Esprit Announces Annual Results for Year Ended 30 June 2012

Highlights

- Transformation Plan overall on track and making good progress, such as an elevated brand image, more inspiring stores, faster, stylish and feminine collections and the elimination of unprofitable distribution channels
- Decrease in turnover due to divestment of North American operations, store closure program, rationalisation of wholesale channel and challenging operating environment
- EBIT margin improved to 3.9% (2011: 2.0%)
- Net profit increased to HK$873 million (2011: HK$79 million)
- HK$1.5 billion net cash
- Maintained dividend payout ratio at 60%
- Smooth CEO transition to ensure continuity

Hong Kong, 26 September 2012 – Esprit Holdings Limited (“the Company”; stock code 00330), one of the world’s leading fashion brands, today announced the annual results of the Company and its subsidiaries (“the Group” or “Esprit”) for the year ended 30 June 2012.

Esprit launched its four-year Transformation Plan in September 2011, to re-establish Esprit as a leading, international fashion brand and to restore long-term, sustainable profitability. The Group is very pleased to report that good progress has been made and the Transformation Plan is overall on track in driving the future growth and profitability of the business.

Mr. Ronald van der Vis, the out-going Group Chief Executive Officer of Esprit, said, “The fact that the Transformation Plan is in place, that good progress has been made in the first year of its launch despite a challenging macro-environment, and that the Group has an experienced and committed executive management team, has made it easier to hand over the helm. I am confident that this team will bring Esprit to its full potential and to create long-term value for all its stakeholders.”

Mr. van der Vis, who resigned from Esprit in June 2012 and with effect from 26 September 2012 for personal and family reasons after three years as Group Chief Executive Officer, is succeeded today by Mr. Jose Manuel Martínez Gutiérrez (“Mr. Martínez”). Mr. Martínez is a veteran in the apparel industry and was previously the Group Director of Distribution and Operations at Inditex. To ensure a smooth transition, Mr. van der Vis has agreed to make himself available and provide assistance to the Company until 31 December 2012.

Esprit launched three unique Lighthouse store concepts during FY11/12 in Cologne, Antwerp and Düsseldorf, reflecting the modern spirit of the brand based on its Californian heritage. The success of the Lighthouse stores will form the basis for upgrading our retail and wholesale store networks, which will be refurbished worldwide as part of the Transformation Plan to improve consumers’ in-store shopping experience.
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Under the direction of its new Chief Product and Design Officer, Melody Harris-Jensbach, Esprit has developed a pipeline of new, fashionable collections that are ready to go to market. The Group’s newly established Trend Division delivered its first collection to selected European retail stores in July 2012. With a lead time of eight to twelve weeks, the collection achieved a sell through which was more than double that of the other women’s collections. The next collections will also be rolled-out across Europe and Asia.

Turnover

The Group turnover decreased by 10.5% in local currency to HK$30,165 million, from the HK$33,767 million recorded for the year ended 30 June 2011. The overall sales performance was attributable to a decline in both retail and wholesale turnover, amid the challenging operating environment. The bold decisions as part of the Transformation Plan to close down unprofitable stores, exit the North American market and rationalise wholesale accounts also had an impact.

Turnover by Region

Europe remained the Group’s biggest region in terms of turnover, accounting for 78.6% of the Group turnover. Germany was the Group’s biggest country in terms of turnover within the region, and within the Group, accounting for 43.1% of the Group turnover (2011: 42.3%). According to TextilWirtschaft panel data, Esprit outperformed the German market eight out of twelve months. The brand continued to be strong in Germany. According to a recent survey conducted by Brandmeyer Markenberatung GmbH in March 2012, Esprit ranked as the third favourite brand in Germany of all industries.

The Asia Pacific region performed relatively better than Europe and reported turnover decline of 7.2% year-on-year to HK$5,532 million in local currency (2011: HK$5,808 million). As a result, the Asia Pacific region now accounts for 18.3% of the Group turnover (2011: 17.2%).

China remained the biggest market for the Group in the Asia Pacific region, and the second largest country for the Group as a whole. In terms of turnover, the China share increased from 7.9% to 8.6%. Under the leadership of Holly Li, Esprit’s new China CEO, much effort has been put into improving store productivity, building key organisational capabilities and devising short-term and long-term initiatives to support the transformation. The Group has established the China Design Hub to inject local designs and styles to cater its collections even better to the requirements of Chinese consumers.

As part of the Transformation Plan, the Group successfully closed or agreed on the closure of 64 loss making stores under the 80 store closure program and successfully divested its unprofitable North American retail operations. Thus, turnover from North America decreased by 25.2% in local currency to HK$928 million (2011: HK$1,234 million).

Turnover by Distribution Channel

The Group’s retail turnover was HK$17,806 million (2011: HK$19,059 million) representing a 6.1% year-on-year decline in local currency. The decline was attributable to a -4.1% comparable store sales growth and a decrease in retail selling space, due to the store closure programs and the
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closure of the Group’s North American retail operations. Excluding these effects, retail selling space increased by 6.5% year-on-year.

The Group’s wholesale turnover was HK$12,116 million (2011: HK$14,475 million), representing a 16.5% year-on-year decline in local currency. This was primarily due to weak order intakes amid a tough operating environment, rationalisation of our wholesale space, and higher discounts and returns as part of the measures to strengthen the wholesale channel in the long term.

Profitability

The Group recorded a gross profit of HK$15,206 million (2011: HK$18,198 million) reflecting a gross profit margin of 50.4% (2011: 53.9%). A combination of higher input costs, increase in discounts and higher returns associated with the wholesale support initiatives, resulted in the decline in the gross profit margin. The Group deliberately decided to maintain its price points in order to preserve its price-value perception. The year-on-year decrease of the Group’s gross profit margin was narrowed to 2.1% points in the second half of the financial year.

The Group continued to maintain a strict focus on cost control. Despite Transformation Plan related expenses, operating expenses, excluding the effects of store closures and the divestment of North American operations, were down by 2.3%.

The Group recorded a 69.2% rise in operating profit (“EBIT”) to HK$1,171 million (2011: HK$692 million), reflecting an EBIT margin of 3.9% (2011: 2.0%).

The Group’s retail EBIT margin improved to 6.5% (2011: -5.4%), while the wholesale EBIT margin decreased to 17.7% (2011: 22.9%) as a result of the initiatives and support measures under the Transformation Plan.

The Group recorded an increase in net profit, to HK$873 million (2011: HK$79 million) and a net profit margin of 2.9%, up 2.7% points from 0.2% in FY10/11.

Commenting on the results, Mr. Thomas Tang, Esprit’s Group Chief Financial Officer, said, “As a result of the first year of the Transformation Plan, our operating profit in FY11/12 has grown despite the significant spending as part of the Transformation Plan and the challenging operating environment. Our collection is being invigorated and we are delivering an exciting new shopping experience in our refurbished stores. Together with the rest of the executive management team, we have laid the foundation for future growth and to enhance shareholders’ value.”

Focus and priorities in FY12/13

Looking ahead, the macro environment in FY12/13 continues to present challenges and uncertainties, such as slowing economic growth in China and the unresolved European debt crisis. Vigorous efforts will continue to ensure that the new initiatives produce tangible results, with measures initiated to sharpen the brand profile, create an inspiring shopping experience for Esprit customers, and launch stylish and feminine collections to drive an increase in overall traffic and improve sales.
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The Group is encouraged by the fact that the new collections and wholesale support measures are bearing fruit. The improving trend in order intake for wholesale accounts is encouraging.

More specifically, for FY12/13 the Group will continue to focus on the following:

• Implement a media strategy that sustains high brand consideration levels and improves store traffic.

• Continue to focus on revitalising collections through the Trend Division, “China for China” lines, the Denim Division and the new Wellness capsule as part of a global campaign featuring Christy Turlington.

• Ramp up the roll-out of new store formats to offer our customers a more inspiring shopping experience. The Group plans to renovate a total of more than 990 POS on approximately 153,000 sqm, comprising over 90 existing stores (or approximately 65,000 sqm) and over 900 controlled wholesale POS (or approximately 88,000 sqm) in FY12/13.

• Increase retail selling space in FY12/13 and open over 40 full-price stores and over 20 outlets.

• Continue POS expansion in China to increase the Group’s city coverage from the existing 1,013 POS in 191 cities to approximately 1,900 POS in about 400 cities by FY14/15. The new position, Head of Expansion for China, has been in place since June 2012 to execute this expansion.

Mr. Raymond Or, Chairman of Esprit, commented: “The operating environment is likely to remain challenging in the new financial year with the unresolved European debt crisis and the slowdown in China’s economic growth. We will exert vigorous efforts to ensure that the initiatives will produce results at an even faster pace and create an inspiring shopping experience for our customers.”
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Esprit Holdings Limited Audited Consolidated Financial Data

(In HK$ Million, with the exception of dividend per share)

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<th>For the Year Ended 30 June 2012</th>
<th>For the Year Ended 30 June 2011</th>
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<tbody>
<tr>
<td>Turnover</td>
<td>30,165</td>
<td>33,767</td>
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<tr>
<td>Gross Profit</td>
<td>15,206</td>
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<td>Operating profit</td>
<td>1,171</td>
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<td>Net Profit</td>
<td>873</td>
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<td>Cash and Bank Balances</td>
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<td>Bank Loans</td>
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<td>Earnings per share</td>
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<td>Total Dividend (per share)</td>
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<td>HK$ 1.00</td>
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<td>Final Dividend (per share)</td>
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<td>Interim Dividend (per share)</td>
<td>HK$0.26</td>
<td>HK$ 1.00</td>
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About Esprit

Esprit is one of the most well-known fashion brands in the world, offering smart, youthful, affordable luxury fashion. The Esprit Group operates more than 1,000 directly managed retail stores worldwide and distributes its products via more than 10,000 wholesale locations internationally, occupying total selling space of over 1 million square metres worldwide.

For more information, please contact:

Esprit Holdings Limited
Patrick Lau
Tel:   (852) 2765 4232
Email: esprit-ir@esprit.com

Asia: Artemis Associates
Geoff Walsh
Tel:   (852) 2861 3278
Mob:   (852) 9097 2065
Email: geoff.walsh@artemisassociates.com

Vanita Sehgal
Tel:   (852) 2861 3227
Mob:   (852) 9103 4626
Email: vanita.sehgal@artemisassociates.com

Winnie Lo
Tel:   (852) 28613234
Mob:   (852) 9780 3978
Email: winnie.lo@artemisassociates.com

Europe: Hartmut Schultz Kommunikation GmbH
Hartmut Schultz
Tel:   49 (89) 99 24 96 20
Email: hs@schultz-kommunikation.de
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