ESPRIT HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

STOCK CODE: 00330

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 31 DECEMBER 2016

INTERIM RESULTS

The board of directors (the "Board") of Esprit Holdings Limited (the "Company") announces the unaudited condensed consolidated interim financial information, along with selected explanatory notes, of the Company and its subsidiaries (the "Group" or "Esprit") for the six months ended 31 December 2016 as follows:

Condensed consolidated income statement

	Notes	Unaudited for the 6 months ended 31 December 2016 HK$ million	2015 HK$ million
Revenue	2	**8,323**	9,315
Cost of goods sold		**(3,952)**	(4,615)
Gross profit		**4,371**	4,700
Staff costs		**(1,491)**	(1,616)
Occupancy costs		**(1,276)**	(1,428)
Logistics expenses		**(473)**	(516)
Marketing and advertising expenses		**(402)**	(535)
Depreciation		**(260)**	(302)
Impairment of property, plant and equipment		**(2)**	(4)
Write-back of provision for store closures and leases, net		**4**	51
Other operating costs		**(484)**	(597)
Operating loss (LBIT)	3	**(13)**	(247)
Interest income		**19**	21
Finance costs	4	**(19)**	(16)
Loss before taxation		**(13)**	(242)
Taxation credit	5	**74**	4
Profit/(loss) attributable to shareholders of the Company		**61**	(238)
Earnings/(loss) per share			
- Basic and diluted	7	**HK$0.03**	HK$(0.12)

Condensed consolidated statement of comprehensive income

	Unaudited for the 6 months ended 31 December	
	2016	2015
	HK$ million	HK$ million
Profit/(loss) attributable to shareholders of the Company	**61**	(238)
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Fair value gain/(loss) on cash flow hedge, net of tax	**171**	(21)
Exchange translation	**(339)**	(415)
	(168)	(436)
Total comprehensive income for the period attributable to shareholders of the Company, net of tax	**(107)**	(674)

Condensed consolidated statement of financial position

	Notes	**Unaudited 31 December 2016 HK$ million**	Audited 30 June 2016 HK$ million
Non-current assets			
Intangible assets		**2,812**	2,902
Property, plant and equipment	8	**1,853**	2,159
Investment properties		**19**	19
Other investments		**7**	7
Debtors, deposits and prepayments		**250**	220
Deferred tax assets		**620**	745
		5,561	6,052
Current assets			
Inventories		**2,656**	2,745
Debtors, deposits and prepayments	9	**1,666**	1,571
Tax receivable		**393**	331
Cash, bank balances and deposits	10	**4,548**	5,341
		9,263	9,988
Current liabilities			
Creditors and accrued charges	11	**2,705**	3,495
Provision for store closures and leases	12	**455**	604
Tax payable		**47**	60
		3,207	4,159
Net current assets		**6,056**	5,829
Total assets less current liabilities		**11,617**	11,881
Equity			
Share capital	13	**194**	194
Reserves		**11,088**	11,203
Total equity		**11,282**	11,397
Non-current liabilities			
Deferred tax liabilities		**335**	484
		11,617	11,881

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 19 for the six months ended 31 December 2016 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 2016. 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 2016.

In the current period, the Group has adopted the following IASs and International Financial Reporting Standards ("IFRS") effective for the Group's financial year beginning 1 July 2016:

IAS 1 (Amendments)	Disclosure Initiative
IAS 16 and 38 (Amendments)	Clarification of Acceptable Methods of Depreciation and Amortization
IAS 16 and 41 (Amendments)	Agriculture: Bearer Plants
IAS 27 (Amendments)	Equity Method in Separate Financial Statements
IFRS 10, IFRS 12 and IAS 28 (Amendments)	Investment Entities: Applying the Consolidation Exception
IFRS 11 (Amendments)	Accounting for Acquisitions of Interests in Joint Operations
IFRS 14	Regulatory Deferral Accounts
IFRSs (Amendments)	Annual Improvements to IFRSs 2012-2014 Cycle

The adoption of these new standards and amendments to standards has not had any significant impact on the Group's consolidated financial statements.

1. Basis of preparation (continued)

The Group has not early adopted the following IASs, International Financial Reporting Interpretations Committee ("IFRIC") Interpretation and IFRS that have been issued but are not yet effective.

		Effective for accounting periods beginning on or after
IAS 7 (Amendments)	Disclosure Initiative	1 January 2017
IAS 12 (Amendments)	Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017
IAS 40 (Amendments)	Transfers of Investment Property	1 January 2018
IFRIC 22	Foreign Currency Transactions and Advance Consideration	1 January 2018
IFRS 2 (Amendments)	Classification and Measurement of Share-based Payment Transactions	1 January 2018
IFRS 4 (Amendments)	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	1 January 2018
IFRS 9	Financial Instruments	1 January 2018
IFRS 10 and IAS 28 (Amendments)	Sales or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined
IFRS 15	Revenue from Contracts with Customers	1 January 2018
IFRS 16	Leases	1 January 2019
IFRSs (Amendments)	Annual Improvements to IFRSs 2014-2016 Cycle	1 January 2018

2. Revenue and segment information

The Group is principally engaged in retail and wholesale distribution and licensing of quality fashion and non-apparel products designed under its own internationally-known Esprit brand name in Germany, Rest of Europe*, Asia Pacific and via e-shop platform.

	Unaudited for the 6 months ended 31 December	
	2016	2015
	HK$ million	HK$ million Restated
Revenue from external customers		
Germany	**2,951**	3,185
Rest of Europe	**2,294**	2,648
Asia Pacific	**1,016**	1,346
e-shop	**1,993**	2,062
Licensing and others	**69**	74
	8,323	9,315

Operating segments are reported in a manner consistent with the internal management reports provided to the chief operating decision-maker. The chief operating decision-maker who is responsible for assessing performance and allocating resources for the reporting segments has been identified as the Executive Directors of the Group. The Group has been undergoing transformation in the past few years that the management and reporting structures have been reorganized. Currently, the chief operating decision-maker determines that the operating segments are Germany, Rest of Europe, Asia Pacific and global e-shop which are consistent with the latest management organization and reporting structures. Corporate services, sourcing and licensing activities are also determined as a separate operating segment. In addition, within the regions, the chief operating decision-maker also reviews the business in the retail and wholesale channel perspective which are also operating segments. The e-shops in Germany, Rest of Europe and Asia Pacific are aggregated into one reporting segment under global e-shop. Accordingly, the segment reporting presentation has been changed with comparative figures reclassified in accordance with the current period's presentation to enable comparisons to be made.

Inter-segment transactions are entered into under the normal commercial terms and conditions that would also be available to unrelated third parties.

* The Rest of Europe region includes our business in America and the Middle East.

2. Revenue and segment information (continued)

	Unaudited for the 6 months ended 31 December 2016					
	Germany HK$ million	Rest of Europe HK$ million	Asia Pacific HK$ million	e-shop HK$ million	Corporate services, sourcing, licensing and others HK$ million	Group HK$ million
Total revenue						
Retail	1,522	1,140	951	1,990	-	5,603
Wholesale	1,429	1,154	65	3	-	2,651
Licensing and others	-	-	-	-	4,896	4,896
Total	2,951	2,294	1,016	1,993	4,896	13,150
Inter-segment revenue	-	-	-	-	(4,827)	(4,827)
Revenue from external customers						
Retail	1,522	1,140	951	1,990	-	5,603
Wholesale	1,429	1,154	65	3	-	2,651
Licensing and others	-	-	-	-	69	69
Total	2,951	2,294	1,016	1,993	69	8,323
Segment results						
Retail	(111)	24	(85)	470	(1)	297
Wholesale	339	115	1	1	7	463
Licensing and others	-	-	-	-	(773)	(773)
EBIT/(LBIT)	228	139	(84)	471	(767)	(13)
Interest income						19
Finance costs						(19)
Loss before taxation						(13)

2. Revenue and segment information (continued)

	Unaudited for the 6 months ended 31 December 2016					
	Germany HK$ million	Rest of Europe HK$ million	Asia Pacific HK$ million	e-shop HK$ million	Corporate services, sourcing, licensing and others HK$ million	Group HK$ million
Capital expenditure						
Retail	**7**	**14**	**23**	**1**	**2**	**47**
Wholesale	**-**	**3**	**1**	**-**	**-**	**4**
Licensing and others	**-**	**-**	**4**	**4**	**31**	**39**
Total	**7**	**17**	**28**	**5**	**33**	**90**
Depreciation						
Retail	**42**	**32**	**26**	**1**	**7**	**108**
Wholesale	**6**	**7**	**3**	**-**	**1**	**17**
Licensing and others	**-**	**-**	**-**	**-**	**135**	**135**
Total	**48**	**39**	**29**	**1**	**143**	**260**
Impairment of property, plant and equipment						
Retail	**2**	**-**	**-**	**-**	**-**	**2**
Total	**2**	**-**	**-**	**-**	**-**	**2**
Write-back of provision for store closures and leases, net						
Retail	**(3)**	**1**	**(2)**	**-**	**-**	**(4)**
Total	**(3)**	**1**	**(2)**	**-**	**-**	**(4)**

2. Revenue and segment information (continued)

	Unaudited for the 6 months ended 31 December 2015 Restated					
	Germany HK$ million	Rest of Europe HK$ million	Asia Pacific HK$ million	e-shop HK$ million	Corporate services, sourcing, licensing and others HK$ million	Group HK$ million
Total revenue						
Retail	1,653	1,317	1,228	2,062	-	6,260
Wholesale	1,532	1,331	118	-	-	2,981
Licensing and others	-	-	-	-	8,872	8,872
Total	3,185	2,648	1,346	2,062	8,872	18,113
Inter-segment revenue	-	-	-	-	(8,798)	(8,798)
Revenue from external customers						
Retail	1,653	1,317	1,228	2,062	-	6,260
Wholesale	1,532	1,331	118	-	-	2,981
Licensing and others	-	-	-	-	74	74
Total	3,185	2,648	1,346	2,062	74	9,315
Segment results						
Retail	(62)	4	(204)	504	(4)	238
Wholesale	312	60	4	-	13	389
Licensing and others	-	-	-	-	(874)	(874)
EBIT/(LBIT)	250	64	(200)	504	(865)	(247)
Interest income						21
Finance costs						(16)
Loss before taxation						(242)

2. Revenue and segment information (continued)

	Unaudited for the 6 months ended 31 December 2015 Restated					
	Germany HK$ million	Rest of Europe HK$ million	Asia Pacific HK$ million	e-shop HK$ million	Corporate services, sourcing, licensing and others HK$ million	Group HK$ million
Capital expenditure						
Retail	30	13	55	-	3	101
Wholesale	4	4	3	-	3	14
Licensing and others	-	-	2	1	24	27
Total	34	17	60	1	30	142
Depreciation						
Retail	47	45	38	1	6	137
Wholesale	7	9	3	-	1	20
Licensing and others	-	-	-	-	145	145
Total	54	54	41	1	152	302
Impairment of property, plant and equipment						
Retail	-	4	-	-	-	4
Total	-	4	-	-	-	4
Write-back of provision for store closures and leases, net						
Retail	8	(36)	-	-	-	(28)
Wholesale	-	(16)	-	-	-	(16)
Licensing and others	-	(7)	-	-	-	(7)
Total	8	(59)	-	-	-	(51)

3. Operating loss (LBIT)

	Unaudited for the 6 months ended 31 December	
	2016	2015
	HK$ million	HK$ million
LBIT is arrived at after charging and (crediting) the following:		
Staff costs	**1,491**	1,616
Depreciation	**260**	302
Amortization of customer relationships	**30**	32
Loss on disposal of property, plant and equipment	**4**	3
Impairment of property, plant and equipment	**2**	4
Write-back of provision for store closures and leases, net	**(4)**	(51)
Net exchange loss/(gain)	**67**	(113)
(Write-back of)/additional provision for obsolete inventories, net	**(5)**	18
Occupancy costs		
- Operating lease charges	**1,006**	1,135
- Other occupancy costs	**270**	293
Provision for impairment of trade debtors, net	**15**	43

4. Finance costs

	Unaudited for the 6 months ended 31 December	
	2016	2015
	HK$ million	HK$ million
Imputed interest on financial assets and financial liabilities	**19**	16

5. Taxation

	Unaudited for the 6 months ended 31 December	
	2016	2015
	HK$ million	HK$ million
Current tax		
Hong Kong profits tax		
Provision for current period	**1**	1
Overseas taxation		
Provision for current period	**54**	70
Over-provision for prior years	**(4)**	(1)
	51	70
Deferred tax		
Current period net credit	**(125)**	(74)
Taxation credit	**(74)**	(4)

Hong Kong profits tax is calculated at **16.5%** (2015: 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.

In June 2014, a subsidiary of the Group in Germany received a letter from the tax authority in relation to a dispute on a value-added-tax ("VAT") matter involving payment of interests totaling approximately HK$780 million, to which the subsidiary had lodged objection. Based on the advice from the Group's tax advisor, the Board considers that the payment of interests is unlikely, and therefore no additional provision has been made.

6. Interim dividend

The Board has resolved not to declare an interim dividend for the six months ended 31 December 2016 (2015: Nil).

7. Earnings/(loss)per share

Basic

Basic earnings or loss per share is calculated by dividing the profit or loss attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the period less shares held for Share Award Scheme.

	Unaudited for the 6 months ended 31 December	
	2016	2015
Profit/(loss) attributable to shareholders of the Company (HK$ million)	**61**	(238)
Number of ordinary shares in issue at 1 July (million)	**1,944**	1,944
Adjustment for shares held for Share Award Scheme (million)	**(5)**	-
Weighted average number of ordinary shares in issue less shares held for Share Award Scheme (million)	**1,939**	1,944
Basic earnings/(loss) per share (HK$ per share)	**0.03**	(0.12)

Diluted

Diluted earnings or loss per share is calculated based on the profit or loss attributable to shareholders of the Company, and the weighted average number of shares in issue during the period less shares held for Share Award Scheme 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 and Share Award Scheme. 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 and the vesting of awarded shares.

7. Earnings/(loss)per share (continued)

	Unaudited for the 6 months ended 31 December	
	2016	2015
Profit/(loss)attributable to shareholders of the Company (HK$ million)	**61**	(238)
Weighted average number of ordinary shares in issue less shares held for Share Award Scheme (million)	**1,939**	1,944
Adjustments for share options and awarded shares (million)	**-**	-
Weighted average number of ordinary shares for diluted earnings per share (million)	**1,939**	1,944
Diluted earnings/(loss) per share (HK$ per share)	**0.03**	(0.12)

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

8. Property, plant and equipment

	Unaudited for the 6 months ended 31 December	
	2016	2015
	HK$ million	HK$ million
At 1 July	**2,159**	2,835
Exchange translation	**(110)**	(77)
Additions	**90**	142
Disposals	**(24)**	(4)
Depreciation (Note 3)	**(260)**	(302)
Impairment charge (Note 3)	**(2)**	(4)
Transferred to assets classified as held for sale	**-**	(181)
At 31 December	**1,853**	2,409

9. Debtors, deposits and prepayments

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

	Unaudited 31 December 2016 HK$ million	Audited 30 June 2016 HK$ million
0-30 days	**722**	839
31-60 days	**232**	157
61-90 days	**80**	80
Over 90 days	**129**	182
	1,163	1,258

As of 31 December 2016, trade debtors net of provision for impairment of **HK$340 million** (30 June 2016: HK$317 million) were past due but not impaired. The aging analysis of these trade debtors is as follows:

	Unaudited 31 December 2016 HK$ million	Audited 30 June 2016 HK$ million
1-30 days	**196**	148
31-60 days	**33**	31
61-90 days	**8**	15
Over 90 days	**103**	123
	340	317

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.

10. Cash, bank balances and deposits

	Unaudited 31 December 2016 HK$ million	Audited 30 June 2016 HK$ million
Bank balances and cash	**2,466**	2,856
Bank deposits with maturities within three months	**1,208**	629
Bank deposits with maturities of more than three months	**874**	1,856
	4,548	5,341

11. Creditors and accrued charges

Creditors and accrued charges include trade creditors. The aging analysis by invoice date of trade creditors is as follows:

	Unaudited 31 December 2016 HK$ million	Audited 30 June 2016 HK$ million
0-30 days	**343**	681
31-60 days	**176**	203
61-90 days	**45**	80
Over 90 days	**26**	57
	590	1,021

12. Provision for store closures and leases

Movements in provision for store closures and leases are as follows:

	Unaudited for the 6 months ended 31 December	
	2016 HK$ million	2015 HK$ million
At 1 July	**604**	557
Write-back of provision for store closures and leases, net	**(4)**	(51)
Amounts used during the period	**(134)**	(47)
Exchange translation	**(11)**	(17)
At 31 December	**455**	442

The provision for store closures and leases was made in connection with the store closures and provision for onerous leases for loss-making stores.

13. Share capital

	Number of shares of HK$0.10 each million	Unaudited HK$ million
Authorized:		
At 1 July 2016 and 31 December 2016	**3,000**	**300**

	Number of shares of HK$0.10 each million	Unaudited Nominal value HK$ million
Issued and fully paid:		
At 1 July 2016 and 31 December 2016	**1,944**	**194**
At 1 July 2015 and 31 December 2015	1,944	194

Notes:

(a) Share options

The Company adopted a share option scheme on 26 November 2001 (the "2001 Share Option Scheme"). The 2001 Share Option Scheme was terminated on 10 December 2009, notwithstanding that the share options which were granted and remained outstanding and/or committed as of that date continued to follow the provisions of the 2001 Share Option Scheme and the Listing Rules.

The Company adopted a new share option scheme on 10 December 2009 (the "2009 Share Option Scheme").

(b) Awarded shares

The Board has adopted the Employees' Share Award Scheme (the "Share Award Scheme") on 17 March 2016. The purpose of the Share Award Scheme is to incentivize and retain selected senior management of the Group.

Pursuant to the rules relating to the Share Award Scheme (the "Scheme Rules"), the Board shall select any employees of the Group (the "Selected Employees") for participation in the Share Award Scheme and determine the awarded sums or the number of awarded shares. The Company has appointed an independent trustee for the administration of the Share Award Scheme. The trustee shall purchase the relevant number of shares from the market out of the Company's funds paid or to be paid to the trustee. The trustee shall hold such shares on trust for the relevant Selected Employees until they are vested and delivered in accordance with the Scheme Rules and the conditions of the award of such awarded shares (if any).

13. Share capital (continued)

During the six months ended 31 December 2016, the following awarded shares were offered to Selected Employees under the Share Award Scheme:

Date of grant	Number of awarded shares granted	Fair value per share HK$	Vesting date
31 October 2016	2,577,842	6.4	31 October 2018
31 October 2016	2,577,842	6.4	31 October 2019
	5,155,684		

The fair value of the awarded shares was calculated based on the market price of the Company's shares at the grant date.

Details of the awarded shares movement during the period and outstanding awarded shares as at 31 December 2016 under the Share Award Scheme are as follows:

	Number of awarded shares	
	2016	2015
At 1 July	**3,383,572**	-
Granted during the period	**5,155,684**	-
At 31 December	**8,539,256**	-

During the six months ended 31 December 2016, the trustee purchased a total of **5,155,700** shares (2015: Nil) of the Company on The Stock Exchange of Hong Kong Limited. The total amount paid to the trustee to purchase the shares was approximately **HK$33 million** (2015: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

As discussed in last year's Annual Report, the Group is immersed in the execution of a "Strategic Plan" to restore the long-term competitiveness of Esprit. At the core of this Strategic Plan are (i) the implementation of a "Vertical Model" to produce a sustained flow of competitive products, (ii) the optimization of sales channels operations through our "Omnichannel Model", and (iii) a progressive rejuvenation of the "Esprit Brand" image. Very importantly, the Strategic Plan is also complemented by other efforts to accelerate our turnaround, including an ambitious reduction of operating expenses ("OPEX"). The combination of all of these initiatives is the basis for the current and future improvement of the Group's results.

Building on the positive progress achieved in our last financial year ("FY15/16"), the financial performance of the Group has continued to improve in the six months ended 31 December 2016 ("1H FY16/17" or "Period Under Review") to record a Net Profit of HK$61 million, which represents a significant recovery from the Net Loss of -HK$238 million recorded for the same period last year.

While the improvement of the Group results in FY15/16 was driven by a significant growth of retail sales productivity, the improvement in 1H FY16/17 has been driven by two other major developments that are vital to increase our overall profitability:

1. The ongoing downsizing of the scale of the business, including the closure of the most unprofitable retail stores and the loss of low-performing wholesale locations, which together led to a visible reduction of the Group's controlled space.

2. The actions taken by management to increase the Group's gross profit margin, including a reduction of the level of promotional activities, price markdowns and discounts granted to wholesale partners.

On the one hand, these measures put obvious pressure on our top line in 1H FY16/17, aggravated by the impact of the unseasonably warm weather in Europe in the first quarter of FY16/17 ("First Quarter"). As a result, the Group's revenue amounted to HK$8,323 million in 1H FY16/17, representing a -9.9% year-on-year ("yoy") decrease in local currency ("LCY"), less than the corresponding yoy reduction in total controlled space of -14.3%.

On the other hand, the measures produced the intended improvement in profitability: gross profit margin was increased by 2.0% points yoy and our regular OPEX were reduced by -11.2% yoy in LCY, during 1H FY16/17. Both factors together out-weighed the negative impact of the revenue decline to reach HK$2 million EBIT from our underlying operations (i.e. EBIT excluding exceptional items) in the Period Under Review, compared with the LBIT of -HK$252 million from the underlying operations in the same period last year.

To summarize, the financial performance of the Group continued to advance positively and in line with management expectations. Progress made in most areas of the Group makes us confident and we remain fully committed and focused on executing our Strategic Plan.

Highlights of the results for 1H FY16/17 are set out below.

REVENUE ANALYSIS

Group revenue for 1H FY16/17 amounted to HK$8,323 million (1H FY15/16: HK$9,315 million), representing a yoy decline of -9.9% in LCY, with development in the second quarter of FY16/17 ("Second Quarter") (-7.8% yoy in LCY against -14.3% yoy reduction in total controlled space) significantly better than First Quarter (-11.8% against -14.5% yoy reduction in total controlled space) for every channel (Retail (excl. eshop), Eshop and Wholesale) except for Licensing, which is affected by the timing of payments from our licensors, and every market (Germany, Rest of Europe and Asia Pacific).

Revenue Development by Quarter

	Revenue change in % (yoy in LCY)		
	First Quarter	**Second Quarter**	**1H FY16/17**
By Distribution Channel			
Retail (excl. eshop)	**-15.2%**	**-11.3%**	**-13.1%**
Eshop	**-7.0%**	**1.6%**	**-2.4%**
Wholesale (excl. eshop)	**-11.4%**	**-9.2%**	**-10.5%**
Licensing and others	**7.4%**	**-19.8%**	**-7.1%**
Total	**-11.8%**	**-7.8%**	**-9.9%**
By Region ^			
Germany	**-8.4%**	**-4.1%**	**-6.3%**
Rest of Europe	**-11.9%**	**-9.5%**	**-10.8%**
Asia Pacific	**-23.9%**	**-14.8%**	**-18.8%**
Total	**-11.8%**	**-7.8%**	**-9.9%**

^ Region as a whole includes retail, eshop, wholesale and licensing operations

This development of revenue was mainly determined by the following factors:

(i) Reduction in controlled space

As the Group continues to right-size its distribution footprint, total controlled space (retail and wholesale combined) was reduced by 31,270 sqm in 1H FY16/17, coupled with the 71,431 sqm reduction in the previous six months, added up to a yoy reduction of -14.3%.

From a **Retail** perspective, the closure of unprofitable stores is fundamental in order to improve the results of the Group and to establish a healthier platform for future growth in this channel. Consequently, the Group executed a net closure of 9,412 sqm of retail sales area during 1H FY16/17, coupled with the net closure of 25,806 sqm in the previous six months, represented a -11.1% yoy reduction.

Retail (excl. eshop) distribution channel by region
(directly managed retail stores)

	As at 31 December 2016						
	No. of stores	Net change in no. of stores ^	Net sales area (m^2)	Net change in net sales area since 1 July 2016		Net change in net sales area since 1 January 2016	
				(m^2)	(%)	(m^2)	(%)
Germany	**149**	1	**119,243**	**644**	0.5%	**(2,140)**	-1.8%
Rest of Europe	**141**	(48)	**84,654**	**(1,836)**	-2.1%	**(15,330)**	-15.3%
Asia Pacific	**408**	(119)	**78,263**	**(8,220)**	-9.5%	**(17,748)**	-18.5%
Total	**698**	(166)	**282,160**	**(9,412)**	-3.2%	**(35,218)**	-11.1%

^ Net change since 1 January 2016

With respect to **Wholesale**, the channel continues to face persistent structural pressure and we continue to see elimination of non-performing locations by our partners. As a result, Wholesale controlled space was reduced by 21,858 sqm in 1H FY16/17, which coupled with the net closure of 45,625 sqm in the previous six months, represented a yoy reduction of -16.8%.

Wholesale distribution channel by region (controlled space only)

	As at 31 December 2016						
	No. of stores	Net change in no. of stores ^	Net sales area (m^2)	Net change in net sales area since 1 July 2016		Net change in net sales area since 1 January 2016	
				(m^2)	(%)	(m^2)	(%)
Germany	**3,757**	**(775)**	**175,292**	**(4,460)**	**-2.5%**	**(25,963)**	**-12.9%**
Franchise stores	255	(12)	59,401	(3,814)	-6.0%	(8,433)	-12.4%
Shop-in-stores	2,342	(548)	93,195	(1,567)	-1.7%	(14,419)	-13.4%
Identity corners	1,160	(215)	22,696	921	4.2%	(3,111)	-12.1%
Rest of Europe	**2,246**	**(493)**	**142,414**	**(11,320)**	**-7.4%**	**(27,663)**	**-16.3%**
Franchise stores	465	(62)	93,085	(7,241)	-7.2%	(16,539)	-15.1%
Shop-in-stores	864	(178)	26,851	(2,566)	-8.7%	(6,168)	-18.7%
Identity corners	917	(253)	22,478	(1,513)	-6.3%	(4,956)	-18.1%
Asia Pacific	**158**	**(108)**	**17,188**	**(6,078)**	**-26.1%**	**(13,857)**	**-44.6%**
Franchise stores	158	(108)	17,188	(6,078)	-26.1%	(13,857)	-44.6%
Total	**6,161**	**(1,376)**	**334,894**	**(21,858)**	**-6.1%**	**(67,483)**	**-16.8%**
Franchise stores	878	(182)	169,674	(17,133)	-9.2%	(38,829)	-18.6%
Shop-in-stores	3,206	(726)	120,046	(4,133)	-3.3%	(20,587)	-14.6%
Identity corners	2,077	(468)	45,174	(592)	-1.3%	(8,067)	-15.2%

^ Net change since 1 January 2016

(ii) Reduction of promotional activities, price markdowns and wholesale discounts

During the Period Under Review, management took decisive actions to increase the gross profit margins of every channel and region. These efforts have been instrumental to bringing an overall improvement of our bottom line, but they negatively impacted sales in our own retail, as reflected by the negative sales growth in comparable stores.

Retail comparable stores sales growth (excl. eshop) in LCY

	First Quarter		Second Quarter		1H FY16/17	
	No. of comp-store	Comp-store sales growth	No. of comp-store	Comp-store sales growth	No. of comp-store	Comp-store sales growth
Germany	128	-8.6%	126	-5.3%	126	-6.8%
Rest of Europe	121	-1.9%	117	1.6%	117	0.1%
Asia Pacific	253	-10.1%	233	-8.3%	233	-9.2%
Total	502	-6.6%	476	-3.5%	476	-4.9%

For **Retail**, the intensity of promotional activities was reduced e.g. by shortening the duration of the Mid Season Sale period, delaying the start of the End of Season Sale, eliminating discount promotions in certain countries and specific product categories, and applying a smoother approach to certain promotional events such as Black Friday. In addition to this, the regular price markdowns in our full-price stores were reduced and the prices in our off-price outlets were increased.

In our **Wholesale** operations, actions taken to improve gross profit margins were milder and mainly directed at eliminating excessive discounts for selected partners. Consequently, the impact on the sales performance of the channel was less significant.

In general, the above approach in our different channels contrasted with the aggressive promotions and markdowns offered by our competitors; which imposed a drag to our revenue but produced the intended improvement of margins and operational results.

(iii) Unfavorable weather in the First Quarter

As communicated in our Unaudited FY16/17 First Quarter Update announcement ("First Quarter Update"), temperatures in Europe in the First Quarter were much above the levels for the same period of the previous year and this unseasonably warm weather significantly impacted store traffic and sales of autumn collections.

REVENUE BY PRODUCT

The Group markets its products under two brands, namely "Esprit" and "edc", both of which offer apparel and lifestyle products for women, men and children. For the purpose of this management discussion and analysis, products are categorized into four major groups: Esprit Women (47.4% of Group revenue), Esprit Men (12.6% of Group revenue), Lifestyle and others (17.1% of Group revenue), and edc (22.9% of Group revenue).

Revenue by product

	For the 6 months ended 31 December					
	2016		2015		Change in %	
Product division	**HK$ million**	**% to Group Revenue**	HK$ million	% to Group Revenue	HK$	Local currency
Esprit Women	**3,945**	**47.4%**	4,216	45.3%	-6.4%	-5.6%
women casual	**2,731**	**32.8%**	2,865	30.8%	-4.7%	-3.9%
women collection	**1,049**	**12.6%**	1,124	12.1%	-6.6%	-5.8%
trend #	**165**	**2.0%**	227	2.4%	-27.4%	-27.0%
Esprit Men	**1,048**	**12.6%**	1,281	13.7%	-18.2%	-17.1%
men casual	**857**	**10.3%**	1,046	11.2%	-18.1%	-17.1%
men collection	**191**	**2.3%**	235	2.5%	-18.7%	-17.5%
Lifestyle and others *	**1,424**	**17.1%**	1,762	18.9%	-19.1%	-18.6%
edc ^	**1,906**	**22.9%**	2,056	22.1%	-7.3%	-6.4%
Total	**8,323**	**100.0%**	9,315	100.0%	-10.6%	-9.9%

\# The Trend Division was set up as a laboratory to test our fast-to-market product development processes. The lessons we have learned have been applied to other product divisions under the Women segment, hence it is more meaningful to interpret the combined performance of these product divisions

* Lifestyle and others mainly include accessories, bodywear, shoes, and the sales and royalty income from licensed products such as kidswear, timewear, eyewear, jewelry, bed & bath, and houseware

^ Accessories, bodywear, and shoes under edc brand are grouped together with those under Esprit brand in Lifestyle and others for the 6 months ended 31 December 2016 while they were grouped under the edc brand for the 6 months ended 31 December 2015. Comparative figures of edc has been restated accordingly

Esprit Women and edc

Esprit Women and edc, together representing 70.3% of the Group's revenue, recorded yoy decline in revenue of -5.6% and -6.4% in LCY respectively, with comparable retail sales (including eshop) declining by -2.6% and -1.4% yoy in LCY respectively. The declines were mainly attributable to the factors described in the beginning of this "Revenue Analysis" section, partly offset by continued product improvements as we continue to reap the benefits of the Vertical Model.

Esprit Men

In 1H FY16/17, Esprit Men recorded revenue of HK$1,048 million, representing a yoy decline of -17.1% in LCY. Due to the weak performance of our Men's division, the space allocated to their products in our retail stores is being reduced. Moreover, the team managing Esprit Men's products has been restructured and strengthened during the Period Under Review.

Lifestyle and others

Lifestyle and others recorded revenue of HK$1,424 million in 1H FY16/17, representing a yoy decline of -18.6% in LCY. This product group comprises mainly accessories, bodywear, shoes, and the sales and royalty income from licensed products such as kidswear, timewear, eyewear, jewelry, bed & bath, and houseware. The largest decline in revenue in this product group came from the Kids division (-62.8% yoy in LCY) due to the licensing of this business to Groupe Zannier since January 2016, which largely reduces our top line because the majority of net sales are now booked by our license partner, while Esprit's income is derived mostly from the corresponding royalties. Despite this effect, the licensing of the kids business benefits the long term performance of Esprit Kids. Excluding the Kids division, the sales decline of Lifestyle and others would have been -11.0% yoy in LCY.

REVENUE BY REGION AND BY DISTRIBUTION CHANNEL

Geographically, the majority of the Group's business is generated in Europe and Asia Pacific. In our analysis, the countries in which we operate are grouped along three major regions: "Germany", "Rest of Europe" (including America and the Middle East) and "Asia Pacific".

The business in these markets is mainly generated through three distribution channels: "Retail (excl. eshop)", "Wholesale (excl. eshop)" and "Eshop".

Before analyzing the detailed revenue performance by region and by distribution channel, Retail (excl. eshop) and Wholesale (excl. eshop) deserve a comment on their overall development. Eshop is addressed separately later in this section.

Retail (excl. eshop) experienced -13.1% yoy in LCY revenue decline in the Period Under Review, larger than the yoy reduction of retail sales space of -11.1%. However, it is worth noting that, despite the reduction of promotional activities and price markdowns, the level of sales per square meter was maintained stable in our full-price stores (+0.3% yoy in LCY) and the entire decline of sales productivity was caused by the off-price outlets (-14.9% yoy in LCY). More importantly, the combination of slightly reduced sales per square meter and improved gross profit margin produced a net increase of the gross profit value generated by each full-priced retail square meter (+4.4% yoy in LCY). In other words, the profitability of our full-priced retail space kept on growing in 1H FY16/17.

As for **Wholesale (excl. eshop)**, the channel's profitability also improved in the Period Under Review. The closure of non-performing locations is increasing the average sales productivity of the remaining controlled space. For this reason, the sales decline of -10.5% yoy in LCY in 1H FY16/17 is significantly smaller than the corresponding yoy reduction in sales space of -16.8%. Gross profit margin and OPEX of the Wholesale channel also improved during this period.

The following table sets forth the breakdown of revenue across the three regions and the different distribution channels.

Revenue by region and by distribution channel

	For the 6 months ended 31 December						
	2016		2015		Revenue Change in %		Net change in net sales area ^
	HK$ million	**% to Group Revenue**	HK$ million	% to Group Revenue	HK$	Local currency	
Germany	**4,140**	**49.7%**	4,444	47.7%	-6.8%	-6.3%	-8.7%
Retail (excl. eshop)	**1,522**	**18.3%**	1,653	17.8%	-7.9%	-7.2%	-1.8%
Eshop	**1,176**	**14.1%**	1,253	13.4%	-6.1%	-5.4%	n.a.
Wholesale	**1,429**	**17.2%**	1,532	16.4%	-6.7%	-6.4%	-12.9%
Licensing	**13**	**0.1%**	6	0.1%	93.1%	93.8%	n.a.
Rest of Europe	**3,048**	**36.7%**	3,446	37.0%	-11.5%	-10.8%	-15.9%
Retail (excl. eshop)	**1,140**	**13.7%**	1,317	14.1%	-13.4%	-12.5%	-15.3%
Eshop	**698**	**8.4%**	730	7.9%	-4.5%	-3.9%	n.a.
Wholesale	**1,154**	**13.9%**	1,331	14.3%	-13.3%	-12.5%	-16.3%
Licensing and others *	**56**	**0.7%**	68	0.7%	-16.8%	-16.8%	n.a.
Asia Pacific	**1,135**	**13.6%**	1,425	15.3%	-20.3%	-18.8%	-24.9%
Retail (excl. eshop)	**951**	**11.4%**	1,228	13.2%	-22.6%	-21.5%	-18.5%
Eshop	**119**	**1.5%**	79	0.8%	51.1%	58.7%	n.a.
Wholesale (excl. eshop)	**65**	**0.7%**	118	1.3%	-44.5%	-42.6%	-44.6%
Total	**8,323**	**100.0%**	9,315	100.0%	-10.6%	-9.9%	-14.3%
Retail (excl. eshop)	**3,613**	**43.4%**	4,198	45.1%	-13.9%	-13.1%	-11.1%
Eshop	**1,993**	**24.0%**	2,062	22.1%	-3.3%	-2.4%	n.a.
Wholesale (excl. eshop)	**2,648**	**31.8%**	2,981	32.0%	-11.2%	-10.5%	-16.8%
Licensing and others	**69**	**0.8%**	74	0.8%	-7.1%	-7.1%	n.a.

^ Net change since 1 January 2016

* For the six months ended 31 December 2016, revenue from North America was re-grouped under Rest of Europe while it was disclosed separately for the six months ended 31 December 2015. Comparative figures have been restated accordingly

n.a. Not applicable

Germany

As the largest market of the Group (representing 49.7% of total Group revenue), Germany recorded HK$4,140 million revenue in 1H FY16/17, representing -6.3% yoy decline in LCY (-8.4% in the First Quarter and -4.1% in the Second Quarter). In terms of distribution channels, Retail (excl. eshop), Eshop, Wholesale and the Licensing business contributed 36.8%, 28.4%, 34.5% and 0.3% of Germany's revenue, respectively.

Germany Retail (excl. eshop) recorded revenue of HK$1,522 million, representing a yoy decline of -7.2% in LCY. Besides the three major factors described in the beginning of this "Revenue Analysis" section, the revenue decline was also attributable to a weak and erratic retail market in the country. During the Period Under Review, the German apparel market recorded a yoy sales decline in the first three months and flat yoy development in the remaining three months, as published by TextilWirtschaft. As for our space under Germany Retail (excl. eshop), there was a yoy reduction of -1.8%, which is below our expectation due to the difficulties to terminate longer lease terms compared to those in other markets.

Germany Wholesale revenue declined by -6.4% yoy in LCY, much less than the corresponding reduction of controlled space by -12.9% yoy. The underlying gain in productivity has been driven by improved order intakes from both offline and online partners. The reduction in controlled space was partly attributable to the transfer of 713 points of sales ("POS") under the Kids division to our new licensing partner.

Rest of Europe

Rest of Europe comprises countries in Europe, except Germany, in America and in the Middle East (representing 36.7% of total Group revenue). The region recorded revenue of HK$3,048 million in 1H FY16/17, representing a yoy decline of -10.8% in LCY (-11.9% in the First Quarter and -9.5% in the Second Quarter). In terms of distribution channels, Retail (excl. eshop), Eshop, Wholesale and Licensing businesses contributed to 37.4%, 22.9%, 37.9% and 1.8% of the region's revenue, respectively.

> **Rest of Europe Retail (excl. eshop)** recorded revenue of HK$1,140 million, representing a yoy decline of -12.5% in LCY, which compares favorably against the corresponding yoy decline in retail sales area of -15.3%. The significant space decline was attributable to the successful net closure of 17 unprofitable stores and the closure of 31 concession counters in the Netherlands as a result of the bankruptcy of a local department store.

> **Rest of Europe Wholesale** revenue declined by -12.5% yoy in LCY, also less than the corresponding -16.3% yoy reduction in controlled space, reflecting a similar improvement of partners' order intakes as in Germany Wholesale. The reduction in controlled wholesale space was partly attributable to the transfer of 150 points of sales POS under the Kids division to our new licensing partner.

Asia Pacific

Asia Pacific ("APAC") comprises mainly China, Australia and New Zealand, Hong Kong, Singapore, Malaysia, Taiwan and Macau (representing 13.6% of total Group revenue). The region recorded revenue decline of -18.8% yoy in LCY in 1H FY16/17 (-23.9% in the First Quarter and -14.8% in the Second Quarter).

As discussed in the last Annual Report, APAC faces difficulties that are different from the challenges in Europe. From a macroeconomic perspective, the economic growth slowdown in China has dampened consumption sentiment, resulting in reduced traffic to the malls across the region, including shopping and tourist destinations that are key for Esprit. From an internal perspective, there are brand-specific weaknesses related to our distribution network in APAC, i.e. Esprit's retail space concentration in department stores and discount factory outlets. A clear action plan to face these challenges is in place and we continued to make good progresses along this plan during the Period Under Review, including closure of loss-making spaces, rapid e-commerce sales growth, gross profit margin normalization, improved operations across retail functions, downsizing of local structures and cost, etc. These positive developments make us confident about the revival of our long-term potential in the region.

> **Asia Pacific Retail (excl. eshop)** accounted for 83.8% of total revenue in the region and recorded HK$951 million in revenue, representing a yoy decline of -21.5% in LCY against -18.5% yoy reduction in retail sales area. It is important to note that in APAC we had the most drastic reduction of promotional activities and price markdowns, which explains the -9.2% yoy decline in comparable retail sales (excl. eshop). Despite the significant sales drop, the consequent recovery of gross profit margin and reduction of

operating expenses resulted in a positive development of the channel's bottom line.

Asia Pacific Wholesale (excl. eshop) revenue only represented 5.7% of the region’s total revenue (0.7% of the Group’s revenue) and recorded HK$65 million in revenue, representing a decline of -42.6% yoy in LCY against a -44.6% yoy decline in wholesale controlled space. The majority of the space loss took place in China, while we see opportunities to expand the wholesale business in new countries within the region. In this respect, Esprit has re-entered the India market through an exclusive partnership with Myntra.com, a leading online retailer of fashion and lifestyle products in the country, in the Second Quarter.

Eshop

Eshop comprises our directly managed ecommerce business in European and APAC countries (representing 24.0% of total Group revenue) and sales to third parties online distributor in APAC. In the Period Under Review, this channel generated HK$1,993 million in revenue, representing a yoy decline of -2.4% in LCY (-7.0% in the First Quarter and +1.6% in the Second Quarter), compared to a very successful sales development in the same period last year (+15.9% yoy growth in LCY).

Eshop Germany and Rest of Europe contributed 59.0% and 35.0% respectively of the total Eshop revenue in 1H FY16/17. Eshop Germany had a yoy decline of -5.4% in LCY, and Eshop Rest of Europe had a -3.9% yoy decline in LCY. This drop in net sales was driven by lower traffic in our online shops in Europe during the warm month of September 2016, and during the festive season (November and December 2016). Nonetheless, the channel continues to be highly productive and profitable, and we continued to develop our Omnichannel solutions during the First Half of the financial year to achieve (i) increased number of active Esprit Friends by +20% vs last year, (ii) fast growth of sales initiated from smartphones, up by +40% vs last year, (iii) a higher level of personalization of the consumer experience, (iv) shorter delivery times for our customers, and (v) the roll-out of our integrated online-offline features, including click & collect of orders from our stores and the capability to reserve store products online and return Eshop products in the stores.

Eshop APAC reached HK$119 million revenue in 1H FY16/17, representing an increase of +58.7% yoy in LCY. China represented over 80% of the Eshop sales in the region and recorded revenue growth of +54.9% yoy in LCY, fueled by actions such as the integration of the Esprit Friends loyalty program into our eshop, the strengthening of our operations with Tmall, the expansion of our online presence in China through local platforms such as Weibo or WeChat, and the collaboration with celebrities and key opinion leaders to enhance our brand equity through social media.

PROFITABILITY ANALYSIS

The table below presents the results of the Group for the six months ended 31 December 2016 and 2015, with a differentiation of Regular OPEX and Exceptional Items as defined in the last Annual Report.

	For the six months ended 31 December			
	2016	2015	Change in %	
	HK$ million	HK$ million	HK$	Local currency
Revenue	**8,323**	9,315	-10.6%	-9.9%
Cost of goods sold	**(3,952)**	(4,615)	-14.4%	-13.5%
Gross profit	**4,371**	4,700	-7.0%	-6.2%
Gross profit margin	***52.5%***	*50.5%*	*2.0% pts*	*2.0% pts*
Regular OPEX				
Staff costs	**(1,474)**	(1,574)	-6.3%	-5.7%
Occupancy costs	**(1,276)**	(1,428)	-10.6%	-9.9%
Logistics expenses	**(473)**	(516)	-8.3%	-7.6%
Marketing and advertising expenses	**(402)**	(535)	-24.9%	-24.3%
Depreciation	**(260)**	(302)	-13.7%	-13.1%
Other operating costs	**(484)**	(597)	-19.2%	-18.9%
Subtotal	**(4,369)**	(4,952)	-11.8%	-11.2%
EBIT / (LBIT) of Underlying Operations	**2**	(252)		
Exceptional items				
i) One-off costs in relation to staff reduction plans	**(17)**	(42)		
ii) Net write-back of provision for store closures and leases	**4**	51		
iii) Impairment of property, plant and equipment	**(2)**	(4)		
Subtotal	**(15)**	5		
(LBIT) of the Group	**(13)**	(247)	**94.6%**	**96.9%**
Net interest income	**-**	5		
(Loss) before taxation	**(13)**	(242)		
Net taxation credit	**74**	4		
Net profit / (loss)	**61**	(238)		

For the Period Under Review, the Group recorded **Gross Profit** of HK$4,371 million, which results in gross profit margin of 52.5%, representing a yoy increase of +2.0% points, despite the detrimental development of the Euro exchange rates. This improvement is mainly the result of the actions to reduce the level of promotional activities, price markdowns and wholesale discounts, as described in the beginning of the "Revenue Analysis" section. The improvement in gross profit margin was observed across all channels (except for Licensing and others), regions and key product divisions.

Regular OPEX (excluding Exceptional Items) amounted to HK$4,369 million in 1H FY16/17, representing a yoy decline of -11.2% in LCY. Savings were achieved in all key cost lines mainly through the accelerated closure of loss-making stores, the implementation of overhead cost restructuring measures and the lower marketing and advertising expenditure, down to normalized levels after the strong push last year. The Group remains on track to achieve our target to reduce OPEX by HK$1 billion (excluding exchange rate impact) over 2 years from FY15/16 level.

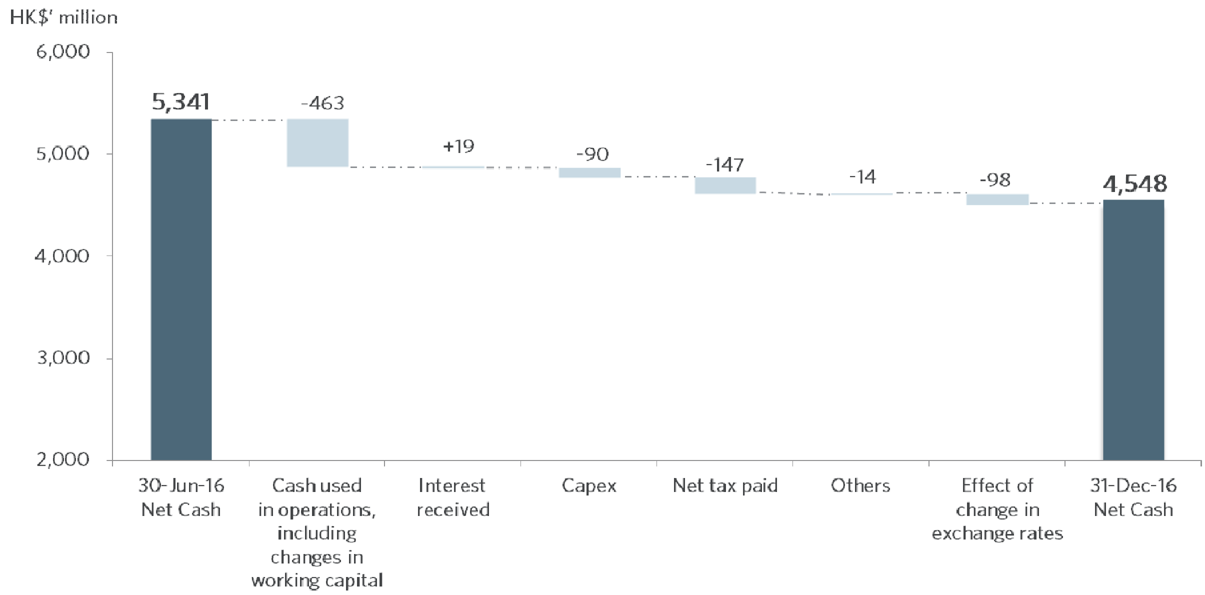
Exceptional Items refer to exceptional income and expenses arising from relevant non-operational activities of the Group. As detailed in the table at the beginning of this section, there was a net exceptional expense of HK$15 million in 1H FY16/17 related to staff reduction plans, the net write-back of provisions for store closures and leases, and the impairment of property, plant and equipment.

EBIT of underlying operations (i.e. excluding the Exceptional Items) was HK$2 million, compared to a LBIT of -HK$252 million in the same period last year. After including the Exceptional Items, LBIT was -HK$13 million in 1H FY16/17, also a significant improvement when compared with a LBIT of -HK$247 million in the same period last year.

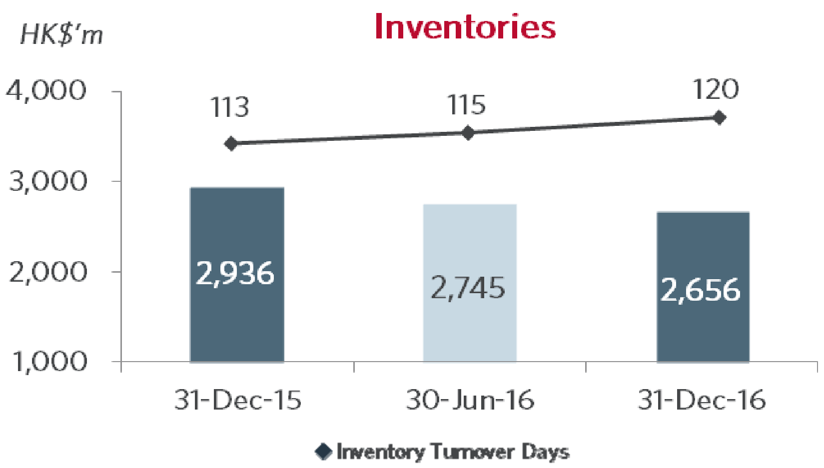
Net Profit reached HK$61 million in 1H FY16/17 (including a net tax credit of HK$74 million), compared with a net loss of -HK$238 million in the same period last year.

LIQUIDITY AND FINANCIAL RESOURCES ANALYSIS

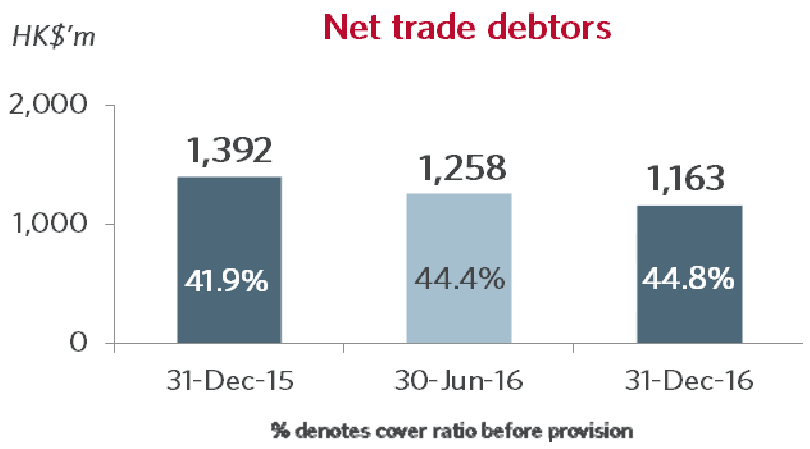
Net Cash: As at 31 December 2016, the Group remained debt free with cash, bank balances and deposits totaling HK$4,548 million (30 June 2016: HK$5,341 million), representing a net cash utilization of HK$793 million in 1H FY16/17, less than the HK$825 million net cash utilization for the same period last year. It is worth noting that the net cash balance at the end of December is generally lower than that at the end of June due to the seasonality of our business causing a stock up of higher value winter inventories.



Inventories: Our inventory balance amounted to HK$2,656 million (31 December 2015: HK$2,936 million), representing a yoy reduction of -9.5%, helped by the depreciation of the EUR/HKD closing rate of -4.0% yoy. Inventory turnover days was 120 days, an increase of 7 days as compared to a year ago (31 December 2015: 113 days), and was primarily attributable to the higher share of retail business vs wholesale, the leftovers carried over from the previous financial year, and the lower revenue in comparable retail stores and eshop.



Net Trade Debtors was HK$1,163 million (31 December 2015: HK$1,392 million), representing a yoy decrease of -16.5%, which is in line with the lower wholesale revenue and the depreciation of the EUR/HKD closing rate of -4.0% yoy. The cover ratio before provision (the amount of insured and secured gross trade debtors including VAT over total gross trade debtors including VAT) increased to 44.8% (31 December 2015: 41.9%)



Capital Expenditure (CAPEX): We remain cautious in terms of CAPEX investments as we stay vigilant in our cash management. The Group invested HK$90 million in CAPEX in 1H FY16/17 (1H FY15/16: HK$142 million), representing a reduction of 36.2% yoy with the largest reductions in store openings and refurbishments, as large scale refurbishments are mostly completed.

	For the 6 months ended 31 December	
HK$ million	**2016**	2015
New stores	**26**	42
Refurbishment	**18**	54
IT projects	**29**	25
Office & others	**17**	21
Purchase of property, plant and equipment	**90**	142

Total interest bearing external borrowings: As at 31 December 2016, the Group had no interest bearing external borrowings (31 December 2015: Nil).

SEASONALITY OF BUSINESS

The Group's business is affected by seasonal trends 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 the business and should not be extrapolated to provide a reliable forecast.

FOREIGN EXCHANGE RISK MANAGEMENT

The Group faces foreign exchange risk arising from exposure to various currencies, primarily with respect to the Euro.

While the majority of the Group's revenue is denominated in Euro, we report our financial results in Hong Kong Dollars. As a result, fluctuations in the value of the Euro against the Hong Kong Dollar could adversely affect our revenue which is reported in Hong Kong Dollar. In addition, the purchases of finished goods in Euro account for only a small portion of our total purchases of finished goods while our net sales, which are generated primarily in Euro, may pose severe pressure on our gross margin. Although we currently use foreign currency forward contracts to hedge exposure to the foreign exchange risk related to our purchases, fluctuations in the value of the Euro against other currencies, mostly against the US Dollar, could affect our margins and profitability.

Since the beginning of FY15/16, the Euro exchange rate has maintained its weakness. In June 2016, the United Kingdom's vote to leave the European Union ("Brexit") has caused much uncertainty in the European economy, as well as substantial depreciation of the British Pounds. As our business in the United Kingdom contributes less than 1% of the Group's revenue, the depreciation of the British Pounds will have little direct impact on the Group's revenue. That said, Brexit may put pressure on the Euro currency. In view of this potential risk, the Group has taken measures to proactively manage its Euro exposure, specifically early hedging of virtually all purchases of finished goods for FY16/17 at an average rate better than the prevailing market rates, which should help protect our gross margin for the current financial year. The Group will continuously monitor and review purchases of finished goods as well as potential price adjustment, depending on the movements of relevant exchange rates.

SECOND HALF OUTLOOK FOR FY16/17

Moving forward, we expect in the Second Half of this financial year ("2H FY16/17") a similar development as observed in the First Half. We continue to execute our Strategic Plan with primary focus on improving our bottom line. In the short term, this approach implies a decline in revenue due to the reduction of unprofitable controlled space, countered by better sales productivity, improved margins and reduced operating expenses.

APPENDIX

Revenue by country

	For the 6 months ended 31 December						
	2016		2015		Revenue change in %		Net change in net sales
Country ^^	**HK$ million**	**% to Group Revenue**	HK$ million	% to Group Revenue	HK$	Local currency	area^
Germany #	**4,140**	**49.7%**	4,444	47.7%	-6.8%	-6.3%	-8.7%
Rest of Europe	**3,048**	**36.7%**	3,446	37.0%	-11.5%	-10.8%	-15.9%
Benelux #	976	11.7%	1,115	12.0%	-12.5%	-12.0%	-25.3%
France	513	6.2%	602	6.5%	-14.9%	-14.5%	-12.5%
Switzerland	471	5.7%	506	5.4%	-6.9%	-5.8%	-4.9%
Austria	390	4.7%	436	4.7%	-10.7%	-10.1%	-10.4%
Sweden	119	1.4%	137	1.5%	-12.9%	-10.8%	-22.9%
Finland	112	1.4%	124	1.3%	-10.0%	-9.6%	-17.9%
Spain	103	1.3%	109	1.2%	-5.0%	-4.8%	-4.0%
Italy	58	0.7%	68	0.7%	-13.5%	-13.4%	-8.5%
United Kingdom	50	0.6%	85	0.9%	-41.4%	-34.9%	-25.6%
Denmark	49	0.6%	57	0.6%	-13.8%	-13.5%	-36.9%
Poland	38	0.5%	35	0.4%	8.9%	12.4%	20.6%
Ireland	4	0.0%	4	0.0%	-1.4%	-1.1%	-0.4%
Norway	2	0.0%	2	0.0%	-8.0%	-7.9%	-
Portugal	-	0.0%	1	0.0%	1.5%	2.2%	-
Others *##	163	1.9%	165	1.8%	-1.4%	-1.3%	-5.3%
Asia Pacific	**1,135**	**13.6%**	1,425	15.3%	-20.3%	-18.8%	-24.9%
China	467	5.6%	655	7.0%	-28.7%	-24.1%	-38.0%
Australia and New Zealand	161	2.0%	162	1.7%	-1.0%	-5.5%	-1.5%
Hong Kong	146	1.7%	185	2.0%	-21.3%	-21.3%	-10.7%
Singapore	116	1.4%	129	1.4%	-9.5%	-10.2%	-10.3%
Malaysia	90	1.1%	97	1.0%	-6.9%	-5.6%	-9.1%
Taiwan	82	1.0%	98	1.1%	-16.6%	-18.2%	-6.5%
Macau	45	0.5%	56	0.6%	-18.4%	-18.4%	7.3%
Others @	28	0.3%	43	0.5%	-35.7%	-35.7%	-24.4%
Total	**8,323**	**100.0%**	9,315	100.0%	-10.6%	-9.9%	-14.3%

^ Net change since 1 January 2016

^^ Country as a whole includes retail, eshop, wholesale and licensing operations

Includes licensing

Others under Rest of Europe include i) retail (including eshop) revenue from Czech Republic, Hungary, Slovakia, Latvia, Slovenia, Malta, Estonia, Greece, Romania, Croatia and Bulgaria; ii) wholesale revenue from other countries mainly Chile, Colombia, Canada and the Middle East, as well as iii) third party licensing income that comes from Asia Pacific, Europe other than Germany, America and the Middle East

* For the six months ended 31 December 2016, revenue from North America was re-grouped under Rest of Europe while it was disclosed separately for the six months ended 31 December 2015. Comparative figures have been restated accordingly

@ Others under Asia Pacific include wholesale revenue from other countries mainly Thailand and the Philippines

Retail (excl. eshop) revenue by country

Country	2016 HK$ million	2016 % to Total Revenue	2015 HK$ million	2015 % to Total Revenue	Revenue change in % HK$	Revenue change in % Local currency	Net change in net sales area^
	For the 6 months ended 31 December						
Germany	**1,522**	**42.1%**	1,653	39.4%	-7.9%	-7.2%	-1.8%
Rest of Europe	**1,140**	**31.6%**	1,317	31.3%	-13.4%	-12.5%	-15.3%
Benelux	410	11.3%	491	11.7%	-16.6%	-16.0%	-19.1%
Switzerland	309	8.6%	321	7.6%	-3.6%	-2.3%	-1.1%
Austria	195	5.4%	218	5.2%	-10.7%	-10.1%	-11.8%
France	134	3.7%	166	3.9%	-19.0%	-18.4%	-16.4%
Poland	30	0.9%	33	0.8%	-7.7%	-4.2%	20.6%
Sweden	30	0.8%	47	1.1%	-37.1%	-35.1%	-56.2%
Finland	24	0.7%	29	0.7%	-16.3%	-15.7%	-18.1%
Denmark	8	0.2%	8	0.2%	1.3%	1.7%	-
United Kingdom	-	-	4	0.1%	-100.0%	-100.0%	-100.0%
Asia Pacific	**951**	**26.3%**	1,228	29.3%	-22.6%	-21.5%	-18.5%
China	331	9.2%	512	12.2%	-35.5%	-31.3%	-30.4%
Australia and New Zealand	149	4.1%	154	3.7%	-3.5%	-7.9%	-1.5%
Hong Kong	145	4.0%	185	4.4%	-21.5%	-21.5%	-10.7%
Singapore	111	3.1%	128	3.1%	-12.7%	-13.5%	-10.3%
Malaysia	89	2.4%	96	2.3%	-7.5%	-6.2%	-9.1%
Taiwan	81	2.2%	97	2.3%	-17.4%	-19.0%	-6.5%
Macau	45	1.3%	56	1.3%	-18.4%	-18.4%	7.3%
Total	**3,613**	**100.0%**	4,198	100.0%	-13.9%	-13.1%	-11.1%

^ Net change since 1 January 2016

Directly managed retail stores by country – movement since 1 January 2016

Country	No. of stores	Net opened stores^	Net sales area (m^2)	Net change in net sales area^	No. of comp stores (excl. eshop)	Comp-store sales growth (excl. eshop)
	As at 31 December 2016					
Germany	**149**	**1**	**119,243**	**-1.8%**	**126**	**-6.8%**
Rest of Europe	**141**	**(48)**	**84,654**	**-15.3%**	**117**	**0.1%**
Switzerland	38	-	17,259	-1.1%	34	-1.8%
Belgium	22	(3)	16,190	-9.9%	21	2.6%
Netherlands	20	(34)	14,492	-28.9%	18	5.3%
France	19	(4)	11,145	-16.4%	18	-8.4%
Austria	19	(1)	14,841	-11.8%	16	-1.2%
Poland	13	2	3,946	20.6%	-	n.a.
Sweden	4	(6)	2,542	-56.2%	4	26.9%
Luxembourg	3	-	1,869	-	3	-4.1%
Finland	2	(1)	1,745	-18.1%	2	4.1%
Denmark	1	-	625	-	1	1.7%
United Kingdom	-	(1)	-	-100.0%	-	n.a.
Asia Pacific	**408**	**(119)**	**78,263**	**-18.5%**	**233**	**-9.2%**
China	188	(108)	33,218	-30.4%	106	-10.8%
Taiwan	72	(2)	6,861	-6.5%	42	-19.5%
Australia	69	-	8,582	0.7%	43	-5.2%
Malaysia	32	(7)	12,445	-9.1%	20	-2.9%
Singapore	21	-	6,628	-10.3%	10	-7.3%
Hong Kong	13	(2)	6,410	-10.7%	4	-14.9%
New Zealand	8	(1)	1,564	-12.0%	6	0.4%
Macau	5	1	2,555	7.3%	2	-5.6%
Total	**698**	**(166)**	**282,160**	**-11.1%**	**476**	**-4.9%**

^ Net change since 1 January 2016
n.a. Not applicable

Directly managed retail stores by store type – movement since 1 January 2016

	No. of POS					Net sales area (m^2)				
	As at	vs 1 January 2016		As at		As at	vs 1 January 2016		As at	
Store type	31 December 2016	Opened	Closed	1 January 2016	Net change	31 December 2016	Opened	Closed	1 January 2016	Net change
Stores	**380**	**22**	**(56)**	**414**	**(34)**	**219,639**	**6,336**	**(27,811)**	**241,114**	**-8.9%**
- Germany	134	3	(5)	136	(2)	105,337	1,556	(4,389)	108,170	-2.6%
- Rest of Europe	130	5	(22)	147	(17)	76,345	1,483	(13,393)	88,255	-13.5%
- Asia Pacific	116	14	(29)	131	(15)	37,957	3,297	(10,029)	44,689	-15.1%
Concession counters	**233**	**11**	**(139)**	**361**	**(128)**	**22,069**	**1,997**	**(15,396)**	**35,468**	**-37.8%**
- Germany	4	3	-	1	3	1,260	693	-	567	122.2%
- Rest of Europe	-	-	(31)	31	(31)	-	-	(3,420)	3,420	-100.0%
- Asia Pacific	229	8	(108)	329	(100)	20,809	1,304	(11,976)	31,481	-33.9%
Outlets	**85**	**7**	**(11)**	**89**	**(4)**	**40,452**	**2,212**	**(2,556)**	**40,796**	**-0.8%**
- Germany	11	-	-	11	-	12,646	-	-	12,646	-
- Rest of Europe	11	-	-	11	-	8,309	-	-	8,309	-
- Asia Pacific	63	7	(11)	67	(4)	19,497	2,212	(2,556)	19,841	-1.7%
Total	**698**	**40**	**(206)**	**864**	**(166)**	**282,160**	**10,545**	**(45,763)**	**317,378**	**-11.1%**

Wholesale (excl. eshop) revenue by country

	For the 6 months ended 31 December						
	2016		2015		Revenue change in %		Net change
Country	**HK$ million**	**% to Total Revenue**	HK$ million	% to Total Revenue	HK$	Local currency	in net sales area^
Germany	**1,429**	**54.0%**	1,532	51.4%	-6.7%	-6.4%	-12.9%
Rest of Europe	**1,154**	**43.6%**	1,331	44.7%	-13.3%	-12.5%	-16.3%
Benelux	285	10.8%	338	11.4%	-15.8%	-15.6%	-30.3%
France	269	10.1%	309	10.4%	-13.0%	-12.8%	-11.1%
Spain	96	3.7%	102	3.4%	-5.6%	-5.4%	-4.0%
Austria	93	3.5%	119	4.0%	-21.8%	-21.5%	-8.9%
Sweden	74	2.8%	78	2.6%	-4.1%	-1.8%	0.2%
Finland	74	2.8%	80	2.7%	-8.4%	-8.0%	-17.8%
Switzerland	62	2.3%	69	2.3%	-10.8%	-9.8%	-13.7%
Italy	55	2.1%	64	2.1%	-13.8%	-13.7%	-8.5%
United Kingdom	27	1.0%	52	1.7%	-48.1%	-37.8%	-15.0%
Denmark	23	0.9%	29	1.0%	-19.8%	-19.7%	-42.7%
Ireland	2	0.1%	3	0.1%	-6.4%	-6.4%	-0.4%
Norway	2	0.0%	2	0.1%	-8.0%	-8.0%	-
Portugal	-	0.0%	-	0.0%	-100.0%	-100.0%	-
Others #	92	3.5%	86	2.9%	6.7%	6.7%	-5.3%
Asia Pacific	**65**	**2.4%**	118	3.9%	-44.5%	-42.6%	-44.6%
China	37	1.4%	75	2.5%	-49.6%	-46.5%	-56.5%
Others @	28	1.0%	43	1.4%	-35.7%	-35.7%	-24.4%
Total	**2,648**	**100.0%**	2,981	100.0%	-11.2%	-10.5%	-16.8%

^ Net change since 1 January 2016

Others under Rest of Europe include wholesale revenue from other countries mainly Chile, Colombia, Canada and the Middle East

@ Others under Asia Pacific include wholesale revenue from other countries mainly Thailand and the Philippines

Wholesale distribution channel by country (controlled space only) – movement since 1 January 2016

As at 31 December 2016

	Franchise stores				Shop-in-stores				Identity corners				Total			
Country	**No. of stores**	**Net sales area (m^2)**	**Net opened stores^**	**Net change in net sales area^**	**No. of stores**	**Net sales area (m^2)**	**Net opened stores^**	**Net change in net sales area^**	**No. of stores**	**Net sales area (m^2)**	**Net opened stores^**	**Net change in net sales area^**	**No. of stores**	**Net sales area (m^2)**	**Net opened stores^**	**Net change in net sales area^**
Germany	**255**	**59,401**	**(12)**	**-12.4%**	**2,342**	**93,195**	**(548)**	**-13.4%**	**1,160**	**22,696**	**(215)**	**-12.1%**	**3,757**	**175,292**	**(775)**	**-12.9%**
Rest of Europe	**465**	**93,085**	**(62)**	**-15.1%**	**864**	**26,851**	**(178)**	**-18.7%**	**917**	**22,478**	**(253)**	**-18.1%**	**2,246**	**142,414**	**(493)**	**-16.3%**
Benelux	89	26,119	(33)	-28.3%	77	3,517	(72)	-42.3%	192	5,124	(128)	-30.1%	358	34,760	(233)	-30.3%
France	126	22,063	(5)	-9.7%	261	5,875	(58)	-18.8%	158	4,497	(21)	-6.4%	545	32,435	(84)	-11.1%
Austria	56	9,247	(7)	-11.4%	100	3,546	(3)	2.5%	40	936	(8)	-20.0%	196	13,729	(18)	-8.9%
Sweden	25	7,289	(1)	0.2%	-	-	-	-	43	1,077	(1)	-0.4%	68	8,366	(2)	0.2%
Finland	20	5,048	-	5.4%	60	2,435	(25)	-34.8%	91	2,869	(59)	-29.5%	171	10,352	(84)	-17.8%
Switzerland	21	3,466	(2)	-5.1%	49	2,463	(7)	-23.8%	20	421	(3)	-10.6%	90	6,350	(12)	-13.7%
Italy	13	2,905	(6)	-20.6%	35	1,046	(6)	-16.0%	227	3,833	12	6.2%	275	7,784	-	-8.5%
Spain	20	2,695	2	1.4%	179	5,485	5	7.8%	59	1,734	(30)	-32.8%	258	9,914	(23)	-4.0%
Denmark	7	1,685	(5)	-46.9%	2	28	-	-	21	549	(9)	-26.6%	30	2,262	(14)	-42.7%
Norway	1	242	-	-	-	-	-	-	-	-	-	-	1	242	-	-
United Kingdom	2	152	-	6.3%	11	438	(4)	-32.5%	57	1,298	(6)	-9.2%	70	1,888	(10)	-15.0%
Portugal	-	-	-	-	-	-	-	-	2	35	-	-	2	35	-	-
Ireland	-	-	-	-	3	152	-	-	7	105	-	-0.9%	10	257	-	-0.4%
Others *	85	12,174	(5)	-4.3%	87	1,866	(8)	-11.3%	-	-	-	-	172	14,040	(13)	-5.3%
Asia Pacific	**158**	**17,188**	**(108)**	**-44.6%**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**158**	**17,188**	**(108)**	**-44.6%**
China	61	8,496	(78)	-56.5%	-	-	-	-	-	-	-	-	61	8,496	(78)	-56.5%
Thailand	76	5,727	(19)	-12.4%	-	-	-	-	-	-	-	-	76	5,727	(19)	-12.4%
Philippines	17	2,200	(4)	-23.3%	-	-	-	-	-	-	-	-	17	2,200	(4)	-23.3%
Others	4	765	(7)	-63.4%	-	-	-	-	-	-	-	-	4	765	(7)	-63.4%
Total	**878**	**169,674**	**(182)**	**-18.6%**	**3,206**	**120,046**	**(726)**	**-14.6%**	**2,077**	**45,174**	**(468)**	**-15.2%**	**6,161**	**334,894**	**(1,376)**	**-16.8%**

^ Net change since 1 January 2016

* Others under Rest of Europe include controlled wholesale POS and space in countries outside Europe, mainly Colombia, Chile, the Middle East and Canada

INTERIM DIVIDEND

The Board maintains the dividend payout ratio of 60% of basic earnings per share. In view of a small net profit recorded by the Group for the six months ended 31 December 2016, the Board has resolved not to declare an interim dividend for the six months ended 31 December 2016 (1H FY15/16: Nil).

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 quarterly updates, interim results and annual results of the Group. The unaudited interim results of the Group for the six months ended 31 December 2016 have been reviewed by the Audit Committee with the management.

HUMAN RESOURCES

As at 31 December 2016, the Group employed approximately 7,800 full-time equivalent staff (31 December 2015: over 9,000) 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, awarded shares 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 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 save as announced with regard to the purchase of existing share(s) by the trustee appointed for the administration of the Employees' Share Award Scheme of the Company, Computershare Hong Kong Trustees Limited, in accordance with such share award scheme.

CORPORATE GOVERNANCE

The Company has applied the principles of, and complied with the Corporate Governance Code and Corporate Governance Report (the "Code") as set out in Appendix 14 of the Listing Rules for the six months ended 31 December 2016, except that Non-executive Directors of the Company do not have specific term of appointment (code provision A.4.1 of the Code). Nevertheless, 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 not more than 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 2016.

BOARD OF DIRECTORS

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

Executive Directors:	Mr Jose Manuel MARTINEZ GUTIERREZ *(Group Chief Executive Officer)* Mr Thomas TANG Wing Yung *(Group Chief Financial Officer)*
Non-executive Director:	Mr Jürgen Alfred Rudolf FRIEDRICH
Independent Non-executive Directors:	Dr Raymond OR Ching Fai *(Chairman)* Mr Paul CHENG Ming Fun *(Deputy Chairman)* Dr José María CASTELLANO RIOS Mr Alexander Reid HAMILTON Mr Carmelo LEE Ka Sze Mr Norbert Adolf PLATT

By Order of the Board
Florence NG Wai Yin
Company Secretary

Hong Kong, 22 February 2017

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, beliefs, estimates, expectations and/or plan stated in this announcement are, to the best of its knowledge, true, actual events and/or results could differ materially. The Group cannot assure you that those current anticipations, beliefs, 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. All forward-looking statements contained in this announcement are expressly qualified by these cautionary statements.