INTERIM RESULTS FY15/16

February 2016

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AGENDA

Business Highlights	Jose Manuel Martínez, Group CEO
Interim Results Review	Thomas Tang, Group CFO
Strategic Priorities	Jose Manuel Martínez, Group CEO
Q&A	

BUSINESS *HIGHLIGHTS*

BUSINESS HIGHLIGHTS

- **Financially, Group performance for 1H FY15/16 was largely in line with expectation**
  - Group turnover flat yoy (-0.4% in LCY), against a reduction of -8.0% in controlled space:
    - Positive retail turnover growth (+6.0% in LCY)
    - Wholesale turnover decline (- 11.4% in LCY)
  - Gross Profit Margin maintained stable at 50.5%
  - OPEX increased by +5.1% yoy in LCY primarily due to an exceptional inventory write-back last year and the planned spending in Brand Marketing campaigns
  - Net loss of HK$238 million, in line with market expectation
  - Healthy net cash position of HK$4.2 billion with zero debt

- **Positive progress in the key pillars of our strategic plan**
  - Vertical Model – improved products in terms of design, quality and value-for-money driving comparable retail stores sales growth of +8.0% in LCY, mainly fueled by our largest product divisions (i.e. women)
  - Omnichannel Model – first initiatives driving rapid growth in all related indicators:
    number of loyal consumers, share of multichannel consumers, online sales, share of mobile sales, etc.
  - Positive performance during the first season of the new Brand Marketing campaign: #ImPerfect

1H represents the first half of a financial year

INTERIM RESULTS
REVIEW

INCOME STATEMENT

(in HK$'m)	1H FY15/16	1H FY14/15	YoY change HKD	YoY change LCY
Turnover	9,315	10,716	▼ 13.1%	▼ 0.4%
COGS	(4,615)	(5,309)	▼ 13.1%	▼ 0.2%
Gross profit	4,700	5,407	▼ 13.1%	▼ 0.6%
GP margin	50.5%	50.5%	flat	flat
OPEX	(4,947)	(5,370)	▼ 7.9%	▲ 5.1%
(LBIT) / EBIT	(247)	37		
Taxation	4	1		
Net (loss) / profit	(238)	47		

Almost FLAT turnover in LCY

- Much improved after the previous 4 consecutive interim 1H^ periods of significant decline
- -0.4% yoy in LCY in both quarters (1Q and 2Q*)
- compares favorably against -8.0% yoy reduction in total controlled space

Stable Gross Profit margin despite currency headwind

OPEX increased mainly due to investment in Brand Marketing and exceptional inventory write-back last year while most other lines were reduced as planned

Overall performance in LCY is in line with market expectation

- As the Group recorded a loss for the interim period, the Board has resolved not to declare any interim dividend

^ 1H represents the first half of a financial year

** 1Q represents the three months between July and September 2015*

** 2Q represents the three months between October and December 2015*

TURNOVER

BREAKDOWN OF TURNOVER

Regions	% of Group Turnover			
	Wholesale	Retail	Licensing & others	Total
Germany	16.4%	31.2%	0.1%	47.7% (47.6%)
Europe & Rest of World*	14.3%	22.0%	0.7%	37.0% (37.2%)
Asia Pacific	1.3%	14.0%	-	15.3% (15.2%)
Total	32.0% (36.5%)	67.2% (62.7%)	0.8% (0.8%)	100.0%

* *Europe & Rest of World includes (i) all European countries excluding Germany & Satellite Markets; (ii) Latin America; (iii) the Middle East & (iv) North America third party licensing income*

( ) *Denotes comparative figures for FY14/15*

TURNOVER DEVELOPMENT BY CHANNEL

	Turnover YoY Change (LCY)	Turnover Drivers	
		SQM YoY Change	Space Productivity (sales per SQM)
Retail	▲ 6.0%	▼ 4.9%	▲ UP
Wholesale	▼ 11.4%	▼ 10.3%	▼ DOWN
Group	▼ 0.4%	▼ 8.0%	▲ UP

▲/▼ *year-on-year change*

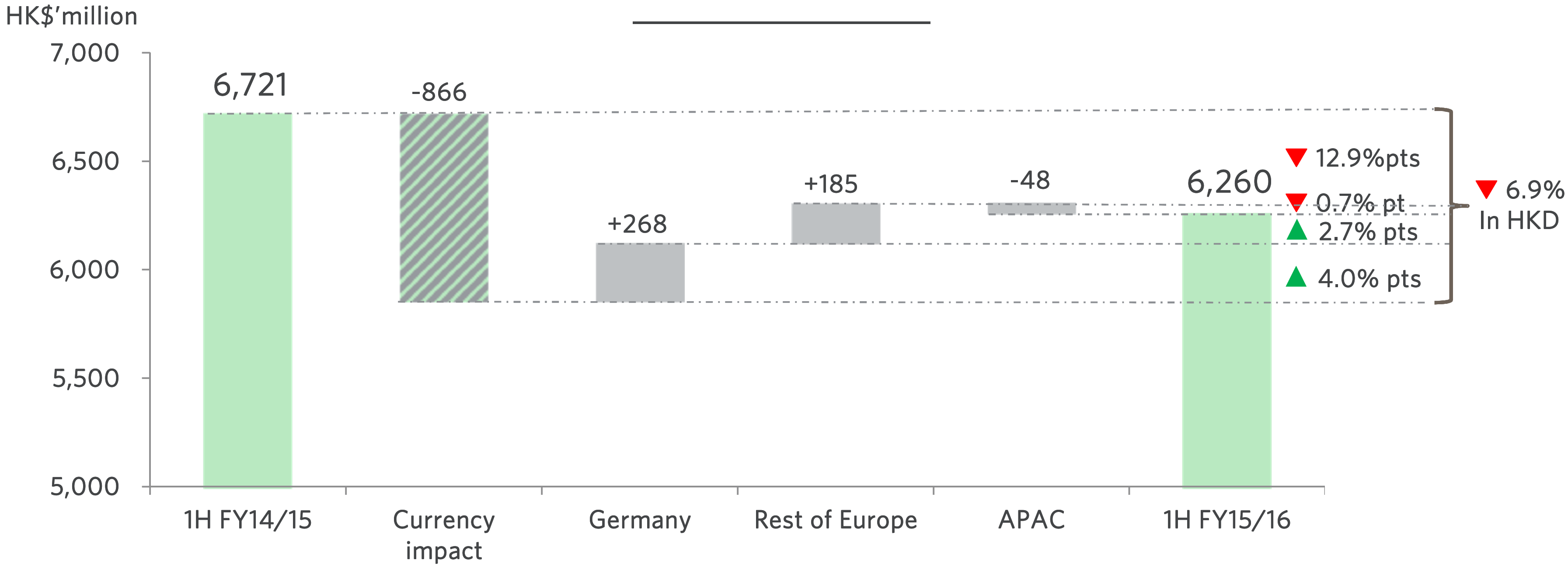
Retail: achieved significant gain in productivity (sales per sqm)

- Turnover grew +6.0% yoy in LCY, notwithstanding the -4.9% yoy decline in net sales area
- Comp-store-sales reached +8.0% yoy in LCY
- Growth in 1Q stronger than 2Q (+9.1% vs +3.5% respectively) due to:
    - Accelerated store closures in 2Q (-4.9% vs -1.3% yoy sqm reduction in 1Q)
    - Unseasonably warm weather conditions in Europe in November and December

Wholesale: remained challenging due to ongoing pressure across markets

- Turnover declined -11.4% yoy in LCY, broadly in line with the corresponding decline in controlled space of -10.3% yoy
- Space reduction was largely a carried forward effect from last financial year and rate of decline has slowed down to a smaller degree of -4.0% for the six months of 1HFY15/16
- A number of wholesale partners experiencing declining traffic and financial issues

RETAIL TURNOVER DEVELOPMENT



Germany: Positive Retail Sales

- Our largest market (46.4% of Group's Retail turnover)
- Turnover grew +8.6% in LCY despite a reduction in retail net sales area of -2.5% YoY
- Comp-store-sales +7.7%
- Full price brick-and-mortar stores continued to outperform the market in each and every month in the 1H FY15/16 (TextilWirtschaft)

Rest of Europe: Positive Retail Sales

- Second largest market (32.7% of Group's Retail turnover)
- Turnover grew +8.6% in LCY despite a reduction in retail net sales area of -6.8% YoY
- Comp-store-sales +9.4% with positive growth observed across majority of countries in the region

APAC: Challenging environment

- Turnover declined -3.3% in LCY mainly due to China's decline of -5.6% in LCY
- Comp-store-sales +5.1%, driven by aggressive promotions and markdowns
- Weaker performance in China, especially for concession counters in department stores
- Volatility in financial markets and economic slow down in China have dampened consumer sentiment and reduced traffic flow in the region

WHOLESALE TURNOVER DEVELOPMENT

Continuing pressure on the channel across most countries, with wholesale partners suffering from declining traffic and financial issues that have adversely impacted orders and space development

Germany: 51.4% of Group's Wholesale turnover

- Turnover declined -9.6% in LCY, broadly in line with the space reduction of -8.4% YoY
- Rate of space reduction has slowed down to -3.7% for the six months of 1H FY15/16

Rest of Europe: 44.7% of Group's Wholesale turnover

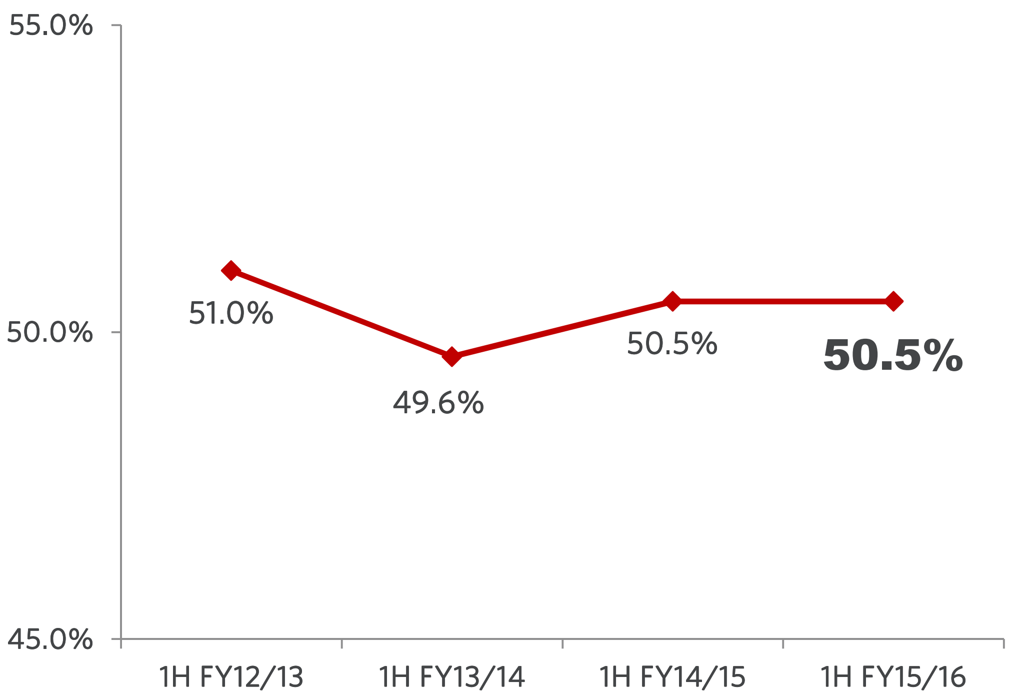
- Turnover declined -11.6% in LCY, higher than space reduction of -6.2% YoY
- Rate of space reduction has slowed down to -2.5% for the six months of 1H FY15/16

APAC: 3.9% of Group's Wholesale turnover

- Turnover declined -28.3% in LCY, much less than space reduction of -34.8% YoY
- The space reduction was largely a carried forward effect from -47.9% space decline in China last year
- Rate of space reduction has slowed down to -12.7% for the six months of 1H FY15/16

PROFITABILITY

GROSS PROFIT MARGIN



Relatively stable gross profit margin:

+ Benefited from a higher retail turnover proportion to Group turnover (67.2% in 1H FY15/16 vs 62.7% in 1H FY14/15)

Offset the negative impact from:

- Continued weakness of the Euro against the US dollar
- Increased markdowns to drive retail sales due to:
  - Europe - unseasonable warm weather in 2Q
  - APAC – highly promotional market along 1H

OPERATING EXPENSES

(in HK$ M)	1H FY15/16	1H FY14/15	Change in %	
			HK$	LCY
Staff costs	1,616	1,896	▼14.8%	▼3.4%
Occupancy costs	1,428	1,689	▼15.5%	▼4.9%
Marketing & advertising expenses	535	419	▲27.7%	▲46.8%
Logistics expenses	516	569	▼9.4%	▲5.4%
Depreciation	302	371	▼18.7%	▼7.0%
Other operating costs	550	426	▲29.3%	▲51.1%
Total OPEX	**4,947**	**5,370**	**▼7.9%**	**▲5.1%**

▲/▼ *year-on-year change*

Remain vigilant in controlling cost, most recurring cost lines were reduced

In line with space reduction

Strategic spending in Brand Marketing and Omnichannel initiatives to fuel future growth

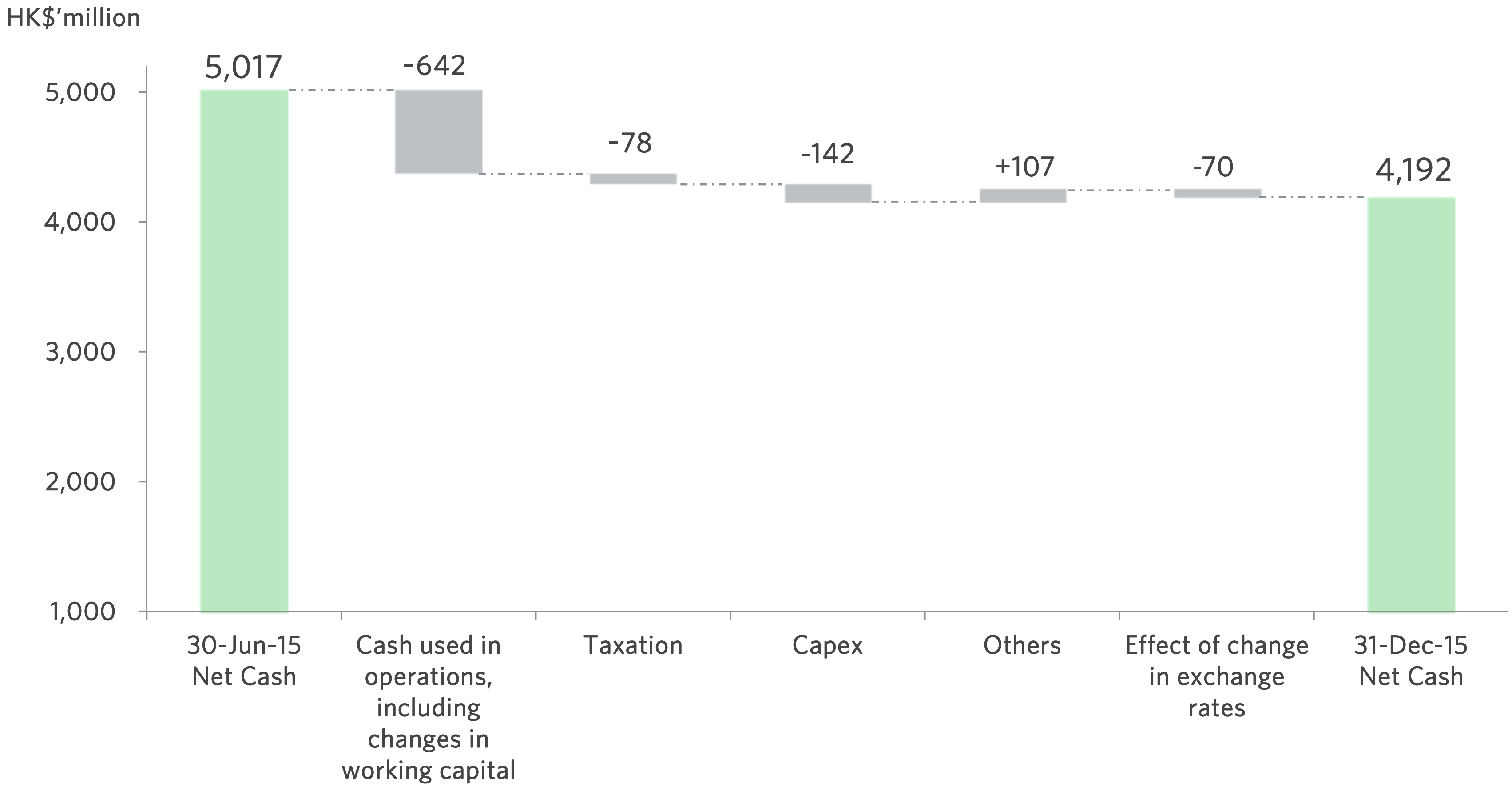
Related to growth of e-commerce

A normalized inventory provision of HK$18m this year as compared to an inventory net write-back of HK$257m in same period last year

Excluding marketing & advertising expenses and the exceptional inventory provision/write-back, OPEX would have decreased year-on-year by -3.9% in LCY (or in HK$ term -15.6%)

WORKING
CAPITAL

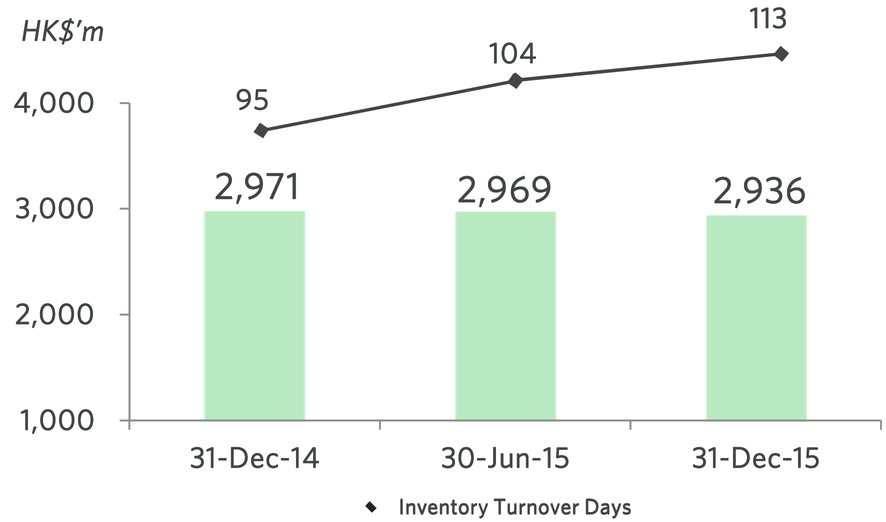
FUND FLOW AND NET CASH POSITION



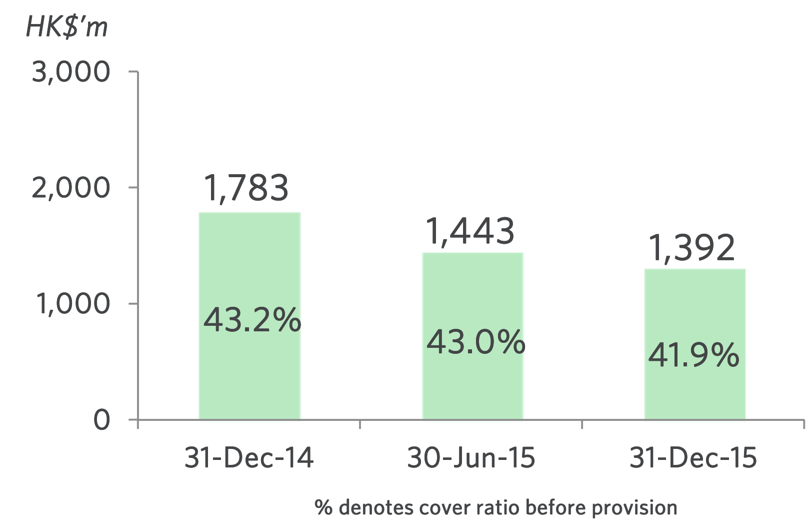
- Net cash position of HK$4.2 billion with zero debt
- Investing cash for growth
  - Stepped up expediture in Brand Marketing and Omnichannel initiatives
  - Increased purchase of inventory in line with positive retail sales development [up by +7.7% yoy in total units]

WORKING CAPITAL

Inventories



Net trade debtors



Inventories value remained similar (▼ 1.2% yoy) despite ▼ 10.1% depreciation in EUR/HKD closing rate (31 Dec 15: 8.4737; 31 Dec 14: 9.4295):

- Inventory units ▲7.7% yoy attributable to deliberate decision to purchase more inventory to push retail sales (▲8.0% comp store sales)
- Ageing of inventory remains healthy - inventory (in terms of units) aged over 6 months down to 19.9% (31 Dec 2014: 21.9%)
- Inventory turnover days: 113 days (31 Dec 14: 95 days)

Net trade debtors ▼21.9% yoy due to:

- Lower wholesale turnover (▼ 11.4% yoy in LCY)
- ▼ 10.1% depreciation in EUR/HKD closing rate (31 Dec 15: 8.4737; 31 Dec 14: 9.4295)

Cover ratio before provision decreased by ▼ 1.3% pts as compared to end of Dec 2014

2H FY15/16 EXCEPTIONAL ITEM

- **Exceptional gain of approximately HK$725 million arising from sale and lease back of HK offices to be accounted for upon completion of the transaction in 2H FY15/16**
  - As a recap to the announcement, total consideration for the sale of HK offices is HK$918m
  - The Group has agreed to lease back a reduced number of floors
  - Rationale:
    - i. The sale and lease back will further enable the Group to focus on its core operations
    - ii. The lease of the HK offices will better reflect the cost of the local operation, and hence help management efforts to streamline the actual current cost structure
    - iii. The sale proceed will be used as general working capital, including funding any future investment opportunities that may arise

STRATEGIC *PRIORITIES*

ESPRIT

TRANSFORMATION

SHORT TERM

FY13/14

MEDIUM TERM

FY14/15

STABILIZATION

Build a sound and healthy platform for the introduction of the structural changes needed to regain competitiveness

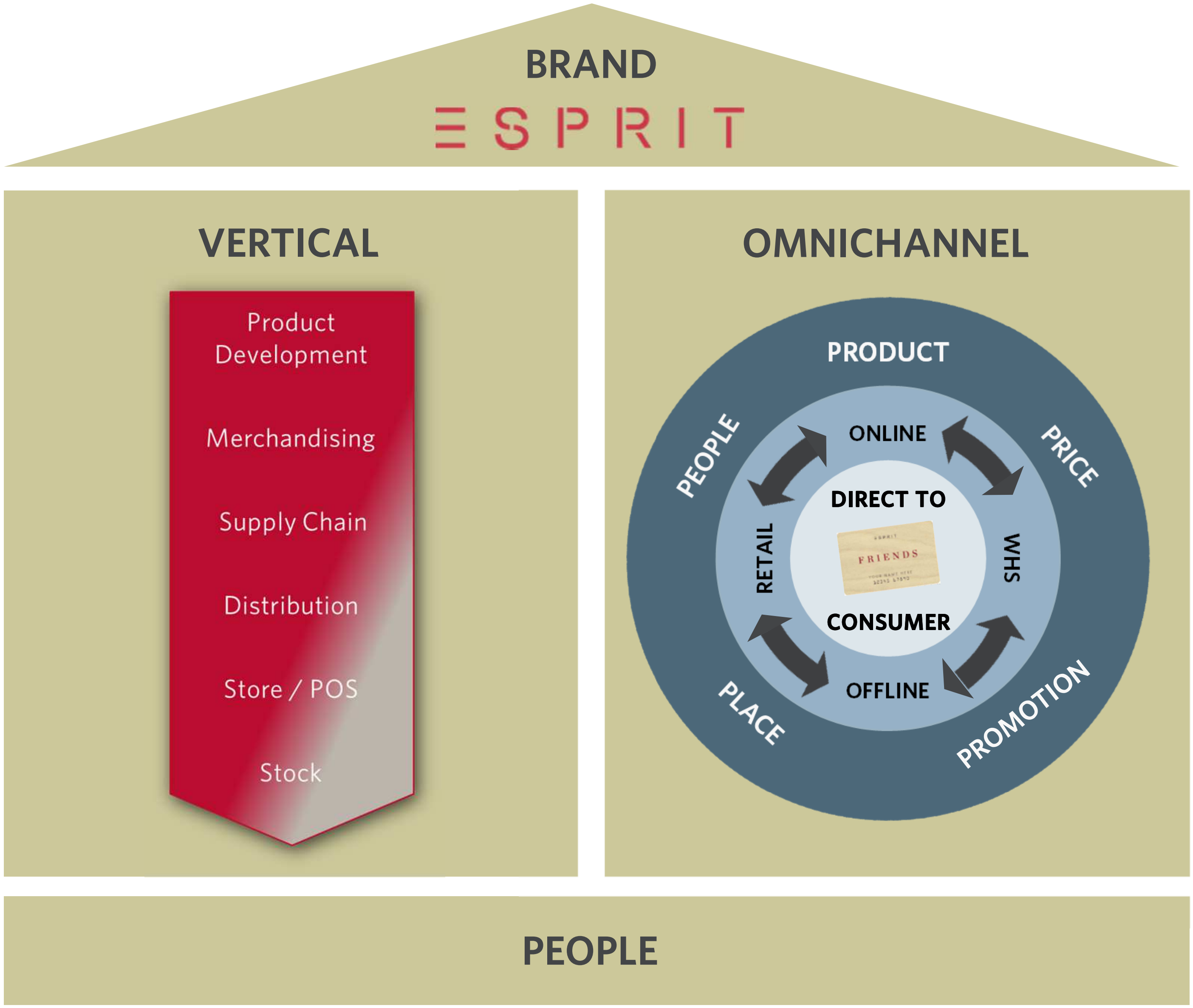
TRANSFORMATION

UNCERTAINTY SCENARIO IN FY14/15

Execute the ambitious transformation of our business model (Vertical Omnichannel) to enhance speed and efficiency of our product and sales management

The most demanding phase of our Transformation was completed in FY14/15, nonetheless, progress keeps being made on multiple fronts

TRANSFORMATION



BRAND
"ESPRIT DE CORPS"

“#ImPerfect” CAMPAIGN

CONCEPT

- Celebration of diversity
- Beauty of personal styles
- Friendly and approachable
- Away from “high fashion”

COMMUNICATION

- New, louder & younger tonality
- Appealing to current and new customers
- Strong for online and social media
- Ambitious share of voice

ESPRIT

CAMPAIGN EXPOSURE

FOUR MONTHS – GERMANY ONLY

TRADITIONAL MEDIA

Top of mind ad awareness with 23% share of voice
vs. Zalando 27%, H&M 23%, C&A 13%

Strong TV penetration reaching 86.2 % of target group
at least once for women 25–35

High visibility in inner-city locations with 391.5 mio contacts
via 5.213 booked OOH sites

DIGITAL MEDIA & INFLUENCER

Online ad presented 26 times to each consumer
for target group of women 25–35

75 mio full views of the ad online
campaign full length spot

2.4 % engagement rate &
double the market benchmark

8 mio people reached by social media influencers

ESPRIT

CAMPAIGN RELATED IMPACTS

SIX MONTHS – GERMANY

RETAIL

Net Sales total	**+8.6%**
Net Sales comp	**+7.7%**
- Offline comp	+6.6%
- Online comp	+9.0%
Market[1)]	**+1.0%**
Traffic in stores[2]	**+10%**

FOUR MONTHS – GLOBAL

SOCIAL MEDIA

Facebook	**+ 81%** monthly fan growth
	53% of new fans are women between 25–35
Instagram	**+168%** monthly fan growth
Engagement rate	**x19** on Esprit Social Channels

ESPRIT

NOTE: German Retail data for period Jul 1 to Dec 31; Social Media data for Campaign period Aug 29 – Dec 13
1) GfK Trend fashion industry for offline and online from GFK (Jul - Dec)
2) 31 reference stores are reporting traffic for Germany / YTD Dec

SPRING CAMPAIGN

PRODUCT
"VERTICAL MODEL"

ESPRIT

VERTICAL MODEL UPDATE

VERTICAL

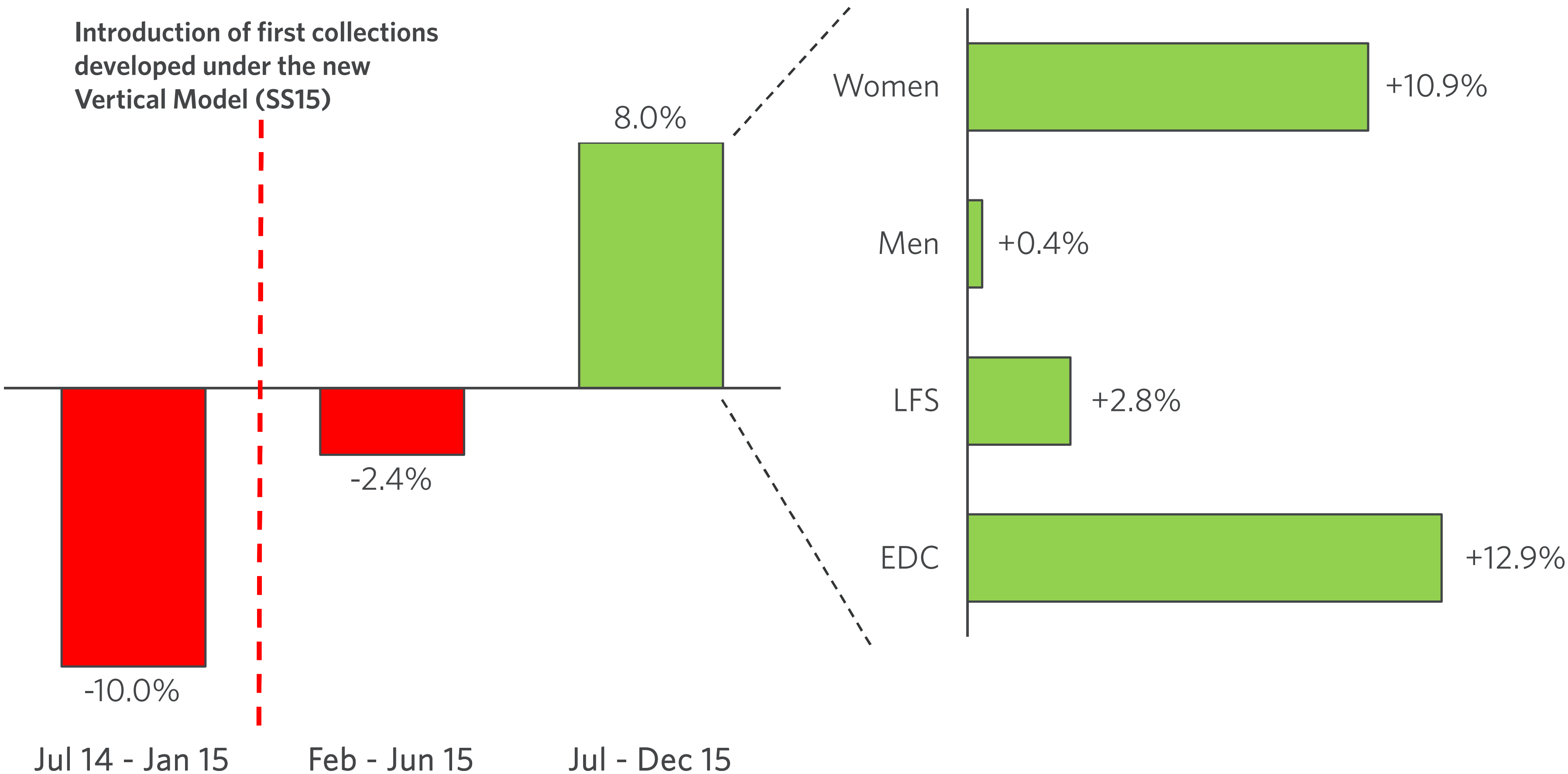
- Product Development
- Merchandising
- Supply Chain
- Distribution
- Store / POS
- Stock

1. **Lean Supply Chain Management –** From 352 to 191 (-46%) suppliers and successful introduction of best SCM practices
2. **Category Management Teams –** All apparel divisions completely transformed and process initiated in non-apparel
3. **New Merchandising Model –** Product, Planning, Buying and Merchandise Management functions fully centralized
4. **Seasonal Calendar –** 4 seasons vs. 12 monthly collections
5. **Product Range Reduction –** 30% to 40% less options
6. **Fast to Market –** 2-3 months lead time in the Trend Division and fast reaction capsules in all apparel divisions (>20% in Women)
7. **Stock Management Optimization** – Replenishment capacity and capabilities in progress along with DC extension
8. **Vertical Wholesale Model –** Final solutions being tested


edc
edc

VERTICAL PRODUCTS – RETAIL PERFORMANCE

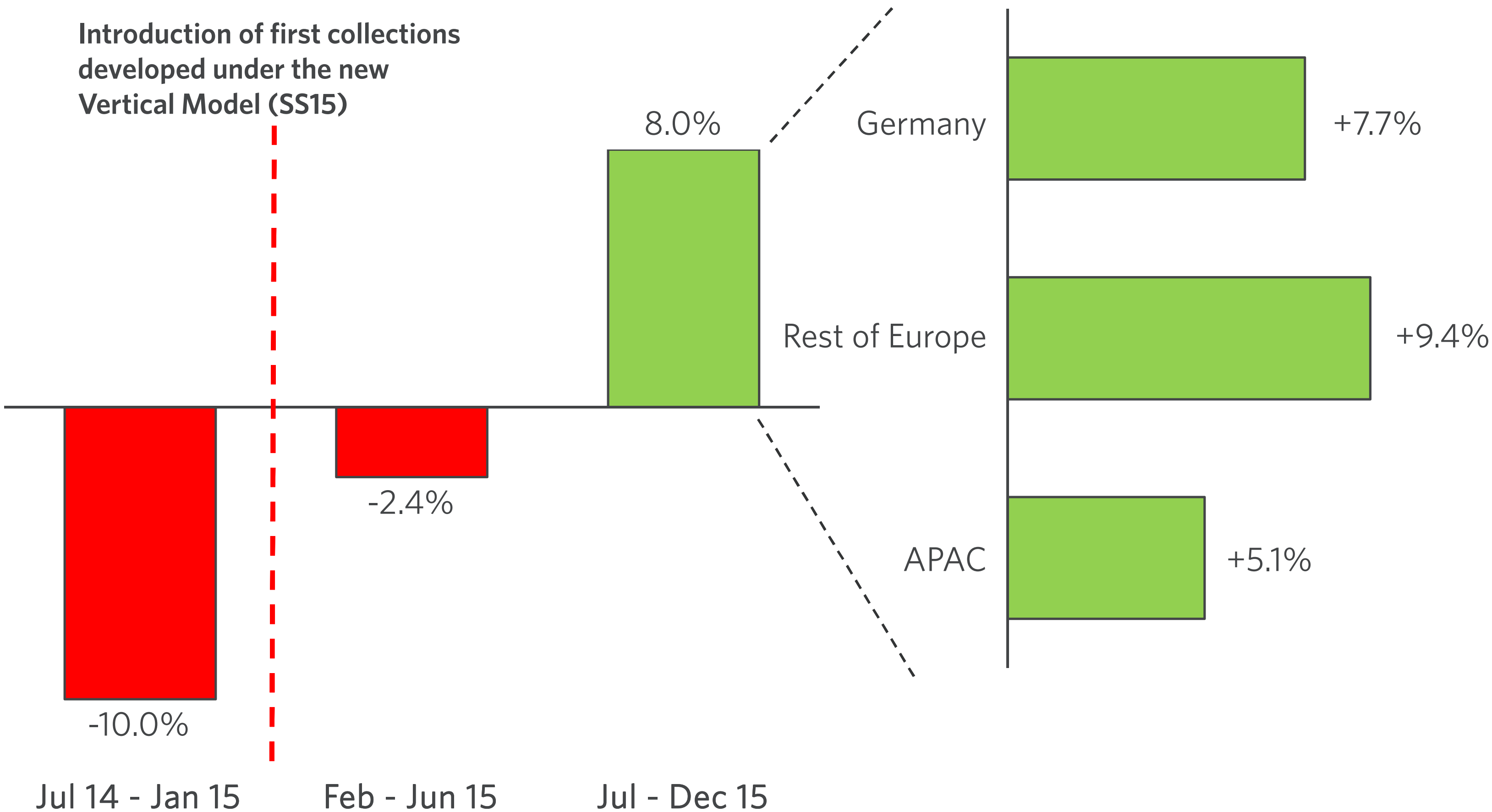
Retail Turnover (YoY change of comparable stores in LCY)



Comp store growth (comp stores / concessions / counters & eshop)
Excl exchange effects

VERTICAL PRODUCTS – RETAIL PERFORMANCE

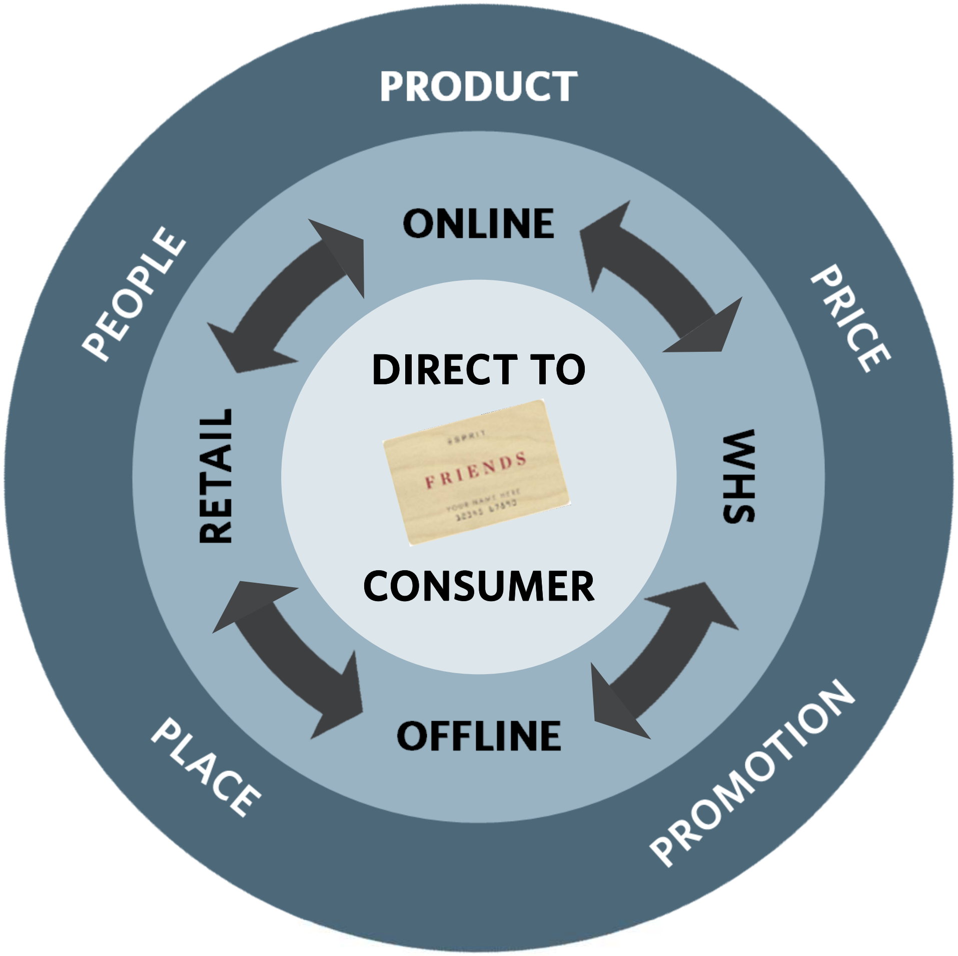
Retail Turnover (YoY change of comparable stores in LCY)



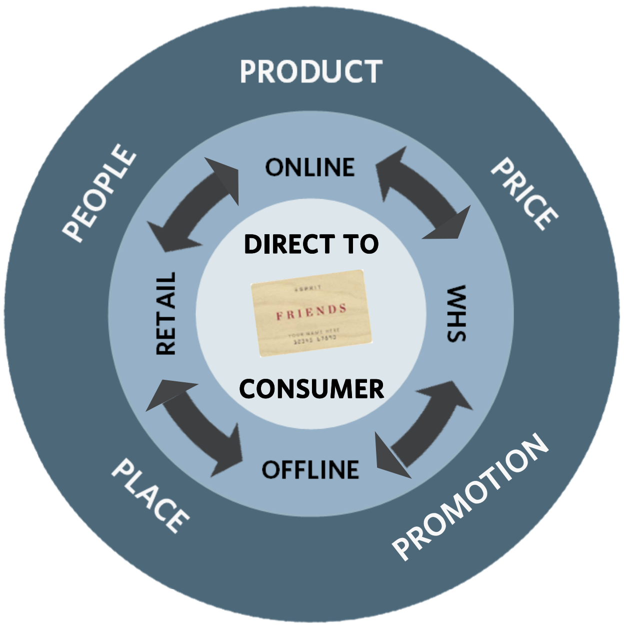
Comp store growth (comp stores / concessions / counters & eshop)
Excl exchange effects

CHANNELS
"OMNICHANNEL"

OMNICHANNEL MODEL



OMNICHANNEL PLAN – UPDATE



✓ **New recruitment program across all channels**
+23% active Esprit Friends by Dec 2015 (Rtl & Whs)

✓ **Strengthened Commercial Plan focused on loyal consumers**
Share of Esprit Friends on Retail net sales up to 70%

✓ **Cross-channel activation initiatives**
+11% cross-channel members (i.e. buying offline and online)

✓ **New online incentive scheme for Wholesale**
90% of invited wholesale partners already signed up
(PSS Friends recruitment trending positive since June '15)

✓ **New mobile app with enhances features**
+66% smartphone traffic & +92% smartphone sales

✓ **Implementation of Omnichannel Model on track**

- Omnichannel organization in place for Planning, Merchandising, Marketing and Operations
- Omnichannel product and commercial plans

Source: defacto, EDCB, Global, HY1 FY1516 including December 2015

OUTLOOK

STRATEGIC PLAN

SHORT TERM	MEDIUM TERM	LONG TERM
FY13/14	FY14/15	> 2 years
STABILIZATION	***TRANSFORMATION***	***GROWTH***
	UNCERTAINTY SCENARIO IN FY14/15	
Build a sound and healthy platform for the introduction of the structural changes needed to regain competitiveness	Execute the ambitious transformation of our business model (Vertical Omnichannel) to enhance speed and efficiency of our product and sales management	Leverage the benefits of the new model to drive sustainable top line growth, and develop a healthier cost base to increase profitability

ILLUSTRATIVE

GROWTH PHASE

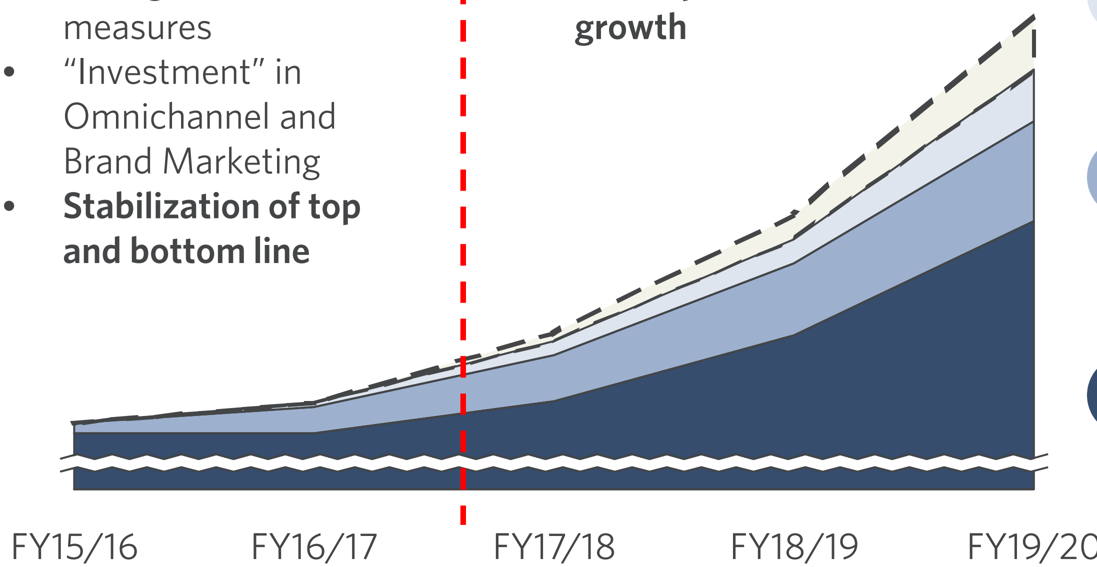
LONG TERM

Preparation

- Productivity gains (sales per sqm)
- Space reduction in Retail and Wholesale
- OPEX reduction through structural measures
- “Investment” in Omnichannel and Brand Marketing
- **Stabilization of top and bottom line**

Growth

- Continued productivity gains
- SQM growth from Expansion in current and new markets
- Leveraging of cost and capital (economies of scale)
- **Fast top and bottom line growth**



Contributions

4 SQM growth from Expansion (Retail & Wholesale)

3 New customers and traffic (Omnichannel Model and Brand Marketing)

2 Aggressive reduction of costs and working capital

1 Productivity gains from improved products (Vertical Model)

FY15/16 OUTLOOK

SEPTEMBER 2015

CONTROLLED SPACE	Retail – slight decline due to closures or downsizing of unprofitable stores Wholesale – continued decline but to a smaller degree than FY14/15 due to market pressure on the channel
PRODUCTIVITY (SALES/SQM)	Space reduction to be offset by gain in sales per sqm performance on the basis of i) improving product performance ; ii) improved channel operations; and iii) intensified marketing efforts
GP MARGIN	Stable or slight increase - reduced levels of markdowns due to improved product performance to compensate negative impact from weakness of Euro
OPEX	Reduction of most of the recurring cost lines in line with reduction in retail space and wholesale business volume Savings offset by i) expected increase in Marketing expenses and ii) Omnichannel related expenses, to support future growth
CAPEX	Anticipated increase due to i) Omnichannel initiatives; ii) acceleration of store refurbishment; and iii) upgrade of warehouses to improve replenishment capabilities


Q&A


#ThankYou