------------|------------------|--|
| Turnover                                 |                  |                  |  |
| – Sales of fashion wears and accessories | <b>2,939,608</b> | <b>2,965,306</b> |  |

The chief operating decision maker has been identified as the board of directors that makes strategic decisions. The board of directors 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 board of directors considers the business from geographic perspective and assesses the performance of the geographical segment based on a measure of operating 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 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 board of directors 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 board of directors for the reportable segments is as follows:

|   | (Unaudited)                   |                       |                               |                |                               |          |                               |          |                               |           |
|---|-------------------------------|-----------------------|-------------------------------|----------------|-------------------------------|----------|-------------------------------|----------|-------------------------------|-----------|
|   | Hong Kong                     |                       | Mainland China                |                | Japan                         |          | Others                        |          | Total                         |           |
|   | Six months ended<br>31 August |                       | Six months ended<br>31 August |                | Six months ended<br>31 August |          | Six months ended<br>31 August |          | Six months ended<br>31 August |           |
|   | 2013                          | 2012                  | 2013                          | 2012           | 2013                          | 2012     | 2013                          | 2012     | 2013                          | 2012      |
|   | HK\$'000                      | HK\$'000              | HK\$'000                      | HK\$'000       | HK\$'000                      | HK\$'000 | HK\$'000                      | HK\$'000 | HK\$'000                      | HK\$'000  |
| Turnover  | <b>1,594,250</b>              | 1,701,142             | <b>1,018,923</b>              | 877,969        | <b>204,215</b>                | 266,073  | <b>122,220</b>                | 120,122  | <b>2,939,608</b>              | 2,965,306 |
| EBITDA  | <b>93,791</b>                 | 157,961               | <b>34,033</b>                 | 46,563         | <b>46,218</b>                 | 42,407   | <b>26,200</b>                 | 29,387   | <b>200,242</b>                | 276,318   |
| Depreciation,<br>amortisation<br>and impairment | <b>(71,038)</b>               | (65,597)              | <b>(48,075)</b>               | (36,072)       | <b>(12,543)</b>               | (23,574) | <b>(7,818)</b>                | (4,305)  | <b>(139,474)</b>              | (129,548) |
| Operating profit/(loss)                         | <b>22,753</b>                 | 92,364                | <b>(14,042)</b>               | 10,491         | <b>33,675</b>                 | 18,833   | <b>18,382</b>                 | 25,082   | <b>60,768</b>                 | 146,770   |
| Finance income                                  |                               |                       |                               |                |                               |          |                               |          | <b>16,602</b>                 | 5,655     |
| Finance cost                                    |                               |                       |                               |                |                               |          |                               |          | <b>(31,245)</b>               | (13,862)  |
| Share of loss of joint<br>ventures              |                               |                       |                               |                |                               |          |                               |          | <b>(10,653)</b>               | (3,549)   |
| Profit before income tax                        |                               |                       |                               |                |                               |          |                               |          | <b>35,472</b>                 | 135,014   |
|   | <b>Hong Kong</b>              | <b>Mainland China</b> | <b>Japan</b>                  | <b>Others</b>  |                               |          | <b>Total</b>                  |          |                               |           |
|   | HK\$'000                      | HK\$'000              | HK\$'000                      | HK\$'000       |                               |          | HK\$'000                      |          |                               |           |
| Total segment assets<br>As at 31 August 2013    | <b>3,003,011</b>              | <b>1,738,589</b>      | <b>360,835</b>                | <b>133,106</b> |                               |          | <b>5,235,541</b>              |          |                               |           |
| As at 28 February 2013                          | <b>1,831,579</b>              | <b>1,747,282</b>      | <b>392,272</b>                | <b>155,472</b> |                               |          | <b>4,126,605</b>              |          |                               |           |

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

(Continued)

## 4 TURNOVER AND SEGMENT INFORMATION (Continued)

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

|  | <b>As at<br/>31 August<br/>2013<br/>(Unaudited)<br/>HK\$'000</b> | As at<br>28 February<br>2013<br>(Audited)<br>HK\$'000 |
|--|--|---|
| Segment assets for reportable segments             | <b>5,102,435</b>   | 3,971,133   |
| Other segments assets                              | <b>133,106</b>   | 155,472   |
|  | <b>5,235,541</b>   | 4,126,605   |
| Unallocated:                                       |  |   |
| Deferred income tax assets                         | <b>127,598</b>   | 116,154   |
| Investments in and amounts due from joint ventures | <b>268,924</b>   | 224,462   |
|  | <b>5,632,063</b>   | 4,467,221   |

## 5 OTHER GAINS/(LOSSES)

|  | <b>Six months ended 31 August<br/>2013<br/>(Unaudited)<br/>HK\$'000</b> | 2012<br>(Unaudited)<br>HK\$'000 |
|--|---|---------------------------------|
| Fair value gain/(loss) from derivative financial instruments |   |                                 |
| – forward foreign exchange contracts                         | <b>815</b>  | (116)                           |
| – currency swap contract                                     | <b>3,009</b>  | (5,474)                         |
| – interest rate swap contract                                | <b>2,035</b>  | (3,782)                         |
|  | <b>5,859</b>  | (9,372)                         |

## 6 EXPENSES BY NATURE

|  | <b>Six months ended 31 August<br/>2013<br/>(Unaudited)<br/>HK\$'000</b> | 2012<br>(Unaudited)<br>HK\$'000 |
|--|---|---------------------------------|
| Cost of inventories sold   | <b>1,196,444</b>  | 1,154,792                       |
| (Reversal of write-down)/write-down of inventories to net realisable value | <b>(11,015)</b>   | 20,263                          |
| Employment costs (including directors' emoluments)                         | <b>506,209</b>  | 492,365                         |
| Operating lease rentals of premises  |   |                                 |
| – minimum lease payments   | <b>615,686</b>  | 523,212                         |
| – contingent rents   | <b>64,277</b>   | 101,435                         |
| Advertising and promotion costs  | <b>34,552</b>   | 36,604                          |
| Depreciation of furniture and equipment                                    | <b>133,866</b>  | 122,817                         |
| Loss/(gain) on disposals of furniture and equipment                        | <b>3,264</b>  | (317)                           |
| Licence fees (included in operating expenses)                              |   |                                 |
| – amortisation of licence rights   | <b>1,766</b>  | 1,645                           |
| – contingent licence fees  | <b>4,594</b>  | 6,623                           |
| Amortisation of intangible assets (included in operating expenses)         | <b>3,842</b>  | 5,086                           |
| (Reversal of)/provision for impairment of amount due from a joint venture  | <b>(651)</b>  | 1,576                           |
| Net exchange losses/(gains)  | <b>7,230</b>  | (2,070)                         |
| Other expenses   | <b>324,635</b>  | 345,133                         |
| Total  | <b>2,884,699</b>  | 2,809,164                       |
| Representing:  |   |                                 |
| Cost of sales  | <b>1,199,906</b>  | 1,198,523                       |
| Operating expenses   | <b>1,684,793</b>  | 1,610,641                       |
|  | <b>2,884,699</b>  | 2,809,164                       |

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

(Continued)

## 7 FINANCE COST, NET

|   | <b>Six months ended 31 August</b>                    |                                 |
|---|--|---------------------------------|
|   | <b>2013</b><br><b>(Unaudited)</b><br><b>HK\$'000</b> | 2012<br>(Unaudited)<br>HK\$'000 |
| Interest income from                                |  |                                 |
| – bank deposits                                     | <b>15,592</b>  | 4,459                           |
| – amounts due from joint ventures                   | <b>407</b>   | 228                             |
| – others <sup>①</sup>                               | <b>603</b>   | 968                             |
|   | <hr/>  | <hr/>                           |
| Finance income                                      | <b>16,602</b>  | 5,655                           |
|   | <hr/>  | <hr/>                           |
| Interest expense on borrowings                      |  |                                 |
| – wholly repayable within five years                | <b>(34,968)</b>                                      | (12,918)                        |
| – not wholly repayable within five years            | <b>(618)</b>   | (944)                           |
| Net foreign exchange transaction gain               | <b>5,044</b>   | –                               |
| Transfer from hedging reserve                       |  |                                 |
| – interest rate and currency swaps: cash flow hedge | <b>(703)</b>   | –                               |
|   | <hr/>  | <hr/>                           |
| Finance cost  | <b>(31,245)</b>                                      | (13,862)                        |
|   | <hr/>  | <hr/>                           |
| Net finance cost                                    | <b>(14,643)</b>                                      | (8,207)                         |
|   | <hr/>  | <hr/>                           |

Note:

<sup>①</sup> These represent the interest arisen from the unwinding of discount on financial assets recognised at amortised cost.

## 8 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 2012: 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 rate of 25% (six months ended 31 August 2012: ranging from 24% to 25%).

Japan Corporate Income Tax has been provided at the applicable rate of 40% 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 rates 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 2012: 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 2012: 17%) on the estimated assessable profits of the Group's operations in Taiwan.

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

(Continued)

## 8 INCOME TAX EXPENSE (Continued)

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

|  | Six months ended 31 August      |                                 |
|--|---------------------------------|---------------------------------|
|  | 2013<br>(Unaudited)<br>HK\$'000 | 2012<br>(Unaudited)<br>HK\$'000 |
| Current income tax                     |                                 |                                 |
| – Hong Kong profits tax                | 16,931                          | 13,082                          |
| – Mainland China enterprise income tax | 9,301                           | 300                             |
| – Overseas income tax                  | 3,287                           | 6,867                           |
| Deferred income tax                    | (22,195)                        | (6,303)                         |
|  | <u>7,324</u>                    | <u>13,946</u>                   |

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 2013 is 26.7% (six months ended 31 August 2012: 18.2%). The increase is mainly caused by a change of the distribution of profits of the Group's entities operating in different locations.

## 9 DIVIDENDS

A final dividend relating to the year ended 28 February 2013 amounting to HK\$36,863,000 was fully paid in July 2013.

The board does not declare the payment of an interim dividend for the six months ended 31 August 2013 (six months ended 31 August 2012: Nil).

## 10 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 |                     |
|---|----------------------------|---------------------|
|   | 2013<br>(Unaudited)        | 2012<br>(Unaudited) |
| Profit attributable to equity holders of the Company (HK\$'000) | <u>28,062</u>              | <u>119,734</u>      |
| Weighted average number of ordinary shares in issue ('000)      | <u>1,228,564</u>           | <u>1,226,493</u>    |
| Basic earnings per share (HK\$)                                 | <u>0.023</u>               | <u>0.098</u>        |

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

(Continued)

## 10 EARNINGS PER SHARE (Continued)

### 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 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.

|  | <b>Six months ended 31 August</b> |                     |
|--|-----------------------------------|---------------------|
|  | <b>2013</b><br><b>(Unaudited)</b> | 2012<br>(Unaudited) |
| Profit attributable to equity holders of the Company (HK\$'000)                  | <b>28,062</b>                     | 119,734             |
| Weighted average number of ordinary shares in issue ('000)                       | <b>1,228,564</b>                  | 1,226,493           |
| Adjustments for share options ('000)   | <b>31,447</b>                     | 40,316              |
| Weighted average number of ordinary shares for diluted earnings per share ('000) | <b>1,260,011</b>                  | 1,266,809           |
| Diluted earnings per share (HK\$)  | <b>0.022</b>                      | 0.095               |

## 11 PROPERTY, FURNITURE AND EQUIPMENT AND INTANGIBLE ASSETS

|  | <b>Property,<br/>furniture and<br/>equipment<br/>(Unaudited)<br/>HK\$'000</b> | <b>Intangible<br/>assets<br/>(Unaudited)<br/>HK\$'000</b> |
|--|---|---|
| <b>Six months ended 31 August 2013</b>       |   |   |
| Opening net book amount as at 1 March 2013   | <b>934,128</b>  | <b>359,338</b>  |
| Additions                                    | <b>92,633</b>   | <b>1,674</b>  |
| Disposals                                    | <b>(3,207)</b>  | –   |
| Depreciation and amortisation                | <b>(133,866)</b>  | <b>(5,608)</b>  |
| Exchange differences                         | <b>(3,073)</b>  | <b>(2,800)</b>  |
| Closing net book amount as at 31 August 2013 | <b>886,615</b>  | <b>352,604</b>  |
| <b>Six months ended 31 August 2012</b>       |   |   |
| Opening net book amount as at 1 March 2012   | 880,887   | 373,018   |
| Additions                                    | 179,912   | 3,475   |
| Disposals                                    | (170)   | –   |
| Depreciation and amortisation                | (122,817)   | (6,731)   |
| Exchange differences                         | 613   | 1,192   |
| Closing net book amount as at 31 August 2012 | 938,425   | 370,954   |

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

(Continued)

## 12 INVESTMENTS IN AND BALANCES WITH JOINT VENTURES

|   | <b>As at<br/>31 August<br/>2013<br/>(Unaudited)<br/>HK\$'000</b> | As at<br>28 February<br>2013<br>(Audited)<br>HK\$'000 |
|---|--|---|
| Share of net assets   | <u>219,302</u>   | <u>172,885</u>  |
| Amounts due from joint ventures                                   | <b>51,379</b>  | 53,985  |
| Less: provision for impairment of amount due from a joint venture | <b>(1,757)</b>   | (2,408)   |
|   | <u>49,622</u>  | <u>51,577</u>   |
|   | <b>268,924</b>   | 224,462   |
| Less: current portion of amounts due from joint ventures          | <b>(23,998)</b>  | (25,388)  |
|   | <u>244,926</u>   | <u>199,074</u>  |
| Amounts due to joint ventures                                     | <b>(56,955)</b>  | (51,549)  |

### (a) Balances with joint ventures

|  | <b>As at<br/>31 August<br/>2013<br/>(Unaudited)<br/>HK\$'000</b> | As at<br>28 February<br>2013<br>(Audited)<br>HK\$'000 |
|--|--|---|
| <b>Due from joint ventures</b>                 |  |   |
| ZIT H.K. Limited (Notes i)                     | <b>8,692</b>   | 10,730  |
| FCIT China Limited (Note ii)                   | <b>28,981</b>  | 28,655  |
| Glory Premium Limited (Note iv)                | <b>1,686</b>   | 1,442   |
| FCUK IT Company (Note iv)                      | -  | 635   |
| Galleries Lafayette (China) Limited (Note iii) | <b>404</b>   | 482   |
| Camper I.T China Limited (Note iv)             | <b>9,859</b>   | 9,633   |
|  | <u>49,622</u>  | <u>51,577</u>   |
| <b>Due to joint ventures</b>                   |  |   |
| Kenchart Apparel (Shanghai) Limited (Note iv)  | <b>(55,105)</b>  | (49,836)  |
| FCUK IT Company (Note iv)                      | <b>(1,850)</b>   | (1,713)   |
|  | <u>(56,955)</u>  | <u>(51,549)</u>                                       |

#### Notes:

- (i) The amount due from ZIT H.K. Limited of approximately HK\$10,449,000 (28 February 2013: HK\$10,730,000) is unsecured, interest bearing at 5% per annum (28 February 2013: 5% per annum) and fully repayable at the termination of the joint venture. The remaining balance is unsecured, non-interest bearing and repayable on demand.
- (ii) The amount due from FCIT China Limited of approximately HK\$6,669,000 (28 February 2013: HK\$6,387,000) is unsecured, non-interest bearing and fully repayable in 2016. This amount is carried at amortised cost using the effective interest rate at 5% per annum (28 February 2013: 5% per annum). The remaining balance is unsecured, non-interest bearing and repayable on demand.
- (iii) The amount due from Galleries Lafayette (China) Limited of approximately HK\$404,000 (28 February 2013: HK\$482,000) is unsecured, non-interest bearing (28 February 2013: HIBOR plus 0.3%) and fully repayable in 2017.
- (iv) The remaining balances with joint ventures are unsecured, non-interest bearing and repayable on demand.

There are no material contingent liabilities relating to the Group's investments in the joint ventures, and no material contingent liabilities of the joint ventures themselves.

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

(Continued)

## 12 INVESTMENTS IN AND BALANCES WITH JOINT VENTURES (Continued)

### (b) Details of the principal joint ventures:

| Name                                  | Place of incorporation/ establishment and operations | Issued and fully paid/ registered capital | Percentage of equity interest attributable to the Group indirectly | Principal activities                    |
|---------------------------------------|--|---|--|---|
| FCUK IT Company                       | Hong Kong  | HK\$2                                     | 50%  | Retail of fashion wears and accessories |
| FCIT China Limited                    | Hong Kong  | HK\$2                                     | 50%  | Investment holding                      |
| ZIT H.K. Limited                      | Hong Kong  | HK\$1,000,000                             | 50%  | Retail of fashion wears and accessories |
| Glory Premium Limited                 | Hong Kong  | HK\$4,500,000                             | 50%  | Investment holding                      |
| Kenchart Apparel (Shanghai) Limited   | Mainland China                                       | US\$3,700,000                             | 50%  | Retail of fashion wears and accessories |
| FCIT (Macau), Limited                 | Macau  | MOP\$1,030,000                            | 50%  | Retail of fashion wears and accessories |
| Galleries Lafayette (China) Limited   | Hong Kong  | HK\$425,485,166                           | 50%  | Investment holding                      |
| Galleries Lafayette (Beijing) Limited | Mainland China                                       | US\$15,000,000                            | 50%  | Operation of a department store         |
| Camper I.T China Limited              | Hong Kong  | HK\$6,000,000                             | 50%  | Investment holding                      |
| Camper (Shanghai) Limited             | Mainland China                                       | US\$600,000                               | 50%  | Retail of footwears                     |

## 13 TRADE AND OTHER RECEIVABLES

|  | As at<br>31 August<br>2013<br>(Unaudited)<br>HK\$'000 | As at<br>28 February<br>2013<br>(Audited)<br>HK\$'000 |
|--|---|---|
| Trade receivables – gross                          | 172,922   | 131,813   |
| Less: provision for impairment of trade receivable | (665)   | (586)   |
| Trade receivables – net                            | <u>172,257</u>  | <u>131,227</u>  |
| Other receivables                                  | 513   | 2,509   |
| Trade and other receivables                        | <u><u>172,770</u></u>                                 | <u><u>133,736</u></u>                                 |

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

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

(Continued)

## 13 TRADE AND OTHER RECEIVABLES (Continued)

The ageing analysis of the trade receivables is as follows:

|               | <b>As at<br/>31 August<br/>2013<br/>(Unaudited)<br/>HK\$'000</b> | As at<br>28 February<br>2013<br>(Audited)<br>HK\$'000 |
|---------------|--|---|
| 0 to 30 days  | 166,279  | 126,369   |
| 31 to 60 days | 2,982  | 2,077   |
| 61 to 90 days | 1,381  | 996   |
| Over 90 days  | 2,280  | 2,371   |
|               | <u>172,922</u>   | <u>131,813</u>  |

## 14 PREPAYMENTS AND OTHER DEPOSITS

|   | <b>As at<br/>31 August<br/>2013<br/>(Unaudited)<br/>HK\$'000</b> | As at<br>28 February<br>2013<br>(Audited)<br>HK\$'000 |
|---|--|---|
| Rental deposits                         | 400,860  | 388,592   |
| Prepayments                             | 156,666  | 120,291   |
| Utilities and other deposits            | 18,703   | 16,959  |
|   | <u>576,229</u>   | <u>525,842</u>  |
| Less: non-current portion:              |  |   |
| Rental deposits                         | (281,722)  | (298,675)   |
| Prepayments for furniture and equipment | (1,694)  | (5,868)   |
|   | <u>292,813</u>   | <u>221,299</u>  |

## 15 DERIVATIVE FINANCIAL INSTRUMENTS

|   | <b>As at 31 August 2013</b>                |   | As at 28 February 2013          |                                      |
|---|--|---|---------------------------------|--------------------------------------|
|   | <b>Assets<br/>(Unaudited)<br/>HK\$'000</b> | <b>Liabilities<br/>(Unaudited)<br/>HK\$'000</b> | Assets<br>(Audited)<br>HK\$'000 | Liabilities<br>(Audited)<br>HK\$'000 |
| Current portion:  |  |   |                                 |                                      |
| Foreign exchange forward contracts, at market value (a)                   | <u>601</u>                                 | <u>(222)</u>                                    | <u>1,163</u>                    | <u>(1,600)</u>                       |
| Non-current portion:  |  |   |                                 |                                      |
| Foreign currency swap contract, at market value (b)                       | 230  | -   | -                               | (2,779)                              |
| Foreign currency swap contract – cash flow hedges,<br>at market value (c) | -  | (29,424)  | -                               | -                                    |
| Interest rate swap contract, at market value (d)                          | -  | (1,326)   | -                               | (3,361)                              |
|   | <u>230</u>                                 | <u>(30,750)</u>                                 | <u>-</u>                        | <u>(6,140)</u>                       |

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

(Continued)

## 15 DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

Notes:

- (a) As at 31 August 2013, the notional principal amounts of the outstanding forward foreign exchange contracts to buy Japanese Yen, Pounding Sterling and Euro for economic hedging against foreign exchange risk exposures relating to firm purchase orders of fashion wears and accessories and certain outstanding payables denominated in those currencies, were HK\$39,183,900, HK\$11,695,000 and nil (as at 28 February 2013: HK\$84,616,000, HK\$11,728,000 and HK\$50,793,000) respectively. The remaining maturities of these contracts are within three months (as at 28 February 2013: three months).
- (b) As at 31 August 2013, the notional principal amount of the outstanding foreign currency swap contract to buy Chinese Renminbi for economic hedge against foreign exchange risk exposures relating to liabilities denominated in Chinese Renminbi was HK\$129,570,000 (as at 28 February 2013: HK\$129,570,000). The contract will be matured in March 2015.
- (c) The notional principal amounts of the outstanding interest rate and currency swap contracts as at 31 August 2013 were RMB1,000,000,000 (as at 28 February 2013: Nil). As at 31 August 2013, the fixed interest rate for the senior note was 6.25% per annum. The contract reference exchange rate for the senior note is 1.2645 HK\$ per one RMB (as at 28 February 2013: Nil). Gains and losses recognised in the hedging reserve in equity (Note 20) on interest rate and currency swap as of 31 August 2013 will be continuously released to the statement of comprehensive income until the repayment of the senior notes. (Note 18).
- (d) As at 31 August 2013, the notional principal amounts of the outstanding interest rate swap contracts for economic hedge against interest rate risk exposures relating to liabilities with floating interest rate was HK\$275,000,000 (as at 28 February 2013: HK\$275,000,000). The contracts will be matured in March 2015.

## 16 TRADE AND BILL PAYABLES

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

|                 | <b>As at<br/>31 August<br/>2013<br/>(Unaudited)<br/>HK\$'000</b> | As at<br>28 February<br>2013<br>(Audited)<br>HK\$'000 |
|-----------------|--|---|
| 0 to 30 days    | <b>260,039</b>   | 149,571   |
| 31 to 60 days   | <b>38,960</b>  | 65,950  |
| 61 to 90 days   | <b>16,045</b>  | 33,673  |
| 91 to 180 days  | <b>7,405</b>   | 20,936  |
| 181 to 365 days | <b>5,348</b>   | 2,636   |
| Over 365 days   | <b>1,281</b>   | 786   |
|                 | <b>329,078</b>   | 273,552   |

## 17 ACCRUALS AND OTHER PAYABLES

|                            | <b>As at<br/>31 August<br/>2013<br/>(Unaudited)<br/>HK\$'000</b> | As at<br>28 February<br>2013<br>(Audited)<br>HK\$'000 |
|----------------------------|--|---|
| Unutilised coupon          | <b>11,156</b>  | 11,749  |
| Accruals                   |  |   |
| – Rented premises          | <b>238,223</b>   | 227,506   |
| – Employment costs         | <b>51,560</b>  | 41,318  |
| – Others                   | <b>84,497</b>  | 63,316  |
| Other payables             | <b>150,886</b>   | 146,428   |
|                            | <b>536,322</b>   | 490,317   |
| Less: Non-current portion  |  |   |
| Accruals – Rented premises | <b>(11,979)</b>  | (14,140)  |
|                            | <b>524,343</b>   | 476,177   |

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

(Continued)

## 18 BORROWINGS

|                        | <b>As at<br/>31 August<br/>2013<br/>(Unaudited)<br/>HK\$'000</b> | As at<br>28 February<br>2013<br>(Audited)<br>HK\$'000 |
|------------------------|--|---|
| Current borrowings     |  |   |
| –Borrowing             | 430,810  | 365,661   |
| Non-current borrowings |  |   |
| –Borrowing             | 424,210  | 668,462   |
| –Senior Notes          | 1,247,103  | –   |
|                        | <b>1,671,313</b>   | 668,462   |
|                        | <b>2,102,123</b>   | 1,034,123   |

Movements in borrowings are analysed as follows:

|  | <b>(Unaudited)<br/>HK\$'000</b> |
|--|---------------------------------|
| <b>Six months ended 31 August 2013</b> |                                 |
| As at 1 March 2013                     | 1,034,123                       |
| Proceeds from borrowings               | 1,320,276                       |
| Repayments of borrowings               | (248,229)                       |
| Exchange differences                   | (4,047)                         |
| <b>As at 31 August 2013</b>            | <b>2,102,123</b>                |
| <b>Six months ended 31 August 2012</b> |                                 |
| As at 1 March 2012                     | 621,304                         |
| Proceeds from borrowings               | 465,064                         |
| Repayments of borrowings               | (67,226)                        |
| Exchange differences                   | 722                             |
| <b>As at 31 August 2012</b>            | <b>1,019,864</b>                |

The fair value of current borrowings approximates their carrying amount, as the impact of discounting is not significant. The effective borrowing cost was 4.72% (as at 28 February 2013: 2.3%) per annum.

Interest expense on borrowings for the six months ended 31 August 2013 is approximately HK\$35,586,000 (six months ended 31 August 2012: HK\$13,862,000).

Details of the Group's banking facilities are set out in Note 21.

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.

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

(Continued)

## 19 SHARE CAPITAL

The total number of authorised ordinary shares is 3,000,000,000 (28 February 2013: 3,000,000,000) with a par value of HK\$0.1 per share (28 February 2013: HK\$0.1 per share).

|                                      | Number of<br>ordinary shares<br>(thousands) | Nominal<br>Value<br>HK\$'000 |
|--------------------------------------|---|------------------------------|
| Issued and fully paid:               |   |                              |
| <b>At 1 March 2013</b> (Audited)     | 1,228,184                                   | 122,818                      |
| Exercise of share options            | 579   | 58                           |
|                                      | <u>1,228,763</u>                            | <u>122,876</u>               |
| <b>At 31 August 2013</b> (Unaudited) | 1,228,763                                   | 122,876                      |
|                                      | <u>1,220,666</u>                            | <u>122,067</u>               |
| <b>At 1 March 2012</b> (Audited)     | 1,220,666                                   | 122,067                      |
| Exercise of share options            | 7,475                                       | 747                          |
|                                      | <u>1,228,141</u>                            | <u>122,814</u>               |
| <b>At 31 August 2012</b> (Unaudited) | 1,228,141                                   | 122,814                      |

### Share options

Details of the Share Option Schemes are set out in the annual report for the year ended 28 February 2013. Movements in the number of share options outstanding and the exercise prices are as follows:

|                         | Six months ended 31 August          |                        |                                     |                        |
|-------------------------|-------------------------------------|------------------------|-------------------------------------|------------------------|
|                         | 2013                                |                        | 2012                                |                        |
|                         | Exercise price<br>per share<br>HK\$ | Options<br>(thousands) | Exercise price<br>per share<br>HK\$ | Options<br>(thousands) |
| Beginning of the period | 2.92                                | 128,552                | 2.77                                | 111,510                |
| Exercised               | 2.2                                 | (579)                  | 2.39                                | (7,475)                |
| Lapsed                  | 2.41                                | (6,821)                | –                                   | –                      |
|                         |                                     | <u>121,152</u>         |                                     | <u>104,035</u>         |
| End of the period       | 2.95                                | 121,152                | 2.80                                | 104,035                |

The weighted average closing price was HK\$2.91 (2012: HK\$4.39) per share at the dates immediately before the dates on which the options were exercised.

Share options outstanding at the end of the period have the following expiry dates and exercise prices:

| Expiry date       | Exercise<br>price after<br>issue of scrip<br>shares<br>HK\$ | Share options (thousands)  |                            |
|-------------------|---|----------------------------|----------------------------|
|                   |   | As at<br>31 August<br>2013 | As at<br>31 August<br>2012 |
| 13 April 2013     | 2.31  | –                          | 7,443                      |
| 27 December 2019  | 1.23  | 33,805                     | 33,805                     |
| 11 February 2020  | 1.43  | 22,537                     | 22,537                     |
| 17 March 2021     | 4.96  | 40,250                     | 40,250                     |
| 16 September 2022 | 3.42  | 24,560                     | –                          |
|                   |   | <u>121,152</u>             | <u>104,035</u>             |

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

(Continued)

## 20 RESERVES

|  | Share premium<br>(Unaudited)<br>HK\$'000 | Share-based<br>payment<br>reserve<br>(Unaudited)<br>HK\$'000 | Capital<br>reserve<br>(Unaudited)<br>HK\$'000 | Foreign<br>exchange<br>translation<br>reserve<br>(Unaudited)<br>HK\$'000 | Statutory<br>reserve<br>(Unaudited)<br>HK\$'000 | Hedging<br>reserve<br>(Unaudited)<br>HK\$'000 | Retained<br>profits<br>(Unaudited)<br>HK\$'000 | Total<br>(Unaudited)<br>HK\$'000 |
|--|--|--|---|--|---|---|--|----------------------------------|
| Balance at 1 March 2013                                  | 892,962                                  | 72,003   | 60,545  | 88,439   | 37,312  | -   | 1,279,292                                      | 2,430,553                        |
| Share option scheme                                      |  |  |   |  |   |   |  |                                  |
| – value of employment services                           | -  | 13,712   | -   | -  | -   | -   | -  | 13,712                           |
| Profit for the period                                    | -  | -  | -   | -  | -   | -   | 28,062   | 28,062                           |
| Final dividends for the year ended<br>28 February 2013   | -  | -  | -   | -  | -   | -   | (36,863)                                       | (36,863)                         |
| Exercise of share options                                | 1,542                                    | (326)  | -   | -  | -   | -   | -  | 1,216                            |
| Reversal of tax credit from<br>exercise of share options | -  | -  | (11,464)                                      | -  | -   | -   | -  | (11,464)                         |
| Transactions with non-controlling<br>interests           | -  | -  | -   | 105  | -   | -   | (283)  | (178)                            |
| Currency translation differences                         |  |  |   |  |   |   |  |                                  |
| – Group  | -  | -  | -   | (4,332)  | -   | -   | -  | (5,107)                          |
| – Joint ventures   | -  | -  | -   | 296  | -   | -   | -  | 1,071                            |
| Cash flow hedge recognised as<br>finance cost            | -  | -  | -   | -  | -   | 703   | -  | 703                              |
| Fair value changes on cash flow<br>hedge, net of tax     | -  | -  | -   | -  | -   | (29,424)                                      | -  | (29,424)                         |
| Balance at 31 August 2013                                | <u>894,504</u>                           | <u>85,389</u>  | <u>49,081</u>                                 | <u>84,508</u>  | <u>37,312</u>                                   | <u>(28,721)</u>                               | <u>1,270,208</u>                               | <u>2,392,281</u>                 |
| Representing:  |  |  |   |  |   |   |  |                                  |
| Declared interim dividends                               |  |  |   |  |   |   | -  |                                  |
| Others   |  |  |   |  |   |   | 1,270,208                                      |                                  |
|  |  |  |   |  |   |   | <u>1,270,208</u>                               |                                  |
| Balance at 1 March 2012                                  | 872,237                                  | 55,109   | 32,337  | 97,629   | 27,044  | -   | 1,064,293                                      | 2,148,649                        |
| Share option scheme                                      |  |  |   |  |   |   |  |                                  |
| – value of employment services                           | -  | 8,924  | -   | -  | -   | -   | -  | 8,924                            |
| Profit for the period                                    | -  | -  | -   | -  | -   | -   | 119,734  | 119,734                          |
| Final dividends for the year ended<br>29 February 2012   | -  | -  | -   | -  | -   | -   | (158,430)                                      | (158,430)                        |
| Exercise of share options                                | 20,655                                   | (3,524)  | -   | -  | -   | -   | -  | 17,131                           |
| Tax credit from exercise of share options                | -  | -  | 36,000  | -  | -   | -   | -  | 36,000                           |
| Acquisition of non-controlling interests                 | -  | -  | (4,626)                                       | -  | -   | -   | -  | (4,626)                          |
| Currency translation differences                         |  |  |   |  |   |   |  |                                  |
| – Group  | -  | -  | -   | (8,287)  | -   | -   | -  | (8,287)                          |
| – Joint ventures   | -  | -  | -   | (265)  | -   | -   | -  | (265)                            |
| Balance at 31 August 2012                                | <u>892,892</u>                           | <u>60,509</u>  | <u>63,711</u>                                 | <u>89,077</u>  | <u>27,044</u>                                   | <u>-</u>                                      | <u>1,025,597</u>                               | <u>2,158,830</u>                 |
| Representing:  |  |  |   |  |   |   |  |                                  |
| Declared interim dividends                               |  |  |   |  |   |   | -  |                                  |
| Others   |  |  |   |  |   |   | 1,025,597                                      |                                  |
|  |  |  |   |  |   |   | <u>1,025,597</u>                               |                                  |

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

(Continued)

## 21 BANKING FACILITIES AND PLEDGE OF ASSETS

As at 31 August 2013, the Group had aggregate banking facilities of approximately HK\$2,163 million (28 February 2013: approximately HK\$2,061 million) for overdrafts, bank loans and trade financing, of which approximately HK\$1,169 million (28 February 2013: approximately HK\$937 million) was unutilised as at the same date. These facilities are secured by corporate guarantees provided by the Company and certain subsidiaries.

## 22 COMMITMENTS

### (a) Capital commitments

|  | <b>As at<br/>31 August<br/>2013<br/>(Unaudited)<br/>HK\$'000</b> | As at<br>28 February<br>2013<br>(Audited)<br>HK\$'000 |
|--|--|---|
| Authorised but not contracted for<br>– capital expenditure | <b>13,550</b>  | –   |
| Contracted but not provided for<br>– capital expenditure   | <b>11,450</b>  | 1,409   |
|  | <b>25,000</b>  | 1,409   |

### (b) Lease commitments

The Group leases various retail shops, offices and warehouses under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights. The future aggregate minimal lease payments are as follows:

|   | <b>As at<br/>31 August<br/>2013<br/>(Unaudited)<br/>HK\$'000</b> | As at<br>28 February<br>2013<br>(Audited)<br>HK\$'000 |
|---|--|---|
| Not later than one year                           | <b>1,218,816</b>   | 1,118,414   |
| Later than one year and not later than five years | <b>1,862,213</b>   | 1,878,352   |
| Later than five years                             | <b>124,176</b>   | 140,543   |
|   | <b>3,205,205</b>   | 3,137,309   |

The above lease commitments only include commitments for basic rentals, and do not include commitments for additional rental payable (contingent rents), if any, which are to be determined generally by applying pre-determined percentages to future sales less the basic rentals of the respective leases, as it is not possible to determine in advance the amount of such additional rentals.

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

(Continued)

## 23 RELATED PARTY TRANSACTIONS

(a) As at 31 August 2013, the Group was controlled by Effective Convey Limited (incorporated in the British Virgin Islands), which directly and indirectly owns a total of 56.87% of the Company's shares. Effective Convey Limited is indirectly wholly-owned by a discretionary trust for the benefit of, amongst others, Mr. Sham Kar Wai and Mr. Sham Kin Wai.

(b) Details of significant transactions with related parties:

|   | Six months ended 31 August      |                                 |
|---|---------------------------------|---------------------------------|
|   | 2013<br>(Unaudited)<br>HK\$'000 | 2012<br>(Unaudited)<br>HK\$'000 |
| Purchases from joint ventures                         | 2,392                           | 3,073                           |
| Commission income from a joint ventures               | 678                             | 870                             |
| Interest income from joint ventures                   | 407                             | 228                             |
| Reimbursement of operating expenses by joint ventures | 2,138                           | 2,430                           |

(c) Key management compensation

|   | Six months ended 31 August      |                                 |
|---|---------------------------------|---------------------------------|
|   | 2013<br>(Unaudited)<br>HK\$'000 | 2012<br>(Unaudited)<br>HK\$'000 |
| Salaries and allowances   | 9,629                           | 8,686                           |
| Pension costs – employer's contributions to a defined contribution plan | 30                              | 27                              |
| Share options granted   | 8,136                           | 5,099                           |
|   | 17,795                          | 13,812                          |

## 24 SEASONALITY

The sales of fashion wears and accessories are subject to seasonal fluctuations, with higher sales amount in the third and fourth quarters of the financial year. This is due to seasonal weather conditions and holiday periods.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Business Review

### (a) Group

The global economy remained weak throughout the financial period under review; the prospect of a slowdown in the face of long-term Treasury repurchases by the federal government of the U.S.A., the recession in Eurozone economies with unemployment rates remaining high, alongside the diminishing economic growth in Mainland China as a result of volatile domestic consumption demand and insufficient export demand from the rest of the World continued to weigh on the already dampened Asian consumer retailing markets. Fashion business in particular, which is comparatively sensitive to economic conditions and consumer confidence continued to be adversely impacted by the difficult economic climate.

A majority of apparel retailers have been discounting aggressively across the Group's key operating regions (namely Hong Kong and Mainland China) since last year. Meanwhile, the Group responded with avoidance of discounts and increasing focus in various brand-building activities to further enhance the brand equity of its product lines and company heritage. As a result, our sales were adversely impacted while gross margins were uplifted in the first quarter (excluding the end-of-season sale event in March) as compared to the same period last year. In the second quarter, we saw a lift in sales momentum mainly attributed to an adjustment in the selling strategy towards a larger scale of promotional campaigns and discount offers (as compared to the first quarter), on top of some strategic refinement of our store networks (e.g. the revamp of **izzue** store in Festival Walk Hong Kong and the relocation of **ETE** and **b+ab** stores in Landmark North, Hong Kong, etc.).

Amidst weakening Asian economies dragged down by a number of external factors as discussed above, consumer sentiment across the Group's key operating regions remained weak during the period under review. As a result, turnover of the Group for the six months ended 31 August 2013 dropped slightly by 0.9% over last year, landing at HK\$2,939.6 million. The dual pressures of slower sales growth and shrinking margins as a result of more proactive markdowns in the second quarter, alongside the downward pressure on profitability driven by surging operating costs, led to a decline in the Group's net profit growth over last year.

### Turnover by Markets

Hong Kong continued to represent the Group's major source of revenue. Total turnover in Hong Kong amounted to HK\$1,594.3 million as at 31 August 2013, representing a 6.3% decrease over last year, accounting for 54.2% of total Group turnover.

Total turnover of Mainland China businesses achieved another year of double-digit growth to HK\$1,018.9 million, representing a 16.1% increase compared to the same period last year. It contributed 34.7% to total Group turnover. Notwithstanding that the retail markets in both Hong Kong and Mainland China suffered from the declining confidence of consumers, the Group continued to grow steadily in terms of retail network in both regions.

Turnover of our Japan businesses grew in a diminishing manner mainly due to the negative currency translation effect, landing at HK\$204.2 million, representing a 23.2% decline compared to last year, contributing 6.9% of total turnover.

**Breakdown of turnover by region of operation:**

|                   | Six months ended<br>31 August |                      |               | Six months ended<br>31 August |        |
|-------------------|-------------------------------|----------------------|---------------|-------------------------------|--------|
|                   | 2013<br>HK\$ million          | 2012<br>HK\$ million | Change        | 2013                          | 2012   |
| Hong Kong         | <b>1,594.3</b>                | 1,701.1              | <b>-6.3%</b>  | <b>54.2%</b>                  | 57.4%  |
| Retail sales only | 1,570.7                       | 1,691.5              | -7.1%         |                               |        |
| Mainland China    | <b>1,018.9</b>                | 878.0                | <b>+16.1%</b> | <b>34.7%</b>                  | 29.6%  |
| Retail sales only | 933.4                         | 813.5                | +14.8%        |                               |        |
| Japan             | <b>204.2</b>                  | 266.1                | <b>-23.2%</b> | <b>6.9%</b>                   | 9.0%   |
| Others            | <b>122.2</b>                  | 120.1                | <b>+1.7%</b>  | <b>4.2%</b>                   | 4.0%   |
| Total             | <b>2,939.6</b>                | 2,965.3              | <b>-0.9%</b>  | <b>100.0%</b>                 | 100.0% |

**Brand Mix**

Despite having witnessed a slowdown in sales growth across the Group's key operating regions during the period under review, the Group has continued to strengthen its differentiated market position as a fashion leader across the regions. We continued to invest with an emphasis on enhancing our product assortments and consumers' awareness for each of our international, in-house and licensed brands portfolio through various marketing channels. Our in-house brand businesses continued to enjoy the highest Group sales participation rate, landing at 57.2%, an increase of 0.6 percentage points over last year.

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

|                      | Retail Sales<br>Six months ended<br>31 August |                      |               | Group Participation<br>Six months ended<br>31 August |        |
|----------------------|---|----------------------|---------------|--|--------|
|                      | 2013<br>HK\$ million                          | 2012<br>HK\$ million | Change        | 2013   | 2012   |
| In-house brands      | <b>1,615.7</b>                                | 1,620.0              | <b>-0.3%</b>  | <b>57.2%</b>   | 56.6%  |
| International brands | <b>1,169.7</b>                                | 1,143.9              | <b>+2.3%</b>  | <b>41.4%</b>   | 40.0%  |
| Licensed brands      | <b>40.5</b>                                   | 98.1                 | <b>-58.7%</b> | <b>1.4%</b>  | 3.4%   |
| Total                | <b>2,825.9</b>                                | 2,862.0              | <b>-1.3%</b>  | <b>100.0%</b>  | 100.0% |

### **Dynamics in Margin and Cost**

Following a slight decrease of 0.9% in turnover, gross profit of the Group also recorded a decline at 1.5% compared to that in the same period last year, with gross margin reducing by 0.4 percentage points to 59.2%. The margin erosion was a result of aggressive discounting campaigns offered during the second quarter to stimulate sales growth across the Group's key operating regions (namely Hong Kong and Mainland China).

There was a decline in sales efficiency resulting from the dual effect of diminished turnover growth due to the challenging retail environment and surging operating costs. As a result, the total operating cost ratio increased, landing at 57.3% (2012: 54.3%) for the period under review. Staff costs (excluding share option expenses) and rent (including rental charges, management fee, rates and government rent) continued to represent a considerably significant portion of total operating expenses, with out-of-sales ratios amounting to 16.8% (2012: 16.3%) and 26.6% (2012: 24.1%) respectively.

Under the downward pressure on turnover and margin, alongside the upward pressure on costs as discussed above, operating profit for the six months ended 31 August 2013 declined by 58.6% over last year, landing at HK\$60.8 million, with operating margin dropping to 2.1% (2012: 4.9%).

#### **(b) Hong Kong**

Having experienced a slowdown in growth in the apparel retailing market and weaker consumer confidence in Hong Kong during the financial period which led to a retreat in the Group's business performance in the region over last year, we took a cautious approach in relation to store network expansion. Our total trading area in Hong Kong only increased slightly by 0.7% to 625,676 square foot compared to 621,147 square foot as at 28 February 2013. General consumers remained cautious with regard to spending in view of the unfavorable global economic environment which is expected, inevitably, to cause considerable challenges to the region in the short-term. As a result, our Hong Kong businesses were adversely impacted vis-à-vis both turnover growth and comparable-store-sales measure. Our Hong Kong businesses recorded a decline of 6.3% in turnover to HK\$1,594.3 million and a 7.1% decline in retail sales to HK\$1,570.7 million, with comparable-store-sales registered at -9.5% for the period under review.

The avoidance of discounting during the first quarter has uplifted gross margin and offset the decline in gross margin recorded in the second quarter when more proactive promotional campaigns were offered. As a result, gross margin remained at 59.1%. Operating profit decreased by 75.4% to HK\$22.8 million at a 1.4% operating margin (2012: 5.4%) as a result of turnover shrinkage and an operating costs hike. Operating cost to sales ratio increased to 58.0% (2012: 53.1%) for the period under review.

**(c) Mainland China**

The apparel retailing market in Mainland China continued to struggle under the difficult macroeconomic climate and volatile domestic consumption during the financial period. The stagnant economy led to weaker consumer sentiment among the Group's retail customers. Despite this, the Group achieved 16.1% growth in revenue over last year, landing at HK\$1,018.9 million. Total retail sales increased by 14.8% to HK\$933.4 million. With respect to comparable store sales, we saw it turnaround positively in quarter two mainly attributed to the more proactive discounting activities offered, registered at -1.9% (2012: 12.9%). Gross margin narrowed to 55.8% (2012: 58.1%) as a result of extra discounts offered in second quarter to stimulate sales volume.

Sales efficiency has yet to reap its initial expectation during this market full of economic challenges and uncertainties, also due to the higher operating cost ratio recorded for the period under review at 57.2% (2012: 56.9%) primarily driven by the inflated operating costs of running existing stores and expanding our store network. The dual effect of gross margin shrinkage and operating costs escalation discussed above caused an operating loss of HK\$14.0 million (2012: operating profit of HK\$10.5 million) to the Group during the financial period under review.

Nevertheless, the Group believes that Mainland China remains a promising market in the medium to longer term due to the accelerating urbanization, the fast-growing middle income class and high net worth population, and hence growing demand for fashion and luxury products, etc. Therefore, the Group responded by increasing sales area further by 3.6% to 730,400 square foot compared to 704,819 square foot as at 28 February, 2013. The Group also expects the proportion of revenue generated from our Mainland China operations to increase in the long run.

**(d) Japan**

Sales in Japan dropped by 23.2% to HK\$204.2 million for the six months ended 31 August 2013, mainly due to the negative currency translation effect. Operating efficiency enhancement was further achieved resulting in another year of operating profit of HK\$33.7 million, representing 78.8% growth over last year.

**(e) Others**

Total retail sales in other regions (namely Macau and Taiwan) increased by 1.7% to HK\$122.2 million while operating profit dropped by 26.7% to HK\$18.4 million. Our Macau businesses continued to grow (though in a diminishing manner) mainly driven by the steady local economic growth and increasing in-bound tourist traffic from Mainland China in particular. While the Taiwan consumer market remained challenging, consumer confidence was generally weak and volatile during the period under review.

### **Share of Results of Joint Ventures**

Mainly attributed to the pre-operating expenses of the joint venture, Galeries Lafayette (China) Limited, a share of loss of joint ventures amounting to HK\$10.7 million was recorded for the six months ended 31 August 2013 (2012: a share of loss of joint ventures of HK\$3.5 million).

### **Inventory**

Multiple aggressive promotional activities alongside innovative marketing efforts including brand collaborations were employed to further leverage company equities and boost sales volume. As a result, inventory turnover days of the Group as at 31 August 2013, amounted to 181. It was 16 days lower than that in the same period last year. The Group is also confident about the quality of inventory as it comprises a significant proportion of current season and new Fall/Winter 2013 items.

### **Cash Flows & Financial Position**

The Group's cash and bank balances as at 31 August 2013 were HK\$2,100.6 million (28 February 2013: HK\$961.2 million) and its net debt balance of HK\$1.5 million (net debt is defined as cash and cash equivalents of HK\$2,100.6 million less bank borrowings of HK\$855.0 million and RMB Senior Notes of HK\$1,247.1 million as shown in the consolidated statement of financial position) compared to the net debt balance of HK\$73.0 million as at 28 February 2013.

Cash inflow from operating activities for the six months ended 31 August 2013 amounted to HK\$244.4 million (2012: HK\$140.0 million).

### **Liquidity and Banking Facilities**

As at 31 August 2013, the Group had aggregate banking facilities of approximately HK\$2,163.0 million (28 February 2013: approximately HK\$2,061.0 million) for overdrafts, bank loans and trade financing, of which approximately HK\$1,169.0 million (28 February 2013: approximately HK\$937.0 million) was unutilised as at the same date. These facilities are secured by corporate guarantees provided by the Company and certain subsidiaries.

### **Charges of Assets**

As at 31 August 2013, bank borrowings were secured on land and buildings with a carrying amount of HK\$219.3 million (28 February 2013: HK\$222.6 million).

### **Contingent Liabilities**

As at 31 August 2013, the Group did not have significant contingent liabilities.

### **Foreign Exchange**

The Group is exposed to foreign exchange risk arising from the exposure in 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 enters 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 6,462 employees as at 31 August 2013 (2012: 6,476). 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**

Inevitably, there remain some mounting uncertainties in global economies for the rest of the year 2013 and possibly 2014. Volatile consumer confidence seems to be persisting in the retailing markets in many of the countries around the world. Although the world economy has shown very modest signs of recovery recently, we remain cautious with respect to the growth of consumer demand in Asian markets in the short-term as the overall Asian consumer markets are still expected to be dogged by uncertainties. However, we are positive regarding the business development across the Group's key operating regions in the long-run, Mainland China in particular. As the population of middle and upper income classes continues to rise and account for a very significant part of the mid to higher end of fashion consumption, we will continue to stay focused on the business strategies set forth for the year while actively responding to market changes and opportunities. We are also confident that our sound and unique business model with strong understanding of consumers' preferences and fashion trends, alongside a solid and healthy financial position will enable us to forge through the current economic headwinds and strengthen our leadership role in the fashion and apparel industry around the regions.

A number of innovative marketing campaigns and celebrations have already been held in Hong Kong and Mainland China primarily during the first half of the financial year for our 25th anniversary. And we are expecting to roll out more exciting and inspiring celebration programs in the second half of the financial year including a fashion exhibition tour in Paris, London, Beijing, and Hong Kong, with the participation of a number of reputable fashion brands and units. More cross-border brand collaboration and crossovers have already been lined up on top of the grand opening of our joint venture business with Galeries Lafayette in October 2013. We are very delighted and looking forward to this new milestone in the history of I.T.

## DISCLOSURE OF INTEREST

### DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 31 August 2013, the interests and short positions of the Directors and Chief Executives in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance (the "SFO")), as recorded in the register maintained by the Company under Section 352 of the SFO or as notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follow:

#### (a) Long positions in the shares of the Company

| Director              | Beneficiary of trust<br>(Note 1) | No. of shares held<br>Interest in<br>underlying<br>shares/equity<br>derivatives<br>(Note 2) | Direct<br>interest | Total       | Percentage<br>of issued<br>share capital |
|-----------------------|----------------------------------|---|--------------------|-------------|--|
| Sham Kar Wai (Note 3) | 698,564,441                      | 35,048,379  | 6,834,000          | 740,446,820 | 60.25%                                   |
| Sham Kin Wai (Note 3) | 698,564,441                      | 35,048,379  | 6,834,000          | 740,446,820 | 60.25%                                   |

Notes:

- (1) Mr. Sham Kar Wai and Mr. Sham Kin Wai are both beneficiaries of The ABS 2000 Trust, which is an irrevocable discretionary trust. Fine Honour Limited, Fortune Symbol Limited, Fresh Start Holdings Limited and Sure Elite Limited are wholly-owned subsidiaries of Effective Convey Limited (collectively the "Immediate Holding Companies"). Effective Convey Limited is wholly-owned by Dynamic Vitality Limited, which is in turn wholly-owned by The ABS 2000 Trust. Each of Mr. Sham Kar Wai and Mr. Sham Kin Wai is therefore deemed to be interested in the interests of the Immediate Holding Companies in the Company. Detailed in the section headed "Substantial Shareholders' Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Company" below.
- (2) Detailed in the section headed "Share Options" below.
- (3) Ms. Yau Shuk Ching, Chingmy, spouse of Mr. Sham Kar Wai, is deemed to be interested in the same number of shares held by Mr. Sham Kar Wai. Ms. Wong Choi Shan, spouse of Mr. Sham Kin Wai, is deemed to be interested in the same number of shares held by Mr. Sham Kin Wai. Their interests in the shares and underlying shares of the Company are recorded in the register maintained by the Company under Section 336 of the SFO.

#### (b) Long positions in the share options of the Company

The interests of the Directors and Chief Executives of the Company in the share options of the Company are detailed in the section headed "Share Options" below.

## DISCLOSURE OF INTEREST (Continued)

### DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION (Continued)

#### (c) Long positions in the shares of associated corporations of the Company

| Director     | Name of associated corporations | Capacity                        | Percentage of shareholding |
|--------------|---------------------------------|---------------------------------|----------------------------|
| Sham Kar Wai | 3WH Limited                     | Beneficial owner                | 50% (Note 1)               |
|              | Income Team Limited             | Interests in controlled company | 100%                       |
|              | Online Profit Limited           | Interests in controlled company | 100%                       |
|              | Popbest Limited                 | Interests in controlled company | 100%                       |
|              | Shine Team Development Limited  | Interest in controlled company  | 100%                       |
|              | Veston Limited                  | Interests in controlled company | 100%                       |
|              | Young Ranger Investment Limited | Interests in controlled company | 100%                       |
|              | Sure Elite Limited              | Beneficiary of a trust          | 100%                       |
|              | Fresh Start Holdings Limited    | Beneficiary of a trust          | 100%                       |
|              | Fortune Symbol Limited          | Beneficiary of a trust          | 100%                       |
|              | Fine Honour Limited             | Beneficiary of a trust          | 100%                       |
|              | Effective Convey Limited        | Beneficiary of a trust          | 100%                       |
|              | Dynamic Vitality Limited        | Beneficiary of a trust          | 100%                       |
| Sham Kin Wai | 3WH Limited                     | Beneficial owner                | 50%                        |
|              | Income Team Limited             | Interests in controlled company | 100%                       |
|              | Online Profit Limited           | Interests in controlled company | 100%                       |
|              | Popbest Limited                 | Interests in controlled company | 100%                       |
|              | Shine Team Development Limited  | Interests in controlled company | 100%                       |
|              | Veston Limited                  | Interests in controlled company | 100%                       |
|              | Young Ranger Investment Limited | Interests in controlled company | 100%                       |
|              | Sure Elite Limited              | Beneficiary of a trust          | 100%                       |
|              | Fresh Start Holdings Limited    | Beneficiary of a trust          | 100%                       |
|              | Fortune Symbol Limited          | Beneficiary of a trust          | 100%                       |
|              | Fine Honour Limited             | Beneficiary of a trust          | 100%                       |
|              | Effective Convey Limited        | Beneficiary of a trust          | 100%                       |
|              | Dynamic Vitality Limited        | Beneficiary of a trust          | 100%                       |

Note:

- (1) Mr. Sham Kar Wai and Ms. Yau Shuk Ching, Chingmy (spouse of Mr. Sham Kar Wai) each holds 25% of the issued share capital of 3WH Limited. As such, Mr. Sham Kar Wai is deemed to be interested in the same number of shares held by Ms. Yau Shuk Ching, Chingmy.

Save as disclosed above, none of the Directors or their associates had any interests and/or short positions in the shares, underlying shares or debentures of the Company or its associated corporations as at 31 August 2013.

## DISCLOSURE OF INTEREST (Continued)

### DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Apart from those disclosed in the section headed "Share Options" below, at no time during the period ended 31 August 2013 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangements to enable the Directors or their associates to acquire benefits by means of acquisition of shares in, or debenture of, the Company or any body corporate.

### SHARE OPTIONS

#### (a) The First Share Option Scheme

The Company adopted a share option scheme (the "First Share Option Scheme") on 3 February 2005. The First Share Option Scheme is operated for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Pursuant to the First Share Option Scheme, the Company might grant options to eligible participants as defined in the First Share Option Scheme to subscribe for shares in the Company at a price per share of not less than the highest of (i) the nominal value of a share; (ii) the closing price of a share as stated in the daily quotation sheets issued by the Stock Exchange on the date of the offer of the relevant option; and (iii) the average closing price of the shares as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the date of offer. A consideration of HK\$10 was to be paid on acceptance of the grant of options.

No participant with options granted was in excess of the individual limit as stipulated in the First Share Option Scheme.

The First Share Option Scheme ought to remain in force for a period of 10 years up to February 2015. At the 2008 annual general meeting of the Company held on 30 June 2008, the shareholders of the Company approved the adoption of a new share option scheme (the "New Share Option Scheme"), detailed hereafter, and the termination of the First Share Option Scheme.

The operation of the First Share Option Scheme was terminated with effect from the conclusion of the 2008 annual general meeting. No further options could thereafter be offered under the First Share Option Scheme but the provisions of the First Share Option Scheme would remain in full force and effect. Options granted under the First Share Option Scheme and remained unexpired prior to the termination of the First Share Option Scheme continued to be exercisable in accordance with their terms of issue after the termination of the First Share Option Scheme.

#### (b) The New Share Option Scheme

The New Share Option Scheme is to enable the Group to be more flexible in granting options to selected eligible participants as incentives or rewards for their contribution or potential contribution to the Group. Pursuant to the New Share Option Scheme, the Company may grant options to eligible participants as defined in the New Share Option Scheme to subscribe for shares in the Company at a price per share of not less than the highest of (i) the nominal value of a share; (ii) the closing price of a share as stated in the daily quotation sheets issued by the Stock Exchange on the date of the offer of the relevant option; and (iii) the average closing price of the shares as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the date of offer. A consideration of HK\$10 is payable on acceptance of the grant of options. The New Share Option Scheme will remain in force for a period of 10 years up to June 2018.

No participant with options granted is in excess of the individual limit as stipulated in the New Share Option Scheme.

The maximum number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the First Share Option Scheme, the New Share Option Scheme and any other scheme adopted by the Group from time to time would not in aggregate exceed 30% of the Share in issue from time to time. The maximum number of shares issued and to be issued upon exercise of options granted under the New Share Option Scheme and any other share option schemes of the Company to any eligible participant, in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue.

As at the date of this report, the total number of Shares available for issue under the New Share Option Scheme and any other share option schemes of the Company is 55,226,003, representing 4.49% of the issued share capital of the Company.

## DISCLOSURE OF INTEREST (Continued)

### SHARE OPTIONS (Continued)

Details of the movements in share options to subscribe for shares in the Company during the period ended 31 August 2013 are set out below:

|                                      | Date of grant     | Exercise period                        | Exercise price per share<br>HK\$ | As at 1 March 2013 | Number of Share Options<br>Granted during the period | Exercised during the period | Lapsed during the period | As at 31 August 2013 | Notes |
|--------------------------------------|-------------------|--|----------------------------------|--------------------|--|-----------------------------|--------------------------|----------------------|-------|
| <b>Director</b>                      |                   |  |                                  |                    |  |                             |                          |                      |       |
| Sham Kar Wai                         | 14 April 2008     | 14 April 2008 to 13 April 2013         | 2.41                             | 3,409,980          | –  | –                           | (3,409,980)              | –                    | (1)   |
|                                      | 12 February 2010  | 12 February 2012 to 11 February 2020   | 1.43                             | 11,268,379         | –  | –                           | –                        | 11,268,379           |       |
|                                      | 18 March 2011     | 18 March 2017 to 17 March 2021         | 4.96                             | 11,500,000         | –  | –                           | –                        | 11,500,000           |       |
|                                      | 17 September 2012 | 17 September 2018 to 16 September 2022 | 3.42                             | 12,280,000         | –  | –                           | –                        | 12,280,000           |       |
| Sham Kin Wai                         | 14 April 2008     | 14 April 2008 to 13 April 2013         | 2.41                             | 3,409,980          | –  | –                           | (3,409,980)              | –                    | (1)   |
|                                      | 12 February 2010  | 12 February 2012 to 11 February 2020   | 1.43                             | 11,268,379         | –  | –                           | –                        | 11,268,379           |       |
|                                      | 18 March 2011     | 18 March 2017 to 17 March 2021         | 4.96                             | 11,500,000         | –  | –                           | –                        | 11,500,000           |       |
|                                      | 17 September 2012 | 17 September 2018 to 16 September 2022 | 3.42                             | 12,280,000         | –  | –                           | –                        | 12,280,000           |       |
| <b>Continuous contract employees</b> | 14 April 2008     | 14 April 2008 to 13 April 2013         | 2.20                             | 580,206            | –  | (579,353)                   | (853)                    | –                    | (2)   |
|                                      | 28 December 2009  | 28 December 2011 to 27 December 2019   | 1.23                             | 33,805,137         | –  | –                           | –                        | 33,805,137           |       |
|                                      | 18 March 2011     | 18 March 2017 to 17 March 2021         | 4.96                             | 17,250,000         | –  | –                           | –                        | 17,250,000           |       |
|                                      |                   |  |                                  | <u>128,552,061</u> | <u>–</u>   | <u>(579,353)</u>            | <u>(6,820,813)</u>       | <u>121,151,895</u>   |       |

Notes:

(1) The vesting date was 14 April 2010. The exercise period was from 14 April 2010 to 13 April 2013.

(2) The vesting date and exercisable period of the options were as follows:–

| Vesting date  | Exercise period                | As at 1 March 2013 | Number of Share Options                   |                          | As at 31 August 2013 |
|---------------|--------------------------------|--------------------|---|--------------------------|----------------------|
|               |                                |                    | Exercised during the period<br>(Note (a)) | Lapsed during the period |                      |
| 14 April 2010 | 14 April 2010 to 13 April 2013 | <u>580,206</u>     | <u>(579,353)</u>                          | <u>(853)</u>             | <u>–</u>             |

Note (a) The weighted average closing price of the shares immediately before the dates on which the options were exercised was HK\$3.11.

## DISCLOSURE OF INTEREST (Continued)

### SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

As at 31 August 2013, the register kept by the Company under Section 336 of the SFO showed that the following shareholders (other than Directors of the Company) had disclosed to the Company pursuant to Division 2 and 3 of Part XV of the SFO an interest or a short position in the shares or underlying shares of the Company:

#### Long positions in the Shares of the Company

| Name  | Capacity  | Number of shares held | Percentage of issued share capital | Long/short positions/lending pool |
|---|---|-----------------------|------------------------------------|-----------------------------------|
| Yau Shuk Ching Chingmy (Note 1)                 | Beneficiary of a trust/Interest of spouse                         | 743,856,800           | 60.56%                             | Long                              |
| Wong Choi Shan (Note 2)                         | Beneficiary of a trust/Interest of spouse                         | 743,856,800           | 60.56%                             | Long                              |
| Effective Convey Limited (Note 3)               | Beneficial owner and interest in corporation                      | 698,564,441           | 56.87%                             | Long                              |
| Dynamic Vitality Limited (Note 4)               | Interest in corporation   | 698,564,441           | 56.87%                             | Long                              |
| HSBC International Trustee Limited (Note 4)     | Interest in corporation   | 698,564,441           | 56.87%                             | Long                              |
| Fine Honour Limited (Note 3)                    | Beneficial owner  | 169,197,830           | 13.98%                             | Long                              |
| Templeton Asset Management Limited              | Investment manager  | 122,783,195           | 9.99%                              | Long                              |
| JPMorgan Chase & Co. (Notes 5)                  | Beneficial owner and custodian corporation/approved lending agent | 72,879,741            | 5.93%                              | Long/lending pool                 |
| Glorious Sun Trading (HK) Limited               | Beneficial owner  | 68,827,473            | 5.77%                              | Long                              |
| Glorious Sun Enterprises (BVI) Limited (Note 6) | Interest in corporation   | 68,827,473            | 5.77%                              | Long                              |
| Glorious Sun Enterprises Limited (Note 6)       | Interest in corporation   | 68,827,473            | 5.77%                              | Long                              |
| Glorious Sun Holdings (BVI) Limited (Note 7)    | Interest in corporation   | 68,827,473            | 5.77%                              | Long                              |
| Yeung Chun Kam (Note 7)                         | Interest in controlled company                                    | 68,827,473            | 5.77%                              | Long                              |
| Yeung Chun Fan (Note 7)                         | Interest in controlled company                                    | 68,827,473            | 5.77%                              | Long                              |
| Cheung Wai Yee (Note 8)                         | Interest in controlled company                                    | 68,827,473            | 5.77%                              | Long                              |

#### Notes:

- Spouse of Mr. Sham Kar Wai (Director of the Company). Out of the 743,856,800 Shares, Ms. Yau held 45,292,359 shares in the capacity of interest of spouse and the balance being 698,564,441 Shares, in the capacity of beneficiary of a trust.
- Spouse of Mr. Sham Kin Wai (Director of the Company). Out of the 743,856,800 Shares, Ms. Wong held 45,292,359 shares in the capacity of interest of spouse and the balance being 698,564,441 Shares, in the capacity of beneficiary of a trust.
- Fine Honour Limited, Fortune Symbol Limited, Fresh Start Holdings Limited and Sure Elite Limited (collectively the "Companies") are wholly-owned subsidiaries of Effective Convey Limited. Effective Convey Limited is therefore deemed interested in the Shares held by the Companies. Fortune Symbol Limited, Fresh Start Holdings Limited and Sure Elite Limited each held 60,028,130 Shares as at 31 August 2013.
- Effective Convey Limited is a wholly-owned subsidiary of Dynamic Vitality Limited, which is wholly-owned by The ABS 2000 Trust. The ABS 2000 Trust was established on 14 September 2000 as an irrevocable discretionary trust for the benefit of Mr. Sham Kar Wai and Mr. Sham Kin Wai, and their respective family members. HSBC International Trustee Limited is the trustee of The ABS 2000 Trust. Each of Dynamic Vitality Limited and HSBC International Trustee Limited is therefore deemed interested in the Shares held by Effective Convey Limited.
- Out of the 72,879,741 Shares, JPMorgan Chase & Co held 5,500,000 Shares in the capacity of beneficial owner and the balance, being 67,379,741 Shares, in the capacity of custodian corporation/approved lending agent. JPMorgan Chase & Co. held the Shares through its controlled corporations, JPMorgan Chase Bank, N.A., J.P. Morgan Securities plc, J.P. Morgan Chase International Holdings, J.P. Morgan Chase (UK) Holdings Limited, J.P. Morgan Capital Holdings Limited, J.P. Morgan International Finance Limited, Bank One International Holdings Corporation and J.P. Morgan International Inc.
- Glorious Sun Trading (HK) Limited is a wholly-owned subsidiary of Glorious Sun Enterprises (BVI) Limited, which is wholly-owned by Glorious Sun Enterprises Limited. Each of Glorious Sun Enterprises (BVI) Limited and Glorious Sun Enterprises Limited is therefore deemed interested in the Shares held by Glorious Sun Trading (HK) Limited.
- Glorious Sun Holdings (BVI) Limited holds 39.16% interest in Glorious Sun Enterprises Limited. Dr. Yeung Chun Kam and Mr. Yeung Chun Fan respectively holds 51.934% and 48.066% interest in Glorious Sun Holdings (BVI) Limited. Therefore, each of Glorious Sun Holdings (BVI) Limited, Dr. Yeung Chun Kam and Mr. Yeung Chun Fan is deemed interested in the Shares held by Glorious Sun Trading (HK) Limited.
- Spouse of Mr. Yeung Chun Fan.

## OTHER INFORMATION

### INTERIM DIVIDEND

The business environment would likely continue to be a difficult one, the Board does not declare the payment of an interim dividend for the six months ended 31 August 2013 (six months ended 31 August 2012: Nil) so as to retain cash and working capital.

### CORPORATE GOVERNANCE CODE

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 complied with the code provisions of the Corporate Governance Code (the "CG Code") set out in Appendix 14 of the Listing Rules throughout the six months ended 31 August 2013, except for the deviations 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 OF LISTED ISSUERS

The Company has adopted the Model Code as set out in Appendix 10 to 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 2013, they have complied with the required standard set out in the Model Code regarding securities transactions by the Directors.

### DISCLOSURE OF DIRECTORS' INFORMATION PURSUANT TO RULE 13.51B(1) OF THE LISTING RULES

The changes in the information of the Directors of the Company since the publication of the annual report of the Company for the year ended 28 February 2013 are set out below:

| <b>Name of Director</b>   | <b>Details of changes</b>   |
|---|---|
| <i>Independent Non-executive Director</i><br>Dr. Wong Tin Yau, Kelvin, J.P. | <ul style="list-style-type: none"><li>– ceased as a member of the Securities and Futures Commission (HKEC Listing) Committee with effect from 1 April 2013;</li><li>– ceased as a member of the Main Board and GEM Listing Committee of The Stock Exchange of Hong Kong Limited with effect from 25 May 2013;</li><li>– appointed as a Justice of the Peace by The Government of the HKSAR with effect from 1 July 2013;</li><li>– resigned as an independent non-executive director and the chairman and a member of the audit committee of China Metal International Holdings Inc. with effect from 12 July 2013; and</li><li>– appointed as a convenor-cum-member of the Financial Reporting Review Panel with effect from 16 July 2013.</li></ul> |
| Mr. Mak Wing Sum, Alvin   | <ul style="list-style-type: none"><li>– appointed as an independent non-executive director, a member of each of the audit committee, nomination committee and remuneration committee of Hong Kong Television Network Limited with effect from 1 September 2013.</li></ul>   |

Save as disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

### CONTINUING DISCLOSURE REQUIREMENTS

#### (a) The Facilities

Terms used herein have the same meaning as those defined in the announcement made by the Company on 24 February 2012 pursuant to Rule 13.18 of the Listing Rules.

On 24 February 2012, the Company made an announcement that i.t apparels Limited, has entered into the Facility Agreement for the purposes of financing the capital expenditure and general corporate requirements of the Group. Pursuant to the Facility Agreement, it is (among other matters) an event of default if (i) Mr. Sham Kar Wai and Mr. Sham Kin Wai, the current Executive Directors, and the Sham's Family Trust collectively do not or cease to maintain management control over the management and business of the Group; or (ii) the Sham's Family and the Sham's Family Trust collectively do not or cease to own, directly or indirectly, at least 40% of the beneficial shareholding, carrying at least 40% of the voting rights in the Company, free from any Security. Upon occurrence of an event of default, commitments of the Lenders or any part thereof under the Facility Agreement may be cancelled, and/or all or any part of the Loans together with accrued interest and all other amounts accrued or outstanding may become immediately due and payable, and/or all or any part of the Loans may become payable on demand.

Details of the Facilities are set out below:

|                     |   |
|---------------------|---|
| Facility Agreement: | The facility agreement dated 24 February 2012 and executed by i.t apparels Limited, the Guarantors, the Facility Agent and the Lenders;   |
| Borrower:           | i.t apparels Limited, an indirectly wholly-owned subsidiary of the Company;   |
| Guarantors:         | the Company and 12 direct and indirect subsidiaries of the Company;   |
| Lenders:            | Hang Seng Bank Limited and The Hongkong and Shanghai Banking Corporation Limited;   |
| Facility Agent:     | Hang Seng Bank Limited;   |
| Facilities:         | Facility A, Facility B and Facility C;<br>Facility A:<br>a HK\$ term loan of HK\$275,000,000, which is repayable over a period of 48 months from the date of the Facility Agreement<br>Facility B:<br>a HK\$ revolving loan of HK\$100,000,000, the termination date of which is the date falling 47 months from the date of the Facility Agreement<br><i>(Upon the Company's application, Facility B was cancelled effective from 28 June 2013)</i><br>Facility C:<br>a RMB term loan of RMB105,000,000, the repayment date of which is the date falling 36 months from the date of the Facility Agreement |

## OTHER INFORMATION (Continued)

### CONTINUING DISCLOSURE REQUIREMENTS (Continued)

#### (b) The Notes

Terms used herein have the same meaning as those defined in the announcement made by the Company on 8 May 2013 (the "Announcement").

On 8 May 2013, the Company made the Announcement that the Company has entered into the Subscription Agreement with the Joint Lead Managers in relation to the issue of the Notes. Pursuant to the terms and conditions of the Notes, if (among other matters), the Permitted Holders (as explained hereinafter) collectively do not or cease to (i) maintain management control over the management and business of the Group or (ii) own, directly or indirectly, at least 40% of the beneficial shareholding, carrying at least 40% of the Voting Stock in the Company, free from Security, each holder of the Notes will have the right to require the Company to redeem the Notes at 101% of their principal amount, together with accrued interest. Permitted Holders means any or all of the following: (1) Mr. Sham Kar Wai and Mr. Sham Kin Wai; (2) any Affiliate (other than an Affiliate as defined in clause (2) or (3) of the definition of Affiliate in the Announcement) of the Person specified in (1) hereof; and (3) any Person both the Capital Stock and the Voting Stock of which (or in the case of a trust, the beneficial interests in which) are owned 80% by Persons specified in (1) and (2) hereof.

Principal terms of the Notes are set out below:

|              |  |
|--------------|--|
| Notes:       | principal amount of CNY1,000,000,000 to be matured on 15 May 2018;   |
| Issue Date:  | 15 May 2013;   |
| Issue Price: | 100%;  |
| Interest:    | the Notes will bear interest from and including 15 May 2013 at the rate of 6.25% per annum, payable semi-annually in arrears on 15 May and 15 November in each year commencing on 15 November 2013 |

The circumstances giving rise to the obligations of disclosure pursuant to Rule 13.18 of the Listing Rules continue to exist after the period ended 31 August 2013.

### REVIEW OF FINANCIAL INFORMATION

The Audit Committee has 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 2013.

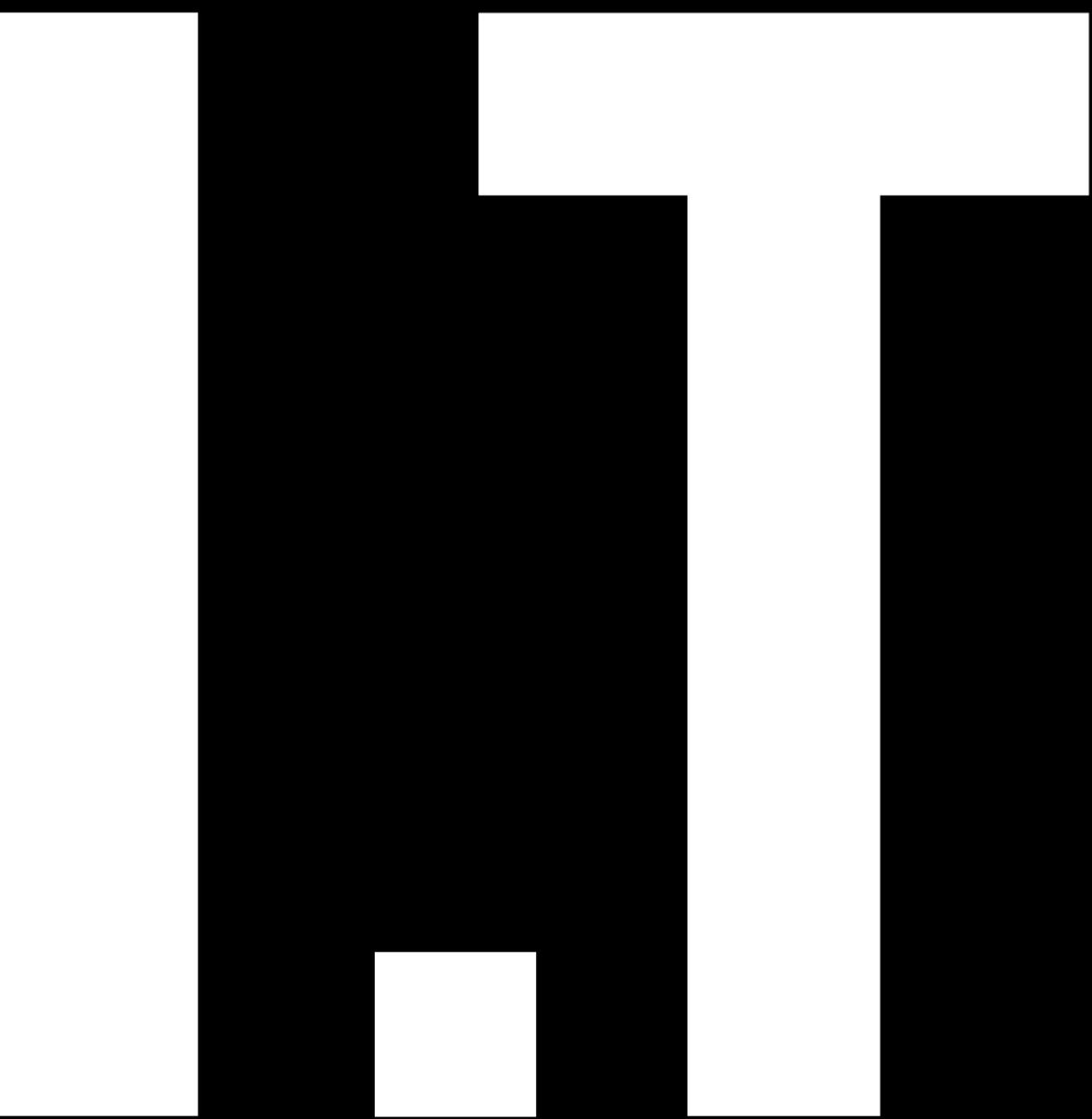
### PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

There was no purchase, sale or redemption of the Company's listed shares by the Company or any of its subsidiaries during the six months ended 31 August 2013.



On Behalf of the Board  
**Sham Kar Wai**  
Chairman

Hong Kong, 25 October 2013



**IS FASHION**

**shaping the fashion scene in Greater China**