

I.T
INTERIM
REPORT
16/17

STOCK CODE: 999

I.T LIMITED INTERIM REPORT

16/17

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IT

IS

a fashion icon
TREND SETTING

inspiration
a lifestyle

MOVING FORWARD

Executive Directors

Mr. SHAM Kar Wai

Mr. SHAM Kin Wai

Mr. CHAN Wai Kwan

DIRECTORS

Independent Non-executive Directors

Mr. Francis GOUTENMACHER

Dr. WONG Tin Yau, Kelvin, JP

Mr. MAK Wing Sum, Alvin

Company Secretary

Miss HO Suk Han Sophia

Registered Office

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Hamilton HM11

Bermuda

Head Office and Principal Place of

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Wong Chuk Hang

Hong Kong

Auditor

PricewaterhouseCoopers,
Certified Public Accountants

Principal Bankers

Hang Seng Bank

Hongkong and Shanghai Banking Corporation

Standard Chartered Bank

Principal Share Registrar

Codan Services Limited

Hong Kong Branch Share Registrar

Computershare Hong Kong Investor Services

Limited

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Corporate Website

www.ithk.com

Stock Code

Shares: 00999

Senior Notes due 2018: 85923 (I.T N1805-R)

HIGHLIGHTS

- Total turnover of the Group increased by 7.4% to HK\$3,643.2 million.
- Total retail sales in Hong Kong decreased by 2.0% to HK\$1,540.2 million against a reduction in total trading area of 2.7%. Comparable store sales growth rate in Hong Kong registered at -0.9% (FY15/16: -0.9%).
- Total retail sales in Mainland China increased by 14.0% to HK\$1,523.7 million on the back of double-digit percentage growth in sales area and positive comparable store sales growth rate at 4.6% (FY15/16: 5.9%).
- Benefitting from the increase in inbound tourist traffic flow, our Japan segment continued to outperform with total retail sales landed at HK\$326.7 million or JPY4,496.3 million, representing 46.9% increase in Hong Kong Dollar or 28.7% increase in base currency from FY15/16.
- Total retail sales in Macau decreased by 9.2% to HK\$91.7 million.
- The gross profit of the Group increased by 9.0% to HK\$2,209.2 million at gross profit margin of 60.6% (FY15/16: 59.7%).
- The Group recorded a net profit of HK\$39.1 million compared to a net loss of HK\$31.0 million in FY15/16.
- Net profit of the Group increased from HK\$35.8 million (if the exceptional non-recurring foreign exchange loss of HK\$66.8 million as a result of the conversion of the Group's RMB fixed deposits into Hong Kong Dollar in August 2015 is excluded) in August 2015 to HK\$39.1 million in August 2016, representing an increase of 9.2%.
- Basic earnings per share was 3.2 HK cents (FY15/16: Basic loss per share of 2.6 HK cents).

Per share data	31 August 2016	31 August 2015	Change
EPS-basic (HK\$)	0.032	-0.026	N/A
EPS-diluted (HK\$)	0.031	-0.026	N/A
Book value (HK\$) ⁽¹⁾	2.38	2.19	8.7%

Key statistics	31 August 2016	31 August 2015	Change
Inventory turnover (Days) ⁽²⁾	187.2	168.2	11.3%
Cash and cash equivalent (HK\$ million)	1,766.4	1,957.7	-9.8%
Net cash/(debt) (HK\$ million) ⁽³⁾	343.2	407.6	-15.8%
Debt to equity ratio (%) ⁽⁴⁾	49.4	57.8	-14.5%
Return on equity ratio (%) ⁽⁵⁾	1.3	-1.1	N/A

Notes:

- (1) Net asset value per share as at end of the period.
- (2) 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.
- (3) Cash and cash equivalents less borrowings.
- (4) Borrowings divided by total equity at the end of the period.
- (5) 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 2016	29 February 2016	31 August 2016	29 February 2016
Greater China:				
Hong Kong				
I.T	248	249	-	-
FCUK IT ⁽¹⁾	6	7	-	-
ZIT H.K. ⁽¹⁾	3	3	-	-
Mainland China				
I.T	395	364	75	85
FCIT China ⁽¹⁾	19	20	-	-
Camper I.T China ⁽¹⁾	10	9	-	-
Taiwan	20	21	-	-
Macau				
I.T	11	11	-	-
FCIT Macau ⁽¹⁾	1	1	-	-
Overseas:				
Japan	21	22	-	-
USA	1	1	-	-
Thailand	-	-	1	1
England	-	-	7	3
Singapore	-	-	3	4
Indonesia	-	-	1	1
Canada	-	-	3	3

	B. Sales footage ⁽²⁾			
	Self-managed		Franchised	
	31 August 2016	29 February 2016	31 August 2016	29 February 2016
Greater China:				
Hong Kong				
I.T	588,939	598,168	-	-
FCUK IT ⁽¹⁾	7,272	8,702	-	-
ZIT H.K. ⁽¹⁾	3,597	3,597	-	-
Mainland China				
I.T	1,255,149	1,143,002	106,438	120,453
FCIT China ⁽¹⁾	30,380	31,269	-	-
Camper I.T China ⁽¹⁾	7,367	6,510	-	-
Taiwan	35,098	36,093	-	-
Macau				
I.T	33,087	33,087	-	-
FCIT Macau ⁽¹⁾	3,330	3,330	-	-
Overseas:				
Japan	44,905	48,026	-	-
USA	3,313	3,313	-	-
Thailand	-	-	2,152	2,152
England	-	-	2,314	2,317
Singapore	-	-	9,939	23,106
Indonesia	-	-	3,160	3,160
Canada	-	-	8,430	8,430

Notes:

(1) a 50% owned joint venture of the Company.

(2) 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 33, 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 2016 and the related interim condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period 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 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 'W. T.', is written over a horizontal line.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 25 October 2016

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CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 31 August 2016

	Note	Six months ended 31 August	
		2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
Turnover	6	3,643,200	3,392,452
Cost of sales	8	(1,434,007)	(1,366,399)
Gross profit		2,209,193	2,026,053
Other losses, net	7	(5,240)	(63,540)
Operating expenses	8	(2,098,050)	(1,935,525)
Other income	9	19,077	17,654
Operating profit		124,980	44,642
Finance income	10	6,607	32,221
Finance costs	10	(37,789)	(40,938)
Share of losses of joint ventures		(3,897)	(13,862)
Profit before income tax		89,901	22,063
Income tax expense	11	(50,838)	(53,076)
Profit/(loss) for the period		39,063	(31,013)
Other comprehensive income/(loss):			
Items that may be reclassified to profit or loss			
Currency translation differences		1,156	(44,795)
Cash flow hedge recognised as finance costs		28,158	31,568
Fair value changes on cash flow hedge, net of tax		36	15,766
Total other comprehensive income for the period		29,350	2,539
Total comprehensive income/(loss) for the period		68,413	(28,474)
Profit/(loss) attributable to:			
– Equity holders of the Company		38,633	(31,252)
– Non-controlling interests		430	239
		39,063	(31,013)
Total comprehensive income/(loss) attributable to:			
– Equity holders of the Company		67,783	(28,709)
– Non-controlling interests		630	235
		68,413	(28,474)
Earnings/(loss) per share attributable to equity holders of the Company for the period (expressed in HK cent per share)			
– basic	13	3.2	(2.6)
– diluted	13	3.1	(2.6)

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 August 2016

	Note	As at 31 August 2016 (Unaudited) HK\$'000	As at 29 February 2016 (Audited) HK\$'000
ASSETS			
Non-current assets			
Property, furniture and equipment	14	812,113	856,606
Intangible assets	14	339,401	345,633
Investments in and loans to joint ventures	15	136,510	139,278
Rental deposits	17	312,670	296,483
Prepayments for non-current assets	17	37,669	15,675
Deferred income tax assets		142,705	129,594
		<u>1,781,068</u>	<u>1,783,269</u>
Current assets			
Inventories		1,527,864	1,390,974
Trade and other receivables	16	185,810	232,423
Amounts due from joint ventures	15	51,906	52,880
Prepayments and other deposits	17	365,615	370,735
Current income tax recoverable		9,582	1,603
Cash and cash equivalents		1,766,371	1,967,111
		<u>3,907,148</u>	<u>4,015,726</u>
LIABILITIES			
Current liabilities			
Borrowings	21	(268,096)	(273,396)
Trade payables	19	(464,759)	(433,130)
Accruals and other payables	20	(609,238)	(649,489)
Derivative financial instruments	18	-	(42)
Amounts due to joint ventures	15	(26,299)	(33,863)
Current income tax liabilities		(131,265)	(68,406)
		<u>(1,499,657)</u>	<u>(1,458,326)</u>
Net current assets		<u>2,407,491</u>	<u>2,557,400</u>
Non-current liabilities			
Borrowings	21	(1,155,100)	(1,262,462)
Accruals	20	(7,347)	(8,583)
Derivative financial instruments	18	(132,160)	(132,196)
Deferred income tax liabilities		(12,738)	(40,636)
		<u>(1,307,345)</u>	<u>(1,443,877)</u>
Net assets		<u>2,881,214</u>	<u>2,896,792</u>
EQUITY			
Capital and reserves			
Share capital	22	121,149	121,198
Reserves	23	2,757,677	2,773,836
Non-controlling interests		2,388	1,758
Total equity		<u>2,881,214</u>	<u>2,896,792</u>



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 2016

	Share capital (Unaudited) HK\$'000	Reserves (Unaudited) HK\$'000	Non-controlling interests (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Balance at 1 March 2016	121,198	2,773,836	1,758	2,896,792
Profit for the period	-	38,633	430	39,063
Other comprehensive income:				
- currency translation differences	-	956	200	1,156
- cash flow hedge recognised as finance costs	-	28,158	-	28,158
- fair value changes on cash flow hedge, net of tax	-	36	-	36
Total comprehensive income for the six months ended 31 August 2016	-	67,783	630	68,413
Transaction with owners:				
Final dividends for the year ended 29 February 2016	-	(101,765)	-	(101,765)
Repurchase of shares	(49)	(867)	-	(916)
Tax credit from exercise of share options	-	6,693	-	6,693
Share option scheme				
- value of employment services	-	11,997	-	11,997
Total transaction with owners	(49)	(83,942)	-	(83,991)
Balance at 31 August 2016	121,149	2,757,677	2,388	2,881,214
Balance at 1 March 2015	122,760	2,716,421	938	2,840,119
(Loss)/profit for the period	-	(31,252)	239	(31,013)
Other comprehensive (loss)/income:				
- currency translation differences	-	(44,791)	(4)	(44,795)
- cash flow hedge recognised as finance costs	-	31,568	-	31,568
- fair value changes on cash flow hedge, net of tax	-	15,766	-	15,766
Total comprehensive (loss)/income for the six months ended 31 August 2015	-	(28,709)	235	(28,474)
Transaction with owners:				
Final dividends for the year ended 28 February 2015	-	(134,711)	-	(134,711)
Repurchase of shares	(296)	(6,496)	-	(6,792)
Tax credit from exercise of share options	-	(558)	-	(558)
Share option scheme				
- value of employment services	-	11,997	-	11,997
Total transaction with owners	(296)	(129,768)	-	(130,064)
Balance at 31 August 2015	122,464	2,557,944	1,173	2,681,581

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 2016

	Six months ended 31 August	
	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
Cash flows from operating activities		
Cash generated from operations	178,245	173,255
Interest paid	(37,433)	(39,319)
Hong Kong profits tax refunded/(paid)	8,511	(24,577)
Overseas income tax paid	(43,298)	(38,709)
Net cash generated from operating activities	106,025	70,650
Cash flows from investing activities		
Purchase of property, furniture and equipment	(133,186)	(111,480)
Increase in intangible assets	(1,377)	(13,285)
Proceeds from disposal of property, furniture and equipment	314	-
Interest received	5,203	31,399
Net cash used in investing activities	(129,046)	(93,366)
Cash flows from financing activities		
Proceeds from borrowings	-	360,048
Repayments of borrowings	(88,883)	(512,529)
Repurchases of shares	(916)	(6,792)
Dividends paid	(96,175)	(134,711)
Net cash used in financing activities	(185,974)	(293,984)
Net decrease in cash and cash equivalents	(208,995)	(316,700)
Currency translation differences	8,255	(19,720)
Cash and cash equivalents, at 1 March	1,967,111	2,294,103
Cash and cash equivalents, at 31 August	1,766,371	1,957,683

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 (the “Stock Exchange”).

This condensed consolidated interim financial information is presented in Hong Kong Dollar (“HK\$”), unless otherwise stated.

This condensed consolidated interim financial information was approved for issue by the board of directors on 25 October 2016.

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 2016 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34, “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

This condensed consolidated interim financial information should be read in conjunction with the Group’s annual financial statements for the year ended 29 February 2016, which were 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 29 February 2016, except for the adoption of the revised standards and amendments issued by the HKICPA.

Taxes on income for the six months ended 31 August 2016 are accrued using the tax rate that would be applicable to expected total annual earnings.

The following new standards and amendments are mandatory for the financial year beginning 1 March 2016 and have no material impact to the Group.

HKFRS 10, HKFRS 12 and HKAS 28 (Amendment)	Investment Entities: Applying the Consolidation Exception
HKFRS 11 (Amendment)	Accounting for Acquisition of Interest in Joint Operations
HKFRS 14	Regulatory Deferral Accounts
HKAS 1 (Amendment)	Disclosure Initiative
HKAS 16 and HKAS 38 (Amendment)	Clarification of Acceptable Methods of Depreciation and Amortisation
HKAS 16 and HKAS 41 (Amendment)	Agriculture: Bearer Plants
HKAS 27 (Amendment)	Equity Method in Separate Financial Statements
Annual Improvements Project	Annual Improvement 2012-2014 Cycle

The following new standards and amendments have been issued but are not effective for the financial year beginning 1 March 2016 and have not been early adopted:

HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
HKFRS 16	Leases

4 ESTIMATES

The preparation of interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 29 February 2016.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

(Continued)

5 FINANCIAL RISK MANAGEMENT

5.1 Fair value estimation

The Group measures its fair value of the financial instruments carried at fair value as at 31 August 2016 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's financial instruments carried at fair value as at 31 August and 29 February 2016:

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
As at 31 August 2016				
Liabilities				
Currency and interest rate swap contracts				
– cash flow hedges	–	(132,160)	–	(132,160)
	<u>–</u>	<u>(132,160)</u>	<u>–</u>	<u>(132,160)</u>
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
As at 29 February 2016				
Liabilities				
Currency and interest rate swap contracts				
– cash flow hedges	–	(132,196)	–	(132,196)
Interest rate swap contract not qualified for hedge accounting	–	(42)	–	(42)
	<u>–</u>	<u>(132,238)</u>	<u>–</u>	<u>(132,238)</u>

6 TURNOVER AND SEGMENT INFORMATION

	Six months ended 31 August	
	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
Turnover		
– Sales of fashion wears and accessories	<u>3,643,200</u>	<u>3,392,452</u>

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

The CODM considers the business from geographic perspective and assesses the performance of the geographical segment based on a measure of profit before impairment of goodwill, intangible assets and property, furniture and equipment, depreciation of property, furniture and equipment, amortisation of intangible assets, share of losses of joint ventures and income tax expense (“EBITDA”). Finance income, finance costs and loss arising from conversion of Chinese Renminbi fixed deposit into Hong Kong Dollar are not allocated to operating segments, as this type of activity is driven by the central treasury function, which manages the cash position of the Group. The information provided to the CODM is measured in a manner consistent with that in the financial statements.

Segment assets exclude deferred income tax assets, current income tax recoverable and investments in and amounts due from joint ventures which are managed on a central basis.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

(Continued)

7 OTHER LOSSES, NET

	Six months ended 31 August	
	2016	2015
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Fair value gains on derivative financial instruments		
– foreign currency swap contract	–	30
– interest rate swap contract	42	548
Net exchange (losses)/gains	(5,282)	2,698
Loss arising from conversion of Chinese Renminbi fixed deposit into Hong Kong Dollar (a)		
– fair value losses from forward exchange contracts	–	(18,131)
– exchange losses	–	(48,685)
	<u>(5,240)</u>	<u>(63,540)</u>

Note:

- (a) During the six months ended 31 August 2015, due to unexpected high volatility of exchange rate of Chinese Renminbi against Hong Kong Dollar, the Group had converted RMB1,187,000,000 fixed deposits into Hong Kong Dollar which resulted in fair value losses from forward exchange contracts and exchange losses of HK\$18,131,000 and HK\$48,685,000 respectively.

8 EXPENSES BY NATURE

	Six months ended 31 August	
	2016	2015
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Cost of inventories sold	1,362,067	1,337,630
Provision for write-downs of inventories to net realisable value	44,455	16,845
Employment costs (including directors' emoluments)	628,135	563,764
Operating lease rentals of premises		
– minimum lease payments	749,664	722,010
– contingent rents	98,917	71,487
Building management fee	115,779	105,037
Advertising and promotion costs	53,458	65,651
Commission expenses	39,227	32,449
Bank charges	40,357	37,422
Utilities expenses	30,711	32,511
Freight charges	15,889	15,161
Depreciation of property, furniture and equipment	132,799	140,773
Impairment of/(reversal of) property, furniture and equipment	15,304	(5,061)
Reversal of onerous contract provision	(870)	(22,869)
Impairment of intangible assets	–	143
Loss on disposals of property, furniture and equipment	3,444	4,230
Licence fees (included in operating expenses)		
– amortisation of licence rights	–	1,856
– contingent licence fees	13,919	8,241
Amortisation of intangible assets (excluding license fees)	6,916	4,789
Provision for impairment of amount due from a joint venture	625	2,485
Other expenses	181,261	167,370
	<u>3,532,057</u>	<u>3,301,924</u>
Total		
Representing:		
Cost of sales	1,434,007	1,366,399
Operating expenses	2,098,050	1,935,525
	<u>3,532,057</u>	<u>3,301,924</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

(Continued)

9 OTHER INCOME

	Six months ended 31 August	
	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
Government grants	14,214	11,826
Others	4,863	5,828
	<u>19,077</u>	<u>17,654</u>

10 FINANCE COSTS, NET

	Six months ended 31 August	
	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
Interest income from		
– bank deposits	4,993	31,399
– amounts due from joint ventures	428	427
– others (i)	1,186	395
Finance income	<u>6,607</u>	<u>32,221</u>
Interest expense on borrowings wholly repayable within five years	(35,021)	(39,319)
Net foreign exchange transaction gain	25,390	29,949
Transfer from hedging reserve		
– interest rate and currency swaps: cash flow hedge	(28,158)	(31,568)
Finance costs	<u>(37,789)</u>	<u>(40,938)</u>
Net finance costs	<u>(31,182)</u>	<u>(8,717)</u>

Note:

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

11 INCOME TAX EXPENSE

The Company is exempted from income taxes in Bermuda until March 2035. The Company's subsidiaries established in the British Virgin Islands are incorporated under the BVI Business Companies Act of the British Virgin Islands and, accordingly, are exempted from British Virgin Islands income taxes.

Hong Kong profits tax has been provided at the rate 16.5% (six months ended 31 August 2015: 16.5%) on the estimated assessable profits of the Group's operation in Hong Kong.

Mainland China enterprise income tax has been provided at the applicable rate of 25% (six months ended 31 August 2015: 25%) on the estimated assessable profits of the Group's operations in Mainland China.

Japan Corporate Income Tax has been provided at the applicable rate of 35.36% (six months ended 31 August 2015: 37.11%) on the estimated assessable profits of the Group's operations in Japan.

Macau Complementary (Corporate) tax has been provided at the applicable rate of 12% (six months ended 31 August 2015: 12%) on the estimated assessable profits in excess of HK\$582,000 (approximately MOP600,000) of the Group's operations in Macau.

Taiwan profits tax has been provided at the rate of 17% (six months ended 31 August 2015: 17%) on the estimated assessable profits of the Group's operations in Taiwan.

The applicable US enterprise income tax rate for subsidiary operating in the United States of America is 45.03% (six months ended 31 August 2015: 45.03%).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

(Continued)

11 INCOME TAX EXPENSE (Continued)

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

	Six months ended 31 August	
	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
Current income tax		
– Hong Kong profits tax	9,473	4,718
– Mainland China enterprise income tax	27,616	20,201
– Overseas income tax	54,415	40,885
– Over-provision in prior year	(1,954)	–
Deferred income tax	(38,712)	(12,728)
	<u>50,838</u>	<u>53,076</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 2016 is 51.0% (six months ended 31 August 2015: 41.7%). The increase is mainly caused by a change of the distribution of profits of the Group's entities operating in different locations.

12 DIVIDENDS

A final dividend relating to the year ended 29 February 2016 amounting to HK\$96,175,000 was paid in August 2016. The remaining amount of HK\$5,590,000 is included in other payables.

The Board does not declare the payment of an interim dividend for the six months ended 31 August 2016 (six months ended 31 August 2015: Nil).

13 EARNINGS/(LOSS) PER SHARE

Basic

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

	Six months ended 31 August	
	2016 (Unaudited)	2015 (Unaudited)
Profit/(loss) attributable to equity holders of the Company (HK\$'000)	<u>38,633</u>	<u>(31,252)</u>
Weighted average number of ordinary shares in issue ('000)	<u>1,211,642</u>	<u>1,225,434</u>
Basic earnings/(loss) per share (HK cent)	<u>3.2</u>	<u>(2.6)</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

(Continued)

13 EARNINGS/(LOSS) 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 made in order to determine the number of shares that could have been acquired at fair value (determined as the average daily quoted market share price of the Company's shares) based on the monetary value of the subscription rights attached to the outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	Six months ended 31 August	
	2016 (Unaudited)	2015 (Unaudited)
Profit/(loss) attributable to equity holders of the Company (HK\$'000)	<u>38,633</u>	<u>(31,252)</u>
Weighted average number of ordinary shares in issue ('000)	1,211,642	1,225,434
Adjustments for share options ('000)	<u>22,261</u>	<u>29,405</u>
Weighted average number of ordinary shares for diluted earnings per share ('000)	<u>1,233,903</u>	<u>1,254,839</u>
Diluted earnings/(loss) per share (HK cent)	<u>3.1</u>	<u>(2.6)</u>

Diluted loss per share for the six months ended 31 August 2015 was the same as the basic loss per share since the share options had anti-dilutive effect.

14 PROPERTY, FURNITURE AND EQUIPMENT AND INTANGIBLE ASSETS

	Property, furniture and equipment (Unaudited) HK\$'000	Intangible assets (Unaudited) HK\$'000
	Six months ended 31 August 2016	
Opening net book amount as at 1 March 2016	856,606	345,633
Additions	111,192	1,377
Disposals	(3,758)	-
Depreciation and amortisation	(132,799)	(6,916)
Impairment	(15,304)	-
Exchange differences	<u>(3,824)</u>	<u>(693)</u>
Closing net book amount as at 31 August 2016	<u>812,113</u>	<u>339,401</u>
Six months ended 31 August 2015		
Opening net book amount as at 1 March 2015	836,410	322,404
Additions	110,489	47,179
Disposals	(4,230)	-
Depreciation and amortisation	(140,773)	(6,645)
Reversal of impairment/(impairment)	5,061	(143)
Exchange differences	<u>(10,903)</u>	<u>(9,029)</u>
Closing net book amount as at 31 August 2015	<u>796,054</u>	<u>353,766</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

(Continued)

15 INVESTMENTS IN AND BALANCES WITH JOINT VENTURES

	As at 31 August 2016 (Unaudited) HK\$'000	As at 29 February 2016 (Audited) HK\$'000
Share of net assets	113,789	119,936
Loans to joint ventures	22,721	19,342
	<u>136,510</u>	<u>139,278</u>
Amounts due from joint ventures	<u>51,906</u>	<u>52,880</u>
Amounts due to joint ventures	<u>(26,299)</u>	<u>(33,863)</u>

(a) Balances with joint ventures

	As at 31 August 2016 (Unaudited) HK\$'000	As at 29 February 2016 (Audited) HK\$'000
Due from joint ventures		
ZIT H.K. Limited (Note i)	14,111	14,252
FCIT China Limited (Note ii)	33,030	32,290
Glory Premium Limited (Note iv)	1,854	2,069
Galleries Lafayette (China) Limited (Note iv)	–	952
Galleries Lafayette (Beijing) Limited (Note iv)	16,817	18,870
Camper (Shanghai) Limited (Note iii)	18,668	13,330
FCUK IT Company (Note iv)	1,193	881
	<u>85,673</u>	<u>82,644</u>
Less: provision for impairment	<u>(11,046)</u>	<u>(10,422)</u>
Due from joint ventures, net of provision	<u>74,627</u>	<u>72,222</u>
Due to joint ventures		
Kenchart Apparel (Shanghai) Limited (Note iv)	(19,994)	(27,796)
FCUK IT Company (Note iv)	(1,768)	(2,245)
ZIT H.K. Limited (Note iv)	(4,298)	(3,533)
Camper I.T China Limited (Note iv)	(135)	(141)
FCIT China Limited (Note iv)	(104)	(148)
	<u>(26,299)</u>	<u>(33,863)</u>

Notes:

- (i) As at 31 August 2016, the loan to ZIT H.K. Limited of approximately HK\$9,100,000 (29 February 2016: approximately HK\$9,100,000) is unsecured, interest bearing at 5% per annum (29 February 2016: 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) As at 31 August 2016, the loan to FCIT China Limited of approximately HK\$7,846,000 (29 February 2016: approximately HK\$7,645,000) is unsecured, non-interest bearing and fully repayable in December 2016. This amount is carried at amortised cost using the effective interest rate at 5.5% per annum (29 February 2016: 5.5% per annum). The remaining balance is unsecured, non-interest bearing and repayable on demand.
- (iii) As at 31 August 2016, the loan to Camper (Shanghai) Limited of approximately HK\$13,623,600 (29 February 2016: approximately HK\$10,050,000) is unsecured, non-interest bearing and has no fixed term of repayment. The remaining balance is unsecured, non-interest bearing and repayable on demand.
- (iv) These 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)

15 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\$12,000,002	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	MOP1,030,000	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
Macaron (Beijing) Limited	Mainland China	US\$100,000	50%	Operation of a supermarket
Camper I.T China Limited	Hong Kong	HK\$6,000,000	50%	Investment holding
Camper (Shanghai) Limited	Mainland China	US\$2,100,000	50%	Retails of foot wears

16 TRADE AND OTHER RECEIVABLES

	As at 31 August 2016 (Unaudited) HK\$'000	As at 29 February 2016 (Audited) HK\$'000
Trade receivables	179,857	228,208
Less: provision for impairment of trade receivables	(1,402)	(1,553)
Trade receivables – net	178,455	226,655
Interest receivables	692	902
Other receivables	6,663	4,866
Trade and other receivables	185,810	232,423

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)

16 TRADE AND OTHER RECEIVABLES (Continued)

The ageing analysis of the trade receivables is as follows:

	As at 31 August 2016 (Unaudited) HK\$'000	As at 29 February 2016 (Audited) HK\$'000
0 to 30 days	146,961	176,678
31 to 60 days	25,698	45,862
61 to 90 days	4,798	3,923
Over 90 days	2,400	1,745
	<u>179,857</u>	<u>228,208</u>

The carrying amounts of trade and other receivables approximate their fair values.

17 PREPAYMENTS AND OTHER DEPOSITS

	As at 31 August 2016 (Unaudited) HK\$'000	As at 29 February 2016 (Audited) HK\$'000
Rental deposits	480,490	478,354
Prepayments	171,934	180,741
Utilities and other deposits	63,530	23,798
	<u>715,954</u>	<u>682,893</u>
Less: non-current portion:		
Rental deposits	(312,670)	(296,483)
Prepayments for non-current assets	(37,669)	(15,675)
	<u>365,615</u>	<u>370,735</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

18 DERIVATIVE FINANCIAL INSTRUMENTS

	As at 31 August 2016 Liabilities (Unaudited) HK\$'000	As at 29 February 2016 Liabilities (Audited) HK\$'000
Qualified for hedge accounting – cash flow hedge:		
Foreign currency and interest rate swap contract, at market value (a)	(132,160)	(132,196)
Not qualified for hedge accounting:		
Interest rate swap contract, at market value (b)	-	(42)
	<u>(132,160)</u>	<u>(132,238)</u>
Less: current portion		
Interest rate swap contract, at market value (b)	-	42
	<u>(132,160)</u>	<u>(132,196)</u>

Note:

- (a) As at 31 August 2016, the notional principal amounts of the outstanding foreign currency and interest rate swap contracts were RMB894,000,000 (as at 29 February 2016: RMB 894,000,000), which has been designated as the hedging instrument for the Senior Notes (Note 21). As at 31 August 2016, the fixed interest rate for the Senior Note was 6.25% (as at 29 February 2016: 6.25%) per annum. The swap exchange rate is 1.2645 HK\$ per one RMB (as at 29 February 2016: 1.2645 HK\$ per one RMB) whereas the swap interest rate is 5.75% (as at 29 February 2016: 5.75%) per annum. Gains and losses recognised in the hedging reserve in equity (Note 23) on foreign currency and interest rate swap contract as of 31 August 2016 will be continuously released to the statement of comprehensive income until the repayment of the Senior Notes.
- (b) As at 29 February 2016, the notional principal amount of the outstanding interest rate swap contract for economic hedging against interest rate risk exposures relating to liabilities with floating interest rate was HK\$114,620,000. The contract is matured on 2 March 2016.

19 TRADE PAYABLES

The ageing analysis of trade payables based on invoice date is as follows:

	As at 31 August 2016 (Unaudited) HK\$'000	As at 29 February 2016 (Audited) HK\$'000
0 to 30 days	284,418	249,279
31 to 60 days	99,865	94,831
61 to 90 days	35,030	57,396
91 to 180 days	23,857	18,510
181 to 365 days	7,847	6,219
Over 365 days	13,742	6,895
	<u>464,759</u>	<u>433,130</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

(Continued)

20 ACCRUALS AND OTHER PAYABLES

	As at 31 August 2016 (Unaudited) HK\$'000	As at 29 February 2016 (Audited) HK\$'000
Unutilised coupon	7,942	5,659
Accruals		
– Rented premises	240,588	239,807
– Employment costs	47,952	42,445
– Others	102,719	140,302
Other payables	217,384	229,859
	<u>616,585</u>	<u>658,072</u>
	-----	-----
Less: Non-current portion		
Accruals – Rented premises	(7,347)	(8,583)
	<u>609,238</u>	<u>649,489</u>

21 BORROWINGS

	As at 31 August 2016 (Unaudited) HK\$'000	As at 29 February 2016 (Audited) HK\$'000
Non-current borrowings		
– Bank borrowings	123,957	207,538
– Senior Notes (a)	1,031,143	1,054,924
	<u>1,155,100</u>	<u>1,262,462</u>
	-----	-----
Current borrowings		
– Portion of bank borrowings due for repayment within one year	179,646	179,646
– Portion of bank borrowings due for repayment after one year which contain a repayable on demand clause	88,450	93,750
	<u>268,096</u>	<u>273,396</u>
	-----	-----
	<u>1,423,196</u>	<u>1,535,858</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

21 BORROWINGS (Continued)

Movements in borrowings are analysed as follows:

	(Unaudited) HK\$'000
Six months ended 31 August 2016	
As at 1 March 2016	1,535,858
Proceeds from borrowings	-
Repayments of borrowings	(88,883)
Exchange differences	(23,779)
	<hr/>
As at 31 August 2016	1,423,196
	<hr/> <hr/>
Six months ended 31 August 2015	
As at 1 March 2015	1,736,239
Proceeds from borrowings	360,048
Repayments of borrowings	(512,529)
Exchange differences	(33,637)
	<hr/>
As at 31 August 2015	1,550,121
	<hr/> <hr/>

The fair values of current borrowings approximate their carrying amounts, as the impact of discounting is not significant. The effective borrowing cost was 4.8% (as at 29 February 2016: 5.1%) per annum.

Interest expense on borrowings for the six months ended 31 August 2016 is approximately HK\$35,021,000 (six months ended 31 August 2015: approximately HK\$39,319,000).

Details of the Group's banking facilities are set out in Note 24.

Note:

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

During the six months ended 31 August 2014, the Group has purchased Senior Notes in the principal amount of RMB106,000,000, representing approximately 10.6% of the Senior Notes in the principal amount of RMB1,000,000,000 issued in May 2013. The purchased Senior Notes amounting to RMB106,000,000 during the six months ended 31 August 2014 was then duly cancelled pursuant to the terms and conditions of the Senior Notes. As at 31 August 2016 and 29 February 2016, the aggregate principal amount of the Senior Notes which remains outstanding and subject to the terms of the indenture governing the Senior Notes is RMB894,000,000.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

(Continued)

22 SHARE CAPITAL

The total number of authorised ordinary shares is 3,000,000,000 (29 February 2016: 3,000,000,000) shares with a par value of HK\$0.1 per share (29 February 2016: HK\$0.1 per share).

	Number of ordinary shares (thousands)	Nominal Value HK\$'000
Issued and fully paid:		
At 1 March 2016 (Audited)	1,211,977	121,198
Repurchase of share (i)	(494)	(49)
	<u>1,211,483</u>	<u>121,149</u>
At 31 August 2016 (Unaudited)	<u>1,211,483</u>	<u>121,149</u>
At 1 March 2015 (Audited)	1,227,603	122,760
Repurchase of share (i)	(2,958)	(296)
	<u>1,224,645</u>	<u>122,464</u>
At 31 August 2015 (Unaudited)	<u>1,224,645</u>	<u>122,464</u>

Note:

- (i) The Group acquired 494,000 of its shares through purchases on the Stock Exchange in March 2016 (six months ended 31 August 2015: 2,958,000 shares in March 2015 and July 2015). The total amount paid to acquire the shares was HK\$916,000 (six months ended 31 August 2015: HK\$6,792,000) and has been deducted from shareholders' equity.

Share options

Details of the Share Option Schemes are set out in the annual report for the year ended 29 February 2016. Movements in the number of share options outstanding and the exercise prices are as follows:

	Six months ended 31 August			
	2016		2015	
Weighted- average exercise price per share HK\$	Options (thousands)	Weighted- average exercise price per share HK\$	Options (thousands)	
Beginning and end of the period	2.95	<u>121,152</u>	2.95	<u>121,152</u>

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

Expiry date	Exercise price after issue of scrip shares HK\$	Share options (thousands)	
		As at 31 August 2016	As at 31 August 2015
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	24,560
		<u>121,152</u>	<u>121,152</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

(Continued)

23 RESERVES

	Share-based		Foreign exchange		Statutory reserve	Hedging reserve	Retained profits	Total
	Share premium	payment reserve	Capital reserve	translation reserve				
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000				
Balance at 1 March 2016	861,411	144,864	46,063	(22,506)	55,872	(66,852)	1,754,984	2,773,836
Share option scheme								
- value of employment services	-	11,997	-	-	-	-	-	11,997
Repurchase of share	(867)	-	-	-	-	-	-	(867)
Profit for the period	-	-	-	-	-	-	38,633	38,633
Final dividends for the year ended 29 February 2016	-	-	-	-	-	-	(101,765)	(101,765)
Tax credit from exercise of share options	-	-	6,693	-	-	-	-	6,693
Currency translation differences								
- Group	-	-	-	3,206	-	-	-	3,206
- Joint ventures	-	-	-	(2,250)	-	-	-	(2,250)
Cash flow hedge recognised as finance costs	-	-	-	-	-	28,158	-	28,158
Fair value changes on cash flow hedge, net of tax	-	-	-	-	-	36	-	36
Balance at 31 August 2016	860,544	156,861	52,756	(21,550)	55,872	(38,658)	1,691,852	2,757,677
Balance at 1 March 2015	891,538	120,988	48,524	14,492	50,191	(95,651)	1,686,339	2,716,421
Share option scheme								
- value of employment services	-	11,997	-	-	-	-	-	11,997
Repurchase of share	(6,496)	-	-	-	-	-	-	(6,496)
Loss for the period	-	-	-	-	-	-	(31,252)	(31,252)
Final dividends for the year ended 28 February 2015	-	-	-	-	-	-	(134,711)	(134,711)
Tax credit from exercise of share options	-	-	(558)	-	-	-	-	(558)
Currency translation differences								
- Group	-	-	-	(39,801)	-	-	-	(39,801)
- Joint ventures	-	-	-	(4,990)	-	-	-	(4,990)
Cash flow hedge recognised as finance costs	-	-	-	-	-	31,568	-	31,568
Fair value changes on cash flow hedge, net of tax	-	-	-	-	-	15,766	-	15,766
Balance at 31 August 2015	885,042	132,985	47,966	(30,299)	50,191	(48,317)	1,520,376	2,557,944

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

(Continued)

24 BANKING FACILITIES AND PLEDGE OF ASSETS

As at 31 August 2016, the Group had aggregate banking facilities of approximately HK\$1,534,880,000 (29 February 2016: approximately HK\$1,967,203,000) for overdrafts, bank loans and trade financing, of which approximately HK\$980,409,000 (29 February 2016: approximately HK\$1,339,357,000) was unutilised as at the same date. These facilities are secured by corporate guarantees provided by the Company and certain subsidiaries.

25 COMMITMENTS

(a) Capital commitments

	As at 31 August 2016 (Unaudited) HK\$'000	As at 29 February 2016 (Audited) HK\$'000
Contracted but not provided for – acquisition of fixture and furniture	<u>6,618</u>	<u>2,448</u>

(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:

	As at 31 August 2016 (Unaudited) HK\$'000	As at 29 February 2016 (Audited) HK\$'000
Not later than one year	1,312,513	1,255,749
Later than one year and not later than five years	1,866,336	1,964,502
Later than five years	75,786	18,110
	<u>3,254,635</u>	<u>3,238,361</u>

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)

26 RELATED PARTY TRANSACTIONS

(a) As at 31 August 2016, the Group was controlled by Effective Convey Limited (incorporated in the British Virgin Islands), which directly and indirectly owns a total of 57.66% 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	
	2016	2015
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Interest income from joint ventures	428	427
Service fees incomes from joint ventures	3,444	3,825
Commission fees payable to a joint venture	10,546	8,396
Purchases of goods from joint ventures	4,668	4,634
Commission income from joint ventures	914	982
	<u>914</u>	<u>982</u>

(c) Key management compensation

	Six months ended 31 August	
	2016	2015
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Salaries and allowances	9,854	7,871
Pension costs – employer's contributions to a defined contribution plan	27	18
Share options granted	8,172	8,172
	<u>18,053</u>	<u>16,061</u>

27 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 operating environment of the fashion retail business in the first half of the fiscal year continued to be suppressed by the same adverse economic factors as in the previous year. In the Hong Kong segment, particularly, local consumption remained soft as a result of the strength of the Hong Kong Dollar, which not only encouraged outbound spending but also discouraged inbound tourist traffic growth. The overall weakness in consumer spending momentum was documented by the value index of retail sales in wearing apparel (provided by the Census and Statistics Department of Hong Kong): such negative monthly performances were witnessed in five months of the six-month period ending with August 2016. Other external economic conditions related to cost inflation in operating retail channels, such as rental and staff costs, also remained negative and continued to constitute the most challenging area of our business, placing further downward pressure on the Group's profitability in the region. At this juncture, the Group responded by scaling back its retail network in the region with the twin objectives of mitigating the cost pressure and enhancing sales efficiency.

In contrast, our expansion in Mainland China continued irrespective of moderate economic developments and volatile financial markets, impacting overall consumer appetite considerably. As of the period end, our total sales area in Mainland China has increased by a double-digit percentage, compared to last period's. We have also entered into new cities such as Changchun and Nanning. Today, we have a diversified retail presence spanning across twenty-two cities in Mainland China. Our China operations have achieved another period of creditable growth through a combination of innovative product designs and a strong portfolio of the latest and most distinctive international fashion products, alongside inspirational marketing initiatives to enrich the content of our new-season collections. Similarly, we also achieved sustainable growth in revenue and increased profitability in our Japan segment. These enhancements in financial metrics reflected the success of our collections of all brands within the A Bathing Ape group.

Turnover of the Group increased by 7.4% over last period to HK\$3,643.2 million. Net profit of the Group increased from HK\$35.8 million (if the exceptional non-recurring foreign exchange loss of HK\$66.8 million as a result of the conversion of the Group's RMB fixed deposits into Hong Kong Dollar in August 2015 is excluded) in August 2015 to HK\$39.1 million in August 2016, representing an increase of 9.2%. On a reporting basis, net profit of the Group landed at HK\$39.1 million, compared to a net loss of HK\$31.0 million in the corresponding period in 2015.

Turnover by Market

Turnover generated by our Hong Kong segment declined 1.9%, to HK\$1,556.1 million. This is a rather satisfactory development against a reduction in total trading area of 2.7%. Hong Kong contributed 42.7% of the total turnover (FY15/16: 46.7%).

The Group has extended its foothold in Mainland China further in both new and existing cities. Along with positive comparable store sales growth recorded for the period, our Mainland China operations have achieved another period of noticeable growth, of 12.0%, to HK\$1,598.1 million. It contributed 43.9% to total Group turnover and has become the largest revenue contributor (FY15/16: 42.0%).

Overall dynamic behind the sales growth in our Japan segment was very similar to what was seen in the first quarter. More specifically, we continued to witness overwhelming responses to the collections of our A Bathing Ape brand alongside consistent positive growth in inbound tourist flow. Turnover of our Japan businesses increased by 28.4% in local currency, to JPY4,796.3 million, and there was an increase of 46.6% in Hong Kong Dollar, to HK\$348.5 million. The Japan segment accounted for 9.6% of total Group turnover (FY15/16: 7.1%).

Breakdown of turnover by region of operation:

	Turnover Six months ended 31 August		Change	% of Turnover Six months ended 31 August	
	2016 HK\$ million	2015 HK\$ million		2016	2015
Hong Kong	1,556.1	1,586.0	-1.9%	42.7%	46.7%
Retail sales only	1,540.2	1,571.4	-2.0%		
Mainland China	1,598.1	1,426.3	+12.0%	43.9%	42.0%
Retail sales only	1,523.7	1,336.3	+14.0%		
Japan	348.5	237.7	+46.6%	9.6%	7.1%
Retail sales only	326.7	222.4	+46.9%		
Macau	91.7	101.0	-9.2%	2.5%	3.0%
Other	48.8	41.5	+17.6%	1.3%	1.2%
Total	3,643.2	3,392.5	+7.4%	100.0%	100.0%

Brand Mix

The Group is engaged in the distribution and management of over 300 of the latest and most distinctive fashion brands, each of which retains its own unique identity while complementing the others well. Notwithstanding that our brands have strong recognition in the fashion communities across our operating regions, we continue to utilise our strong capability to lead and interpret fashion trends. We persistently upgrade the assortments of the international brands segment of our portfolio and concurrently innovate the fashion concepts for our in-house brands segment. We are gratified that the efforts and investments we have devoted to our brands have continually contributed to the advancement of our offerings. For the period under review, our in-house brands segment continued to represent the largest revenue contributor, landing at 58.2% (FY15/16: 56.8%).

Breakdown of retail sales by brand category:

	Retail Sales Six months ended 31 August		Change	% of Retail Sales Six months ended 31 August	
	2016 HK\$ million	2015 HK\$ million		2016	2015
In-house brands	2,055.0	1,858.1	+10.6%	58.2%	56.8%
International brands	1,456.3	1,396.0	+4.3%	41.2%	42.7%
Licensed brands	19.8	18.5	+7.0%	0.6%	0.5%
	<u>3,531.1</u>	<u>3,272.6</u>	+7.9%	<u>100.0%</u>	<u>100.0%</u>

Dynamics in Margin and Cost

The Group managed to deliver another period of turnover growth at 7.4%, with gross profit also increasing by 9.0% over last period, along with an enhancement in gross margin of 0.9 percentage point to 60.6% amid difficult times and promotional headwinds. External market factors, such as the persistent cost inflation in operating retail channels, continued to place downward pressure on our profit margins, particularly in the Hong Kong segment. As a result, total operating cost ratio of the Group increased by 0.5 percentage point, to 57.6%. The rent-to-sales ratio (including rental charges and building management fees) remained flat at 26.5% for both periods. Staff cost-to-sales ratio (excluding share option expenses) increased from 16.3% to 17.0%.

An operating profit of HK\$125.0 million was recorded for the six months ended 31 August 2016, representing an increase of 180.0% over the same period last year on a reported basis. If the aforementioned non-recurring foreign exchange loss of HK\$66.8 million recorded in August 2015 is excluded, operating profit of the Group increased by 12.1%, to HK\$125.0 million.

(b) **Hong Kong**

The overall market conditions have remained very challenging in the midst of an uncertain macroeconomic landscape and volatile financial markets, alongside geopolitical tensions around the regions. Currency headwinds continued to impact domestic spending momentum. The strength of the Hong Kong Dollar (which encouraged outbound spending), along with the devaluation of Chinese Renminbi (which discouraged our inbound tourist traffic growth), have further suppressed the already dampened consumer retail market. The cost of operating retail channels, particularly rental and staff costs, continued to rise. This was an area that placed significant pressure on the profitability of our Hong Kong segment and remained the most challenging area of our business.

Our turnover in Hong Kong declined by 1.9%, to HK\$1,556.1 million, and retail sales also declined by 2.0%, to HK\$1,540.2 million, with comparable store sales growth registered at -0.9%. These results are rather satisfactory against a reduction in total trading area of 2.7%, which reflected a level of gain in space productivity. Gross margin increased by 2.0 percentage points, to 58.9%: this uplift in gross margin was primarily a result of a more favorable mix of sales toward in-house brands, which generate higher margins in general, and a slight decrease in markdowns in relation to sales during the period. However, the enhancement in gross margin was not sufficient to completely offset a decline in efficiency measured by operating cost on sales, which increased by 4.6 percentage points to 67.8%. With all these trends pulled together, an operating loss of HK\$140.0 million was recorded for the six months ended 31 August 2016 (FY15/16: an operating loss of HK\$91.4 million).

(c) **Mainland China**

We are gratified with the progress in expansion that we have achieved so far this period because we have successfully capitalised on multiple growth opportunities and have extended our self-managed store presence to new cities such as Changchun and Nanning. Today, we have about 395 self-managed stores across twenty-two cities (with the total trading area increased by 23.6%) distributing or exclusively distributing a wide range of the latest and differentiated fashion products. This broad increase reaffirms our commitment to the region, where there is strong rising demand for fashion merchandise that is innovative in nature and of high quality, and should provide a favorable business environment for premium distinctive fashion retail players such as I.T in the long run.

Despite the general contraction in consumer appetite seen throughout the financial period, the Group has managed to deliver another period of noticeable growth in turnover by 12.0%, to HK\$1,598.1 million. Total retail sales also increased by 14.0% to HK\$1,523.7 million. The overall dynamic behind this sales development was attributable to not only the increase in total trading area but also a positive comparable store sales growth of 4.6% (FY15/16: 5.9%). Gross margin decreased by 0.6 percentage point, to 58.4%, primarily a result of exchange differences from the devaluation of Chinese Renminbi over the previous period. Operating cost on sales decreased by 0.2 percentage point, to 54.2%, and as a result, operating profit increased 4.8%, to HK\$82.0 million.

(d) **Japan**

The overwhelming responses to our collections of all brands within the A Bathing Ape group were evident in the sales of our Japan businesses. The success of a wide range of inspirational marketing campaigns, which include multiple cross-border collaborative activities with numerous renowned fashion units around the world, has not only enhanced the equity and awareness of the brand but also driven additional sales growth. Moreover, the increase in inbound tourist traffic growth during the period has also supported our sales growth. Sales of our Japan business increased by 28.4%, to JPY4,796.3 million, whereas sales in Hong Kong Dollar terms grew by 46.6%, to HK\$348.5 million. Gross margin landed at 71.6% (FY15/16: 70.5%). Operating profit increased by 52.6%, to HK\$144.5 million, as a result of the dual effect of the enhancement in gross margin and a level of increased incidence of efficiency, measured by operating cost on sales.

(e) **Macau**

Although recent data has suggested a slowdown in the diminishment of the gaming sector in Macau, a form of recovery still lacks positive momentum. Total retail sales of our Macau segment decreased by 9.2%, to HK\$91.7 million, during the financial period, with an operating profit amounting to HK\$26.7 million, representing a decline of 15.8% over last period.

Share of Results of Joint Ventures

A share of loss of joint ventures amounting to HK\$3.9 million was recorded for the six months ended 31 August 2016, representing a 71.9% decline in loss over last period. A key factor for the reduction in loss was that the effort devoted to strengthening our joint venture business model with Galeries Lafayette was beginning to pay off – the venture has achieved sales growth targets.

Inventory

The inventory turnover cycle of the Group increased to 187 days (FY15/16: 168 days). The Group made a strategic decision to increase purchase of inventory in order to boost sales growth during the financial period.

Cash Flows and Financial Position

The Group's cash and bank balances as at 31 August 2016 were HK\$1,766.4 million compared to HK\$1,967.1 million as at 29 February 2016 and its net cash balance amounted to HK\$343.2 million (net cash is defined as cash and cash equivalents of HK\$1,766.4 million less bank borrowings of HK\$392.1 million and the Senior Notes of HK\$1,031.1 million) versus HK\$431.3 million as at 29 February 2016.

Cash inflow from operating activities for the six months ended 31 August 2016 amounted to HK\$106.0 million (FY15/16: HK\$70.7 million).

Liquidity and Banking Facilities

As at 31 August 2016, the Group had aggregate banking facilities of approximately HK\$1,534.9 million (29 February 2016: approximately HK\$1,967.2 million) for overdrafts, bank loans and trade financing, of which approximately HK\$980.4 million (29 February 2016: approximately HK\$1,339.4 million) was unutilised as at the same date. These facilities are mainly secured by corporate guarantees provided by the Company and certain subsidiaries.

Charges of Assets

As at 31 August 2016, bank borrowing was secured on land and buildings with a carrying amount of HK\$199.9 million (29 February 2016: HK\$203.1 million).

Contingent Liabilities

As at 31 August 2016, the Group did not have significant contingent liabilities (FY15/16: Nil).

Foreign Exchange

The Group is exposed to foreign exchange risk arising from exposure in the Japanese Yen, Macau Pataca, Pound Sterling, Euro, United States Dollar, New Taiwan Dollar, Chinese Renminbi and Korean Won against the Hong Kong Dollar. Although management monitors the foreign exchange risks of the Group on a regular basis, and may enter into forward exchange contracts and foreign currency swap contracts with major and reputable financial institutions for foreign exchange risk hedging, fluctuations in the value of the Hong Kong Dollar against other currencies could affect our margins and profitability.

Employment, Training and Development

Human resources are our greatest assets, and we regard the personal development of our employees as highly important. As of 31 August 2016, the Group had a total of 6,711 (FY15/16: 6,147) full time employees. The Group invests in regular training and other development courses for employees to enhance their technical and product knowledge as well as management skills. The Group offers competitive remuneration packages to its employees, including basic salary, allowances, insurance, and commission/bonuses.

Future Outlook

As one looks ahead to the rest of the fiscal year and beyond, difficult operating conditions and weakness in consumer appetite are likely to remain the themes across the Group's principal regions, particularly in the Hong Kong segment. The Group is confident, nevertheless, that its multi-faceted business model (which is inherently adaptable and flexible in nature), along with diversified regional exposure, will retain the Group's capacity for resilience amid difficult times. The Group will continue to devote considerable efforts to the delivery of the latest fashion ideas and to further develop its portfolio to operate at a wider product range with the objective of broadening consumer demographics. New fashion concepts and emerging brands make up a pipeline that is already in place and soon to be tactfully launched, both in stores and online, alongside focused marketing initiatives for our loyal and fashion-enthusiastic customers.

With regard to network expansion, the Group intends to remain very prudent about its shop portfolio in Hong Kong in response to the continually rising pressure from rental expenses and staff costs. On the Mainland, it is likely that the Group will continue with the expansion and adhere to a rather strategic approach and be selective during business development, with an emphasis on first- and second-tier cities.

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 2016, 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 (Chapter 571, Laws of Hong Kong) (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 follows:

(a) Long positions in the shares of the Company

Director	Beneficiary of trust (Note 1)	Interest in underlying shares/equity derivatives (Note 2)	No. of shares held		Percentage of issued shares
			Direct interest	Total	
Sham Kar Wai (Note 3)	698,564,441	35,048,379	6,834,000	740,446,820	61.11%
Sham Kin Wai (Note 3)	698,564,441	35,048,379	6,834,000	740,446,820	61.11%

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.

(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)
	Strengthen Source 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%
	Sham Kin Wai	3WH Limited	Beneficial owner
Strengthen Source 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: Mr. Sham Kar Wai and Ms. Yau Shuk Ching, Chingmy (spouse of Mr. Sham Kar Wai) each holds 25% of the issued shares 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 2016.

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 2016 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

The Company adopted a share option scheme on 30 June 2008 (the "Scheme"). The Scheme is to provide incentives or rewards to selected eligible participants for their contribution or potential contribution to the Group. Pursuant to the Scheme, the Company may grant options to eligible participants as defined in the 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 Scheme will remain in force for a period of 10 years up to June 2018.

No participant with options granted was in excess of the individual limit as stipulated in the 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 Scheme and any other scheme adopted by the Group from time to time would not in aggregate exceed 30% of the shares in issue from time to time. The maximum number of shares issued and to be issued upon exercise of options granted under the 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 Scheme and any other share option schemes of the Company is 55,226,003, representing 4.56% of the issued shares of the Company.

No share option was granted, exercised or lapsed during the period ended 31 August 2016. The outstanding options granted under the Scheme and yet to be exercised are set out below:

	Date of grant	Exercise period	Exercise price per share HK\$	Number of Share Options as at 1 March 2016 and 31 August 2016
Director				
Sham Kar Wai	12 February 2010	12 February 2012 to 11 February 2020	1.43	11,268,379
	18 March 2011	18 March 2017 to 17 March 2021	4.96	11,500,000
	17 September 2012	17 September 2018 to 16 September 2022	3.42	12,280,000
Sham Kin Wai	12 February 2010	12 February 2012 to 11 February 2020	1.43	11,268,379
	18 March 2011	18 March 2017 to 17 March 2021	4.96	11,500,000
	17 September 2012	17 September 2018 to 16 September 2022	3.42	12,280,000
Continuous contract employees	28 December 2009	28 December 2011 to 27 December 2019	1.23	33,805,137
	18 March 2011	18 March 2017 to 17 March 2021	4.96	17,250,000
				<hr/>
				121,151,895

DISCLOSURE OF INTEREST (Continued)

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

As at 31 August 2016, 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 shares	Long/short position
Yau Shuk Ching Chingmy (Notes 1 & 2)	Beneficiary of a trust/ Interest of spouse	740,446,820	61.09%	Long
Wong Choi Shan (Notes 1 & 3)	Beneficiary of a trust/ Interest of spouse	740,446,820	61.09%	Long
Effective Convey Limited (Note 4)	Beneficial owner/ Interest in corporation	698,564,441	57.01%	Long
Dynamic Vitality Limited (Notes 1 & 5)	Interest in corporation	698,564,441	57.01%	Long
HSBC International Trustee Limited (Notes 1 & 5)	Interest in corporation	698,564,441	57.01%	Long
Fine Honour Limited (Note 4)	Beneficial owner	169,197,830	13.98%	Long
Yeung Chun Kam (Note 6)	Joint interest	64,270,000	5.27%	Long
Yeung Chun Fan (Note 6)	Joint interest	64,270,000	5.27%	Long
Cheung Wai Yee (Note 7)	Interest of spouse	64,270,000	5.27%	Long
Greenwoods Asset Management Limited (Note 8)	Interest in controlled company	61,878,000	5.04%	Long
Greenwoods Asset Management Holdings Limited (Notes 8 & 9)	Interest in controlled company	61,878,000	5.04%	Long
Unique Element Corp. (Notes 8 & 10)	Interest in controlled company	61,878,000	5.04%	Long
Jiang Jinzhi (Notes 8 & 11)	Interest in controlled company	61,878,000	5.04%	Long
The Capital Group Companies, Inc. (Note 12)	Interest in corporation	61,568,000	5.02%	Long

Notes:

- 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 (both are Directors of the Company) and their respective family members. HSBC International Trustee Limited is the trustee of The ABS 2000 Trust.
- Spouse of Mr. Sham Kar Wai. Out of the 740,446,820 shares, Ms. Yau as a beneficiary of The ABS 2000 Trust, is interested in 698,564,441 shares while the rest of the shares is held in the capacity of interest of spouse.
- Spouse of Mr. Sham Kin Wai. Out of the 740,446,820 shares, Ms. Wong as a beneficiary of The ABS 2000 Trust, is interested in 698,564,441 shares while the rest of the shares is held in the capacity of interest of spouse.
- 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.
- Effective Convey Limited is a wholly-owned subsidiary of Dynamic Vitality Limited, which is wholly-owned by 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.
- 64,270,000 shares are held by Dr. Yeung Chun Kam and Mr. Yeung Chun Fan jointly.
- Spouse of Mr. Yeung Chun Fan.
- According to the notice filed by Greenwoods Asset Management Limited ("Greenwoods Management"), out of the 61,878,000 shares, 14,128,000 shares are held by Greenwoods Management and 6,528,000 shares and 41,222,000 shares are held by its controlled corporation, Golden China Master Fund ("Golden China") and Greenwoods China Alpha Master Fund ("Greenwoods China") respectively.
- According to the notice filed by Greenwoods Asset Management Holdings Limited ("Greenwoods Holdings"), Greenwoods Holdings held the shares through its controlled corporations, Greenwoods Management, Golden China and Greenwoods China.
- According to the notice filed by Unique Element Corp. ("UEC"), UEC held the shares through its controlled corporations, Greenwoods Holdings, Greenwoods Management, Golden China and Greenwoods China.
- According to the notice filed by Jiang Jinzhi, Jiang Jinzhi held the shares through his controlled corporations, UEC, Greenwoods Holdings, Greenwoods Management, Golden China and Greenwoods China.
- Shares are held by Capital Research and Management Company, a wholly-owned subsidiary of The Capital Group Companies, Inc..

OTHER INFORMATION

INTERIM DIVIDEND

The business environment would likely continue to be a difficult one, the board of directors of the Company (the "Board") does not declare the payment of an interim dividend for the six months ended 31 August 2016 (six months ended 31 August 2015: Nil).

CORPORATE GOVERNANCE

The Company is committed to implementing good corporate governance practices and emphasising on transparency and accountability to its shareholders and stakeholders. In the opinion of the Board, the Company has applied and complied with the code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") throughout the six months ended 31 August 2016, except for the deviation as mentioned below.

Code Provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. Mr. Sham Kar Wai currently holds both positions. The Board believes that vesting the roles of both Chairman of the Board and Chief Executive Officer in the same person would allow the Company to be more effective and efficient in developing long term business strategies and execution of business plans.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules for securities transactions by the Directors. Upon enquiry by the Company, all Directors have confirmed that, for the six months ended 31 August 2016, they have complied with the required standard set out in the Model Code regarding securities transactions by 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 29 February 2016 are set out below:

Name of Director	Details of changes
<i>Independent Non-executive Director</i> Dr. Wong Tin Yau, Kelvin, JP	<ul style="list-style-type: none">Retired as an independent non-executive director of Xinjiang Goldwind Science & Technology Co., Ltd. ("Xinjiang Goldwind"), a company listed on the Stock Exchange, with effect from 29 June 2016. And thereafter be appointed as an independent non-executive director and a member of the audit committee of Xinjiang Goldwind with effect from 22 October 2016.Ceased as convenor-cum-member of the Financial Reporting Review Panel with effect from 15 July 2016.Appointed as an independent non-executive director and a member of the audit committee, nomination committee and remuneration committee of Asia Investment Finance Group Limited, a company listed on the Stock Exchange, with effect from 19 October 2016.

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

OTHER INFORMATION (Continued)

CONTINUING DISCLOSURE REQUIREMENTS

The following 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 2016.

(a) The Notes

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

On 8 May 2013, the Company made the Notes 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 Notes 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.

Up to the date of this report, the aggregate principal amount of the Notes which remains outstanding and subject to the terms of indenture governing the Notes is CNY894,000,000.

(b) The New Facilities

Reference is made to the announcements made by the Company on 24 February 2012 and 1 December 2014 pursuant to Rule 13.18 of the Listing Rules. Terms used herein have the same meaning as those defined in the announcement dated 1 December 2014 (the "New Facilities Announcement").

On 1 December 2014, the Company made the New Facilities Announcement that I.T Finance Limited, an indirectly wholly-owned subsidiary of the Company, as the borrower has entered into the New Facility Agreement for the purpose of refinancing in full the facilities under the facility agreement dated 24 February 2012. Pursuant to the New 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 New 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 New Facility are set out below:-

New Facility Agreement:	The facility agreement dated 1 December 2014 and executed by I.T Finance Limited, the Guarantors, the Facility Agent and the Lenders;
Borrower:	I.T Finance Limited;
Guarantors:	the Company and four indirectly wholly-owned subsidiaries of the Company;
Lenders:	Hang Seng Bank Limited and The Hongkong and Shanghai Banking Corporation Limited;
Facility Agent:	Hang Seng Bank Limited;
Facilities:	a term loan of HK\$380,352,500 repayable over a period of 39 months from the date of signing of the New Facility Agreement.

REVIEW OF FINANCIAL INFORMATION

The Audit Committee has reviewed with the Management the accounting principles and practices adopted by the Company and discussed auditing, risk management and internal control and financial reporting matters including the review of the unaudited financial information of the Group and interim report for the six months ended 31 August 2016.

OTHER INFORMATION (Continued)

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

During the six months ended 31 August 2016, the Company purchased its listed shares on the Stock Exchange as follows:

Date of purchase	Number of shares purchased	Purchase price per share		Total paid HK\$
		Highest HK\$	Lowest HK\$	
1 March 2016	494,000	1.88	1.84	916,380

As at 31 August 2016, the total number of issued shares of the Company was 1,211,483,307.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares or the Notes during the six months ended 31 August 2016.

On behalf of the Board



Sham Kar Wai
Chairman

Hong Kong, 25 October 2016

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**I.T LIMITED INTERIM REPORT
2016/2017**