ESPRIT HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

STOCK CODE: 00330

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

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 2017 as follows:

Condensed consolidated income statement

	Notes	Unaudited for the 6 months ended 31 December 2017 HK$ million	2016 HK$ million
Revenue	2	**8,039**	8,323
Cost of goods sold		**(3,787)**	(3,952)
Gross profit		**4,252**	4,371
Staff costs		**(1,516)**	(1,491)
Occupancy costs		**(1,278)**	(1,276)
Logistics expenses		**(501)**	(473)
Marketing and advertising expenses		**(437)**	(402)
Depreciation		**(263)**	(260)
Impairment of property, plant and equipment		**(13)**	(2)
Impairment of goodwill	3	**(664)**	-
Impairment of customer relationships	3	**(130)**	-
Write-back of provision for store closures and leases, net		**3**	4
Gain on disposal of a property	14	**16**	-
Other operating costs		**(427)**	(484)
Operating loss (LBIT)	3	**(958)**	(13)
Interest income		**26**	19
Finance costs	4	**(17)**	(19)
Loss before taxation		**(949)**	(13)
Taxation (charge)/credit	5	**(5)**	74
(Loss)/profit attributable to shareholders of the Company		**(954)**	61
(Loss)/earnings per share			
- Basic and diluted	7	**HK$(0.50)**	HK$0.03

Condensed consolidated statement of comprehensive income

	Unaudited for the 6 months ended 31 December	
	2017	2016
	HK$ million	HK$ million
(Loss)/profit attributable to shareholders of the Company	**(954)**	61
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Fair value gain on cash flow hedge, net of tax	**23**	171
Exchange translation	**229**	(339)
	252	(168)
Total comprehensive income for the period attributable to shareholders of the Company, net of tax	**(702)**	(107)

Condensed consolidated statement of financial position

	Notes	**Unaudited 31 December 2017 HK$ million**	Audited 30 June 2017 HK$ million
Non-current assets			
Intangible assets		**2,066**	2,851
Property, plant and equipment	8	**1,833**	1,900
Investment properties		**23**	23
Other investments		**7**	7
Debtors, deposits and prepayments		**157**	174
Deferred tax assets		**837**	822
		4,923	5,777
Current assets			
Inventories		**2,795**	2,540
Debtors, deposits and prepayments	9	**1,598**	1,438
Tax receivable		**246**	359
Cash, bank balances and deposits	10	**4,575**	5,221
		9,214	9,558
Current liabilities			
Creditors and accrued charges	11	**2,807**	3,046
Provision for store closures and leases	12	**316**	393
Tax payable		**38**	28
		3,161	3,467
Net current assets		**6,053**	6,091
Total assets less current liabilities		**10,976**	11,868
Equity			
Share capital	13	**190**	194
Reserves		**10,471**	11,349
Total equity		**10,661**	11,543
Non-current liabilities			
Retirement benefit obligations		**21**	-
Deferred tax liabilities		**294**	325
		315	325
		10,976	11,868

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 21 for the six months ended 31 December 2017 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 2017. 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 2017.

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 2017:

IAS 7 (Amendments)	Disclosure Initiative
IAS 12 (Amendments)	Recognition of Deferred Tax Assets for Unrealised Losses
IFRS 12 (Amendments)	Disclosure of Interests in Other Entities

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 IFRSs that have been issued but are not yet effective.

		Effective for accounting periods beginning on or after
IAS 28 (Amendments)	Long-term Interests in Associates and Joint Ventures	1 January 2019
IAS 40 (Amendments)	Transfers of Investment Property	1 January 2018
IFRIC 22	Foreign Currency Transactions and Advance Consideration	1 January 2018
IFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019
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 9 (Amendments)	Prepayment Features with Negative Compensation	1 January 2019
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 15 (Amendments)	Clarification of IFRS 15	1 January 2018
IFRS 16	Leases	1 January 2019
IFRS 17	Insurance Contracts	1 January 2021
IFRSs (Amendments)	Annual Improvements to IFRSs 2014-2016 Cycle	1 January 2018

Amongst these new and revised standards and amendments, IFRS 9, IFRS 15 and IFRS 16 are of higher relevancy to the Group's operations. The following describes the key changes that may impact the consolidated financial statements of the Group.

IFRS 9 "Financial Instruments"

The new standard addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

The new hedge accounting rules will align the accounting for hedging instruments more closely with the Group's established risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, given the standard introduces a more principle-based approach.

1. Basis of preparation (continued)

IFRS 9 "Financial Instruments" (continued)

The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortized cost, debt instruments measured at fair value through other comprehensive income, contract assets under IFRS 15 "Revenue from Contracts with Customers", lease receivables, loan commitments and certain financial guarantee contracts. While the Group has not yet undertaken a detailed assessment of how its impairment provisions would be affected by the new model, management expects it might result in an earlier recognition of credit losses.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of adoption of the new standard.

The Group is currently assessing the impact of the adoption of this new standard and does not intend to adopt the standard before its effective date.

IFRS 15 "Revenue from Contracts with Customers"

IFRS 15 will replace IAS 18 "Revenue" and IAS 11 "Construction contracts" and related interpretations. The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer. The new standard permits either a full retrospective or a modified retrospective approach for the adoption.

The Group is currently assessing the impact of the adoption of this new standard and does not intend to adopt the standard before its effective date.

IFRS 16 "Leases"

IFRS 16 requires almost all leases of lessees to be recognized on the statement of financial position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of **HK$7,114 million**. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

The Group is currently assessing the impact of the adoption of this new standard and does not intend to adopt the standard before its effective date.

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 eshop platform.

	Unaudited for the 6 months ended 31 December	
	2017	2016
	HK$ million	HK$ million
Revenue from external customers		
Germany	**2,822**	2,951
Rest of Europe	**2,201**	2,294
Asia Pacific	**859**	1,016
eshop	**2,092**	1,993
Licensing and others	**65**	69
	8,039	8,323

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 eshop 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 eshops in Germany, Rest of Europe and Asia Pacific are aggregated into one reporting segment under global eshop.

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 2017					
	Germany HK$ million	Rest of Europe HK$ million	Asia Pacific HK$ million	eshop HK$ million	Corporate services, sourcing, licensing and others HK$ million	Group HK$ million
Total revenue						
Retail	1,453	1,074	795	2,092	-	5,414
Wholesale	1,369	1,127	64	-	-	2,560
Licensing and others	-	-	-	-	3,877	3,877
Total	2,822	2,201	859	2,092	3,877	11,851
Inter-segment revenue	-	-	-	-	(3,812)	(3,812)
Revenue from external customers						
Retail	1,453	1,074	795	2,092	-	5,414
Wholesale	1,369	1,127	64	-	-	2,560
Licensing and others	-	-	-	-	65	65
Total	2,822	2,201	859	2,092	65	8,039
Segment results						
Retail	(108)	(50)	(90)	397	12	161
Wholesale	338	129	11	-	3	481
Licensing and others	-	-	-	-	(806)	(806)
	230	79	(79)	397	(791)	(164)
Impairment of goodwill (Note)						
Retail	-	-	(37)	(511)	-	(548)
Wholesale	-	-	(116)	-	-	(116)
Total	-	-	(153)	(511)	-	(664)
Impairment of customer relationships (Note)						
Wholesale	-	-	(130)	-	-	(130)
EBIT/(LBIT)	230	79	(362)	(114)	(791)	(958)
Interest income						26
Finance costs						(17)
Loss before taxation						(949)

Note: An impairment charge of **HK$664 million** for the China goodwill and an impairment charge of **HK$130 million** for customer relationships were recognized during the six months ended 31 December 2017 (Note 3).

2. Revenue and segment information (continued)

	Unaudited for the 6 months ended 31 December 2017					
	Germany HK$ million	Rest of Europe HK$ million	Asia Pacific HK$ million	eshop HK$ million	Corporate services, sourcing, licensing and others HK$ million	Group HK$ million
Capital expenditure						
Retail	**14**	**31**	**21**	**8**	**3**	**77**
Wholesale	**4**	**4**	**1**	**-**	**-**	**9**
Licensing and others	**-**	**-**	**4**	**-**	**65**	**69**
Total	**18**	**35**	**26**	**8**	**68**	**155**
Depreciation						
Retail	**36**	**34**	**24**	**-**	**8**	**102**
Wholesale	**6**	**7**	**1**	**-**	**1**	**15**
Licensing and others	**-**	**-**	**-**	**-**	**146**	**146**
Total	**42**	**41**	**25**	**-**	**155**	**263**
Impairment of property, plant and equipment						
Retail	**13**	**-**	**-**	**-**	**-**	**13**
Total	**13**	**-**	**-**	**-**	**-**	**13**
Write-back of provision for store closures and leases, net						
Retail	**-**	**(3)**	**-**	**-**	**-**	**(3)**
Total	**-**	**(3)**	**-**	**-**	**-**	**(3)**
Gain on disposal of a property						
Retail	**-**	**-**	**(16)**	**-**	**-**	**(16)**
Total	**-**	**-**	**(16)**	**-**	**-**	**(16)**

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	eshop 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	eshop 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)/addition of provision for store closures and leases, net						
Retail	(3)	1	(2)	-	-	(4)
Total	(3)	1	(2)	-	-	(4)

3. Operating loss (LBIT)

	Unaudited for the 6 months ended 31 December	
	2017	2016
	HK$ million	HK$ million
LBIT is arrived at after charging and (crediting) the following:		
Staff costs	**1,516**	1,491
Depreciation	**263**	260
Amortization of customer relationships	**30**	30
Loss on disposal of plant and equipment	**3**	4
Gain on disposal of a property	**(16)**	-
Impairment of property, plant and equipment	**13**	2
Impairment of goodwill (Note)	**664**	-
Impairment of customer relationships (Note)	**130**	-
Write-back of provision for store closures and leases, net	**(3)**	(4)
Net exchange (gain)/loss	**(30)**	67
Additional/(write-back of) provision for obsolete inventories, net	**34**	(5)
Occupancy costs		
- operating lease charges	**1,006**	1,006
- other occupancy costs	**271**	270
Provision for impairment of trade debtors, net	**27**	15

Note: The operating environment in China continues to be very challenging. The China operations have experienced significant decline in recent years. Management has performed an updated impairment assessment based on the revised financial projection. Based on the assessment, impairment charges for the goodwill and customer relationships in association with the China operations of the Group were recognized, amounted to **HK$664 million** and **HK$130 million** respectively.

4. Finance costs

	Unaudited for the 6 months ended 31 December	
	2017	2016
	HK$ million	HK$ million
Imputed interest on financial assets and financial liabilities	**17**	19

5. Taxation

	Unaudited for the 6 months ended 31 December	
	2017	2016
	HK$ million	HK$ million
Current tax		
Hong Kong profits tax		
Provision for current period	**-**	1
Overseas taxation		
Provision for current period	**37**	54
Over-provision for prior years	**(1)**	(4)
	36	51
Deferred tax		
Current period net credit	**(31)**	(125)
Taxation charge/(credit)	**5**	(74)

Hong Kong profits tax is calculated at **16.5%** (2016: 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 2017 (2016: Nil).

7. (Loss)/earnings per share

Basic

Basic loss or earnings per share is calculated by dividing the loss or profit 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	
	2017	2016
(Loss)/profit attributable to shareholders of the Company (HK$ million)	**(954)**	61
Number of ordinary shares in issue at 1 July (million)	**1,944**	1,944
Adjustment for shares repurchased (million)	**(22)**	-
Adjustment for shares held for Share Award Scheme (million)	**(8)**	(5)
Weighted average number of ordinary shares in issue less shares held for Share Award Scheme (million)	**1,914**	1,939
Basic (loss)/earnings per share (HK$ per share)	**(0.50)**	0.03

Diluted

Diluted loss or earnings per share is calculated based on the loss or profit 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. (Loss)/earnings per share (continued)

	Unaudited for the 6 months ended 31 December	
	2017	2016
(Loss)/profit attributable to shareholders of the Company (HK$ million)	**(954)**	61
Weighted average number of ordinary shares in issue less shares held for Share Award Scheme (million)	**1,914**	1,939
Adjustments for share options and awarded shares (million)	**-**	-
Weighted average number of ordinary shares for diluted earnings per share (million)	**1,914**	1,939
Diluted (loss)/earnings per share (HK$ per share)	**(0.50)**	0.03

Diluted loss per share for the six months ended 31 December 2017 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	
	2017	2016
	HK$ million	HK$ million
At 1 July	**1,900**	2,159
Exchange translation	**78**	(110)
Additions	**155**	90
Disposals	**(24)**	(24)
Depreciation (Note 3)	**(263)**	(260)
Impairment charge (Note 3)	**(13)**	(2)
At 31 December	**1,833**	1,853

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 2017 HK$ million	Audited 30 June 2017 HK$ million
0-30 days	**716**	790
31-60 days	**256**	196
61-90 days	**104**	54
Over 90 days	**149**	147
	1,225	1,187

As of 31 December 2017, trade debtors net of provision for impairment of **HK$324 million** (30 June 2017: HK$268 million) were past due but not impaired. The aging analysis of these trade debtors is as follows:

	Unaudited 31 December 2017 HK$ million	Audited 30 June 2017 HK$ million
1-30 days	**207**	173
31-60 days	**40**	6
61-90 days	**13**	14
Over 90 days	**64**	75
Amount past due but not impaired	**324**	268

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 2017 HK$ million	Audited 30 June 2017 HK$ million
Bank balances and cash	**2,204**	3,216
Bank deposits with maturities within three months	**625**	1,854
Bank deposits with maturities of more than three months	**1,746**	151
	4,575	5,221

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 2017 HK$ million	Audited 30 June 2017 HK$ million
0-30 days	**424**	583
31-60 days	**274**	100
61-90 days	**43**	39
Over 90 days	**18**	13
	759	735

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	
	2017 HK$ million	2016 HK$ million
At 1 July	**393**	604
Write-back of provision for store closures and leases, net	**(3)**	(4)
Amounts used during the period	**(81)**	(134)
Exchange translation	**7**	(11)
At 31 December	**316**	455

During the six months ended 31 December 2017, the Group recognized unwinding of discount totaling **HK$16 million** (2016: HK$17 million) which was recognized under amounts used during the period.

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 2017 and 31 December 2017	**3,000**	**300**

	Number of shares of HK$0.10 each million	Unaudited Nominal value HK$ million
Issued and fully paid:		
At 1 July 2017	1,944	194
Shares repurchased and cancelled (Note (a))	(42)	(4)
At 31 December 2017	**1,902**	**190**
At 1 July 2016 and 31 December 2016	1,944	194

Notes:

(a) During the six months ended 31 December 2017, the Company repurchased **42,537,700** ordinary shares of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") at a total consideration (including expenses) of **HK$186 million**. **42,078,300** repurchased shares amounting to **HK$184 million** were cancelled. The remaining **459,400 shares** amounting to **HK$2 million** were subsequently cancelled in January 2018.

(b) 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").

13. Share capital (continued)

Notes:

(c) 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, including Executive Directors of the Company (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).

Details of the awarded shares movement during the period and outstanding awarded shares as at 31 December 2017 under the Share Award Scheme are as follows:

	Number of awarded shares	
	2017	2016
At 1 July	**8,539,256**	3,383,572
Granted during the period (Note (i))	**2,429,966**	5,155,684
Vested during the period (Note (ii))	**(3,073,675)**	-
Lapsed during the period	**(716,737)**	-
At 31 December	**7,178,810**	8,539,256

(i) During the six months ended 31 December 2017, the following awarded shares were granted to Selected Employees under the Share Award Scheme:

Date of grant	**Number of awarded shares granted**	**Fair value per share HK$**	**Vesting date**
3 October 2017	1,214,983	4.30	3 October 2019
3 October 2017	1,214,983	4.30	3 October 2020
	2,429,966		

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

13. Share capital (continued)

Notes:

(c) Awarded shares (continued)

(ii) During the six months ended 31 December 2017, a total of **3,073,675 shares** (2016: Nil) of the Company were transferred to relevant Selected Employees upon vesting. The total cost of the vested shares was **HK$21 million** (including expenses) (2016: Nil). During the period, **HK$0.1 million** (2016: Nil) was debited to retain earnings in respect of vesting of shares whose fair values were lower than the costs.

During the six months ended 31 December 2017, the trustee purchased a total of **1,713,200 shares** (2016: 5,155,700 shares) of the Company on the Stock Exchange. The total amount paid to the trustee to purchase the shares was approximately **HK$7 million** (including expenses) (2016: HK$33 million).

14. Disposal of a property

On 20 September 2017, the Group sold a property in Taiwan to an independent third party at a consideration of **HK$34 million**. The gain on disposal of the property, after deducting related expenses incurred for disposal, amounted to **HK$16 million** and was recognized in the consolidated income statement. Total consideration amount of **HK$34 million** was received in cash during the six months ended 31 December 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

As the Year 2018 marks the 50th anniversary of Esprit and the 25th anniversary as a listed company on the Stock Exchange, we would like to take this opportunity to thank all our customers, shareholders, business partners, employees, and everyone else, who have taken part on this journey to build such a remarkable brand.

In the interim period for the six months ended 31 December 2017, ("1H FY17/18" or "Period under Review"), trading conditions continued to be challenging. Amidst a rapidly changing industry, we have observed decreased customers traffic into our brick and mortar retail stores, and increased competition in the ecommerce channel. As a result, the Group's performance in 1H FY17/18 was below management's expectation. Revenue of the Group recorded a year-on-year ("yoy") decline of -9.6% in local currency ("LCY"), larger than the -7.4% yoy reduction of our total controlled space (retail and wholesale combined) for the Period under Review. Thanks to the favorable currency impact from the yoy appreciation of the EUR/HKD average rate, the revenue decline was -3.4% yoy in Hong Kong dollar terms.

In terms of profitability, gross profit margin improved by +0.4 percentage point and the Group remained steadfast in further restructuring our cost base, achieving cost savings across all the main operating expenses ("OPEX") excluding exceptional expenses of -5.5% yoy in LCY. However, these profitability improvements could not offset the negative impact of the revenue decline in 1H FY17/18, and the Group recorded LBIT of underlying operations of HK$(136) million (1H FY16/17: EBIT of HK$2 million).

Beyond this result from underlying operations, the Group's bottom line was largely impacted by non-recurring expenses ("Exceptional Items"), which totaled to HK$822 million. The majority of this amount is due to non-cash items, including HK$794 million for the full impairment of the remaining balance of the goodwill and customer relationships in association with the China business. As discussed in our previous annual report, our retail footprint is not optimal in China and we have been aggressively restructuring the stores network in recent years, which has led to the contraction of our businesses in the country and has triggered the impairment. These Exceptional Items are primarily accounting adjustments with no material impact on the Group's cash flow and operations but have had a significant impact on our interim result figures. At Group level, Esprit recorded LBIT of HK$(958) million in 1H FY17/18 (1H FY16/17: LBIT of HK$(13) million).

Finally, including a net interest income of HK$9 million and a net taxation expense of HK$5 million in 1H FY17/18 (in contrast with the net taxation credit of HK$74 million in the same period last year), the net loss of the Group was HK$(954) million for 1H FY17/18 (1H FY16/17: net profit of HK$61 million).

Despite this loss, the financial position of the Group remained strong, with a healthy net cash position of HK$4,575 million as of 31 December 2017 (31 December 2016: HK$4,548 million). Regarding our cash development, it is worth mentioning that there was a cash outflow of HK$186 million used for share repurchases during the Period under Review.

Moving forward, we will continue the necessary rationalization of our distribution and keep our primary focus on increasing sales productivity both in the offline and online channels.

In this regard, the Group has continued to work along the strategic initiatives as presented in our last annual report, namely Brand Rejuvenation, Product Elevation, Channels Next Generation, Markets Rightsizing and Expansion, and Cost Reduction (the "Five Key Initiatives"). We will not repeat here the major components of each initiative but rather highlight that, in order to maximize their impact, management is developing specific solutions for two major areas of our business, which require differentiated approaches. More precisely, we refer to:

- **Core Business: current product offering for our core customers in Europe -**
  Our main goals for our core business are (i) to stabilize sales performance by shaping our collections strictly to the demands of our current core customers group, and (ii) to maximize profitability by rapidly improving existing operations.

- **New Businesses: new product lines (developed under a fully vertical model) for our online channels and a new generation of consumers, especially In China -**
  Our main goal here is to accelerate growth by leveraging our vertical business model (i) to boost sales of our online business, and (ii) to win a younger generation of consumers for Esprit, initially with a special focus on the China and Asian markets. Working under a purely vertical model allows us to drastically reduce time to market (i.e. reaction to demand) and aggressively improve value for money of our products (through tighter management of gross profit margins). This is why two fully vertical product teams have been formed to develop those areas with higher growth potential. One team will be specialized to serve the needs of the online channels and the other team will develop a line of products for a younger consumer segment, as said, with special attention to cater the needs of the China market. We will as well introduce new technologies to make sure that Esprit counts on the fastest and most efficient tools for product development, supply chain management, and marketing and sales.

Our efforts along the Five Key Initiatives are adapted to support these two major objectives. While some of the initiatives may require some spending and investments in the short-term, we are convinced that these changes are key to unlock the full potential of the Esprit brand.

The growth of the digital channels, new retail players, and a new generation of consumers, with distinct preferences, are altogether driving a fundamental transformation of our industry. While this dynamic creates deep challenges for us, it also brings forth great opportunities. It is our mission to keep reinventing Esprit to make it successful in this new reality.

REVENUE ANALYSIS

For the Period under Review, the Group recorded revenue of HK$8,039 million (1H FY16/17: HK$8,323 million), representing a yoy decline of -9.6% in LCY. This development of revenue was primarily due to the following two factors:

(i) Reduction in controlled space

Rationalizing our distribution footprint, by closing unprofitable retail stores and non-performing wholesale spaces, continues to be paramount in order to improve our bottom line. During the six-month period ended 31 December 2017, the Group reduced total controlled space (retail and wholesale combined) by 21,766 sqm, coupled with the 24,122 sqm reduction in the previous six months, added up to a yoy reduction of -7.4%.

In terms of **Retail (excl. eshop)**, the Group executed a net closure of 6,237 sqm of retail sales area during the 1H FY17/18, coupled with the net closure of 9,664 sqm in the previous six months, represented a yoy reduction of -5.6%.

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

	As at 31 December 2017						
				Net change in net sales area since 1 July 2017		Net change in net sales area since 1 January 2017	
	No. of stores	Net change in no. of stores ^	Net sales area (m^2)	(m^2)	(%)	(m^2)	(%)
Germany	145	(4)	115,701	(604)	-0.5%	(3,542)	-3.0%
Rest of Europe	134	(7)	80,295	(1,862)	-2.3%	(4,359)	-5.1%
Asia Pacific	357	(51)	70,263	(3,771)	-5.1%	(8,000)	-10.2%
Total	636	(62)	266,259	(6,237)	-2.3%	(15,901)	-5.6%

^ Net change since 1 January 2017

In terms of **Wholesale (excl. eshop),** the channel continues to face persistent pressure and we see elimination of non-performing locations by our partners. As a result, wholesale controlled space was reduced by 15,529 sqm in 1H FY17/18, which coupled with the net closure of 14,458 sqm in the previous six months, represented a yoy reduction of -9.0%.

Wholesale distribution channel by region (controlled space only)

	As at 31 December 2017						
				Net change in net sales area since 1 July 2017		Net change in net sales area since 1 January 2017	
	No. of stores	Net change in no. of stores ^	Net sales area (m^2)	(m^2)	(%)	(m^2)	(%)
Germany	**3,576**	**(181)**	**163,380**	**(7,844)**	**-4.6%**	**(11,912)**	**-6.8%**
Franchise stores	238	(17)	54,579	(2,213)	-3.9%	(4,822)	-8.1%
Shop-in-stores	2,226	(116)	87,278	(4,052)	-4.4%	(5,917)	-6.3%
Identity corners	1,112	(48)	21,523	(1,579)	-6.8%	(1,173)	-5.2%
Rest of Europe	**2,144**	**(102)**	**128,952**	**(4,812)**	**-3.6%**	**(13,462)**	**-9.5%**
Franchise stores	440	(25)	82,641	(4,667)	-5.3%	(10,444)	-11.2%
Shop-in-stores	822	(42)	25,600	74	0.3%	(1,251)	-4.7%
Identity corners	882	(35)	20,711	(219)	-1.0%	(1,767)	-7.9%
Asia Pacific	**118**	**(40)**	**12,575**	**(2,873)**	**-18.6%**	**(4,613)**	**-26.8%**
Franchise stores	118	(40)	12,575	(2,873)	-18.6%	(4,613)	-26.8%
Total	**5,838**	**(323)**	**304,907**	**(15,529)**	**-4.8%**	**(29,987)**	**-9.0%**
Franchise stores	796	(82)	149,795	(9,753)	-6.1%	(19,879)	-11.7%
Shop-in-stores	3,048	(158)	112,878	(3,978)	-3.4%	(7,168)	-6.0%
Identity corners	1,994	(83)	42,234	(1,798)	-4.1%	(2,940)	-6.5%

^ Net change since 1 January 2017

(ii) Weaker than expected retail sales performance in the Second Quarter

From a quarterly perspective, the Group reported a yoy decrease in revenue of -7.4% in LCY for the three months ended 30 September 2017 (the "First Quarter") and -11.7% in LCY for the three months ended 31 December 2017 (the "Second Quarter"). The decline in the Second Quarter was larger than expected primarily as a result of weak sales performance in our brick and mortar retail stores (First Quarter: -8.9% yoy in LCY versus Second Quarter: -17.0% yoy in LCY). Such negative development was mostly due to decreased customers traffic to our stores.

Revenue Development by Quarter

	Revenue change in % (yoy in LCY)		
	First Quarter	**Second Quarter**	**1H FY17/18**
By Distribution Channel			
Retail (excl. eshop)	**-8.9%**	**-17.0%**	**-13.5%**
Wholesale (excl. eshop)	**-10.6%**	**-8.0%**	**-9.6%**
eshop	**1.2%**	**-5.7%**	**-2.5%**
Licensing and others	**-20.8%**	**5.5%**	**-8.7%**
Total	**-7.4%**	**-11.7%**	**-9.6%**
By Region ^			
Germany	**-6.3%**	**-10.1%**	**-8.2%**
Rest of Europe	**-6.1%**	**-11.5%**	**-8.7%**
Asia Pacific	**-17.1%**	**-16.9%**	**-17.0%**
Total	**-7.4%**	**-11.7%**	**-9.6%**

^ Region as a whole includes retail (excl. eshop), eshop, wholesale (excl. eshop) and licensing operations

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 (47.8% of Group revenue), edc (23.9% of Group revenue), Esprit Men (11.4% of Group revenue), and Lifestyle and others (16.9% of Group revenue).

Revenue by product

	For the 6 months ended 31 December					
	2017		2016		Change in %	
Product division	**HK$ million**	**% to Group Revenue**	HK$ million	% to Group Revenue	HK$	Local currency
Esprit Women	**3,844**	**47.8%**	3,945	47.4%	-2.6%	-8.7%
women casual	**2,698**	**33.5%**	2,731	32.8%	-1.2%	-7.4%
women collection	**1,019**	**12.7%**	1,049	12.6%	-2.8%	-9.1%
trend #	**127**	**1.6%**	165	2.0%	-23.2%	-28.6%
Esprit Men	**916**	**11.4%**	1,048	12.6%	-12.5%	-17.8%
men casual	**763**	**9.5%**	857	10.3%	-10.9%	-16.3%
men collection	**153**	**1.9%**	191	2.3%	-19.7%	-24.8%
Lifestyle and others *	**1,361**	**16.9%**	1,424	17.1%	-4.6%	-10.8%
edc	**1,918**	**23.9%**	1,906	22.9%	0.7%	-5.8%
Total	**8,039**	**100.0%**	8,323	100.0%	-3.4%	-9.6%

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

Esprit Women and edc

Esprit Women and edc, together representing 71.7% of the Group's revenue, recorded yoy decline in revenue of -7.8% in LCY, thus developed in line with controlled space reduction. Comparable retail sales (including eshop) declined by -7.3% yoy in LCY for Esprit Women, whereas edc performed better with a flat yoy development in LCY.

As explained in our last annual report, with the goal to improve our products' performance, we have introduced two relevant changes to our product organization. Firstly, we have merged the Esprit Women and edc Women apparel lines under one single head and team. This will facilitate more coordinated commercial strategies (e.g. reduced overlaps in the assortment) and more efficient product development processes and teams (e.g. operational synergies between both divisions). The newly merged team will fully focus on our core customers in Europe, and will work on raising the quality standards of our products (e.g. better fabrics), while simultaneously reducing the size of the collections. As mentioned above, we have also established two new product teams, which will work under a true vertical business model in order to increase the offering of fast-to-market products in our online channel and in Asia. These two vertical teams will be coordinated by one single head. New products from these changes are expected to arrive in the market from Spring/Summer 2018 onwards.

Esprit Men

Esprit Men, representing 11.4% of the Group's revenue, recorded yoy decline in revenue of -17.8% in LCY. In addition to the factors described in the beginning of this "Revenue Analysis" section, the decline was aggravated by reduced space allocation to men's products in our retail stores due to its continued weak performance.

Similar to Women divisions, we have also merged the Esprit Men and edc Men apparel lines under one single head and team.

Lifestyle and others

Lifestyle and others, representing 16.9% of the Group's revenue, recorded yoy decline in revenue of -10.8% in LCY. This product group comprises mainly bodywear, accessories, 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 (-83.2% yoy in LCY) due to the licensing of this business to Kidiliz Group (formerly Groupe Zannier). This change largely reduces our topline because the majority of the revenue is now booked by our license partner, while Esprit's income is derived mostly from the corresponding royalties. Nonetheless, the licensing of this business clearly benefits the bottom line performance of Esprit Kids. Excluding the Kids division, the Lifestyle and other's revenue decline was -5.3% yoy in LCY.

While we acknowledge that the performance in 1H FY17/18 is below our expectations for all divisions, we are also confident that the changes introduced in our product organization will positively contribute to our product performance in the coming future.

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" ("APAC").

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 some comments on their overall development. Eshop is addressed separately later in this section.

Retail (excl. eshop) experienced a revenue decline of -13.5% yoy in LCY in 1H FY17/18, which is the consequence of the two major factors described in the beginning of this "Revenue Analysis" section. The decline observed in comparable retail store sales in 1H FY17/18 (-8.9% yoy in LCY) was aggravated by (i) the off-price outlets (comparable retail store sales decline of -11.1% yoy in LCY), where we are seeing the impact of our new approach with a smaller share of merchandise developed specifically for the outlets, and (ii) the concession counters (comparable retail store sales decline of -11.0% yoy in LCY), which are concentrated in department stores in China that suffer from faster decline in traffic. Plans with respect to closure of unprofitable stores and reduction of operating expenses are progressing well to our expectation.

Wholesale (excl. eshop) development of topline, gross profit margin and OPEX was generally in line with our expectation. The revenue decline of -9.6% yoy in LCY in 1H FY17/18 was similar to the corresponding yoy reduction in wholesale controlled space of -9.0%, and the gross profit margin and OPEX improved during the Period under Review as planned. The negative impact of lower revenue was mostly outweighed by the increase of gross profit margin and reduction in OPEX, which resulted in a modest decline in the EBIT of the channel in LCY terms, but improved profitability over revenue.

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						
		2017		2016	Revenue Change in %		Net change
	HK$ million	**% to Group Revenue**	HK$ million	% to Group Revenue	HK$	Local currency	in net sales area ^
Germany	**4,098**	**51.0%**	4,140	49.7%	-1.0%	-8.2%	-5.2%
Retail (excl. eshop)	**1,453**	**18.1%**	1,522	18.3%	-4.5%	-11.7%	-3.0%
Wholesale (excl. eshop)	**1,369**	**17.0%**	1,429	17.2%	-4.2%	-10.9%	-6.8%
eshop	**1,260**	**15.7%**	1,176	14.1%	7.1%	-0.6%	n.a.
Licensing	**16**	**0.2%**	13	0.1%	23.8%	14.5%	n.a.
Rest of Europe	**2,975**	**37.0%**	3,048	36.7%	-2.4%	-8.7%	-7.8%
Retail (excl. eshop)	**1,074**	**13.4%**	1,140	13.7%	-5.8%	-11.6%	-5.1%
Wholesale (excl. eshop)	**1,127**	**14.0%**	1,154	13.9%	-2.4%	-8.3%	-9.5%
eshop	**725**	**9.0%**	698	8.4%	3.9%	-4.0%	n.a.
Licensing and others	**49**	**0.6%**	56	0.7%	-12.3%	-14.0%	n.a.
Asia Pacific	**966**	**12.0%**	1,135	13.6%	-14.9%	-17.0%	-13.2%
Retail (excl. eshop)	**795**	**9.9%**	951	11.4%	-16.3%	-18.4%	-10.2%
Wholesale (excl. eshop)	**64**	**0.8%**	65	0.7%	-2.5%	-3.4%	-26.8%
eshop	**107**	**1.3%**	119	1.5%	-10.2%	-13.2%	n.a.
Total	**8,039**	**100.0%**	8,323	100.0%	-3.4%	-9.6%	-7.4%
Retail (excl. eshop)	**3,322**	**41.4%**	3,613	43.4%	-8.1%	-13.5%	-5.6%
Wholesale (excl. eshop)	**2,560**	**31.8%**	2,648	31.8%	-3.3%	-9.6%	-9.0%
eshop	**2,092**	**26.0%**	1,993	24.0%	5.0%	-2.5%	n.a.
Licensing and others	**65**	**0.8%**	69	0.8%	-5.6%	-8.7%	n.a.

^ Net change since 1 January 2017
n.a. Not applicable

Germany

Germany, the largest market of the Group representing 51.0% of total Group revenue, recorded HK$4,098 million revenue in 1H FY17/18, resulting in yoy decline of -8.2% in LCY, as compared to the corresponding reduction in total controlled space of -5.2% yoy. In terms of distribution channels, Retail (excl. eshop), Wholesale (excl. eshop), Eshop and the Licensing business contributed 35.5%, 33.4%, 30.7% and 0.4% of Germany's revenue, respectively.

Germany Retail (excl. eshop) recorded revenue of HK$1,453 million, representing a yoy decline of -11.7% in LCY (-5.0% yoy in LCY in First Quarter and -17.0% yoy in LCY in Second Quarter). As described in the beginning of this "Revenue Analysis" section, the revenue decline in the Second Quarter was significantly below management's expectations. As for our net sales area under German Retail (excl. eshop), there was a yoy reduction of -3.0%.

Germany Wholesale (excl. eshop) recorded revenue of HK$1,369 million, representing a yoy decline of -10.9% in LCY (-13.7% yoy in LCY in First Quarter and -7.0% yoy in LCY in Second Quarter) as compared to corresponding reduction in controlled space of -6.8% yoy. As explained in the first quarter update announcement for the three months ended September 2017 ("First Quarter Update"), September 2017 was adversely impacted by shift in timing of deliveries around end of September 2017 to beginning of October 2017, which explains the better performance of the Second Quarter as compared to the First Quarter. Overall, we continue to observe decline in order intakes from traditional offline partners, as they continue to suffer from structural pressure in the channel, while order intake from online wholesale partners continued to grow.

Rest of Europe

Rest of Europe comprises countries in Europe, except Germany, in America and in the Middle East, representing 37.0% of total Group revenue. The region recorded revenue of HK$2,975 million in 1H FY17/18, representing a yoy decline of -8.7% in LCY. In terms of distribution channels, Retail (excl. eshop), Wholesale (excl. eshop), Eshop, and Licensing businesses contributed to 36.1%, 37.9%, 24.4% and 1.6% of the region's revenue, respectively.

Rest of Europe Retail (excl. eshop) recorded revenue of HK$1,074 million, representing a yoy decline of -11.6% in LCY (-5.1% yoy in LCY in First Quarter and -16.9% yoy in LCY in Second Quarter) mainly due to the two major factors described in the beginning of this "Revenue Analysis" section. As for the region's retail space development, the -5.1% yoy reduction in net sales area in 1H FY17/18 reflects our efforts in accelerating the closure of unprofitable retail stores.

Rest of Europe Wholesale (excl. eshop) revenue declined by -8.3% yoy in LCY (-7.8% yoy in LCY in First Quarter and -9.2% yoy in LCY in Second Quarter), lower than the corresponding -9.5% yoy reduction in controlled space, reflecting improved average sales productivity of our wholesale partners after closure of non-performing locations.

Asia Pacific

Asia Pacific comprises mainly China, Australia and New Zealand, Singapore, Hong Kong, Taiwan, Malaysia and Macau (representing 12.0% of total Group revenue). The region recorded revenue of HK$966 million, representing a yoy decline of -17.0% in LCY. In terms of distribution channels, Retail (excl. eshop), Wholesale (excl. eshop), and Eshop contributed to 82.4%, 6.6%, and 11.0% of the region's revenue, respectively.

> **Asia Pacific Retail (excl. eshop)**, representing 9.9% of total Group revenue, declined by -18.4% yoy in LCY (-20.3% yoy in LCY in First Quarter and -17.1% yoy in LCY in Second Quarter), as compared to the corresponding reduction in net sales area of -10.2% yoy. This reduction meets our plan to accelerate the restructuring of the store network in the region. Sales performance was visibly dragged by the underperformance of concession counters in the department stores in China (comparable store sales decline of -13.5% yoy in LCY).
>
> **Asia Pacific Wholesale (excl. eshop)**, representing 0.8% of total Group revenue, declined by -3.4% yoy in LCY. Revenue development compares favorably against controlled space reduction of -26.8% yoy, thanks to improved order intakes from our new wholesale partners (India, Myanmar and Xinjiang), as well as from our existing wholesale partner in the Philippines.

Eshop

Eshop accounted for 26.0% of total Group revenue (1H FY16/17: 24.0%) and comprises our directly managed ecommerce business in European and APAC countries, and the sales to third-party online distributors in APAC. In the Period under Review, this channel generated HK$2,092 million in revenue, representing a slight decline (-2.5% yoy in LCY). Nonetheless, order intakes from our Eshop customers in Europe, our largest market, increased by +4.4% yoy in 1H FY17/18.

> **Eshop Germany and Rest of Europe** contributed 60.2% and 34.7% respectively of the total Eshop revenue in 1H FY17/18. Revenue of Eshop Germany and Rest of Europe was around flat yoy and -4.0% yoy in LCY respectively. As mentioned in our last annual report, given Eshop's strategic importance, we are increasing the resources dedicated to our Eshop in order to keep our online development up with the fast innovation in the ecommerce arena. The combination of such developments together with the newly created fast-to-market line, tailored to the specific needs of ecommerce, is one of the fundamental plans to drive sales growth in the immediate future.
>
> **Eshop APAC** represented 5.1% of the total Eshop revenue in 1H FY17/18. As it was going through its early phase of development, our Eshop in APAC was characterized by higher growth but lower profitability compared to its European counterpart in the past few years. Now that the business has reached a relevant scale (revenue growth of 43.1% and 72.2% yoy in LCY, in FY16/17 and FY15/16, respectively), management is shifting focus from growth to profitability improvements by reducing the level of discounts. This move affects our business in the short term, especially with Tmall in China. As a result, Eshop APAC reported a revenue decline of -13.2% yoy in LCY.

PROFITABILITY ANALYSIS

The table below presents the results of the Group for the six months ended 31 December 2017 and 2016, separating Regular OPEX and Exceptional Items for better analysis, as defined in the last Annual Report.

	For the 6 months ended 31 December			
	2017	2016	Change in %	
	HK$ million	HK$ million	HK$	Local currency
Revenue	**8,039**	8,323	-3.4%	-9.6%
Cost of goods sold	**(3,787)**	(3,952)	-4.2%	-10.3%
Gross profit	**4,252**	4,371	-2.7%	-8.9%
Gross profit margin	***52.9%***	*52.5%*	*0.4% pt*	*0.4% pt*
Regular OPEX				
Staff costs	**(1,482)**	(1,474)	0.5%	-5.2%
Occupancy costs	**(1,278)**	(1,276)	0.1%	-5.4%
Logistics expenses	**(501)**	(473)	5.9%	-1.4%
Marketing and advertising expenses	**(437)**	(402)	8.9%	1.3%
Depreciation	**(263)**	(260)	0.9%	-5.6%
Other operating costs	**(427)**	(484)	-11.4%	-16.4%
Subtotal	**(4,388)**	(4,369)	0.4%	-5.5%
(LBIT) / EBIT of Underlying Operations	**(136)**	2		
Exceptional items				
i) One-off costs in relation to staff reduction plans	**(34)**	(17)		
ii) Net write-back of provision for store closures and leases	**3**	4		
iii) Impairment of property, plant and equipment	**(13)**	(2)		
iv) Impairment of China goodwill and customer relationships	**(794)**	-		
v) Net gain on disposal of property in Taiwan	**16**	-		
Subtotal	**(822)**	(15)		
(LBIT) of the Group	**(958)**	(13)		
Net interest income	**9**	-		
(Loss) before taxation	**(949)**	(13)		
Net (taxation) / taxation credit	**(5)**	74		
Net (loss) / profit	**(954)**	61		

For the Period under Review, the Group recorded a **Gross Profit** of HK$4,252 million, which results in **gross profit margin** of 52.9%, representing a moderate yoy increase of +0.4% point. This positive development is mainly the result of further improvement of supply chain efficiency, partly offset by the drag from a lower share of retail (excl. eshop) revenue over the Group revenue (41.4% in 1H FY17/18 vs. 43.4% in 1H FY16/17).

Regular OPEX (excluding Exceptional Items) amounted to HK$4,388 million in 1H FY17/18, representing a yoy decline of -5.5% in LCY. Management remained strict in restructuring our cost base, with savings achieved across all the major cost lines; except for a slight increase (+1.3% yoy in LCY) in marketing and advertising expenses to strengthen our customer relationship management ("CRM") program.

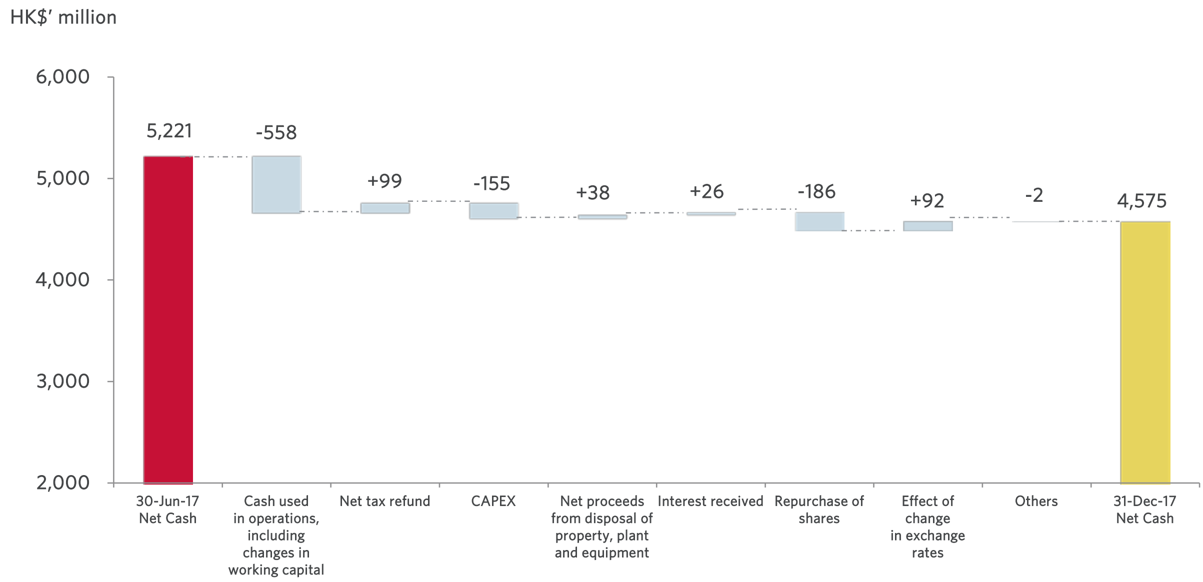
Unfortunately, the improvements in gross profit margin and operating expenses were not sufficient to outweigh the negative impact from higher than expected decline in revenue. As a result, **LBIT of underlying operations** (i.e. excluding the Exceptional Items) was a loss of HK$(136) million (1H FY16/17: EBIT of HK$2 million).

Exceptional Items refers to exceptional gains 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$822 million in 1H FY17/18, primarily related to the full impairment of the remaining balance of the goodwill and customer relationships in association with the China business of HK$794 million due to the significant decline of our business in the country in recent years. After including the Exceptional Items, **LBIT** of the Group was HK$(958) million in 1H FY17/18 as compared to LBIT of HK$(13) million in the same period last year.

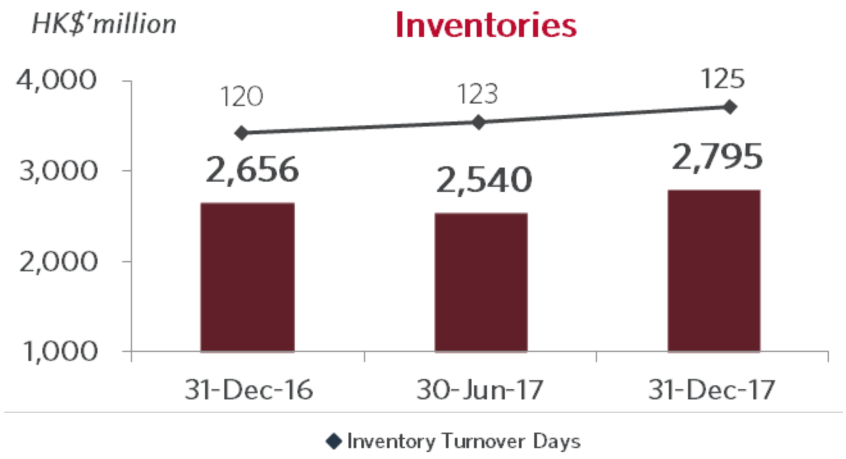
Taking into account the net **Taxation** expense of HK$5 million in 1H FY17/18, in contrast with the net taxation credit of HK$74 million in the same period last year, **Net Loss** of the Group was HK$(954) million (1H FY16/17: net profit of HK$61 million).

LIQUIDITY AND FINANCIAL RESOURCES ANALYSIS

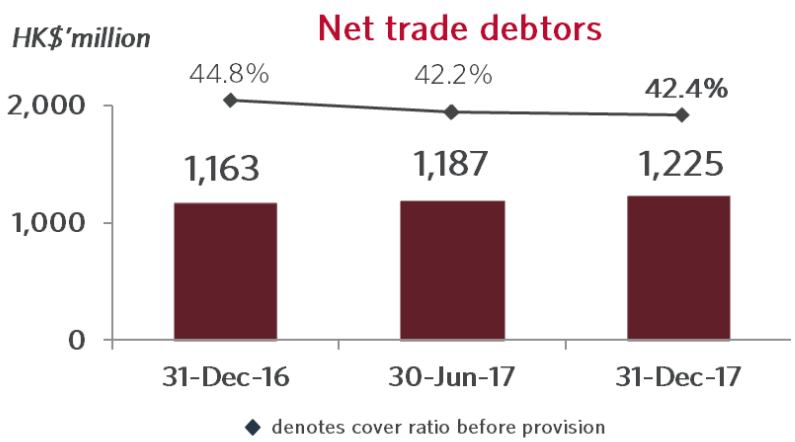
Net Cash: As at 31 December 2017, the Group remained debt free with cash, bank balances and deposits totaling HK$4,575 million (30 June 2017: HK$5,221 million), representing a net cash utilization of HK$646 million in 1H FY17/18, less than the HK$793 million net cash utilization for the same period last year, despite the HK$186 million spent on share repurchase during the Period under Review. 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$2,795 million (31 December 2016: HK$2,656 million), representing a yoy increase of +5.2%, mainly due to the appreciation of the EUR/HKD closing rate of +14.7% yoy. In terms of unit, the total number of inventories at the end of December 2017 was 35.6 million pieces, a yoy decrease of -3.6% as compared to the 36.9 million pieces at the end of December 2016. In terms of inventory turnover days, this was 125 days, an increase of 5 days as compared to a year ago (31 December 2016: 120 days), and was primarily attributable to the weaker than expected sales performance of the retail (excl. eshop) and Eshop channels.



Net Trade Debtors was HK$1,225 million (31 December 2016: HK$1,163 million), representing a yoy increase of +5.4% despite decreased wholesale revenue, mainly due to the appreciation of the EUR/HKD closing rate of +14.7% yoy. The cover ratio before provision (the amount of insured and secured gross trade debtors including VAT over total gross trade debtors including VAT) decreased to 42.4% (31 December 2016: 44.8%).



Capital Expenditure (CAPEX): The Group invested HK$155 million in CAPEX in 1H FY17/18 (1H FY16/17: HK$90 million), representing an increase of 71.3% yoy largely due to the investment in the rationalization of our distribution centers in Europe, requiring an extension of the distribution center in Mönchengladbach (1H FY17/18: HK$45 million versus 1H FY16/17: HK$5 million), and the rollout of our Omnichannel services in the stores, e.g. installation of instore WiFi.

	For the 6 months ended 31 December	
HK$ million	**2017**	2016
New stores	**23**	26
Refurbishment	**36**	18
IT projects	**18**	29
Office & others	**78**	17
Purchase of property, plant and equipment	**155**	90

Total interest bearing external borrowings: As at 31 December 2017, the Group had no interest bearing external borrowings (31 December 2016: 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 revenue 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 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 revenue, which are generated primarily in Euro. 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.

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 FY17/18. Owing to the strengthening of the Euro against US Dollar in the past 12 months, average EUR:USD rate hedged for the second half of FY17/18 is below the prevailing market rates. 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 FY17/18

Given the weaker than expected sales performance in 1H FY17/18, we remain cautious about the expectations for the Second Half of this financial year. Also because the most important measures regarding our product organization will only be visible in the stores towards the end of this financial year (end of the Spring Summer season), when the first products from the new fast-to-market teams will be available in our Eshop and in Asia.

More specifically, management views on key business performance elements are as follows:

In terms of **revenue** drivers, we expect the pressure from a similar rate of decline in **controlled space** as maintained in previous financial years and in line with the 1H FY17/18, and uncertain development of **sales productivity** (sales per sqm compared to last year's level).

Regarding **gross profit margin**, we aim to sustain the level of improvement achieved in the 1H FY17/18 and potentially higher if revenue of our Retail (excl. eshop) develop more stably.

As for **OPEX**, we expect a continued reduction of most cost lines although the Group may start to spend and invest more resources into some of the key strategic initiatives to drive future growth (e.g. introduction of new technologies in our product development, upgrading our Eshop, etc.)

With respect to **CAPEX**, we will deploy moderately with similar amount compared to 1H FY17/18 as we stay vigilant in cash flow management and cost control.

APPENDIX

Revenue by country

	For the 6 months ended 31 December						
	2017		2016		Revenue change in %		Net change
Country ^^	**HK$ million**	**% to Group Revenue**	HK$ million	% to Group Revenue	HK$	Local currency	in net sales area^
Germany #	**4,098**	**51.0%**	4,140	49.7%	-1.0%	-8.2%	-5.2%
Rest of Europe	**2,975**	**37.0%**	3,048	36.7%	-2.4%	-8.7%	-7.8%
Benelux #	980	12.2%	976	11.7%	0.4%	-6.8%	-5.5%
France	488	6.1%	513	6.2%	-4.8%	-11.6%	-11.7%
Switzerland	427	5.3%	471	5.7%	-9.4%	-12.6%	-2.3%
Austria	391	4.9%	390	4.7%	0.3%	-7.3%	-2.5%
Finland	119	1.5%	112	1.4%	5.6%	-2.0%	-5.5%
Sweden	109	1.3%	119	1.4%	-8.4%	-14.7%	-31.0%
Spain	109	1.3%	103	1.3%	5.3%	-1.8%	0.6%
Italy	62	0.8%	58	0.7%	6.1%	-0.8%	-4.8%
United Kingdom	58	0.7%	50	0.6%	16.1%	9.9%	-17.4%
Poland	48	0.6%	38	0.5%	24.9%	13.2%	-18.0%
Denmark	46	0.6%	49	0.6%	-5.1%	-12.1%	-1.8%
Ireland	4	0.0%	4	0.0%	-11.4%	-17.8%	-48.6%
Norway	1	0.0%	2	0.0%	-20.3%	-23.6%	-
Portugal	-	0.0%	-	0.0%	12.5%	4.0%	-100.0%
Others ##	133	1.7%	163	1.9%	-18.2%	-19.9%	-15.2%
Asia Pacific	**966**	**12.0%**	1,135	13.6%	-14.9%	-17.0%	-13.2%
China	388	4.8%	467	5.6%	-16.9%	-19.2%	-18.4%
Australia and New Zealand	137	1.7%	161	2.0%	-15.0%	-17.9%	-15.3%
Singapore	115	1.4%	116	1.4%	-1.0%	-4.0%	-0.4%
Hong Kong	95	1.2%	146	1.7%	-35.1%	-35.1%	-15.9%
Taiwan	80	1.0%	82	1.0%	-2.3%	-7.8%	-10.4%
Malaysia	76	0.9%	90	1.1%	-14.7%	-16.0%	-1.7%
Macau	37	0.5%	45	0.5%	-17.4%	-17.4%	-20.0%
Others @	38	0.5%	28	0.3%	34.9%	34.9%	-10.5%
Total	**8,039**	**100.0%**	8,323	100.0%	-3.4%	-9.6%	-7.4%

^ Net change since 1 January 2017

^^ Country as a whole includes retail (excl. eshop), eshop, wholesale (excl. eshop) and licensing operations

\# Includes licensing

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

@ Others under Asia Pacific include wholesale (excl. eshop) revenue from other countries mainly Thailand and the Philippines

Retail (excl. eshop) revenue by country

	For the 6 months ended 31 December						
	2017		2016		Revenue change in %		Net change in net sales area^
Country	**HK$ million**	**% to Total Revenue**	HK$ million	% to Total Revenue	HK$	Local currency	
Germany	**1,453**	**43.7%**	1,522	42.1%	-4.5%	-11.7%	-3.0%
Rest of Europe	**1,074**	**32.3%**	1,140	31.6%	-5.8%	-11.6%	-5.1%
Benelux	409	12.4%	410	11.3%	0.0%	-7.4%	2.1%
Switzerland	276	8.3%	309	8.6%	-10.9%	-12.8%	-1.6%
Austria	189	5.7%	195	5.4%	-3.0%	-10.4%	-0.7%
France	101	3.0%	134	3.7%	-25.2%	-30.7%	-34.1%
Poland	35	1.0%	30	0.9%	13.6%	2.2%	-18.0%
Sweden	30	0.9%	30	0.8%	2.8%	-4.4%	-
Finland	27	0.8%	24	0.7%	8.0%	0.0%	-9.4%
Denmark	7	0.2%	8	0.2%	-1.2%	-8.4%	-
Asia Pacific	**795**	**24.0%**	951	26.3%	-16.3%	-18.4%	-10.2%
China	279	8.5%	331	9.2%	-15.8%	-18.0%	-11.9%
Australia and New Zealand	126	3.8%	149	4.1%	-15.1%	-17.9%	-15.3%
Singapore	106	3.2%	111	3.1%	-4.8%	-7.6%	-0.4%
Hong Kong	94	2.8%	145	4.0%	-35.3%	-35.3%	-15.9%
Taiwan	78	2.3%	81	2.2%	-2.8%	-8.3%	-10.4%
Malaysia	75	2.3%	89	2.4%	-15.3%	-16.6%	-1.7%
Macau	37	1.1%	45	1.3%	-17.4%	-17.4%	-20.0%
Total	**3,322**	**100.0%**	3,613	100.0%	-8.1%	-13.5%	-5.6%

^ Net change since 1 January 2017

Directly managed retail stores by country – movement since 1 January 2017

	As at 31 December 2017					
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)**
Germany	**145**	**(4)**	**115,701**	**-3.0%**	**133**	**-9.2%**
Rest of Europe	**134**	**(7)**	**80,295**	**-5.1%**	**109**	**-8.5%**
Switzerland	38	-	16,987	-1.6%	31	-12.8%
Belgium	22	-	16,482	-1.8%	18	-9.3%
Netherlands	22	2	14,897	2.8%	19	-7.9%
Austria	19	-	14,735	-0.7%	17	-10.0%
France	12	(7)	7,342	-34.1%	10	-2.3%
Poland	11	(2)	3,235	-18.0%	5	16.2%
Sweden	4	-	2,542	-	4	5.4%
Luxembourg	3	-	1,869	-	3	0.1%
Finland	2	-	1,581	-9.4%	1	4.5%
Denmark	1	-	625	-	1	-8.4%
Asia Pacific	**357**	**(51)**	**70,263**	**-10.2%**	**183**	**-9.4%**
China	158	(30)	29,256	-11.9%	79	-8.3%
Taiwan	64	(8)	6,146	-10.4%	36	-4.6%
Australia	62	(7)	7,032	-18.1%	31	-8.7%
Malaysia	30	(2)	12,233	-1.7%	19	-16.0%
Singapore	21	-	6,600	-0.4%	5	-13.0%
Hong Kong	10	(3)	5,391	-15.9%	5	-10.8%
New Zealand	8	-	1,560	-0.3%	5	-9.2%
Macau	4	(1)	2,045	-20.0%	3	-5.5%
Total	**636**	**(62)**	**266,259**	**-5.6%**	**425**	**-8.9%**

^ Net change since 1 January 2017

Directly managed retail stores by store type – movement since 1 January 2017

	No. of stores					Net sales area (m^2)				
	As at	vs 1 January 2017		As at		As at	vs 1 January 2017		As at	
Store type	**31 December 2017**	**Opened**	**Closed**	**1 January 2017**	**Net change**	**31 December 2017**	**Opened**	**Closed**	**1 January 2017**	**Net change**
Stores	**366**	**22**	**(36)**	**380**	**(14)**	**209,964**	**6,215**	**(15,890)**	**219,639**	**-4.4%**
- Germany	128	1	(7)	134	(6)	101,188	360	(4,509)	105,337	-3.9%
- Rest of Europe	124	5	(11)	130	(6)	72,631	2,018	(5,732)	76,345	-4.9%
- Asia Pacific	114	16	(18)	116	(2)	36,145	3,837	(5,649)	37,957	-4.8%
Concession counters	**194**	**5**	**(44)**	**233**	**(39)**	**19,798**	**1,729**	**(4,000)**	**22,069**	**-10.3%**
- Germany	6	2	-	4	2	2,578	1,318	-	1,260	104.6%
- Asia Pacific	188	3	(44)	229	(41)	17,220	411	(4,000)	20,809	-17.2%
Outlets	**76**	**2**	**(11)**	**85**	**(9)**	**36,497**	**805**	**(4,760)**	**40,452**	**-9.8%**
- Germany	11	-	-	11	-	11,935	-	(711)	12,646	-5.6%
- Rest of Europe	10	1	(2)	11	(1)	7,664	390	(1,035)	8,309	-7.8%
- Asia Pacific	55	1	(9)	63	(8)	16,898	415	(3,014)	19,497	-13.3%
Total	**636**	**29**	**(91)**	**698**	**(62)**	**266,259**	**8,749**	**(24,650)**	**282,160**	**-5.6%**

Wholesale (excl. eshop) revenue by country

	For the 6 months ended 31 December						
	2017		2016		Revenue change in %		Net change
Country	**HK$ million**	**% to Total Revenue**	HK$ million	% to Total Revenue	HK$	Local currency	in net sales area^
Germany	**1,369**	**53.5%**	1,429	54.0%	-4.2%	-10.9%	-6.8%
Rest of Europe	**1,127**	**44.0%**	1,154	43.6%	-2.4%	-8.3%	-9.5%
Benelux	279	10.9%	285	10.8%	-2.4%	-9.1%	-12.7%
France	272	10.6%	269	10.1%	1.2%	-5.7%	-4.0%
Spain	100	3.9%	96	3.7%	3.7%	-3.2%	0.6%
Austria	96	3.8%	93	3.5%	3.3%	-4.0%	-4.4%
Finland	78	3.1%	74	2.8%	5.6%	-1.8%	-4.9%
Sweden	62	2.4%	74	2.8%	-17.1%	-22.5%	-40.4%
Italy	58	2.2%	55	2.1%	5.3%	-1.4%	-4.8%
Switzerland	57	2.2%	62	2.3%	-6.9%	-8.6%	-4.2%
United Kingdom	33	1.3%	27	1.0%	22.0%	17.7%	-17.4%
Denmark	21	0.8%	23	0.9%	-9.3%	-15.5%	-2.3%
Ireland	2	0.1%	2	0.1%	-25.2%	-30.3%	-48.6%
Norway	1	0.0%	2	0.0%	-20.4%	-23.7%	-
Others #	68	2.7%	92	3.5%	-25.7%	-26.1%	-15.2%
Asia Pacific	**64**	**2.5%**	65	2.4%	-2.5%	-3.4%	-26.8%
China	26	1.0%	37	1.4%	-30.3%	-31.8%	-43.6%
Others @	38	1.5%	28	1.0%	34.9%	34.9%	-10.5%
Total	**2,560**	**100.0%**	2,648	100.0%	-3.3%	-9.6%	-9.0%

^ Net change since 1 January 2017

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

@ Others under Asia Pacific include wholesale (excl. eshop) revenue from other countries mainly Thailand and the Philippines

Wholesale distribution channel by country (controlled space only) – movement since 1 January 2017

	As at 31 December 2017															
	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	**238**	**54,579**	**(17)**	**-8.1%**	**2,226**	**87,278**	**(116)**	**-6.3%**	**1,112**	**21,523**	**(48)**	**-5.2%**	**3,576**	**163,380**	**(181)**	**-6.8%**
Rest of Europe	**440**	**82,641**	**(25)**	**-11.2%**	**822**	**25,600**	**(42)**	**-4.7%**	**882**	**20,711**	**(35)**	**-7.9%**	**2,144**	**128,952**	**(102)**	**-9.5%**
Benelux	84	23,411	(5)	-10.4%	51	2,596	(26)	-26.2%	159	4,339	(33)	-15.3%	294	30,346	(64)	-12.7%
France	125	21,179	(1)	-4.0%	259	5,816	(2)	-1.0%	154	4,157	(4)	-7.6%	538	31,152	(7)	-4.0%
Austria	52	8,441	(4)	-8.7%	104	3,782	4	6.7%	38	896	(2)	-4.3%	194	13,119	(2)	-4.4%
Sweden	13	4,011	(12)	-45.0%	1	38	1	n.a.	41	933	(2)	-13.4%	55	4,982	(13)	-40.4%
Finland	20	4,790	-	-5.1%	59	2,354	(1)	-3.3%	94	2,701	3	-5.9%	173	9,845	2	-4.9%
Switzerland	22	3,429	1	-1.1%	45	2,281	(4)	-7.4%	17	374	(3)	-11.2%	84	6,084	(6)	-4.2%
Italy	13	2,367	-	-18.5%	35	1,057	-	1.1%	250	3,987	23	4.0%	298	7,411	23	-4.8%
Spain	25	2,879	5	6.8%	170	5,370	(9)	-2.1%	59	1,721	-	-0.7%	254	9,970	(4)	0.6%
Denmark	7	1,707	-	1.3%	2	28	-	-	18	474	(3)	-13.7%	27	2,209	(3)	-2.3%
Norway	1	242	-	-	-	-	-	-	-	-	-	-	1	242	-	-
United Kingdom	2	150	-	-1.3%	8	330	(3)	-24.7%	47	1,079	(10)	-16.9%	57	1,559	(13)	-17.4%
Portugal	-	-	-	-	-	-	-	-	-	-	(2)	-100.0%	-	-	(2)	-100.0%
Ireland	-	-	-	-	1	82	(2)	-46.1%	5	50	(2)	-52.4%	6	132	(4)	-48.6%
Others *	76	10,035	(9)	-17.6%	87	1,866	-	-	-	-	-	-	163	11,901	(9)	-15.2%
Asia Pacific	**118**	**12,575**	**(40)**	**-26.8%**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**118**	**12,575**	**(40)**	**-26.8%**
China	34	4,793	(27)	-43.6%	-	-	-	-	-	-	-	-	34	4,793	(27)	-43.6%
Thailand	62	4,760	(14)	-16.9%	-	-	-	-	-	-	-	-	62	4,760	(14)	-16.9%
Philippines	16	1,972	(1)	-10.4%	-	-	-	-	-	-	-	-	16	1,972	(1)	-10.4%
Others	6	1,050	2	37.3%	-	-	-	-	-	-	-	-	6	1,050	2	37.3%
Total	**796**	**149,795**	**(82)**	**-11.7%**	**3,048**	**112,878**	**(158)**	**-6.0%**	**1,994**	**42,234**	**(83)**	**-6.5%**	**5,838**	**304,907**	**(323)**	**-9.0%**

^ Net change since 1 January 2017

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

n.a. Not applicable

INTERIM DIVIDEND

The Board maintains the dividend payout ratio of 60% of basic earnings per share. As the Group recorded a loss for the six months ended 31 December 2017, the Board has resolved not to declare an interim dividend for the six months ended 31 December 2017 (1H FY16/17: 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 2017 have been reviewed by the Audit Committee with the management.

HUMAN RESOURCES

As at 31 December 2017, the Group employed approximately 7,100 full-time equivalent staff (31 December 2016: approximately 7,800) 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

During the six months ended 31 December 2017, the Company repurchased a total of 42,537,700 shares of the Company on the Stock Exchange at an aggregate consideration (excluding expenses) of approximately HK$184 million. All the repurchased shares were subsequently cancelled.

Particulars of the repurchases are as follows:

	Number of shares repurchased	Purchase price per share	
		Highest (HK$)	Lowest (HK$)
2017			
August	13,351,400	4.47	4.06
September	11,563,800	4.80	4.35
October	7,182,200	4.30	4.15
November	6,421,200	4.30	3.97
December	4,019,100	4.23	3.97

Save as disclosed above and 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, neither the Company nor any of its subsidiaries have purchased, sold or redeemed any of the Company's shares during the period under review.

CORPORATE GOVERNANCE

The Company has 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 2017, 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 2017.

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, 28 February 2018

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.