

HONG KONG STOCK CODE 00330

INTERIM REPORT

ESPRIT HOLDINGS LIMITED
SIX MONTHS ENDED
31 DECEMBER 2017



ESPRIT



INTERIM REPORT FY 17/18
ESPRIT HOLDINGS LIMITED

ESPRIT

Corporate information

Chairman

- Raymond OR Ching Fai
Independent Non-executive Director

Deputy Chairman

- Paul CHENG Ming Fun
Independent Non-executive Director

Executive Directors

- Jose Manuel MARTINEZ GUTIERREZ
Group CEO
- Thomas TANG Wing Yung
Group CFO

Non-executive Director

- Jürgen Alfred Rudolf FRIEDRICH

Independent Non-executive Directors

- José María CASTELLANO RIOS
- Alexander Reid HAMILTON
- Carmelo LEE Ka Sze
- Norbert Adolf PLATT

Company Secretary

- Florence NG Wai Yin

Principal bankers

- The Hongkong and Shanghai Banking Corporation Limited
- Deutsche Bank AG
- The Bank of Tokyo-Mitsubishi UFJ, Ltd.
- China Construction Bank Corporation
- BNP Paribas
- Hang Seng Bank Limited

Auditor

- PricewaterhouseCoopers
Certified Public Accountants

Principal legal advisor

- Baker & McKenzie
- Freshfields Bruckhaus Deringer

Share listing

Esprit's shares are listed on The Stock Exchange of Hong Kong Limited (SEHK). The Company has a Level 1 sponsored American Depositary Receipt (ADR) program.

Stock code

- SEHK : 00330
- ADR : ESPGY

Principal share registrar

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Corporate profile

Founded in 1968, Esprit is an international fashion brand that pays homage to its roots and expresses a relaxed, sunny Californian attitude towards life. Esprit offers inspiring collections for women, men and kids made from high-quality materials paying great attention to detail. All of Esprit's products demonstrate the Group's commitment to make consumers "feel good to look good". The Company's "esprit de corps" reflects a positive and caring attitude towards life that embraces community, family and friends - in that casual, laid-back California style. The Esprit style.

The Group distributes its products directly to end-consumers through directly-managed retail stores and online, and also distributes through third parties, both offline and online. The Group markets its products under two brands, namely the Esprit brand and the edc brand. Listed on the Hong Kong Stock Exchange since 1993, Esprit has headquarters in Germany and Hong Kong.





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01
HIGHLIGHTS

01 Highlights

Revenue of HK\$8,039 million, down -3.4% yoy in Hong Kong dollar terms or -9.6% yoy in LCY impacted by weaker than expected performance of brick and mortar retail stores in 2Q FY17/18

Continued improvements in gross profit margin and regular OPEX

- Gross profit margin increased by +0.4% pt to 52.9%
- Regular OPEX reduced by -5.5% yoy in LCY, on top of the significant reduction in FY16/17 (-9.9% yoy in LCY)

Result of underlying operations (LBIT excl. exceptional items) of HK\$(136) million

Net loss of HK\$(954) million primarily due to the impairment of China Goodwill and Customer Relationship (HK\$794 million) which is purely an accounting adjustment, with no impact on operational performance and cash balance

Strong financial position with net cash balance of HK\$4.57 billion and zero debt

Revenue (HK\$ million)

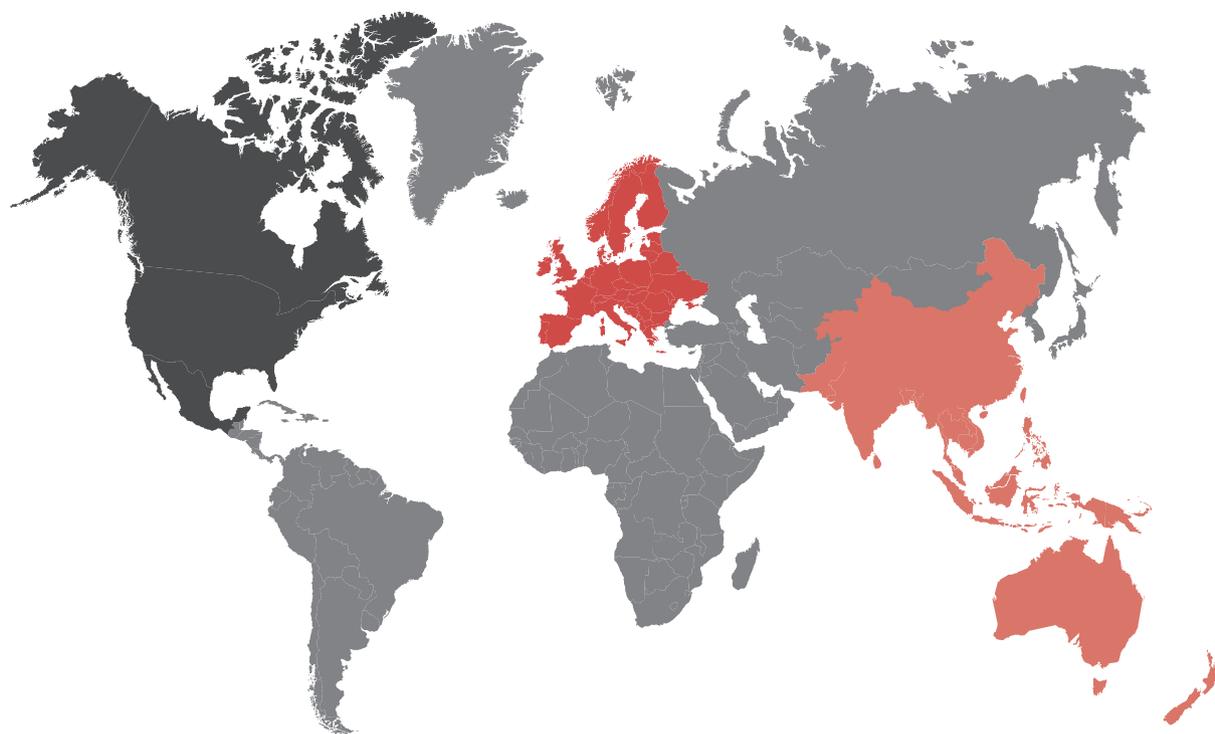
Group Revenue	Retail (excl. eshop) Revenue	Wholesale (excl. eshop) Revenue	Eshop Revenue
8,039 ▼ 3.4% in HK\$ terms ▼ 9.6% in LCY	3,322 ▼ 8.1% in HK\$ terms ▼ 13.5% in LCY	2,560 ▼ 3.3% in HK\$ terms ▼ 9.6% in LCY	2,092 ▲ 5.0% in HK\$ terms ▼ 2.5% in LCY
Total Controlled Space (Sqm) (retail & wholesale combined)	Retail Controlled Space (Sqm)	Wholesale Controlled Space (Sqm)	
571,166 ▼ 7.4%	266,259 ▼ 5.6%	304,907 ▼ 9.0%	
Gross Profit Margin	EBITDA (excl. exceptional items) (HK\$ million)	Net Cash with zero debt (HK\$ million)	NAV per share
52.9% ▲ 0.4% pt	159 (1H FY16/17: 295)	4,575 (1H FY16/17: 4,548)	HK\$5.61* (1H FY16/17: HK\$5.80)

* No. of shares outstanding as at 31 December 2017: 1,902 million shares

▲|▼ year-on-year change

Our international distribution network

To date, Esprit's collections are distributed via an international network covering around 40 countries worldwide through our directly managed retail stores, third-party online platforms, own eshops and wholesale points of sales.

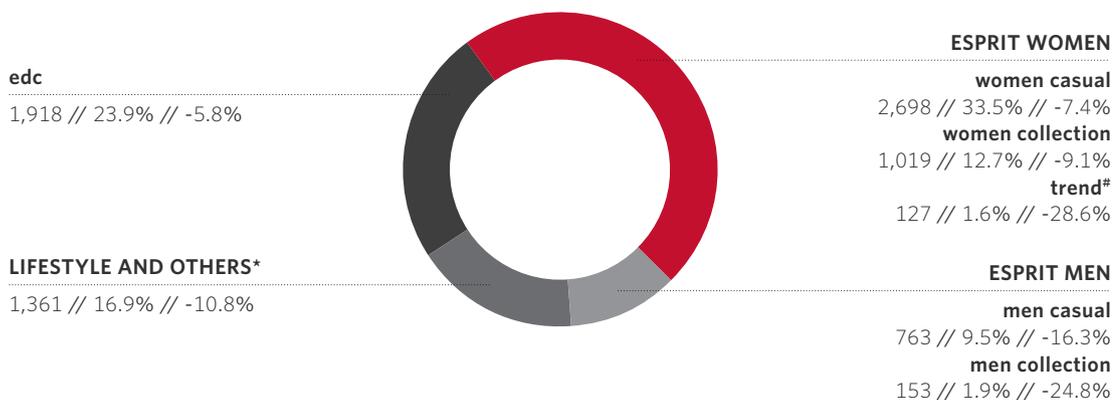


40 countries
20 eshops
636 retail stores
5,838 wholesale POS

Our business across four major product groups

The Group markets its products under two brands, namely “Esprit” and “edc”, both of which offer apparel and lifestyle products for women, men and kids. In this Interim Report, products are categorized into four major groups: Esprit Women, Esprit Men, edc, and Lifestyle and others.

HK\$ million // % of Group revenue // % local currency growth

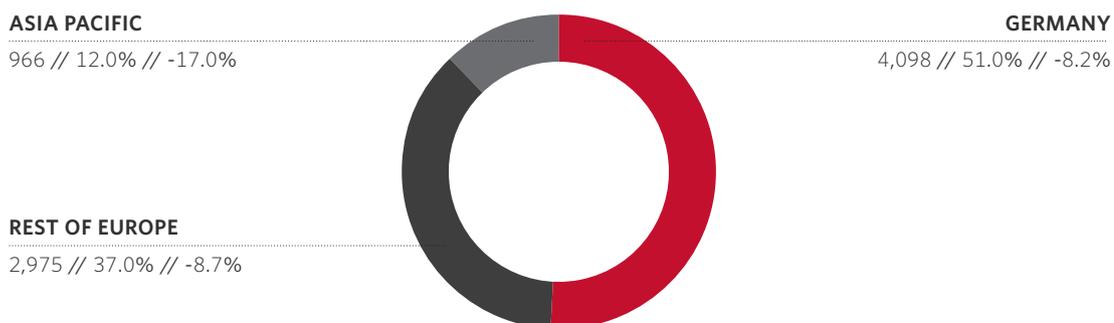


The Trend Division was set up as a laboratory to test our fast-to-market product development processes. The lessons we have learned have been applied to other product divisions under the Women segment, hence it is more meaningful to interpret the combined performance of these product divisions
* Lifestyle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

Our business in three major markets

Geographically, the majority of the Group’s business is generated in Europe and Asia Pacific. In this Interim Report, 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”.

HK\$ million // % of Group revenue // % local currency growth



Our business through four distribution channels

We distribute our products primarily through directly managed retail stores, points of sales (“POS”) managed by third parties and eshop. Directly managed retail stores include standalone stores, concession counters in department stores and outlets, which together are reported under the retail (excl. eshop) channel. POS managed by third parties include franchise stores, shop-in-stores and identity corners in multi-labels, which together are reported under the wholesale (excl. eshop) channel. Eshop comprises our directly managed ecommerce business in European and Asia Pacific countries and sales to third-party online platforms in Asia Pacific.

HK\$ million // % of Group revenue // % local currency growth

WHOLESALE (EXCL. ESHOP)

2,560 // 31.8% // -9.6%

RETAIL (EXCL. ESHOP)

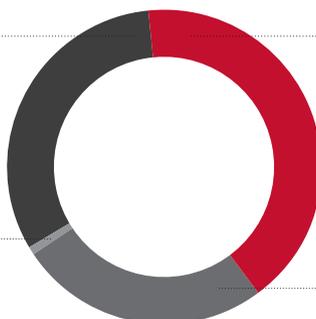
3,322 // 41.4% // -13.5%

LICENSING AND OTHERS

65 // 0.8% // -8.7%

ESHOP

2,092 // 26.0% // -2.5%





02 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

	No. of stores	Net change in no. of stores [^]	Net sales area (m ²)	Net change in net sales area since 1 July 2017		Net change in net sales area since 1 January 2017	
				(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

	No. of stores	Net change in no. of stores [^]	Net sales area (m ²)	Net change in net sales area since 1 July 2017		Net change in net sales area since 1 January 2017	
				(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

Product division	For the 6 months ended 31 December					
	2017		2016		Change in %	
	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 in net sales area ^
	HK\$ million	% to Group Revenue	HK\$ million	% to Group Revenue	HK\$	Local currency	
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 platforms 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%
<i>Gross profit margin</i>	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.

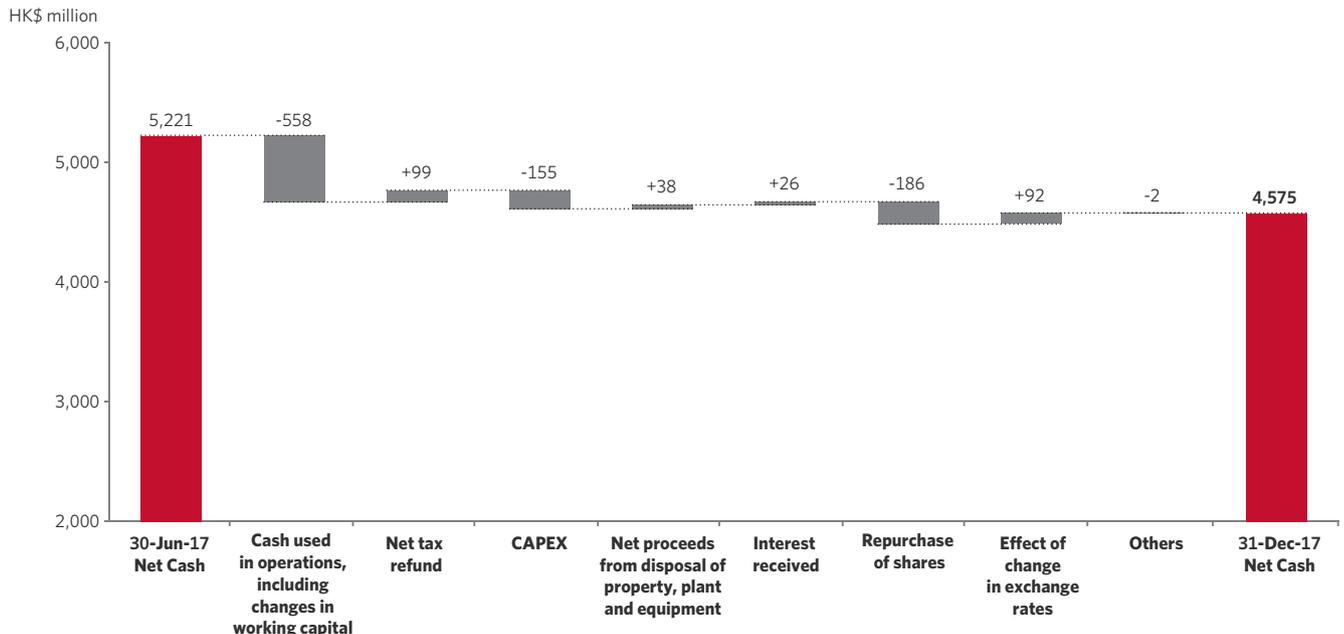
Unfortunately, the improvements in gross profit margin and operating expenses were not sufficient to outweigh the negative impact from higher than expected decline in revenue. As a result, **LBIT of underlying operations** (i.e. excluding the Exceptional Items) was a loss of HK\$(136) million (1H FY16/17: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

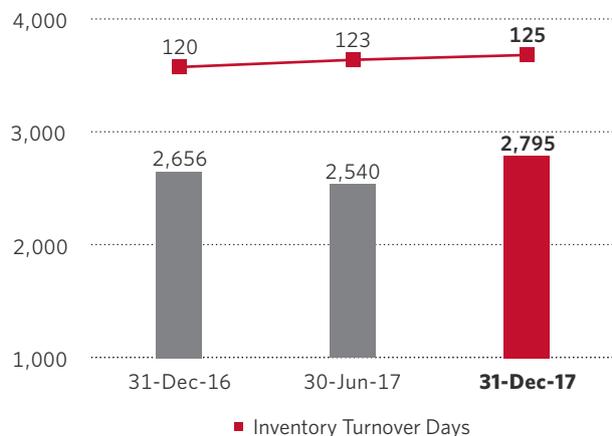
Liquidity and financial resources analysis

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.



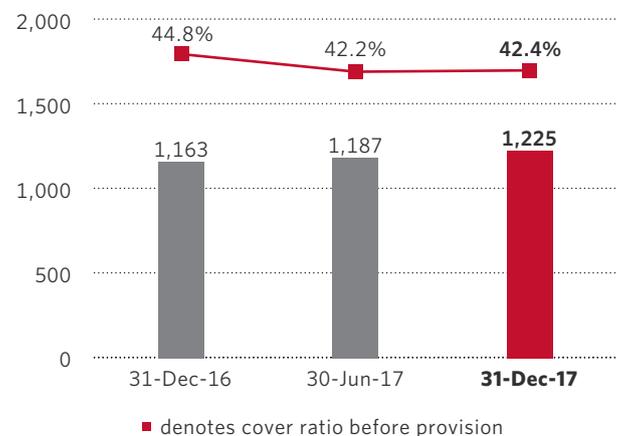
Inventories: Our inventory balance amounted to HK\$2,795 million (31 December 2016: HK\$2,656 million), representing a yoy increase of +5.2%, mainly due to the appreciation of the EUR/HKD closing rate of +14.7% yoy. In terms of unit, the total number of inventories at the end of December 2017 was 35.6 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.

Inventories (HK\$ million)



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%).

Net trade debtors (HK\$ million)



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							
Country ^^	2017		2016		Revenue change in %		Net change in net sales area ^
	HK\$ million	% to Group Revenue	HK\$ million	% to Group Revenue	HK\$	Local currency	
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							
Country	2017		2016		Revenue change in %		Net change in net sales area [^]
	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

Store type	No. of stores					Net sales area (m ²)				
	As at 31 December 2017	vs 1 January 2017		As at 1 January 2017	Net change	As at 31 December 2017	vs 1 January 2017		As at 1 January 2017	Net change
		Opened	Closed				Opened	Closed		
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

Country	For the 6 months ended 31 December						
	2017		2016		Revenue change in %		Net change in net sales area ^
	HK\$ million	% to Total Revenue	HK\$ million	% to Total Revenue	HK\$	Local currency	
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

Country	Franchise stores				Shop-in-stores				Identity corners				Total			
	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

Independent review report

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION TO THE BOARD OF DIRECTORS OF ESPRIT HOLDINGS LIMITED (incorporated in Bermuda with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 31 to 45, which comprises the interim condensed consolidated statement of financial position of Esprit Holdings Limited (the "Company") and its subsidiaries (together "the Group") as at 31 December 2017 and the related interim condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting". The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".



PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 28 February 2018

Interim financial information

The Board of Directors of Esprit Holdings Limited (the “Company”) is pleased to present the unaudited condensed consolidated interim financial information, along with selected explanatory notes, of the Company and its subsidiaries (the “Group”) for the six months ended 31 December 2017 as follows:

Condensed consolidated income statement

		Unaudited for the 6 months ended 31 December	
	Notes	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	17	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

The notes on pages 37 to 45 form an integral part of this condensed consolidated interim financial information.

Condensed consolidated statement of comprehensive income

	Unaudited for the 6 months ended 31 December	
	2017 HK\$ million	2016 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)

The notes on pages 37 to 45 form an integral part of this condensed consolidated interim financial information.

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

The notes on pages 37 to 45 form an integral part of this condensed consolidated interim financial information.

Condensed consolidated statement of cash flows

	Unaudited for the 6 months ended 31 December	
	2017 HK\$ million	2016 HK\$ million
Cash flows from operating activities		
Cash used in operations	(558)	(463)
Hong Kong profits tax paid	(2)	(3)
Overseas tax refunded/(paid), net	101	(144)
Net cash used in operating activities	(459)	(610)
Cash flows from investing activities		
Purchase of property, plant and equipment	(155)	(90)
Proceeds from disposal of plant and equipment	4	20
Net proceeds from disposal of a property	34	-
Interest received	26	19
Net (increase)/decrease in bank deposits with maturities of more than three months	(1,590)	981
Net cash (used in)/generated from investing activities	(1,681)	930
Cash flows from financing activities		
Purchase of shares for Share Award Scheme	(7)	(33)
Repurchase of shares	(186)	-
Net cash used in financing activities	(193)	(33)
Net (decrease)/increase in cash and cash equivalents	(2,333)	287
Cash and cash equivalents at beginning of period	5,070	3,485
Effect of change in exchange rates	92	(98)
Cash and cash equivalents at end of period	2,829	3,674
Analysis of balances of cash and cash equivalents		
Bank balances and cash	2,204	2,466
Bank deposits	2,371	2,082
Cash, bank balances and deposits	4,575	4,548
Less: bank deposits with maturities of more than three months	(1,746)	(874)
	2,829	3,674

The notes on pages 37 to 45 form an integral part of this condensed consolidated interim financial information.

Condensed consolidated statement of changes in equity

Unaudited for the 6 months ended 31 December 2017

	Share capital HK\$ million	Share premium HK\$ million	Share redemption reserve HK\$ million	Shares held for Share Award Scheme HK\$ million	Employee share-based payment reserve HK\$ million	Hedging reserve HK\$ million	Contributed surplus HK\$ million	Translation reserve HK\$ million	Capital reserve HK\$ million	Retained profits HK\$ million	Total HK\$ million
At 1 July 2017	194	8,220	-	(56)	913	(103)	7	(1,033)	1	3,400	11,543
Exchange translation	-	-	-	-	-	-	-	229	-	-	229
Fair value gain on cash flow hedge, net of tax	-	-	-	-	-	(120)	-	-	-	-	(120)
- net fair value gain	-	-	-	-	-	154	-	-	-	-	154
- transferred to inventories	-	-	-	-	-	(11)	-	-	-	-	(11)
- deferred tax effect	-	-	-	-	-	-	-	-	-	-	-
Profit attributable to shareholders of the Company	-	-	-	-	-	-	-	-	-	(954)	(954)
Total comprehensive income, net of tax	-	-	-	-	-	23	-	229	-	(954)	(702)
Transactions with owners											
Employee share-based compensation benefits	-	-	-	-	13	-	-	-	-	-	13
Repurchase of shares (Note 13(a))	(4)	(180)	(2)	-	-	-	-	-	-	-	(186)
Purchase of shares for Share Award Scheme (Note 13(c))	-	-	-	(7)	-	-	-	-	-	-	(7)
Vesting of shares for Share Award Scheme (Note 13(c))	-	-	-	21	(21)	-	-	-	-	-	-
Total transactions with owners	(4)	(180)	(2)	14	(8)	-	-	-	-	-	(180)
At 31 December 2017	190	8,040	(2)	(42)	905	(80)	7	(804)	1	2,446	10,661

The notes on pages 37 to 45 form an integral part of this condensed consolidated interim financial information.

Condensed consolidated statement of changes in equity

Unaudited for the 6 months ended 31 December 2016

	Share capital HK\$ million	Share premium HK\$ million	Share redemption reserve HK\$ million	Shares held for Share Award Scheme HK\$ million	Employee share-based payment reserve HK\$ million	Hedging reserve HK\$ million	Contributed surplus HK\$ million	Translation reserve HK\$ million	Capital reserve HK\$ million	Retained profits HK\$ million	Total HK\$ million
At 1 July 2016	194	8,220	-	(23)	862	(26)	7	(1,171)	1	3,333	11,397
Exchange translation	-	-	-	-	-	-	-	(339)	-	-	(339)
Fair value gain on cash flow hedge, net of tax	-	-	-	-	-	-	-	-	-	-	-
- net fair value gain	-	-	-	-	-	289	-	-	-	-	289
- transferred to inventories	-	-	-	-	-	(43)	-	-	-	-	(43)
- deferred tax effect	-	-	-	-	-	(75)	-	-	-	-	(75)
Profit attributable to shareholders of the Company	-	-	-	-	-	-	-	-	-	61	61
Total comprehensive income, net of tax	-	-	-	-	-	171	-	(339)	-	61	(107)
Transactions with owners											
Employee share-based compensation benefits	-	-	-	-	25	-	-	-	-	-	25
Purchase of shares for Share Award Scheme (Note 13(c))	-	-	-	(33)	-	-	-	-	-	-	(33)
Total transactions with owners	-	-	-	(33)	25	-	-	-	-	-	(8)
At 31 December 2016	194	8,220	-	(56)	887	145	7	(1,510)	1	3,394	11,282

The notes on pages 37 to 45 form an integral part of this condensed consolidated interim financial information.

Notes to the condensed consolidated interim financial information

1. Basis of preparation

This unaudited condensed consolidated interim financial information ("interim financial information") on pages 31 to 45 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.

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 (Amendments)	Financial Instruments Prepayment Features with Negative Compensation	1 January 2018 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** (Note 14). 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 platforms.

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)
Total	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)
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)

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 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)
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 of Directors considers that the payment of interests is unlikely, and therefore no additional provision has been made.

6. Interim dividend

The Board of Directors 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

7. (Loss)/earnings per share (continued)

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.

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").

(c) Awarded shares

The Board of Directors 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 of Directors 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

13. Share capital (continued)

(c) Awarded shares (continued)

- (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.

- (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. Operating lease commitments

The total future minimum lease payments under non-cancelable operating leases are as follows:

	Unaudited 31 December 2017 HK\$ million	Audited 30 June 2017 HK\$ million
Land and buildings		
- within one year	1,768	1,805
- in the second to fifth year inclusive	4,138	4,145
- after the fifth year	1,205	1,248
	7,111	7,198
Other equipment		
- within one year	3	6
- in the second to fifth year inclusive	-	1
	3	7
	7,114	7,205

The operating lease rentals of certain retail outlets are based on the higher of a minimum guaranteed rental or a sales level based rental. The minimum guaranteed rental has been used to arrive at the above commitments.

The total future minimum lease receipts under non-cancelable subleases in respect of land and buildings at 31 December 2017 are **HK\$146 million** (30 June 2017: HK\$164 million).

15. Capital commitments

	Unaudited 31 December 2017 HK\$ million	Audited 30 June 2017 HK\$ million
Property, plant and equipment - Contracted but not provided for	53	53

16. Derivative financial instruments

The Group enters into forward foreign exchange contracts in the management of its exchange rate exposures. The instruments purchased are primarily denominated in the currencies of the Group's principal markets.

At 31 December 2017, the fair values of the forward foreign exchange contracts included in other receivables and other payables are as follows:

	Unaudited 31 December 2017		Audited 30 June 2017	
	Assets HK\$ million	Liabilities HK\$ million	Assets HK\$ million	Liabilities HK\$ million
Forward foreign exchange contracts - Cash flow hedges	-	122	-	149

The fair values of the forward foreign exchange contracts have been determined by using observable forward exchange rates from market for equivalent instruments at the date of the statement of financial position.

The following table presents the carrying value of derivative financial instruments measured at fair value according to the levels of the fair value hierarchy defined in IFRS 13 "Fair Value Measurement", with the fair value of each asset and liability categorized based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

16. Derivative financial instruments (continued)

					Unaudited	
					At 31 December 2017	
	Level 1	Level 2	Level 3	Total		
	HK\$ million	HK\$ million	HK\$ million	HK\$ million	31 December	Audited
					2017	30 June
					HK\$ million	2017
						HK\$ million
Recurring fair value measurements:						
Assets						
Derivative financial instruments:						
- Forward foreign exchange contracts	-	-	-	-		
Recurring fair value measurements:						
Liabilities						
Derivative financial instruments:						
- Forward foreign exchange contracts	-	122	-	122		
					Audited	
					At 30 June 2017	
	Level 1	Level 2	Level 3	Total		
	HK\$ million	HK\$ million	HK\$ million	HK\$ million		
Recurring fair value measurements:						
Assets						
Derivative financial instruments:						
- Forward foreign exchange contracts	-	-	-	-		
Recurring fair value measurements:						
Liabilities						
Derivative financial instruments:						
- Forward foreign exchange contracts	-	149	-	149		

During the six months ended 31 December 2017, there were no transfers between Level 1 and Level 2.

The Group's policy is to recognize transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

At the date of the statement of financial position, the total notional amount of outstanding forward foreign exchange contracts to which the Group has committed is as follows:

	Unaudited	Audited
	31 December	30 June
	2017	2017
	HK\$ million	HK\$ million
Forward foreign exchange contracts	1,817	3,609

17. 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** were received in cash during the six months ended 31 December 2017.

18. Event after the balance sheet date

Subsequent to 31 December 2017, the Company repurchased **14,425,300** of its own ordinary shares for cancellation at a total consideration (including expenses) of **HK\$51 million** on the Stock Exchange.

04 Other information

Directors' profile

Executive Directors

Jose Manuel MARTINEZ GUTIERREZ, aged 48, has been an Executive Director of the Company and Group Chief Executive Officer since September 2012. He is responsible for the overall management and control of the business of the Group. He is a member of the Remuneration Committee and the General Committee of the Board, a director of certain subsidiaries and a trustee of a trust of the Company.

Mr MARTINEZ obtained a Bachelor's Degree in Business Administration from Universidad Autónoma de Madrid, and a Master in Business Administration Degree (Honours with Distinction) from J.L. Kellogg Business School, Northwestern University.

His professional career spans investment banking, strategy consulting and senior management positions in the global retail and consumer goods industries. Prior to joining Esprit, Mr MARTINEZ was the group director of distribution and operations for Industria De Diseño Textil, S.A. ("Inditex") based in Spain. Prior to joining Inditex, Mr MARTINEZ spent 8 years at McKinsey & Company leading the firm's retail and consumer goods practice in Spain, and advising clients in Europe and South America on strategy, category management and store operations.

Thomas TANG Wing Yung, aged 62, has been an Executive Director of the Company and Group Chief Financial Officer since May 2012. He is a member of the Risk Management Committee and the General Committee of the Board and a director of certain subsidiaries of the Company. Mr TANG obtained a Bachelor of Science degree in Modern Mathematics from Surrey University, United Kingdom. He has been an associate member of The Institute of Chartered Accountants in England and Wales since 1981. He is also a fellow member of The Hong Kong Institute of Certified Public Accountants (Practising) and has over 36 years of experience in accounting and finance.

Prior to joining the Company, Mr TANG was executive director and chief financial officer of Sino Land Company Limited and Sino Hotels (Holdings) Limited, and chief financial officer of Tsim Sha Tsui Properties Limited until his resignation in March 2012. He first joined these three companies as chief financial officer in November 2003. All these companies are listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Prior to joining the Sino group, he was a managing director of an investment and financial advisory services firm that is a member of an international group, overseeing operations in the Asia-Pacific region. Mr TANG started his career as an accountant working for Peat Marwick (KPMG) in London and Hong Kong.

Non-executive Directors

Dr Raymond OR Ching Fai, aged 68, has been an Independent Non-executive Director of the Company since 1996 and became Chairman of the Board since June 2012. He is the Chairman of the Nomination Committee of the Board, a director of a subsidiary and a trustee of a trust of the Company. He was conferred an Honorary Doctor of Social Science by the City University of Hong Kong in November 2014. Dr OR is an executive director and chairman of China Strategic Holdings Limited and an independent non-executive director of Chow Tai Fook Jewellery Group Limited, Industrial and Commercial Bank of China Limited, Regina Miracle International (Holdings) Limited and Television Broadcasts Limited. All these companies are listed on the Stock Exchange. He was the former vice chairman and chief executive of Hang Seng Bank Limited, the former chairman of Hang Seng Life Limited and a director of The Hongkong and Shanghai Banking Corporation Limited, Cathay Pacific Airways Limited and Hutchison Whampoa Limited until his retirement in May 2009. Dr OR was also the former vice chairman and independent non-executive director of G-Resources Group Ltd. and the former deputy chairman and non-executive director of Aquis Entertainment Limited (a company listed on the Australian Securities Exchange). Dr OR was also the former chief executive officer of China Strategic Holdings Limited until he stepped down on 18 January 2018.

Paul CHENG Ming Fun, aged 81, has been an Independent Non-executive Director of the Company since November 2002 and became Deputy Chairman of the Board since July 2008. He is the Chairman of the Remuneration Committee and a member of the Nomination Committee of the Board, a director of a subsidiary and a trustee of a trust of the Company. Mr CHENG obtained his Bachelor of Arts degree from Lake Forest University (Illinois, USA) and Master of Business Administration degree from the Wharton School of the University of Pennsylvania. Mr CHENG is an independent non-executive director of Chow Tai Fook Jewellery Group Limited, a company listed on the Stock Exchange. He is an independent non-executive director of Global Logistic Properties Limited, a company listed on the Singapore Stock Exchange. He is also an independent non-executive director of Pacific Alliance China Land Ltd., a company listed on the AIM Board of the London Stock Exchange. Mr CHENG was a former member of the Hong Kong Legislative Council as well as the former chairman of Inchcape Pacific Limited, N M Rothschild & Sons (Hong Kong) Ltd., The Link Management Limited (Link Asset Management Limited) and the Hong Kong General Chamber of Commerce. He is currently an Honorary Steward of the Hong Kong Jockey Club.

Jürgen Alfred Rudolf FRIEDRICH, aged 79, founded Esprit's European operations in 1976 and has been a Non-executive Director of the Company since 1997. He is a member of the Remuneration Committee of the Board. Mr FRIEDRICH has over 32 years of experience in the apparel distribution and marketing business and is currently retired in Switzerland.

Directors' profile (continued)

Non-executive Directors (continued)

Dr José María CASTELLANO RIOS, aged 70, has been an Independent Non-executive Director of the Company since December 2014. He is a member of the Audit Committee and the Risk Management Committee of the Board. He was the deputy chairman, chief executive officer and director of Inditex, the Spanish listed company owner of Zara and several other fashion apparel brands, which he served from 1985 to 2005. After being in the industry of international fashion and apparel for around 30 years, Dr CASTELLANO became the president, chief executive officer and director of Grupo Corporativo ONO, S.A. and Cableuropa S.A.U. from 2006 to 2009. He was also the vice-chairman of N M Rothschild in Spain for a number of years starting from 2007. Most recently, Dr CASTELLANO was the chairman and president of Nova Caixa Bank between 2011 and 2014.

Dr CASTELLANO obtained a Bachelor of Art degree in Economics from the University of Santiago de Compostela in Spain and a Doctor of Philosophy degree in Economics from the University of Madrid in Spain. He was a professor of financial economics and accounting at the University of A Coruña in Spain until 2013.

Alexander Reid HAMILTON, aged 76, has been an Independent Non-executive Director of the Company since August 1995. He is the Chairman of the Audit Committee and a member of the Nomination Committee of the Board. Mr HAMILTON is an independent non-executive director of COSCO SHIPPING International (Hong Kong) Co., Ltd. and Shangri-La Asia Limited. Both companies are listed on the Stock Exchange. Mr HAMILTON is also a director of Octopus Cards Limited and other Hong Kong companies. He was an independent non-executive director of CITIC Limited. He was a partner of Price Waterhouse with whom he practiced for 16 years.

Carmelo LEE Ka Sze, aged 57, has been an Independent Non-executive Director of the Company since July 2013. He is the Chairman of the Risk Management Committee and a member of the Nomination Committee and the Remuneration Committee of the Board. He is a partner of Messrs. Woo Kwan Lee & Lo, Solicitors & Notaries. Mr LEE is a member of the SFC (HKEC Listing) Committee, a convenor and member of the Financial Reporting Review Panel of the Financial Reporting Council of Hong Kong and a member of the Campaign Committee and a Co-Chairman of the Corporate Challenge Half Marathon of The Community Chest of Hong Kong. He served as the chairman of the Listing Committee of the Stock Exchange from 2012 to 2015 after serving as deputy chairman and member of the Listing Committee of the Stock Exchange from 2009 to 2012 and from 2000 to 2003 respectively.

Mr LEE obtained a Bachelor of Laws degree and Postgraduate Certificate in Laws from The University of Hong Kong and qualified as a solicitor in Hong Kong, England and Wales, Singapore and Australian Capital Territory, Australia.

Mr LEE is a non-executive director of Hopewell Holdings Limited, CSPC Pharmaceutical Group Limited, Yugang International Limited, Safety Godown Company Limited and Termbray Industries International (Holdings) Limited and an independent non-executive director of KWG Property Holding Limited and China Pacific Insurance (Group) Co., Ltd., all these companies are listed on the Stock Exchange. He was a non-executive director of Y.T. Realty Group Limited from September 2004 to February 2016 and an independent non-executive director of Ping An Insurance (Group) Company of China, Ltd. from June 2009 to June 2015.

Norbert Adolf PLATT, aged 70, has been an Independent Non-executive Director of the Company since December 2012. He is a member of the Audit Committee and the Remuneration Committee of the Board. He has 40 years of extensive experience in the industry of luxury goods. Mr PLATT was the chief executive officer of the Richemont group from October 2004 to March 2010. The Richemont group's luxury goods interests encompass a portfolio of internationally renowned brands including Cartier, Van Cleef & Arpels, Piaget, Montblanc, Chloé and Alfred Dunhill. Under his leadership, the Richemont group recorded significant growth in turnover and profits. Mr PLATT was also a non-executive director of Compagnie Financière Richemont SA (the holding company of the Richemont group which is listed in Switzerland) until his retirement on 13 September 2017.

Prior to acting as chief executive officer of the Richemont group, Mr PLATT was the chief executive officer of Montblanc International GmbH ("Montblanc International") between 1987 and 2004. Mr PLATT successfully transformed Montblanc International from a maker of writing instruments into a diversified and globally renowned manufacturer of luxury goods. Under his leadership, Montblanc International recorded remarkable growth in its turnover. Mr PLATT remained as the chairman of Montblanc Simplo GmbH based in Hamburg, Germany until 30 June 2013. From 1972 to 1987, Mr PLATT held various chief executive positions in Rollei Singapore and Germany.

Mr PLATT graduated with a Master of Science Degree in Precision Mechanical Engineering, and attended business management and marketing programs at Harvard Business School of Harvard University and INSEAD.

Directors' interests and short positions in shares, underlying shares and debentures

As at 31 December 2017, the interests or short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO")) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), were as follows:

Name of Directors	Capacity	Beneficial interest in shares	Beneficial interest in unlisted underlying shares (Note 6)	Total number of shares	Approximate percentage of aggregate interest to total issued share capital
Jose Manuel MARTINEZ GUTIERREZ	Beneficial owner	2,258,932	5,800,000	10,024,620	0.52%
	Beneficiary of a trust under the Share Award Scheme	1,965,688	-		
Thomas TANG Wing Yung	Beneficial owner	447,844	2,900,000	3,852,274	0.20%
	Beneficiary of a trust under the Share Award Scheme	504,430	-		
Raymond OR Ching Fai	Beneficial owner (Note 1)	3,000,000	450,000	3,450,000	0.18%
Paul CHENG Ming Fun	Beneficial owner (Note 2)	881,836	280,000	2,043,778	0.10%
	Interest of spouse (Note 3)	881,942	-		
Jürgen Alfred Rudolf FRIEDRICH	Beneficial owner (Note 4)	45,500,000	110,000	45,663,669	2.40%
	Interest of spouse (Note 5)	53,669	-		
Alexander Reid HAMILTON	Beneficial owner	-	110,000	110,000	0.00%
Carmelo LEE Ka Sze	Beneficial owner	-	100,000	100,000	0.00%
Norbert Adolf PLATT	Beneficial owner	-	110,000	110,000	0.00%

Notes:

- The interests of 200,000 shares were held jointly by Dr Raymond OR Ching Fai and his spouse, Mrs OR WONG Lai Ning.
- The shares were held jointly by Mr Paul CHENG Ming Fun and his spouse, Mrs Janet Mary CHENG.
- The shares were deemed to be held by the spouse of Mr Paul CHENG Ming Fun, Mrs Janet Mary CHENG.
- Mr Jürgen Alfred Rudolf FRIEDRICH has entered into a securities lending agreement with a third party for the interest of 10,000,000 shares beneficially owned by him.
- The shares were held by the spouse of Mr Jürgen Alfred Rudolf FRIEDRICH, Mrs Anke Beck FRIEDRICH.
- The interests of the Directors and chief executives of the Company in the underlying shares of equity derivatives in respect of share options and awarded shares of the Company are detailed in sections of "Share options schemes" and "Share award scheme" below respectively.
- All interests disclosed above represent long position in the shares and underlying shares of the Company.

Save as disclosed above, as at 31 December 2017, none of the Directors and chief executives of the Company or their respective associates had any interests or short positions, whether beneficial or non-beneficial, in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Apart from the share option schemes and share award scheme disclosed below, at no time during the period under review was the Company or its subsidiaries a party to any arrangement that enabled the Directors of the Company or any of their spouses or children under the age of 18 to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Share option schemes

2001 Share Option Scheme

The Company adopted a share option scheme on 26 November 2001 (the “2001 Share Option Scheme”) and the scheme was terminated on 10 December 2009. Notwithstanding its termination, 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. A summary of the movements of the outstanding share options under the 2001 Share Option Scheme during the period under review is as follows:

	Date of grant (dd/mm/yyyy)	Exercise price (HK\$)	Vesting date (dd/mm/yyyy)	Exercise period (dd/mm/yyyy)	Number of share options				
					As at 01/07/2017	Granted	Exercised	Lapsed	As at 31/12/2017
Employees	09/12/2011	11.09	09/12/2012	09/12/2012 - 08/12/2017	60,000	-	-	60,000	-
			09/12/2013	09/12/2013 - 08/12/2017	60,000	-	-	60,000	-
			09/12/2014	09/12/2014 - 08/12/2017	60,000	-	-	60,000	-
			09/12/2015	09/12/2015 - 08/12/2017	60,000	-	-	60,000	-
			09/12/2016	09/12/2016 - 08/12/2017	60,000	-	-	60,000	-
Total					300,000	-	-	300,000	-

Note:

No share options were canceled under the 2001 Share Option Scheme during the six months ended 31 December 2017.

2009 Share Option Scheme

The Company adopted a share option scheme on 10 December 2009 (the “2009 Share Option Scheme”). A summary of the movements of the outstanding share options under the 2009 Share Option Scheme, including the share options granted, during the period under review is as follows:

	Date of grant (dd/mm/yyyy)	Exercise price (HK\$)	Vesting date (dd/mm/yyyy)	Exercise period (dd/mm/yyyy)	Number of share options				
					As at 01/07/2017	Granted	Exercised	Lapsed	As at 31/12/2017
Directors									
Jose Manuel MARTINEZ GUTIERREZ	11/03/2013	10.04	11/03/2016	11/03/2016 - 10/03/2023	3,000,000	-	-	-	3,000,000
			11/03/2017	11/03/2017 - 10/03/2023	1,000,000	-	-	-	1,000,000
			11/03/2018	11/03/2018 - 10/03/2023	1,000,000	-	-	-	1,000,000
	04/11/2013	14.18	04/11/2016	04/11/2016 - 03/11/2023	400,000	-	-	-	400,000
	31/10/2014	10.124	31/10/2017	31/10/2017 - 30/10/2024	400,000	-	-	-	400,000
	In aggregate				5,800,000	-	-	-	5,800,000
Thomas TANG Wing Yung	11/03/2013	10.04	11/03/2016	11/03/2016 - 10/03/2023	1,500,000	-	-	-	1,500,000
			11/03/2017	11/03/2017 - 10/03/2023	400,000	-	-	-	400,000
			11/03/2018	11/03/2018 - 10/03/2023	400,000	-	-	-	400,000
	04/11/2013	14.18	04/11/2016	04/11/2016 - 03/11/2023	300,000	-	-	-	300,000
	31/10/2014	10.124	31/10/2017	31/10/2017 - 30/10/2024	300,000	-	-	-	300,000
	In aggregate				2,900,000	-	-	-	2,900,000

Share option schemes (continued)

2009 Share Option Scheme (continued)

	Date of grant (dd/mm/yyyy)	Exercise price (HK\$)	Vesting date (dd/mm/yyyy)	Exercise period (dd/mm/yyyy)	Number of share options				As at 31/12/2017
					As at 01/07/2017	Granted	Exercised	Lapsed	
Directors (continued)									
Raymond OR Ching Fai	30/06/2014	11.00	30/06/2015	30/06/2015 - 29/06/2024	450,000	-	-	-	450,000
Paul CHENG Ming Fun	30/06/2014	11.00	30/06/2015	30/06/2015 - 29/06/2024	280,000	-	-	-	280,000
Jürgen Alfred Rudolf FRIEDRICH	30/06/2014	11.00	30/06/2015	30/06/2015 - 29/06/2024	110,000	-	-	-	110,000
Alexander Reid HAMILTON	30/06/2014	11.00	30/06/2015	30/06/2015 - 29/06/2024	110,000	-	-	-	110,000
Carmelo LEE Ka Sze	30/06/2014	11.00	30/06/2015	30/06/2015 - 29/06/2024	100,000	-	-	-	100,000
Norbert Adolf PLATT	30/06/2014	11.00	30/06/2015	30/06/2015 - 29/06/2024	110,000	-	-	-	110,000
Employees	27/09/2010	43.00	27/09/2013	27/09/2013 - 26/09/2020	1,600,000	-	-	100,000	1,500,000
	27/09/2011	8.76	27/09/2014	27/09/2014 - 26/09/2021	4,050,000	-	-	150,000	3,900,000
	12/12/2012	12.32	12/12/2015	12/12/2015 - 11/12/2022	2,815,000	-	-	150,000	2,665,000
	11/03/2013	10.04	11/03/2016	11/03/2016 - 10/03/2023	4,719,000	-	-	642,000	4,077,000
			11/03/2017	11/03/2017 - 10/03/2023	1,573,000	-	-	214,000	1,359,000
			11/03/2018	11/03/2018 - 10/03/2023	1,573,000	-	-	304,000	1,269,000
	04/11/2013	14.18	04/11/2016	04/11/2016 - 03/11/2023	6,780,000	-	-	875,000	5,905,000
			04/11/2017	04/11/2017 - 03/11/2023	660,000	-	-	100,000	560,000
			04/11/2018	04/11/2018 - 03/11/2023	660,000	-	-	100,000	560,000
	21/03/2014	13.592	21/03/2017	21/03/2017 - 20/03/2024	300,000	-	-	300,000	-
			21/03/2018	21/03/2018 - 20/03/2024	100,000	-	-	100,000	-
			21/03/2019	21/03/2019 - 20/03/2024	100,000	-	-	100,000	-
	30/06/2014	11.00	30/06/2017	30/06/2017 - 29/06/2024	180,000	-	-	-	180,000
			30/06/2018	30/06/2018 - 29/06/2024	60,000	-	-	-	60,000
			30/06/2019	30/06/2019 - 29/06/2024	60,000	-	-	-	60,000
	31/10/2014	10.124	23/03/2015	23/03/2015 - 30/10/2024	100,000	-	-	-	100,000
			31/10/2017	31/10/2017 - 30/10/2024	7,195,000	-	-	925,000	6,270,000
			31/10/2018	31/10/2018 - 30/10/2024	40,000	-	-	-	40,000
			31/10/2019	31/10/2019 - 30/10/2024	40,000	-	-	-	40,000
	13/10/2015	6.55	13/10/2018	13/10/2018 - 12/10/2025	7,650,000	-	-	750,000	6,900,000
			13/10/2019	13/10/2019 - 12/10/2025	600,000	-	-	-	600,000
			13/10/2020	13/10/2020 - 12/10/2025	600,000	-	-	-	600,000
	23/12/2015	8.07	13/10/2018	13/10/2018 - 12/10/2025	125,000	-	-	-	125,000

Share option schemes (continued)

2009 Share Option Scheme (continued)

	Date of grant (dd/mm/yyyy)	Exercise price (HK\$)	Vesting date (dd/mm/yyyy)	Exercise period (dd/mm/yyyy)	Number of share options				
					As at 01/07/2017	Granted	Exercised	Lapsed	As at 31/12/2017
Employees (continued)	03/05/2016	6.82	03/05/2019	03/05/2019 - 02/05/2026	240,000	-	-	-	240,000
			03/05/2020	03/05/2020 - 02/05/2026	80,000	-	-	-	80,000
			03/05/2021	03/05/2021 - 02/05/2026	80,000	-	-	-	80,000
	31/10/2016	6.87	31/10/2019	31/10/2019 - 30/10/2026	6,100,000	-	-	400,000	5,700,000
	07/11/2017	4.65	07/11/2020	07/11/2020 - 06/11/2027	-	6,790,000	-	-	6,790,000
07/11/2021			07/11/2021 - 06/11/2027	-	230,000	-	-	230,000	
07/11/2022			07/11/2022 - 06/11/2027	-	230,000	-	-	230,000	
Total					57,940,000	7,250,000	-	5,210,000	59,980,000

Notes:

- The closing price of the shares of the Company immediately before the share options granted on 7 November 2017 was HK\$4.67.
- No share options were canceled under the 2009 Share Option Scheme during the six months ended 31 December 2017.

Share options expenses under 2009 Share Option Scheme

Share option expenses charged to the consolidated income statement are based on valuations determined using the Binomial model. Share options granted during the period were valued based on the following assumptions:

Date of grant	Share option value ¹ (HK\$)	Share price at the date of grant ² (HK\$)	Exercise price (HK\$)	Expected volatility ³	Annual risk-free interest rate ⁴	Life of share option ⁵	Dividend yield ⁶
2009 Share Option Scheme							
7 November 2017	1.24 - 1.81	4.38	4.65	36.69% - 43.75%	1.33% - 1.50%	4 - 6 years	0.07%

Notes:

- Since the share option pricing model requires input of highly subjective assumptions, fair values calculated are therefore inherently subjective and the model may not necessarily provide a reliable measure of share option expense.
- The share price at the date of grant disclosed is the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the relevant share option; where the date of grant of the relevant share option did not fall on a Business Day (as defined in the Listing Rules), the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet immediately preceding the date of grant was disclosed.
- As stated in IFRS 2, the issuer can use either (i) implied volatilities obtained from market information; or (ii) historical volatilities as expected volatility input to the Binomial option pricing model. For share options granted under the 2009 Share Option Scheme, Esprit has estimated volatility based on the historical stock prices over the period corresponding to the expected life preceding the date of grant, expressed as an annualized rate and based on daily price changes.
- The risk-free interest rate was based on the market yield of Hong Kong Exchange Fund notes with a remaining life corresponding to the expected share option life.
- The expected share option life was determined by reference to historical data of share option holders' behavior.
- For share options granted under the 2009 Share Option Scheme, dividend yield was based on the average dividend yield (including special dividend) for the three years preceding the year of grant.

Share award scheme

The Board of Directors has adopted the Employees' Share Award Scheme (the "Share Award Scheme") on 17 March 2016. A summary of the movements of the outstanding awarded shares under the Share Award Scheme, including the awarded shares granted, during the period under review is as follows:

	Date of grant (dd/mm/yyyy)	Vesting date (dd/mm/yyyy)	Number of awarded shares				As at 31/12/2017
			As at 01/07/2017	Granted	Vested	Lapsed	
Directors							
Jose Manuel	29/04/2016	13/10/2017	758,932	-	758,932	-	-
MARTINEZ	31/10/2016	31/10/2018	655,526	-	-	-	655,526
GUTIERREZ	31/10/2016	31/10/2019	655,526	-	-	-	655,526
	03/10/2017	03/10/2019	-	327,318	-	-	327,318
	03/10/2017	03/10/2020	-	327,318	-	-	327,318
	In aggregate		2,069,984	654,636	758,932	-	1,965,688
Thomas TANG							
Wing Yung	29/04/2016	13/10/2017	347,844	-	347,844	-	-
	31/10/2016	31/10/2018	184,585	-	-	-	184,585
	31/10/2016	31/10/2019	184,585	-	-	-	184,585
	03/10/2017	03/10/2019	-	67,630	-	-	67,630
	03/10/2017	03/10/2020	-	67,630	-	-	67,630
	In aggregate		717,014	135,260	347,844	-	504,430
Employees							
	29/04/2016	13/10/2017	2,276,796	-	1,966,899	309,897	-
	31/10/2016	31/10/2018	1,737,731	-	-	203,420	1,534,311
	31/10/2016	31/10/2019	1,737,731	-	-	203,420	1,534,311
	03/10/2017	03/10/2019	-	820,035	-	-	820,035
	03/10/2017	03/10/2020	-	820,035	-	-	820,035
Total			8,539,256	2,429,966	3,073,675	716,737	7,178,810

Awarded shares expenses under Share Award Scheme

During the six months ended 31 December 2017, the following awarded shares were granted to selected employees of the Group (including Executive Directors of the Company) 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

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

Substantial shareholders' interests

As at 31 December 2017, the following shareholders (other than the Directors and chief executives of the Company whose interests or short positions in the shares and underlying shares of the Company disclosed above) had interests or short positions in the shares and underlying shares of the Company which were recorded in the register required to be kept by the Company under section 336 of the SFO:

Name of shareholders	Capacity	Number of shares (Long position)	Approximate percentage of aggregate interest to total issued share capital	Number of shares (Short position)	Approximate percentage of aggregate interest to total issued share capital
Marathon Asset Management LLP (Note 1)	Investment manager	233,558,938	12.27%	-	-
Massachusetts Financial Services Company (Note 2)	Investment manager	216,606,754	11.38%	-	-
Sun Life Financial, Inc. (Note 2)	Investment manager	216,606,754	11.38%	-	-
Total Market Limited (Note 3)	Beneficial owner	211,822,656	11.13%	-	-
Claudine Lauren YING (Note 3)	Interest in a controlled corporation	211,822,656	11.13%	-	-
Eileen YING (Note 3)	Interest in a controlled corporation	211,822,656	11.13%	-	-
Citigroup Inc.	Person having a security interest in shares	3,252,340	0.17%	-	-
	Interest in a controlled corporation	24,382,110	1.28%	5,612,961	0.29%
	Approved lending agent	68,055,509	3.57%	-	-
		95,689,959	5.02%	5,612,961	0.29%

Notes:

1. Marathon Asset Management LLP is 40.05%, 40.05% and 19.90% controlled by Mr William ARAH, Mr Neil OSTRER and Marathon Asset Management (Services) Limited respectively.
2. Massachusetts Financial Services Company ("MFS") is a subsidiary of Sun Life Financial, Inc. ("SLF"). Accordingly, SLF was deemed to be interested in the shares held by MFS and its direct and indirect subsidiaries.
3. Total Market Limited is 50% and 50% owned by Ms Claudine Lauren YING and Ms Eileen YING respectively.

Save as disclosed hereinabove and in the "Directors' interests and short positions in shares, underlying shares and debentures" section above, the Company has not been notified by any person who had interest or short position in the shares or underlying shares of the Company as at 31 December 2017 which were required to be notified to the Company pursuant to Part XV of the SFO or which are recorded in the register required to be kept by the Company under section 336 of the SFO.

Interim dividend

The Board of Directors 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 of Directors 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:

2017	Number of shares repurchased	Purchase price per share	
		Highest (HK\$)	Lowest (HK\$)
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 in this report with regard to the purchase of existing share(s) by the trustee appointed for the administration of the Share Award Scheme, 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.

American depositary receipt program

The Company has established a Level 1 sponsored American Depositary Receipt program with details as stated hereunder.

Symbol	ESPGY
CUSIP	29666V204
ISIN	US29666V2043
Ratio	2 Ordinary shares: 1 ADR
Country	Hong Kong
Effective Date	18 November 2009
Depository	Deutsche Bank Trust Company Americas

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.

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.

On behalf of the Board
ESPRIT HOLDINGS LIMITED

Dr Raymond OR Ching Fai
Chairman

Hong Kong, 28 February 2018

05 Glossary of terms

A

ADR

American Depositary Receipt

C

Capex

Capital expenditure

Comparable store (comp-store)

A directly managed retail store in existence on 1 July of the previous financial year and is still in operation at the reporting period end date and its total net sales area has been changed by less than 10% within the current reporting period

Comp-store sales growth

Local currency year-on-year change in sales generated by comparable stores

Controlled wholesale space

POS which Esprit wholesale management team has control over the look and feel such as Esprit brand name logo, visual merchandising, etc. Includes franchise stores, shop-in-stores and identity corners with wholesale partners

D

Directly managed retail stores

Standalone stores, concession counters mainly in department stores and off-price outlets fully managed by Esprit

E

EBIT/LBIT

Earnings before interest and tax/Loss before interest and tax

EBITDA

Earnings before interest, tax, depreciation and amortization

EPS

Earnings per share

Eshop

Online store

F

Franchise stores

Standalone stores or concession counters in department stores managed by wholesale partners

I

Identity corners

Controlled wholesale space mainly in multi-label retailers offering a limited range of Esprit products. Esprit has limited involvement in store appearance

Inventory turnover days

Calculated as average inventory (excluding consumables) over average daily cost of goods sold

L

LCY

Local currency

O

Off-price outlets

Situated in the vicinity of major markets. Offer prior season products at a more competitive price and product collection exclusively made for outlets

P

Partnership stores (PSS)

Same as Franchise stores

POS

Point of sales

S

Sales productivity

Sales per sqm

Shop-in-stores

Controlled wholesale space in department stores managed by wholesale partners

Sqm

Square meters

Y

Yoy

Year-on-year





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