ESPRIT HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)
(Stock Code: 00330)

INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 31 DECEMBER 2011
AND RESIGNATION OF INDEPENDENT NON-EXECUTIVE DIRECTOR

INTERIM RESULTS

The Board of Directors of Esprit Holdings Limited (the "Company") is pleased to present the unaudited condensed consolidated interim financial information, along with selected explanatory notes, of the Company and its subsidiaries (the "Group") for the six months ended 31 December 2011 as follows:

• Transformation Plan started off well and in line with targets
• Important implementation milestones achieved
• Continued challenging macroeconomic environment in Europe
• Group turnover declined 5.6% year-on-year to HK$ 16.7 billion, in line with the plan of 3% to 5% year-on-year decline
• Significant improvement in retail performance in 2Q
• Deliberate rationalization of wholesale customer base in progress
• Operating profit margin was 4.7%, well above the planned full year of 1% to 2%
• New branding strategy delivering good results
• Successful launch of new store concept in Cologne
• Finalizing wind-down of operations in North America by 31 March 2012
• Balance sheet and cash position remain strong
## Condensed consolidated income statement

Unaudited for the 6 months ended 31 December

<table>
<thead>
<tr>
<th>Notes</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>HK$ million</td>
<td>HK$ million</td>
</tr>
<tr>
<td><strong>Turnover</strong></td>
<td>16,699</td>
<td>17,693</td>
</tr>
<tr>
<td>Cost of goods sold</td>
<td>(8,208)</td>
<td>(7,855)</td>
</tr>
<tr>
<td><strong>Gross profit</strong></td>
<td>8,491</td>
<td>9,838</td>
</tr>
<tr>
<td>Staff costs</td>
<td>(2,499)</td>
<td>(2,407)</td>
</tr>
<tr>
<td>Occupancy costs</td>
<td>(2,151)</td>
<td>(2,148)</td>
</tr>
<tr>
<td>Logistics expenses</td>
<td>(754)</td>
<td>(685)</td>
</tr>
<tr>
<td>Marketing and advertising expenses</td>
<td>(764)</td>
<td>(446)</td>
</tr>
<tr>
<td>Depreciation</td>
<td>(342)</td>
<td>(403)</td>
</tr>
<tr>
<td>Impairment of property, plant and equipment</td>
<td>(5)</td>
<td>(2)</td>
</tr>
<tr>
<td>Write back/(addition) of provision for store closure</td>
<td>79</td>
<td>(6)</td>
</tr>
<tr>
<td>Other operating costs</td>
<td>(1,268)</td>
<td>(1,106)</td>
</tr>
<tr>
<td><strong>Operating profit</strong></td>
<td>787</td>
<td>2,635</td>
</tr>
<tr>
<td>Interest income</td>
<td>16</td>
<td>23</td>
</tr>
<tr>
<td>Finance costs</td>
<td>(21)</td>
<td>(14)</td>
</tr>
<tr>
<td><strong>Profit before taxation</strong></td>
<td>782</td>
<td>2,644</td>
</tr>
<tr>
<td>Taxation</td>
<td>(227)</td>
<td>(504)</td>
</tr>
<tr>
<td><strong>Profit attributable to shareholders of the Company</strong></td>
<td>555</td>
<td>2,140</td>
</tr>
</tbody>
</table>

### Earnings per share

- Basic | HK$0.43 | HK$1.66 |
- Diluted | HK$0.43 | HK$1.66 |
### Condensed consolidated statement of comprehensive income

<table>
<thead>
<tr>
<th></th>
<th>Unaudited for the 6 months ended 31 December</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2011 HK$ million</td>
</tr>
<tr>
<td><strong>Profit attributable to shareholders of the Company</strong></td>
<td>555</td>
</tr>
<tr>
<td><strong>Other comprehensive income</strong></td>
<td></td>
</tr>
<tr>
<td>Fair value gain on cash flow hedge</td>
<td>343</td>
</tr>
<tr>
<td>Exchange translation</td>
<td>(954)</td>
</tr>
<tr>
<td><strong>Total comprehensive (losses)/income for the period attributable to shareholders of the Company</strong></td>
<td>(56)</td>
</tr>
</tbody>
</table>
## Condensed consolidated balance sheet

<table>
<thead>
<tr>
<th>Notes</th>
<th>Unaudited HK$ million</th>
<th>Audited HK$ million</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>31 December 2011</td>
<td>30 June 2011</td>
</tr>
</tbody>
</table>

### Non-current assets

- **Intangible assets**: 7,708
- **Property, plant and equipment**: 4,157
- **Investment properties**: 13
- **Other investments**: 7
- **Deposits and prepayments**: 442
- **Deferred tax assets**: 751

### Current assets

- **Inventories**: 4,162
- **Debtors, deposits and prepayments**: 4,210
- **Tax receivable**: 1,113
- **Cash and cash equivalents**: 3,408

### Current liabilities

- **Creditors and accrued charges**: 3,867
- **Provision for store closure**: 1,700
- **Taxation**: 1,012
- **Bank loans**: 793

### Net current assets

5,521

### Total assets less current liabilities

18,599

### Equity

- **Share capital**: 129
- **Reserves**: 16,110

### Total equity

16,239

### Non-current liabilities

- **Bank loans**: 1,560
- **Deferred tax liabilities**: 800

### Total non-current liabilities

2,360

### Total

18,599
Notes to the condensed consolidated interim financial information

1. Basis of preparation

This unaudited condensed consolidated interim financial information ("interim financial information") on pages 2 to 14 for the six months ended 31 December 2011 has been prepared in accordance with the International Accounting Standard ("IAS") 34 "Interim Financial Reporting" issued by the International Accounting Standards Board and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

This interim financial information should be read in conjunction with the annual financial statements for the year ended 30 June 2011. The accounting policies and methods of computation used in the preparation of this interim financial information are consistent with those used in the annual financial statements for the year ended 30 June 2011.

In the current period, the Group has adopted the following IAS, International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations which do not have any significant impact on the Group’s consolidated financial statements.

- IAS 24 (Revised) Related Party Disclosures
- IFRS 1 (Amendment) Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
- IFRS 7 (Amendment) Disclosures – Transfers of Financial Assets
- IFRIC 14 (Amendment) Prepayment of a Minimum Funding Requirement
- Various IASs and IFRSs Improvements to IFRSs 2010

The Group did not early adopt the following IAS, IFRS and IFRIC interpretation that have been issued in the period from 1 July 2011 to 31 December 2011. The adoption of such standards and interpretation is anticipated not to result in substantial changes to the Group’s accounting policies.

<table>
<thead>
<tr>
<th>Standard</th>
<th>Description</th>
<th>Effective Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>IFRS 7 (Amendment)</td>
<td>Offsetting Financial Assets and Financial Liabilities</td>
<td>1 January 2013</td>
</tr>
<tr>
<td>IFRS 7 (Amendment)</td>
<td>Initial Application of IFRS 9</td>
<td>1 January 2015</td>
</tr>
<tr>
<td>IFRIC 20</td>
<td>Stripping Costs in the Production Phase of a Surface Mine</td>
<td>1 January 2013</td>
</tr>
</tbody>
</table>
2. Turnover and segment information

The Group is principally engaged in wholesale and retail distribution and licensing of quality fashion and lifestyle products designed under its own internationally-known Esprit brand name.

<table>
<thead>
<tr>
<th></th>
<th>Unaudited for the 6 months ended 31 December</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2011 HK$ million</td>
</tr>
<tr>
<td>Revenue</td>
<td></td>
</tr>
<tr>
<td>Wholesale</td>
<td>6,727</td>
</tr>
<tr>
<td>Retail</td>
<td>9,844</td>
</tr>
<tr>
<td>Licensing and other income</td>
<td>128</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>16,699</td>
</tr>
</tbody>
</table>

The chief operating decision-makers have been identified as the executive directors ("Executive Directors") of the Group.

Management has determined the operating segments based on the reports reviewed by the Executive Directors that are used to assess performance and allocate resources.

The Executive Directors consider the business from an operations nature perspective, including wholesale and retail distribution and licensing of quality fashion and lifestyle products designed under its own internationally-known Esprit brand name.

Inter-segment transactions are entered into under the normal commercial terms and conditions that would also be available to unrelated third parties.
### 2. Turnover and segment information (continued)

<table>
<thead>
<tr>
<th></th>
<th>Wholesale HK$ million</th>
<th>Retail HK$ million</th>
<th>Licensing HK$ million</th>
<th>Corporate services, sourcing and others HK$ million</th>
<th>Group HK$ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total revenue</td>
<td>6,727</td>
<td>9,844</td>
<td>106</td>
<td>14,827</td>
<td>31,504</td>
</tr>
<tr>
<td>Inter-segment revenue</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(14,805)</td>
<td>(14,805)</td>
</tr>
<tr>
<td>Revenue from external customers</td>
<td>6,727</td>
<td>9,844</td>
<td>106</td>
<td>22</td>
<td>16,699</td>
</tr>
<tr>
<td>Segment results</td>
<td>1,251</td>
<td>588</td>
<td>81</td>
<td>(1,133)</td>
<td>787</td>
</tr>
<tr>
<td>Interest income</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>16</td>
</tr>
<tr>
<td>Finance costs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(21)</td>
</tr>
<tr>
<td>Profit before taxation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>782</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>26</td>
<td>291</td>
<td>-</td>
<td>182</td>
<td>499</td>
</tr>
<tr>
<td>Depreciation</td>
<td>24</td>
<td>254</td>
<td>-</td>
<td>64</td>
<td>342</td>
</tr>
<tr>
<td>Impairment of property, plant and equipment (Write back)/addition of provision for store closure</td>
<td>-</td>
<td>5</td>
<td>-</td>
<td>-</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(79)</td>
<td>-</td>
<td></td>
<td>(79)</td>
</tr>
</tbody>
</table>

Unaudited
For the 6 months ended 31 December 2011
2. Turnover and segment information (continued)

<table>
<thead>
<tr>
<th></th>
<th>Wholesale HK$ million</th>
<th>Retail HK$ million</th>
<th>Licensing HK$ million</th>
<th>Group HK$ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total revenue</td>
<td>7,621</td>
<td>9,955</td>
<td>93</td>
<td>14,412</td>
</tr>
<tr>
<td>Inter-segment revenue</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(14,388)</td>
</tr>
<tr>
<td>Revenue from external customers</td>
<td>7,621</td>
<td>9,955</td>
<td>93</td>
<td>24</td>
</tr>
<tr>
<td>Segment results</td>
<td>2,049</td>
<td>1,221</td>
<td>83</td>
<td>(718)</td>
</tr>
<tr>
<td>Interest income</td>
<td></td>
<td></td>
<td></td>
<td>23</td>
</tr>
<tr>
<td>Finance costs</td>
<td></td>
<td></td>
<td></td>
<td>(14)</td>
</tr>
<tr>
<td>Profit before taxation</td>
<td></td>
<td></td>
<td></td>
<td>2,644</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>19</td>
<td>288</td>
<td>-</td>
<td>283</td>
</tr>
<tr>
<td>Depreciation</td>
<td>30</td>
<td>313</td>
<td>2</td>
<td>58</td>
</tr>
<tr>
<td>Impairment of property, plant and equipment</td>
<td>-</td>
<td>2</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>(Write back)/addition of provision for store closure</td>
<td>-</td>
<td>6</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>6</td>
</tr>
</tbody>
</table>
3. Operating profit

Operating profit is arrived at after charging and (crediting) the following:

<table>
<thead>
<tr>
<th>Item</th>
<th>2011 (HK$ million)</th>
<th>2010 (HK$ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation</td>
<td>342</td>
<td>403</td>
</tr>
<tr>
<td>Amortisation of customer relationships</td>
<td>29</td>
<td>29</td>
</tr>
<tr>
<td>Loss on disposal of property, plant and equipment</td>
<td>1</td>
<td>14</td>
</tr>
<tr>
<td>Impairment of property, plant and equipment</td>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td>Net exchange losses/(gains)</td>
<td>28</td>
<td>(36)</td>
</tr>
<tr>
<td>Net charge/(write back) for provision for obsolete inventories</td>
<td>9</td>
<td>(35)</td>
</tr>
</tbody>
</table>

Occupancy costs

4. Finance costs

<table>
<thead>
<tr>
<th>Item</th>
<th>2011 (HK$ million)</th>
<th>2010 (HK$ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest on bank loans wholly repayable within five years</td>
<td>10</td>
<td>12</td>
</tr>
<tr>
<td>Imputed interest on financial assets and financial liabilities</td>
<td>11</td>
<td>2</td>
</tr>
</tbody>
</table>

5. Taxation

<table>
<thead>
<tr>
<th></th>
<th>Unaudited for the 6 months ended 31 December</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2011</td>
</tr>
<tr>
<td></td>
<td>HK$ million</td>
</tr>
<tr>
<td>Current tax</td>
<td></td>
</tr>
<tr>
<td>Hong Kong profits tax</td>
<td></td>
</tr>
<tr>
<td>Provision for current period</td>
<td>3</td>
</tr>
<tr>
<td>Underprovision for prior years</td>
<td>-</td>
</tr>
<tr>
<td>Overseas taxation</td>
<td></td>
</tr>
<tr>
<td>Provision for current period</td>
<td>311</td>
</tr>
<tr>
<td>Overprovision for prior years</td>
<td>(41)</td>
</tr>
<tr>
<td></td>
<td>273</td>
</tr>
<tr>
<td>Deferred tax</td>
<td></td>
</tr>
<tr>
<td>Current period net credit</td>
<td>(46)</td>
</tr>
<tr>
<td>Taxation</td>
<td>227</td>
</tr>
</tbody>
</table>

Hong Kong profits tax is calculated at **16.5%** (2010: 16.5%) on the estimated assessable profit for the period, net of tax losses carried forward, if applicable.

Overseas (outside of Hong Kong) taxation has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group companies operate, net of tax losses carried forward, if applicable.

6. Interim dividend

<table>
<thead>
<tr>
<th></th>
<th>Unaudited for the 6 months ended 31 December</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2011</td>
</tr>
<tr>
<td></td>
<td>HK$ million</td>
</tr>
<tr>
<td>Interim dividend declared of <strong>HK$0.26</strong></td>
<td></td>
</tr>
<tr>
<td>(2010: HK$1.00) per share</td>
<td>336</td>
</tr>
</tbody>
</table>

The amount of interim dividend is based on **1,290,437,683** shares in issue on **23 February 2012** (2010: **1,289,477,475** shares in issue on **10 February 2011**).
7. **Earnings per share**

**Basic**

Basic earnings per share is calculated by dividing the profit attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the period.

<table>
<thead>
<tr>
<th>Unaudited for the 6 months ended 31 December</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit attributable to shareholders of the Company (HK$ million)</td>
<td>555</td>
<td>2,140</td>
</tr>
<tr>
<td>Weighted average number of ordinary shares in issue (million)</td>
<td>1,290</td>
<td>1,288</td>
</tr>
<tr>
<td>Basic earnings per share (HK$ per share)</td>
<td>0.43</td>
<td>1.66</td>
</tr>
</tbody>
</table>

**Diluted**

Diluted earnings per share is calculated based on the profit attributable to shareholders of the Company, and the weighted average number of shares in issue during the period after adjusting for the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares granted under the Company’s share option schemes. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company’s shares during the period) based on the monetary value of the subscription rights attached to 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.

<table>
<thead>
<tr>
<th>Unaudited for the 6 months ended 31 December</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit attributable to shareholders of the Company (HK$ million)</td>
<td>555</td>
<td>2,140</td>
</tr>
<tr>
<td>Weighted average number of ordinary shares in issue (million)</td>
<td>1,290</td>
<td>1,288</td>
</tr>
<tr>
<td>Adjustments for share options (million)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Weighted average number of ordinary shares for diluted earnings per share (million)</td>
<td>1,290</td>
<td>1,288</td>
</tr>
<tr>
<td>Diluted earnings per share (HK$ per share)</td>
<td>0.43</td>
<td>1.66</td>
</tr>
</tbody>
</table>
8. Property, plant and equipment

<table>
<thead>
<tr>
<th>Unaudited HK$ million</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance at 1 July 2011</strong></td>
</tr>
<tr>
<td>Exchange translation</td>
</tr>
<tr>
<td>Additions</td>
</tr>
<tr>
<td>Disposals</td>
</tr>
<tr>
<td>Depreciation (note 3)</td>
</tr>
<tr>
<td>Impairment charge (note 3)</td>
</tr>
<tr>
<td><strong>Balance at 31 December 2011</strong></td>
</tr>
</tbody>
</table>

9. Debtors, deposits and prepayments

Debtors, deposits and prepayments include trade debtors. The ageing analysis by due date of trade debtors net of provision for impairment is as follows:

<table>
<thead>
<tr>
<th>Unaudited HK$ million</th>
<th>Audited HK$ million</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>31 December 2011</strong></td>
<td><strong>30 June 2011</strong></td>
</tr>
<tr>
<td>Current portions</td>
<td></td>
</tr>
<tr>
<td>2,014</td>
<td>2,290</td>
</tr>
<tr>
<td>1-30 days</td>
<td>241</td>
</tr>
<tr>
<td>31-60 days</td>
<td>141</td>
</tr>
<tr>
<td>61-90 days</td>
<td>79</td>
</tr>
<tr>
<td>Over 90 days</td>
<td>424</td>
</tr>
<tr>
<td>Amount past due but not impaired</td>
<td>885</td>
</tr>
<tr>
<td><strong>2,899</strong></td>
<td><strong>3,101</strong></td>
</tr>
</tbody>
</table>

The Group's sales to retail customers are made in cash, bank transfer or by credit card. The Group also grants credit period, which is usually 30 to 60 days to certain wholesale and franchise customers.

At 31 December 2011, trade debtors of **HK$94 million** (30 June 2011: nil) were pledged as security for the Group’s short-term bank loans.
10. Creditors and accrued charges

Creditors and accrued charges include trade creditors and their ageing analysis is as follows:

<table>
<thead>
<tr>
<th></th>
<th>Unaudited 31 December</th>
<th>Audited 30 June</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>HK$ million</td>
<td>HK$ million</td>
</tr>
<tr>
<td>0-30 days</td>
<td>805</td>
<td>1,224</td>
</tr>
<tr>
<td>31-60 days</td>
<td>11</td>
<td>73</td>
</tr>
<tr>
<td>61-90 days</td>
<td>5</td>
<td>13</td>
</tr>
<tr>
<td>Over 90 days</td>
<td>1</td>
<td>10</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>822</strong></td>
<td><strong>1,320</strong></td>
</tr>
</tbody>
</table>

11. Provision for store closure

Movements in provision for store closure are as follows:

<table>
<thead>
<tr>
<th></th>
<th>Unaudited for the 6 months ended 31 December</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2011</td>
</tr>
<tr>
<td></td>
<td>HK$ million</td>
</tr>
<tr>
<td>At beginning of period</td>
<td>1,992</td>
</tr>
<tr>
<td>(Unused amounts reversed)/underprovision for prior years</td>
<td>(79)</td>
</tr>
<tr>
<td>Amounts used during the period</td>
<td>(125)</td>
</tr>
<tr>
<td>Exchange differences</td>
<td>(88)</td>
</tr>
<tr>
<td><strong>At end of period</strong></td>
<td><strong>1,700</strong></td>
</tr>
</tbody>
</table>

The provision was made in connection with the divestment of operations in North America and the store closure programs for Europe and Asia Pacific announced in the prior fiscal years.
12. Bank loans

<table>
<thead>
<tr>
<th></th>
<th>Unaudited</th>
<th>Audited</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>HK$ million</strong></td>
<td><strong>HK$ million</strong></td>
<td></td>
</tr>
<tr>
<td><strong>31 December 2011</strong></td>
<td><strong>30 June 2011</strong></td>
<td></td>
</tr>
</tbody>
</table>

- Secured short-term bank loans 89 -
- Unsecured short-term bank loans 184 -
- Unsecured long-term bank loans repayable within one year 520 520
- Unsecured long-term bank loans repayable between one and two years 520 520
- Unsecured long-term bank loans repayable between two and five years 1,040 1,040

Total 2,353 2,080

13. Share capital

<table>
<thead>
<tr>
<th></th>
<th>Unaudited</th>
<th>Audited</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>HK$ million</strong></td>
<td><strong>HK$ million</strong></td>
<td></td>
</tr>
<tr>
<td><strong>31 December 2011</strong></td>
<td><strong>30 June 2011</strong></td>
<td></td>
</tr>
</tbody>
</table>

- Authorised 2,000,000,000 shares of HK$0.10 each 200 200

<table>
<thead>
<tr>
<th>Number of shares of HK$0.10 each</th>
<th>Nominal value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Million</td>
<td>HK$ million</td>
</tr>
</tbody>
</table>

Issued and fully paid

- Balance at 31 December 2011 and 1 July 2011 1,290 129
MANAGEMENT DISCUSSION AND ANALYSIS

Transformation Plan 2014/15 on track

On 15 September 2011, we announced our Transformation Plan 2014/15 to re-establish Esprit as a leading fashion brand and to restore long-term, sustainable profitability. Since then, we have made a successful start with our plans to transform the Group’s business and we are pleased and confident with the progress made so far. For the first half of the financial year, the results were within the projected range, despite the continued difficult conditions that dominate the current economic climate. In addition, the sourcing cost inflation materializing in the first half of this fiscal year as well as the warm weather conditions in the second quarter had a negative impact on the gross margin. During the period, the Group reported turnover of HK$16.7 billion representing 5.6% year-on-year decline, in line with the plan of 3% to 5% year-on-year decline. Operating profit margin was 4.7%, well above the planned full year operating margin of 1% to 2%.

Embarking on a transformation journey

As soon as the Transformation Plan was announced, we discussed the Transformation Plan intensively with our wholesale customers, suppliers and employees around the world. Their responses have been very positive and supportive. On 22 November 2011, we held an Investor Day at our headquarters in Ratingen, Germany. The purpose was to update our investors in more detail about the Transformation Plan 2014/15 and to offer them the opportunity to interact with the Executive Board of Management who are driving the implementation of the transformation process.

Given the broad scope of the Transformation Plan, we have structured the effort along few major topics coordinated through a central Project Management Office. These topics are further broken down into various work-streams with dedicated team leaders and designated teams led by experienced management to drive this process. In addition, a detailed list of key performance indicators is devised to allow close monitoring of the implementation progress and fine-tuning of measures if needed.

The new Esprit

The starting point of the transformation process is the new Esprit brand direction. Based on in-depth consumer research and market segmentation, we have defined the positioning of the Esprit brand and the Esprit customer. Everything we do, we do for her. By doing so, we have become more customer focused than ever before. In addition to continuous enhancement of our product offerings targeting our customer segment, we are also putting more emphasis on providing an inspirational shopping environment as part of the overall brand experience.

We have adopted high profile brand strategies to communicate to our customers and to increase their consideration levels in our key markets further. Our investment in brand communication was focused on the core markets of Germany, France, Benelux and China. Consumer feedback shows that the new brand and marketing strategy are going in the right direction. Consumers are putting us back on their shopping lists, which is the first step needed before seeing improvements in traffic, sales and loyalty.
Our first efforts in adopting the new branding strategy have been rewarded by very encouraging results. The campaign featuring internationally renowned model Gisele Bündchen, presented our new brand direction and themes for Fall/Winter 2011 and ran from September to December 2011. The campaign was exposed in leading fashion magazines and high profile, outdoor city locations. Results showed a significant improvement in consumer consideration of Esprit. In Germany, consideration increased 9% points to 59%, and in China, it increased even 19% points to 49%. Esprit will continue its successful cooperation with Gisele Bündchen for the presentation of Spring/Summer 2012 collections.

The collections and styles shown in the campaign are in line with the new brand direction and are more fashionable, stylish and feminine as well as offering outstanding value for money. It is encouraging to see that these styles on average had a significantly higher sell through than the regular collections. This underlines that the new brand and product direction of offering more fashionable collections with outstanding value for money is appreciated by our customers.

As part of our efforts to sharpen the Esprit brand, we are also streamlining our license portfolio. Going forward, the emphasis will be on licensing activities that can add value to the Esprit brand. In addition, the marketing communication of these licensed products will become better aligned with Esprit’s global brand direction. The most prominent example was the introduction of the new fragrance, “Urban Nature”, in October 2011, which was promoted by a strong campaign across various media channels.

Esprit is a strong brand

While we have stated, we need to strengthen the core values and profile of the Esprit brand, some have interpreted this as the brand being weak. This is not the case. The brand is still very strong, liked and trusted, most noticeably in our core markets in Europe and China. Recent studies have confirmed this. In Germany, Esprit was rated as by far the most favorite brand amongst women according to the survey “GMK Markenbefragung, June 2011”. In addition, consumers ranked Esprit number 1 of all apparel companies in Germany in the OC&C Proposition Index 2011, which analyzed the performances of leading retailers on the basis of an international consumer survey.

Creating inspiring and fashionable collections

In order to ensure brand consistency and product development efficiency as outlined in the Transformation Plan, all product, design and licensing activities have been pulled together. To lead this new role, Melody Harris-Jensbach has been appointed as Chief Product & Design Officer and she has been on board since 9 January 2012. Being a graduate of Parsons School of Design in New York, Melody has over 20 years of industry experience and is widely recognized for her outstanding, international expertise and track record in the fields of products, design and licensing in the fashion and lifestyle industry. Melody held various senior management positions within Esprit from 1998 until 2007. Between 2008 and 2011, she was the Deputy CEO and Chief Product Officer of Puma AG. Since January 2012, she is responsible for Esprit’s product, design and licensing strategy.
The RCA winning collections, which were introduced in Autumn 2011, were our latest efforts to create more feminine and fashionable products. Esprit approached the Royal College of Art with the idea to launch a two-year design collaboration to create a capsule collection, incorporating sustainable fashion design, with 22 of this year’s graduates. Three students from the competition were chosen as winners and their designs were re-worked by Esprit’s in-house design team to hit the shop-floor.

In addition, to demonstrate our continued commitment to being a socially and environmentally responsible brand, we created the Gostwyck collection as the result of a partnership between Esprit and the Gostwyck sheep farm in New South Wales, Australia. Made from the farm’s finest Merino wool, it is part of a limited collection of ultra soft clothing products. The collaboration marks the culmination of Esprit’s search for an ecologically friendly wool producer. This also makes Esprit the first major retailer to develop a relationship with a Merino wool producer that requires environmental and ecological sustainable practices as well as ethical animal treatment.

To further enhance our product design, we launched the new Trend division, the China design centre as well as the new Denim division in the first half of the financial year. The Trend division has started its operation and is expected to have its first product delivery in September 2012. The China design centre has delivered its first concepts already. New product designs are expected to be showcased in our product offering in August 2012. In the newly launched Denim division, new fits are already being included into our denim lines, and the first styles will be in store in December 2012. In order to create the perfect wardrobe for our customers, all product, design and licensing activities have been grouped together.

On the other hand, we have started the implementation of a new collection calendar that matches collection creation frequency with consumer needs. The six-season calendar with 12 deliveries ensures a continual flow of products throughout the season. The constant flow of up-to-date collections will ensure the right level of fashionability to our end consumer. With this new calendar, there will be a stronger collaboration between the design teams to ensure an Esprit product DNA and handwriting. Additionally the new calendar will strengthen the alignment between product launch and go to market strategy.

While we are making our products and collections more fashionable, product quality remains our top priority, as this is what our customers like from Esprit and expect from us. To cope with cost inflationary pressures without lifting prices or sacrificing quality, we are accelerating our sourcing strategy and its implementation is currently ahead of plan. The Never-Out-Of-Stock (“NOOS”) service centre has been launched to further optimize availability and inventory of NOOS offering. In addition, new sourcing offices in Indonesia and India are in the process of being set up and will be opened in the second and fourth quarters of year 2012 respectively to realize further potential. Our new European distribution centre is under construction, and this will streamline our supply chain processes. It is on schedule to open mid 2012.
New pilot store opened in Cologne

As part of our new brand direction, we are upgrading our shopping experience by making our stores more inspirational for our customers. We have launched the Lighthouse Project to assist us in identifying a new retail store concept that matches the new brand vision. In the project, three world class architectural teams developed three different new store concepts based on the same brand brief. Design and product presentation are geared towards the lifestyle and self-image of Esprit’s target customers – modern, confident, fashionable women – while reflecting the company’s heritage of a Californian lifestyle and sustainability. Learning from these new store concepts will form the basis for the refurbishment and opening of new retail stores in future. In November 2011, the first new store concept was successfully launched in Cologne and it represents an important step towards our future goals. Comments and reviews from customers and market have been very positive. It has drawn much market attention and is delivering higher traffic, gross profit margin and average price per transaction. Year-on-year traffic in the store has increased by 25% since re-opening, while year-on-year growth of average price per transaction has increased by 54%. Its gross profit margin was 10% points higher than other stores.

Based on these positive results, we have decided to accelerate the test. Learning from the Cologne store will be translated into the refurbishment of 14 stores in key locations in the second half of FY11/12. In addition, the new, successful visual and merchandise management of the Cologne store will be rolled out into a bigger group of controlled test stores. Next to this, two other new store concepts are being developed and tested in Antwerp in April 2012 and Düsseldorf in July 2012.

Lacking suitable store locations amid rising property and rental prices caused a slight delay in some of our new store openings in the first half of the financial year. Nevertheless, 60 new directly managed retail stores were opened with a retail selling space of over 16,000 m², bringing our retail space growth in line with our plan.
### Directly Managed Retail Stores by Countries

<table>
<thead>
<tr>
<th>Countries</th>
<th>No. of stores</th>
<th>Net opened stores*</th>
<th>Net sales area m²</th>
<th>Change in net sales area*</th>
<th>No. of comp stores</th>
<th>Comp-store sales growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>350</td>
<td>7</td>
<td>213,702</td>
<td>2.4%</td>
<td>268</td>
<td>-4.8%</td>
</tr>
<tr>
<td>Germany**</td>
<td>157</td>
<td>3</td>
<td>119,734</td>
<td>1.9%</td>
<td>121</td>
<td>-4.1%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>50</td>
<td>-</td>
<td>19,927</td>
<td>5.4%</td>
<td>35</td>
<td>-10.3%</td>
</tr>
<tr>
<td>Switzerland</td>
<td>39</td>
<td>-</td>
<td>17,432</td>
<td>0.8%</td>
<td>31</td>
<td>-5.5%</td>
</tr>
<tr>
<td>France</td>
<td>31</td>
<td>-</td>
<td>15,914</td>
<td>0.7%</td>
<td>29</td>
<td>-5.1%</td>
</tr>
<tr>
<td>Belgium</td>
<td>25</td>
<td>2</td>
<td>16,628</td>
<td>1.5%</td>
<td>20</td>
<td>-5.0%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>23</td>
<td>1</td>
<td>4,581</td>
<td>24.1%</td>
<td>13</td>
<td>5.3%</td>
</tr>
<tr>
<td>Austria</td>
<td>15</td>
<td>-</td>
<td>14,353</td>
<td>-</td>
<td>12</td>
<td>-5.2%</td>
</tr>
<tr>
<td>Finland</td>
<td>6</td>
<td>1</td>
<td>4,459</td>
<td>9.5%</td>
<td>3</td>
<td>-6.4%</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>2</td>
<td>-</td>
<td>1,149</td>
<td>-</td>
<td>2</td>
<td>-1.8%</td>
</tr>
<tr>
<td>Ireland</td>
<td>2</td>
<td>-</td>
<td>525</td>
<td>-</td>
<td>2</td>
<td>0.4%</td>
</tr>
<tr>
<td>Asia Pacific</td>
<td>637</td>
<td>22</td>
<td>112,187</td>
<td>3.1%</td>
<td>282</td>
<td>-3.6%</td>
</tr>
<tr>
<td>China</td>
<td>314</td>
<td>14</td>
<td>52,488</td>
<td>4.1%</td>
<td>95</td>
<td>0.4%</td>
</tr>
<tr>
<td>Australia</td>
<td>147</td>
<td>(1)</td>
<td>18,287</td>
<td>-4.5%</td>
<td>86</td>
<td>-9.6%</td>
</tr>
<tr>
<td>Taiwan</td>
<td>92</td>
<td>6</td>
<td>8,976</td>
<td>8.2%</td>
<td>56</td>
<td>-3.5%</td>
</tr>
<tr>
<td>Malaysia</td>
<td>31</td>
<td>2</td>
<td>10,693</td>
<td>19.3%</td>
<td>14</td>
<td>7.2%</td>
</tr>
<tr>
<td>Singapore</td>
<td>22</td>
<td>1</td>
<td>8,751</td>
<td>4.0%</td>
<td>15</td>
<td>-10.6%</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>16</td>
<td>-</td>
<td>8,491</td>
<td>-5.8%</td>
<td>8</td>
<td>1.1%</td>
</tr>
<tr>
<td>New Zealand</td>
<td>12</td>
<td>-</td>
<td>2,827</td>
<td>-</td>
<td>7</td>
<td>-9.6%</td>
</tr>
<tr>
<td>Macau</td>
<td>3</td>
<td>-</td>
<td>1,674</td>
<td>-</td>
<td>1</td>
<td>-6.3%</td>
</tr>
<tr>
<td>North America</td>
<td>90</td>
<td>1</td>
<td>31,385</td>
<td>0.8%</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>Canada**</td>
<td>45</td>
<td>(1)</td>
<td>15,982</td>
<td>-2.3%</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>United States**</td>
<td>45</td>
<td>2</td>
<td>15,783</td>
<td>4.0%</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>Subtotal</td>
<td>1,077</td>
<td>30</td>
<td>357,254</td>
<td>2.5%</td>
<td>550</td>
<td>-4.6%</td>
</tr>
<tr>
<td>Store closure program FY09/10*</td>
<td>13</td>
<td>(1)</td>
<td>7,337</td>
<td>-6.6%</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>Store closure program FY10/11*</td>
<td>78</td>
<td>(2)</td>
<td>30,549</td>
<td>-3.3%</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>Total</td>
<td>1,168</td>
<td>27</td>
<td>403,140</td>
<td>1.7%</td>
<td>550</td>
<td>-4.6%</td>
</tr>
</tbody>
</table>

n.a.  Not applicable
* Net change from 30 June 2011
** All e-shops within Europe are shown as 1 comparable store in Germany
^ 1 out of the 33 stores included under the store closure program FY09/10 was closed during the six months ended 31 December 2011
# 2 out of the 80 stores included under the store closure program FY10/11 were closed during the six months ended 31 December 2011
** All directly managed retail stores in Canada and the United States and the e-shop in the United States are considered non-comparable stores as a result of management decision to divest the operations in North America

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**A new approach for our wholesale business**

In the wholesale segment, Esprit has stepped up its efforts to support its strong and committed partners. Our wholesale team has conducted road shows to communicate the Transformation Plan with our wholesale customers and we received very positive feedback. Building on this good start, ongoing meetings will be established with wholesale customers to ensure that our business partners align with our business strategy and initiatives outlined by the Transformation Plan. To facilitate efficient and effective implementation of the wholesale initiatives as outlined in the Transformation Plan, we have prioritised accounts by reviewing all European accounts country by country and account by account. About 650 accounts responsible for a major part of our wholesale business are selected as key partners with highest growth potential and strong strategic fit. We have tailored support packages, i.e. refurbishment and expansion support, tactical returns and margin invest, in exchange for growth commitment. Our negotiations with key partners have started and are going well. Due to the nature of the pre-order business, the results will not become visible before the next financial year.
As part of the Transformation Plan and in response to the current challenging trading environment, we are supporting our wholesale customers to refurbish their sale spaces. This involves the refurbishment of over 50 POS (approximately one-third in China) of key strategic partners based on the successful new store concept in Cologne. This will ensure consistency of the shopping environment between retail and wholesale POS. In FY11/12, we plan to refurbish over 50,000 m² controlled wholesale space (approximately 10% of controlled wholesale space of franchise stores / shop-in-stores). In addition, to ensure consistent brand message, around 10 showrooms will also be refurbished in Europe and Asia. We expect the majority of this investment to be deployed in the second half of the financial year.

As well as this support program, we have also started to rationalize our customer base by eliminating non-productive POS. This clearly had a negative impact on the wholesale space and sales, but is necessary to strengthen our wholesale channel and brand long-term.

We have been actively developing wholesale business in places where we are still under represented, such as countries in Asia and Latin America, to compensate for the slower growth in mature markets. This strategy has led to robust wholesale turnover growth in Thailand, Philippines, Indonesia, Chile and Columbia which grew 31.2%, 55.6%, 16.7%, 59.9% and 12.0% year-on-year respectively for the six months ended 31 December 2011.

During the six months ended 31 December 2011, our controlled wholesale space was affected by active rationalization of wholesale space and limited bank credit for franchise partners. The overall total controlled wholesale space fell by 3.9% to 675,156 m² as at 31 December 2011 (30 June 2011: 702,803 m²). The majority of the closures of franchise stores were due to expiry of leases and closure of non-productive POS.
<table>
<thead>
<tr>
<th>Countries</th>
<th>No. of stores</th>
<th>Net sales area m²</th>
<th>Net opened stores*</th>
<th>Net change in net sales area*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>1,061</td>
<td>263,801</td>
<td>4,740</td>
<td>-4.7%</td>
</tr>
<tr>
<td>Switzerland</td>
<td>44</td>
<td>8,109</td>
<td>49</td>
<td>-5.1%</td>
</tr>
<tr>
<td>Ireland</td>
<td>2</td>
<td>375</td>
<td>14</td>
<td>-32.9%</td>
</tr>
<tr>
<td>Spain</td>
<td>10</td>
<td>2,003</td>
<td>209</td>
<td>2.1%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>4</td>
<td>589</td>
<td>11</td>
<td>-59.9%</td>
</tr>
<tr>
<td>Portugal</td>
<td>2</td>
<td>569</td>
<td>-</td>
<td>-14.2%</td>
</tr>
<tr>
<td>Others</td>
<td>107</td>
<td>14,259</td>
<td>81</td>
<td>22.9%</td>
</tr>
<tr>
<td>Total</td>
<td>2,095</td>
<td>394,483</td>
<td>4,876</td>
<td>-4.3%</td>
</tr>
</tbody>
</table>

* Net change from 30 June 2011

Excludes Red Earth and salon POS.

Germany controlled space wholesale POS includes controlled space wholesale POS in countries outside Germany, mainly Russia, Poland, Greece, Czech Republic, and Hungary.

Spain, which was previously grouped under Spain, was separately disclosed from July 2011 onwards. The number of controlled space wholesale POS in Spain as at 30 June 2011 comprised 12 franchise stores, 219 shop-in-stores and 18 identity corners with controlled space of 663,546 m² in Spain and 5 POS in Portugal.

The 5 controlled space wholesale POS in Spain as at 30 June 2011 included 249 shop-in-stores and 18 identity corners with controlled space of 5,542 m² and 454 m², respectively.
China is our second biggest market

To lead our China team to achieve our growth ambitions in this important market, a new China CEO, Holly Li, has been on board since 1 February 2012. An experienced senior management professional with broad China, retail and franchise experience, we are confident that Holly will successfully execute our business plan for China, which foresees a doubling of the sales and POS until June 2015. She reports directly to the Group CEO.

Even without a China CEO in place in the first half of the financial year, our growth plan roll-out in China continued to make progress and had a net addition of 9 cities during the six months ended 31 December 2011 and our footprint increased to 194 cities (30 June 2011: 185). Total controlled space (retail and wholesale combined) increased by 1.8% from 30 June 2011 to 140,764 m².

To cope with the huge market size and demographic differences among provinces, we aim to work with national and regional franchise partners to accelerate our expansion pace in China. We are convinced that this hybrid wholesale model can ensure effective and efficient expansion. At present, we have categorized cities and provinces and are in the process of engaging with national and regional franchise partners. After detailed analysis, locations have been identified in targeted cities. Expansion is expected to accelerate in the second half. Around 40 retail locations have been secured and are expected to be opened in the second half of the financial year.

Closure of non-profitable stores on track

The store closure program announced is on track. Over 50% of the 80 planned store closures which were announced in FY10/11 as part of the Transformation Plan have been executed or are in final negotiations. The negotiation process involves not only landlords, but also parties such as employee work councils in the various countries. So far, the closing procedures and costs are well within the time frame and provisions accounted for.

Finalizing the wind-down of operations in North America by 31 March 2012

After ongoing discussion and negotiation with various parties in the past few months, we have decided not to sell the business as we are not willing to compromise on brand positioning and distribution channels. Given that the focus of our transformation process is to re-establish the Esprit brand as a leading, inspiring fashion brand, we were not willing to jeopardize our efforts by a potential different brand execution in North America. Hence, we believe that pursuing the option to close down the operations in North America and develop the licensing business with one or more competent license partner(s) will serve the best interests of the Group. In addition, working with a competent license partner will enable us to maintain our brand presence in North America. As a result, we have commenced the wind-down of store operations in North America. This involves closing 41 full price retail stores and 53 outlets. We have started the negotiation with landlords, on a case-by-case basis and plan to close all directly managed retail stores in North America. There are currently 85 store leases with tentative agreements. It is expected that the last day of the store operations will be 31 March 2012.
FINANCIAL REVIEW

Group turnover was HK$16,699 million (1H FY10/11: HK$17,693 million), representing 5.6% year-on-year decline. In local currency, the decline was 10.0% as a result of decline in wholesale and retail turnover amid continued macro headwinds in Europe, adverse weather conditions especially during the second quarter of the reporting period and a deliberate rationalization of the wholesale channel.

Turnover by Products

<table>
<thead>
<tr>
<th></th>
<th>For the 6 months ended 31 December</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>HK$ million</td>
<td>% to Group</td>
<td>HK$ million</td>
<td>% to Group</td>
</tr>
<tr>
<td></td>
<td>2011</td>
<td>Turnover</td>
<td>2010</td>
<td>Turnover</td>
</tr>
<tr>
<td>Esprit</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>women</td>
<td>6,685</td>
<td>40.0%</td>
<td>7,296</td>
<td>41.2%</td>
</tr>
<tr>
<td>women casual</td>
<td>5,176</td>
<td>31.0%</td>
<td>5,943</td>
<td>33.6%</td>
</tr>
<tr>
<td>women collection</td>
<td>1,509</td>
<td>9.0%</td>
<td>1,353</td>
<td>7.6%</td>
</tr>
<tr>
<td>men</td>
<td>2,745</td>
<td>16.4%</td>
<td>2,840</td>
<td>16.1%</td>
</tr>
<tr>
<td>men casual</td>
<td>2,191</td>
<td>13.1%</td>
<td>2,317</td>
<td>13.1%</td>
</tr>
<tr>
<td>men collection</td>
<td>554</td>
<td>3.3%</td>
<td>523</td>
<td>3.0%</td>
</tr>
<tr>
<td>others</td>
<td>3,198</td>
<td>19.2%</td>
<td>3,213</td>
<td>18.1%</td>
</tr>
<tr>
<td>accessories</td>
<td>790</td>
<td>4.7%</td>
<td>881</td>
<td>5.0%</td>
</tr>
<tr>
<td>shoes</td>
<td>545</td>
<td>3.2%</td>
<td>459</td>
<td>2.6%</td>
</tr>
<tr>
<td>bodywear</td>
<td>512</td>
<td>3.1%</td>
<td>484</td>
<td>2.7%</td>
</tr>
<tr>
<td>kids</td>
<td>462</td>
<td>2.8%</td>
<td>497</td>
<td>2.8%</td>
</tr>
<tr>
<td>de. corp</td>
<td>299</td>
<td>1.8%</td>
<td>201</td>
<td>1.1%</td>
</tr>
<tr>
<td>sports</td>
<td>212</td>
<td>1.3%</td>
<td>285</td>
<td>1.6%</td>
</tr>
<tr>
<td>others*</td>
<td>378</td>
<td>2.3%</td>
<td>406</td>
<td>2.3%</td>
</tr>
<tr>
<td>Total</td>
<td>12,628</td>
<td>75.6%</td>
<td>13,349</td>
<td>75.4%</td>
</tr>
</tbody>
</table>

* Others include red earth, salon, licensing income and licensed products like timewear, eyewear, jewellery, bed & bath, houseware etc

<table>
<thead>
<tr>
<th></th>
<th>For the 6 months ended 31 December</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>HK$ million</td>
<td>% to Group</td>
<td>HK$ million</td>
<td>% to Group</td>
</tr>
<tr>
<td></td>
<td>2011</td>
<td>Turnover</td>
<td>2010</td>
<td>Turnover</td>
</tr>
<tr>
<td>edc</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>edc women</td>
<td>2,940</td>
<td>17.6%</td>
<td>3,137</td>
<td>17.7%</td>
</tr>
<tr>
<td>edc men</td>
<td>689</td>
<td>4.1%</td>
<td>683</td>
<td>3.9%</td>
</tr>
<tr>
<td>edc others^</td>
<td>442</td>
<td>2.7%</td>
<td>524</td>
<td>3.0%</td>
</tr>
<tr>
<td>Total</td>
<td>4,071</td>
<td>24.4%</td>
<td>4,344</td>
<td>24.6%</td>
</tr>
</tbody>
</table>

^ edc others include edc kids, edc shoes, edc accessories and edc bodywear

Product divisions with high degree of fashionability and styles, such as de. corp and women collection, showed strong sales performance and delivered robust turnover growth of 48.3% and 11.5% respectively. Their positive sales development reinforced our confidence in positioning Esprit brand with higher degree of fashionability in the future.
### Turnover by Countries

**For the 6 months ended 31 December**

<table>
<thead>
<tr>
<th>Countries</th>
<th>2011 HK$ million</th>
<th>% to Group Turnover</th>
<th>2010 HK$ million</th>
<th>% to Group Turnover</th>
<th>Change in % Local currency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>13,092</td>
<td>78.4%</td>
<td>14,014</td>
<td>79.2%</td>
<td>-6.6% -11.0%</td>
</tr>
<tr>
<td>Germany*</td>
<td>7,151</td>
<td>42.8%</td>
<td>7,496</td>
<td>42.4%</td>
<td>-4.6% -8.4%</td>
</tr>
<tr>
<td>Benelux*</td>
<td>2,136</td>
<td>12.8%</td>
<td>2,372</td>
<td>13.4%</td>
<td>-10.0% -14.3%</td>
</tr>
<tr>
<td>France</td>
<td>1,081</td>
<td>6.5%</td>
<td>1,347</td>
<td>7.6%</td>
<td>-19.8% -23.5%</td>
</tr>
<tr>
<td>Scandinavia</td>
<td>782</td>
<td>4.7%</td>
<td>764</td>
<td>4.4%</td>
<td>-0.2% -6.0%</td>
</tr>
<tr>
<td>Switzerland</td>
<td>718</td>
<td>4.3%</td>
<td>770</td>
<td>4.4%</td>
<td>-6.8% -17.2%</td>
</tr>
<tr>
<td>Austria</td>
<td>703</td>
<td>4.2%</td>
<td>739</td>
<td>4.2%</td>
<td>-4.8% -8.8%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>198</td>
<td>1.2%</td>
<td>208</td>
<td>1.2%</td>
<td>-5.0% -6.6%</td>
</tr>
<tr>
<td>Spain</td>
<td>162</td>
<td>1.0%</td>
<td>148</td>
<td>0.8%</td>
<td>9.9% 4.7%</td>
</tr>
<tr>
<td>Italy</td>
<td>128</td>
<td>0.8%</td>
<td>118</td>
<td>0.7%</td>
<td>8.5% 2.9%</td>
</tr>
<tr>
<td>Ireland</td>
<td>17</td>
<td>0.1%</td>
<td>18</td>
<td>0.1%</td>
<td>-7.1% -10.7%</td>
</tr>
<tr>
<td>Portugal</td>
<td>6</td>
<td>0.0%</td>
<td>7</td>
<td>0.0%</td>
<td>-14.5% -18.9%</td>
</tr>
<tr>
<td>Others</td>
<td>10</td>
<td>0.0%</td>
<td>7</td>
<td>0.0%</td>
<td>42.0% 37.5%</td>
</tr>
<tr>
<td>Asia Pacific</td>
<td>2,967</td>
<td>17.8%</td>
<td>3,022</td>
<td>17.1%</td>
<td>-1.8% -6.4%</td>
</tr>
<tr>
<td>China**</td>
<td>1,411</td>
<td>8.4%</td>
<td>1,429</td>
<td>8.1%</td>
<td>-1.3% -6.3%</td>
</tr>
<tr>
<td>Australia and New Zealand</td>
<td>459</td>
<td>2.8%</td>
<td>495</td>
<td>2.8%</td>
<td>-7.3% -14.6%</td>
</tr>
<tr>
<td>Hong Kong**</td>
<td>302</td>
<td>1.8%</td>
<td>304</td>
<td>1.7%</td>
<td>-0.7% -0.7%</td>
</tr>
<tr>
<td>Macau***</td>
<td>269</td>
<td>1.6%</td>
<td>299</td>
<td>1.7%</td>
<td>-10.0% -13.3%</td>
</tr>
<tr>
<td>Singapore</td>
<td>229</td>
<td>1.4%</td>
<td>216</td>
<td>1.2%</td>
<td>5.9% 0.4%</td>
</tr>
<tr>
<td>Taiwan</td>
<td>154</td>
<td>0.9%</td>
<td>154</td>
<td>0.9%</td>
<td>0.3% -4.0%</td>
</tr>
<tr>
<td>Malaysia</td>
<td>143</td>
<td>0.9%</td>
<td>125</td>
<td>0.7%</td>
<td>15.1% 13.0%</td>
</tr>
<tr>
<td>North America</td>
<td>640</td>
<td>3.8%</td>
<td>657</td>
<td>3.7%</td>
<td>-2.6% -3.7%</td>
</tr>
<tr>
<td>United States*</td>
<td>360</td>
<td>2.1%</td>
<td>334</td>
<td>1.9%</td>
<td>7.8% 7.5%</td>
</tr>
<tr>
<td>Canada</td>
<td>280</td>
<td>1.7%</td>
<td>323</td>
<td>1.8%</td>
<td>-13.3% -15.2%</td>
</tr>
<tr>
<td>Total</td>
<td>16,699</td>
<td>100.0%</td>
<td>17,693</td>
<td>100.0%</td>
<td>-5.6% -10.0%</td>
</tr>
</tbody>
</table>

* Country as a whole includes retail stores, outlet stores, edc standalone stores and e-shop
** Germany sales include wholesale sales to other European countries mainly Russia, Poland, Czech Republic, Greece and Slovenia
*** Macau sales include wholesale sales to other countries mainly Columbia, Thailand and Chile
* Includes licensing
** Includes salon

### Turnover by Distribution Channels

**For the 6 months ended 31 December**

<table>
<thead>
<tr>
<th>Key Distribution Channels</th>
<th>2011 HK$ million</th>
<th>% to Group Turnover</th>
<th>2010 HK$ million</th>
<th>% to Group Turnover</th>
<th>Change in % Local currency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail#</td>
<td>9,844</td>
<td>59.0%</td>
<td>9,955</td>
<td>56.3%</td>
<td>-1.1% -5.0%</td>
</tr>
<tr>
<td>Wholesale</td>
<td>6,727</td>
<td>40.3%</td>
<td>7,621</td>
<td>43.1%</td>
<td>-11.7% -16.7%</td>
</tr>
<tr>
<td>Licensing</td>
<td>106</td>
<td>0.6%</td>
<td>93</td>
<td>0.5%</td>
<td>14.4% 13.6%</td>
</tr>
<tr>
<td>Others</td>
<td>22</td>
<td>0.1%</td>
<td>24</td>
<td>0.1%</td>
<td>-9.3% -12.0%</td>
</tr>
<tr>
<td>Total</td>
<td>16,699</td>
<td>100.0%</td>
<td>17,693</td>
<td>100.0%</td>
<td>-5.6% -10.0%</td>
</tr>
</tbody>
</table>

# Retail sales include sales from e-shop in countries where available

**Retail turnover** amounted to HK$9,844 million (1H FY10/11: HK$9,955 million). There were a 4.6% comparable store sales decline and the expected loss of sales in relation to the store closure program as guided. The negative comparable store sales development was mainly driven by the decline in comparable store traffic, which suffered mostly from the warm weather in Autumn/Winter. Nevertheless, comparable store sales growth showed quarter-on-quarter improvement in the second quarter, thanks to the Transformation Plan related initiatives on branding and products.
## Retail Turnover by Countries

<table>
<thead>
<tr>
<th>Countries</th>
<th>2011 HK$ million</th>
<th>% of Retail Turnover</th>
<th>2010 HK$ million</th>
<th>% of Retail Turnover</th>
<th>Change in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>7,277</td>
<td>73.9%</td>
<td>7,315</td>
<td>73.5%</td>
<td>-0.5% -4.5%</td>
</tr>
<tr>
<td>Germany</td>
<td>4,309</td>
<td>43.8%</td>
<td>4,293</td>
<td>43.1%</td>
<td>0.4% -3.1%</td>
</tr>
<tr>
<td>Benelux</td>
<td>1,085</td>
<td>11.0%</td>
<td>1,111</td>
<td>11.2%</td>
<td>-2.4% -6.2%</td>
</tr>
<tr>
<td>Switzerland</td>
<td>566</td>
<td>5.7%</td>
<td>553</td>
<td>5.6%</td>
<td>2.3% -8.0%</td>
</tr>
<tr>
<td>France</td>
<td>484</td>
<td>4.9%</td>
<td>547</td>
<td>5.5%</td>
<td>-11.5% -14.5%</td>
</tr>
<tr>
<td>Austria</td>
<td>423</td>
<td>4.3%</td>
<td>412</td>
<td>4.1%</td>
<td>2.7% -0.8%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>166</td>
<td>1.7%</td>
<td>178</td>
<td>1.8%</td>
<td>-7.1% -8.5%</td>
</tr>
<tr>
<td>Finland</td>
<td>86</td>
<td>0.9%</td>
<td>60</td>
<td>0.6%</td>
<td>43.4% 37.8%</td>
</tr>
<tr>
<td>Denmark</td>
<td>64</td>
<td>0.7%</td>
<td>72</td>
<td>0.7%</td>
<td>-11.4% -14.4%</td>
</tr>
<tr>
<td>Spain</td>
<td>54</td>
<td>0.5%</td>
<td>50</td>
<td>0.5%</td>
<td>7.6% 3.0%</td>
</tr>
<tr>
<td>Norway</td>
<td>11</td>
<td>0.1%</td>
<td>12</td>
<td>0.1%</td>
<td>-3.1% -9.5%</td>
</tr>
<tr>
<td>Ireland</td>
<td>10</td>
<td>0.1%</td>
<td>9</td>
<td>0.1%</td>
<td>13.7% 9.7%</td>
</tr>
<tr>
<td>Sweden</td>
<td>7</td>
<td>0.1%</td>
<td>9</td>
<td>0.1%</td>
<td>-16.8% -21.4%</td>
</tr>
<tr>
<td>Italy</td>
<td>2</td>
<td>0.0%</td>
<td>1</td>
<td>0.0%</td>
<td>42.2% 38.0%</td>
</tr>
<tr>
<td>Portugal</td>
<td>0</td>
<td>0.0%</td>
<td>2</td>
<td>0.0%</td>
<td>-86.2% -86.9%</td>
</tr>
<tr>
<td>Others*</td>
<td>10</td>
<td>0.1%</td>
<td>6</td>
<td>0.1%</td>
<td>45.3% 40.6%</td>
</tr>
<tr>
<td>Asia Pacific</td>
<td>2,100</td>
<td>21.4%</td>
<td>2,149</td>
<td>21.6%</td>
<td>-2.3% -6.7%</td>
</tr>
<tr>
<td>China</td>
<td>789</td>
<td>8.0%</td>
<td>847</td>
<td>8.5%</td>
<td>-6.9% -11.5%</td>
</tr>
<tr>
<td>Australia and New Zealand</td>
<td>439</td>
<td>4.5%</td>
<td>467</td>
<td>4.7%</td>
<td>-6.0% -13.3%</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>292</td>
<td>3.0%</td>
<td>292</td>
<td>2.9%</td>
<td>0.0% 0.0%</td>
</tr>
<tr>
<td>Singapore</td>
<td>229</td>
<td>2.3%</td>
<td>216</td>
<td>2.2%</td>
<td>5.9% 0.4%</td>
</tr>
<tr>
<td>Taiwan</td>
<td>154</td>
<td>1.6%</td>
<td>154</td>
<td>1.5%</td>
<td>0.3% -4.0%</td>
</tr>
<tr>
<td>Malaysia</td>
<td>143</td>
<td>1.5%</td>
<td>125</td>
<td>1.3%</td>
<td>15.1% 13.0%</td>
</tr>
<tr>
<td>Macau</td>
<td>54</td>
<td>0.5%</td>
<td>48</td>
<td>0.5%</td>
<td>12.1% 12.1%</td>
</tr>
<tr>
<td>North America</td>
<td>467</td>
<td>4.7%</td>
<td>491</td>
<td>4.9%</td>
<td>-5.0% -6.0%</td>
</tr>
<tr>
<td>United States</td>
<td>268</td>
<td>2.7%</td>
<td>252</td>
<td>2.5%</td>
<td>6.4% 6.2%</td>
</tr>
<tr>
<td>Canada</td>
<td>199</td>
<td>2.0%</td>
<td>239</td>
<td>2.4%</td>
<td>-17.0% -18.6%</td>
</tr>
<tr>
<td>Total</td>
<td>9,844</td>
<td>100.0%</td>
<td>9,955</td>
<td>100.0%</td>
<td>-1.1% -5.0%</td>
</tr>
</tbody>
</table>

* Others’ retail turnover represented retail turnover from e-shop in Czech Republic, Poland, Slovakia, Hungary, Slovenia, Latvia, Greece, Malta and Estonia

## Retail Performance Scorecard

<table>
<thead>
<tr>
<th></th>
<th>For the 6 months ended 31 December</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2011</td>
</tr>
<tr>
<td>Year-on-year local currency turnover growth</td>
<td>-5.0%</td>
</tr>
<tr>
<td>Segment EBIT margin</td>
<td>6.0%</td>
</tr>
<tr>
<td>No. of Esprit POS</td>
<td>1,168</td>
</tr>
<tr>
<td>Esprit net sales area (m²)</td>
<td><strong>403,140</strong></td>
</tr>
<tr>
<td>Year-on-year change in Esprit net sales area</td>
<td>2.1%</td>
</tr>
<tr>
<td>Comparable store sales growth</td>
<td>-4.6%</td>
</tr>
</tbody>
</table>

**Wholesale turnover** fell 11.7% year-on-year to HK$6,727 million (1H FY10/11: HK$7,621 million), in line with the Transformation Plan. The decline was mainly due to a decrease in gross sales as well as higher discount, the return initiative to support our wholesale customers amid the challenging market conditions and active rationalization of wholesale space. Decrease in gross sales was partly evidenced by 6.5% year-on-year decline in controlled wholesale space as a result of a continued and deliberate effort to rationalize the quality of our wholesale customer base.
### Wholesale Turnover by Countries

**For the 6 months ended 31 December**

<table>
<thead>
<tr>
<th>Countries</th>
<th>HK$ million</th>
<th>% of Wholesale Turnover</th>
<th>HK$ million</th>
<th>% of Wholesale Turnover</th>
<th>Change in % Local currency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>5,799</td>
<td>86.2%</td>
<td>6,684</td>
<td>87.6%</td>
<td>-13.2%</td>
</tr>
<tr>
<td>Germany*</td>
<td>2,833</td>
<td>42.1%</td>
<td>3,195</td>
<td>41.9%</td>
<td>-11.3%</td>
</tr>
<tr>
<td>Benelux</td>
<td>1,044</td>
<td>15.5%</td>
<td>1,255</td>
<td>16.5%</td>
<td>-16.8%</td>
</tr>
<tr>
<td>Scandinavia</td>
<td>614</td>
<td>9.1%</td>
<td>631</td>
<td>8.3%</td>
<td>-2.8%</td>
</tr>
<tr>
<td>France</td>
<td>597</td>
<td>8.9%</td>
<td>800</td>
<td>10.5%</td>
<td>-25.4%</td>
</tr>
<tr>
<td>Austria</td>
<td>280</td>
<td>4.2%</td>
<td>327</td>
<td>4.3%</td>
<td>-14.3%</td>
</tr>
<tr>
<td>Switzerland</td>
<td>152</td>
<td>2.2%</td>
<td>217</td>
<td>2.8%</td>
<td>-30.1%</td>
</tr>
<tr>
<td>Italy</td>
<td>126</td>
<td>1.9%</td>
<td>117</td>
<td>1.5%</td>
<td>8.1%</td>
</tr>
<tr>
<td>Spain</td>
<td>108</td>
<td>1.6%</td>
<td>97</td>
<td>1.2%</td>
<td>11.1%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>32</td>
<td>0.5%</td>
<td>30</td>
<td>0.4%</td>
<td>7.1%</td>
</tr>
<tr>
<td>Ireland</td>
<td>7</td>
<td>0.1%</td>
<td>9</td>
<td>0.1%</td>
<td>-28.0%</td>
</tr>
<tr>
<td>Portugal</td>
<td>6</td>
<td>0.1%</td>
<td>6</td>
<td>0.1%</td>
<td>5.4%</td>
</tr>
<tr>
<td>Asia Pacific</td>
<td>845</td>
<td>12.6%</td>
<td>849</td>
<td>11.2%</td>
<td>-0.4%</td>
</tr>
<tr>
<td>China</td>
<td>610</td>
<td>9.1%</td>
<td>570</td>
<td>7.5%</td>
<td>7.0%</td>
</tr>
<tr>
<td>Macau**</td>
<td>215</td>
<td>3.2%</td>
<td>251</td>
<td>3.3%</td>
<td>-14.3%</td>
</tr>
<tr>
<td>Australia</td>
<td>20</td>
<td>0.3%</td>
<td>28</td>
<td>0.4%</td>
<td>-28.4%</td>
</tr>
<tr>
<td>North America</td>
<td>83</td>
<td>1.2%</td>
<td>88</td>
<td>1.2%</td>
<td>-5.1%</td>
</tr>
<tr>
<td>Canada</td>
<td>81</td>
<td>1.2%</td>
<td>84</td>
<td>1.1%</td>
<td>-2.8%</td>
</tr>
<tr>
<td>United States</td>
<td>2</td>
<td>0.0%</td>
<td>4</td>
<td>0.1%</td>
<td>-60.1%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>6,727</strong></td>
<td><strong>100.0%</strong></td>
<td><strong>7,621</strong></td>
<td><strong>100.0%</strong></td>
<td><strong>-11.7%</strong></td>
</tr>
</tbody>
</table>

* Germany wholesale sales includes sales to other European countries mainly Russia, Poland, Czech Republic, Greece and Slovenia

**Macau sales includes wholesale sales to other countries mainly Columbia, Thailand and Chile

### Wholesale Performance Scorecard

**For the 6 months ended 31 December**

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
<th>Change in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year-on-year local currency turnover growth</td>
<td>-16.7%</td>
<td>-6.2%</td>
<td></td>
</tr>
<tr>
<td>Segment EBIT margin</td>
<td>18.6%</td>
<td>26.9%</td>
<td></td>
</tr>
<tr>
<td>No. of Esprit controlled space POS</td>
<td>11,321</td>
<td>12,056</td>
<td></td>
</tr>
<tr>
<td>Esprit controlled space area (m²)</td>
<td>675,156</td>
<td>722,118</td>
<td></td>
</tr>
<tr>
<td>Year-on-year change in Esprit controlled space area</td>
<td>-6.5%</td>
<td>-5.7%</td>
<td></td>
</tr>
</tbody>
</table>

**Gross profit** was HK$8,491 million (1H FY10/11: HK$9,838 million) reflecting a gross profit margin of 50.8% (1H FY10/11: 55.6%). The decline in gross profit and gross profit margin was mainly due to continued cost inflationary pressure and higher level of discounting as a result of warmer than expected weather during the reporting period. As outlined in the Transformation Plan, we decided not to raise our prices in most price points and categories, in anticipation of an easing sourcing cost development and our strategic effort to enhance our price value perception long-term. Wholesale returns also brought unfavourable impact to gross profit margin.

**Operating expenses** amounted to HK$7,704 million (1H FY10/11: HK$7,203 million). In local currency, operating expenses grew by 2.3% mainly due to additional spending for the Transformation Plan, such as the additional spending in association with branding.
For the full year, the planned operating margin is 1% to 2%. The operating margin for the six months ended 31 December 2011 was 4.7%. As a result of the decline in gross profit and increase in operating expenses as explained above, operating profit amounted to HK$787 million (1H FY10/11: HK$2,635 million) and the decline was mainly due to a decrease in the gross profit margin, additional spending for the Transformation Plan and deleverage impact as a result of negative turnover growth.

**Net profit** was HK$555 million (1H FY10/11: HK$2,140 million) and net profit margin was 3.3% (1H FY10/11: 12.1%). The decline in net profit was mainly due to lower profitability and higher effective tax rate.

**Liquidity and Financial Resources**

Despite the additional spending on Transformation Plan, our balance sheet strength and cash position remained solid. **Cash and bank balances** as at 31 December 2011 amounted to HK$3,408 million (30 June 2011: HK$4,794 million). As compared to 30 June 2011, EUR/HKD closing rate as at 31 December 2011 depreciated by 10.3% to 10.074.

<table>
<thead>
<tr>
<th>HK$ million</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents as at 1 July</td>
<td>4,794</td>
<td>6,748</td>
</tr>
<tr>
<td>Net cash (used in)/generated from operating activities</td>
<td>(907)</td>
<td>1,854</td>
</tr>
<tr>
<td>Net cash used in investing activities</td>
<td>(589)</td>
<td>(715)</td>
</tr>
<tr>
<td>Net cash outflow for acquisition of remaining interest in the associated companies</td>
<td>-</td>
<td>(150)</td>
</tr>
<tr>
<td>Net cash outflow from disposal of interest in subsidiaries</td>
<td>(110)</td>
<td>-</td>
</tr>
<tr>
<td>Purchase of property, plant and equipment</td>
<td>(499)</td>
<td>(590)</td>
</tr>
<tr>
<td>Proceeds from disposal of property, plant &amp; equipment</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>Interest received</td>
<td>16</td>
<td>23</td>
</tr>
<tr>
<td>Net cash generated from/(used in) financing activities</td>
<td>263</td>
<td>(830)</td>
</tr>
<tr>
<td>Net proceeds on issues of shares for cash</td>
<td>-</td>
<td>8</td>
</tr>
<tr>
<td>Interest paid on bank loans</td>
<td>(10)</td>
<td>(12)</td>
</tr>
<tr>
<td>Dividends paid</td>
<td>-</td>
<td>(826)</td>
</tr>
<tr>
<td>Proceeds from short term bank loans</td>
<td>273</td>
<td>-</td>
</tr>
<tr>
<td>Net (decrease)/increase in cash and cash equivalents</td>
<td>(1,233)</td>
<td>309</td>
</tr>
<tr>
<td>Effect of change in exchange rates</td>
<td>(153)</td>
<td>245</td>
</tr>
<tr>
<td>Cash and cash equivalents as at 31 December</td>
<td>3,408</td>
<td>7,302</td>
</tr>
<tr>
<td>Less:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank loans</td>
<td>2,353</td>
<td>2,600</td>
</tr>
<tr>
<td>Net cash balance</td>
<td>1,055</td>
<td>4,702</td>
</tr>
</tbody>
</table>
Capital expenditure amounted to HK$499 million (1H FY10/11: HK$590 million).

<table>
<thead>
<tr>
<th>HK$ million</th>
<th>For the 6 months ended 31 December</th>
</tr>
</thead>
<tbody>
<tr>
<td>New stores and expansion</td>
<td>210</td>
</tr>
<tr>
<td>Existing stores</td>
<td>82</td>
</tr>
<tr>
<td>IT projects</td>
<td>165</td>
</tr>
<tr>
<td>Office &amp; others</td>
<td>42</td>
</tr>
<tr>
<td><strong>Purchase of property, plant and equipment</strong></td>
<td><strong>499</strong></td>
</tr>
</tbody>
</table>

Net trade debtor balance fell to HK$2,899 million as at 31 December 2011, reflecting 6.5% decline from 30 June 2011.

Inventories were HK$4,162 million as at 31 December 2011, reflecting 1.3% decrease from 30 June 2011, mainly driven by the depreciation of EUR/HKD closing rate, partially offset by 0.5% increase in inventory units and higher seasonal unit cost of inventories.

Total interest bearing external borrowings amounted to HK$2,353 million (30 June 2011: HK$2,080 million) as at 31 December 2011. The increase was mainly due to HK$273 million bank loans drawn to finance our business development in China. As at 31 December 2011, trade debtors of HK$94 million (30 June 2011: nil) were pledged to a bank as security for the Group’s short-term bank loans.

SEASONALITY OF BUSINESS

The Group’s business is affected by seasonal trends. These trends are primarily attributable to seasonal shipments to wholesale customers and key holiday sales periods, as well as the pricing of seasonal products. Due to the fact that sales and operating income may fluctuate in any reporting period, half year financials may not be indicative of the future trend of business and may not be extrapolated to provide a reliable forecast.

FOREIGN EXCHANGE RISK MANAGEMENT

In the past, most of the suppliers in Asia were asked to quote and settle in Euros. To better manage our sourcing costs for merchandise produced for Europe, majority of the suppliers in Asia were asked to quote and settle in US dollar. Hence, the Group entered into foreign exchange forward contracts with reputable financial institutions to hedge such foreign exchange risks.
OUTLOOK

Since 15 September 2011, we started the implementation of our four-year transformation process. We are pleased with the progress so far and are well on track. Having said that, one needs to realize that we have only just begun our transformation journey to re-establish Esprit as a leading, inspiring fashion brand and to restore long-term profitability. We continue to face economic headwinds, especially in Europe, as a result of reduced consumer confidence and restricted credit facilities. This is particularly impacting our wholesale business and wholesale expansion.

Going to the second half of the financial year, we will continue the rigorous and systematic implementation of our Transformation Plan in a continued challenging business environment. All measures and investments will be closely measured and tracked and adjusted if needed. The plan is flexible in the sense that we can and will adapt our measures if and when needed. As we have guided before, most of the measures we will do during the course of this financial year, will only start bearing fruit in the following years due to the lead times inherent to this industry.

We continue our successful cooperation with Gisele Bündchen. Our Spring/Summer 2012 collections will showcase our latest efforts in injecting fashion and value to our product offerings. The launch will be accompanied by series of marketing campaigns and activities to secure the required impact. While we are encouraged by the results of the campaigns and the much higher sell through of advertised items in store, one needs to realize that it will take until Winter 2012/13 to implement the brand direction into all collections.

Retail distribution network is expected to grow as planned. In view of the positive reviews of the Cologne store concept, we will accelerate our efforts. 14 existing directly managed retail stores are selected for the roll-out of the new store concept in the second half of the financial year. Another group of existing directly managed retail stores is also selected for merchandise and visual merchandising adaptations based on the learning from the Cologne store concept.

Aside from store expansion, our first-ever e-shop in Asia Pacific is expected to commence operation in China in the second half of the financial year. The e-shop platform in China will be marketed under www.esprit.cn and esprit.tmall.com, where our China customers can comfortably and freely search for our latest product offerings and purchase without hassles.

While the economic backdrop will remain difficult in the second half of the financial year, the Group results for the first half of FY11/12 were well within the projected range. This represents an early and very important step on our route to seeing the entire plan through, and this good result have confirmed us that this is the new Esprit to be achieved and we are definitely heading in the right direction. Looking beyond this financial year, we are even more confident that we will see the tangible results of our hard work materialize in the calendar year 2013 and succeed in turning Esprit into an inspiring and fashionable brand with sustainable profits and a clear identity.
INTERIM DIVIDEND

The Board of Directors maintains the interim dividend payout ratio of 60% of basic earnings per share. It has declared an interim dividend for the six months ended 31 December 2011 of HK$0.26 per share (FY2010/2011: HK$1.00 per share).

In addition, the Board of Directors has provided the shareholders with an option to receive the interim dividend in form of new fully paid shares in lieu of cash. The dividend reinvestment price shall be determined by the average closing price of the shares of the Company for the five trading days preceding 6 March 2012. Further details of the scrip dividend reinvestment scheme and the election form will be despatched on or around 13 March 2012 and the election period will commence on 13 March 2012 to 27 March 2012, both days inclusive.

The dividend will be payable on or around 18 April 2012 to the shareholders whose names appear on the Registers of Members of the Company at the close of business on 5 March 2012 (the “Shareholders”). The relevant dividend warrants and/or share certificates for new shares will be despatched to the Shareholders on or around 18 April 2012.

The scrip dividend reinvestment scheme is conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of and permission to deal in the new shares to be issued under the scrip dividend reinvestment scheme.

CLOSURE OF REGISTERS OF MEMBERS

The Registers of Members of the Company will be closed from 6 March 2012 to 7 March 2012, both days inclusive, during which period no transfer of shares will be effected.

In order to qualify for the interim dividend mentioned above, all transfers accompanied by the relevant share certificates must be lodged with the Company’s branch share registrar in Hong Kong, Tricor Secretaries Limited, at 26/F, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong not later than 4:00 pm on 5 March 2012.

AUDIT COMMITTEE

The Audit Committee currently comprises three Independent Non-executive Directors. The Audit Committee has reviewed the accounting principles and practices adopted by the Group and has also discussed auditing, internal controls and financial reporting matters including the review of the unaudited interim results of the Group for the six months ended 31 December 2011 with the management.
HUMAN RESOURCES

As at 31 December 2011, the Group employed over 14,000 full-time equivalent staff (31 December 2010: over 14,500) around the globe. Competitive remuneration packages that take into account business performance, market practices and competitive market conditions are offered to employees in compensation for their contribution. In addition, share options and discretionary bonuses are also granted based on the Group’s and individual’s performances. All employees around the world are connected through the Group’s quarterly newsletters and global intranet.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S SHARES

Neither the Company nor any of its subsidiaries have purchased, sold or redeemed any of the Company’s shares during the period under review.

CORPORATE GOVERNANCE

The Company has complied with the code provisions of Code on Corporate Governance Practices (the “Code”) as set out in the current Appendix 14 of the Listing Rules throughout the six months ended 31 December 2011, with the deviation as stated below:

Under the code provision A.4.1 of the Code, non-executive directors should be appointed for a specific term, subject to re-election. Non-executive Directors of the Company have not been appointed for a specific term. However, under Bye-law 87 of the Company’s Bye-laws, all Directors, including Non-executive Directors, of the Company are subject to retirement by rotation and re-election in the annual general meeting of the Company and each Director is effectively appointed under an average term of three years.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding Directors’ securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as contained in Appendix 10 of the Listing Rules.

The Company has made specific enquiry with all Directors and all of them confirmed that they have complied with the required standard set out in the Model Code for the six months ended 31 December 2011.

RESIGNATION OF INDEPENDENT NON-EXECUTIVE DIRECTOR AND EXECUTIVE DIRECTOR AND GROUP CHIEF FINANCIAL OFFICER OF THE COMPANY

The Board of Directors announces that Mr Francesco Trapani (“Mr Trapani”), an Independent Non-executive Director of the Company, has tendered his resignation with effect from 23 February 2012 due to his other personal commitments.
Mr Trapani confirmed that he has no disagreement with the Board of Directors and there are no other matters with respect to his resignation that need to be brought to the attention of the shareholders of the Company.

The Board of Directors would like to take this opportunity to express its sincerest gratitude to Mr Trapani for his valuable contributions to the Company during his tenure of office.

The Company has also previously announced that Mr Chew Fook Aun has resigned as Executive Director and Group Chief Financial Officer of the Company with effect on or before 1 June 2012.

BOARD OF DIRECTORS

As at the date of this announcement, the Directors of the Company are:

Executive Directors:  Mr Ronald VAN DER VIS (Group CEO)  
                      Mr CHEW Fook Aun (Group CFO)

Non-executive Director:  Mr Jürgen Alfred Rudolf FRIEDRICH

Independent Non-executive Directors:  Dr Hans-Joachim KÖRBER (Chairman)  
                                      Mr Paul CHENG Ming Fun (Deputy Chairman)  
                                      Mr Alexander Reid HAMILTON  
                                      Mr Raymond OR Ching Fai

By Order of the Board  
Florence NG Wai Yin  
Company Secretary

Hong Kong, 23 February 2012

Forward-Looking Statements

This announcement contains certain forward-looking statements. Such forward-looking statements are subject to various risks and uncertainties, including without limitation, statements relating to our plans to transform the company's business, make significant investment in our businesses and achieve sustainable profitability in the future, and other risks and factors identified by us from time to time. Although the Group believes that the anticipations, believes, estimates, expectations and/or plan stated in this announcement are true, actual events and/or results could differ materially. It cannot assure you that those current anticipations, believes, estimates, expectations and/or plan will prove to be correct and you are cautioned not to place undue reliance on such statements. The Group undertakes no obligation to publicly update or revise any forward-looking statements contained in this announcement, whether as a result of new information, future events or otherwise, except as required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited or any other applicable laws and regulations.