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ESPRIT

ESPRIT HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

STOCK CODE: 00330

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 30 JUNE 2019

ANNUAL RESULTS

The board of directors (the “Board”) of Esprit Holdings Limited (the “Company”) announces the audited consolidated results of the Company and its subsidiaries (the “Group” or “Esprit”) for the year ended 30 June 2019 together with comparative figures for the year ended 30 June 2018. The following financial information, including the comparative figures, has been prepared in accordance with International Financial Reporting Standards (“IFRS”).

Consolidated income statement

		For the year ended 30 June	
		2019	2018
	Notes	HK\$ million	HK\$ million
Revenue	2	12,932	15,455
Cost of goods sold		(6,431)	(7,534)
		<hr/>	<hr/>
Gross profit		6,501	7,921
Staff costs		(2,806)	(3,087)
Occupancy costs		(2,088)	(2,526)
Logistics expenses		(821)	(1,029)
Marketing and advertising expenses		(634)	(900)
Depreciation		(455)	(528)
Provision for store closures and leases, net	10	(895)	(152)
Impairment of property, plant and equipment		(110)	(90)
Write back of/(additional) provision for closure costs of operations in Australia and New Zealand	11	25	(129)
Impairment of goodwill	3	-	(664)
Impairment of customer relationships	3	-	(130)
Gain on disposal of a property	12	-	16
Other operating costs		(797)	(955)
		<hr/>	<hr/>
Operating loss (LBIT)	3	(2,080)	(2,253)
Interest income		49	58
Finance costs	4	(35)	(31)
		<hr/>	<hr/>
Loss before taxation		(2,066)	(2,226)
Taxation charge	5	(78)	(328)
		<hr/>	<hr/>
Loss attributable to shareholders of the Company		(2,144)	(2,554)
		<hr/> <hr/>	<hr/> <hr/>
Loss per share			
- Basic and diluted	7	HK\$(1.14)	HK\$(1.35)
		<hr/> <hr/>	<hr/> <hr/>

Consolidated statement of comprehensive income

	For the year ended 30 June	
	2019	2018
	HK\$ million	HK\$ million
Loss attributable to shareholders of the Company	(2,144)	(2,554)
	-----	-----
Other comprehensive income		
Item that will not be reclassified to profit or loss:		
Remeasurements of retirement defined benefit obligations	(4)	(4)
Items that may be reclassified subsequently to profit or loss:		
Fair value (loss)/gain on cash flow hedge, net of tax	(40)	152
Exchange translation	(130)	114
	-----	-----
	(174)	262
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Total comprehensive income for the year attributable to shareholders of the Company, net of tax	(2,318)	(2,292)
	=====	=====

Consolidated statement of financial position

		As at 30 June	
	Notes	2019 HK\$ million	2018 HK\$ million
Non-current assets			
Intangible assets		2,050	2,063
Property, plant and equipment		1,128	1,571
Investment properties		27	24
Financial assets at fair value through profit or loss		12	-
Other investments		-	7
Debtors, deposits and prepayments		120	140
Deferred tax assets		559	524
		<u>3,896</u>	<u>4,329</u>
Current assets			
Inventories		1,845	2,296
Debtors, deposits and prepayments	8	1,499	1,418
Tax receivable		80	143
Cash, bank balances and deposits		3,282	4,521
		<u>6,706</u>	<u>8,378</u>
Current liabilities			
Creditors and accrued charges	9	2,504	2,919
Provision for store closures and leases	10	940	397
Tax payable		161	57
		<u>3,605</u>	<u>3,373</u>
Net current assets		<u>3,101</u>	<u>5,005</u>
Total assets less current liabilities		<u>6,997</u>	<u>9,334</u>
Equity			
Share capital		189	189
Reserves		6,524	8,837
Total equity		<u>6,713</u>	<u>9,026</u>
Non-current liabilities			
Retirement defined benefit obligations		31	26
Deferred tax liabilities		253	282
		<u>284</u>	<u>308</u>
		<u>6,997</u>	<u>9,334</u>

Notes to the consolidated financial statements

1. Basis of preparation

These consolidated financial statements of the Group have been prepared in accordance with IFRS and the disclosure requirements of the Hong Kong Companies Ordinance.

In the current year, the Group has adopted the following International Accounting Standards (“IAS”) and IFRS effective for the Group’s financial year beginning 1 July 2018:

IAS 40 (Amendments)	Transfers of Investment Property
IFRIC 22	Foreign Currency Transactions and Advance Consideration
IFRS 2 (Amendments)	Classification and Measurement of Share-based Payment Transactions
IFRS 4 (Amendments)	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
IFRS 15 (Amendments)	Clarification of IFRS 15
IFRSs (Amendments)	Annual Improvements to IFRSs 2014-2016 Cycle

Apart from IFRS 9 and IFRS 15, the adoption of the other newly effective interpretation and the amendments to an existing standard did not result in substantial changes to the Group’s accounting policies or financial results. The following describes the key changes arising from the adoption of the IFRS 9 and IFRS 15 that impact the consolidated financial statements of the Group.

The Group elected to adopt IFRS 9 and IFRS 15 without restating comparatives and change its accounting policies from 1 July 2018. The reclassifications and the adjustments resulted from the initial adoption of IFRS 9 and IFRS 15 are therefore not reflected in the consolidated statement of financial position as at 30 June 2018, but are recognized in the opening consolidated statement of financial position on 1 July 2018.

1. Basis of preparation (continued)

The table below shows the adjustments recognized in the opening balances of each individual financial statement line item affected.

Consolidated statement of financial position (extract)

	30 June 2018 HK\$ million (as previously reported)	Impact on initial adoption of IFRS 9 HK\$ million	Impact on initial adoption of IFRS 15 HK\$ million	1 July 2018 HK\$ million (restated)
Non-current assets				
Financial assets at fair value through profit or loss	-	17	-	17
Other investments	7	(7)	-	-
Current assets				
Debtors, deposits and prepayments	1,418	-	38	1,456
Current liabilities				
Creditors and accrued charges	2,919	-	38	2,957
Equity				
Reserves	8,837	10	-	8,847

The total impact on the Group's retained profits due to the classification and measurement of financial instruments as at 1 July 2018 is as follows:

	At 1 July 2018 HK\$ million
Opening retained profits – after IAS 39	846
Adjustment to retained profits from adoption of IFRS 9	10
Opening retained profits – after IFRS 9	856

IFRS 9 "Financial Instruments"

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

Classification and measurement

IFRS 9 categorizes financial assets into three principal classification categories: measured at amortized cost, at fair value through other comprehensive income ("FVOCI") and at fair value through profit or loss ("FVPL"). The classification of financial assets under IFRS 9 is based on the business model under which the financial assets is managed and its contractual cash flow characteristics.

The Group's management has considered the business models applying to the financial assets held by the Group and categorized the financial assets into the appropriate categories upon the initial application of IFRS 9 on 1 July 2018.

1. Basis of preparation (continued)

IFRS 9 "Financial Instruments" (continued)

The impact of the reclassification on the consolidated statement of financial position is as follows:

	Other investments HK\$ million	At 1 July 2018 Financial assets at fair value through profit or loss HK\$ million
Opening balance – IAS 39	7	-
Reclassify of investment in club debentures to financial assets at fair value through profit or loss	(6)	6
Reclassify of investment in equity securities to financial assets at fair value through profit or loss	(1)	1
Opening balance – after IFRS 9	-	7

The Group elected to present in profit or loss changes in the fair value of all its club debentures and investment in equity securities because the club debentures and the investment in equity securities are not qualified to be classified and measured at amortized cost or fair value through other comprehensive income at the date of initial application of IFRS 9.

Impairment of financial assets

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, certain financial guarantee contracts and cash and cash equivalents. The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. However, there is no significant impact on the Group's accounting with respect to impairment of trade receivables. Accordingly, the opening balance of retained profits as at 1 July 2018 is not adjusted in respect of the adoption of simplified approach and measuring expected credit loss.

Hedge accounting

The Group applies hedge accounting prospectively. All hedge accounting relationships designated under the previous IAS 39 have continued to be valid hedge accounting relationships in accordance with IFRS 9. Upon transition to IFRS 9, the Group continues to recognize derivative financial instruments which are not under effective hedge relationships to be classified under fair value through profit or loss.

1. Basis of preparation (continued)

IFRS 9 "Financial Instruments" (continued)

The Group's risk management strategies and hedge documentation are aligned with the requirements of IFRS 9 and these relationships are therefore treated as continuing hedges. The foreign currency forwards in place as at 30 June 2018 qualified as cash flow hedges under IFRS 9. Consistent with prior periods, the Group has continued to designate the change in fair value of the entire forward contract in the Group's cash flow hedge relationships and, as such, the adoption of the hedge accounting requirements of IFRS 9 had no significant impact on the Group's financial information.

IFRS 15 "Revenue from Contracts with Customers"

IFRS 15 replaces the provisions of IAS 18, which resulted in changes in accounting policies that relate to revenue recognition, contract costs and presentation of contract assets and liabilities. The new standard is based on the principle that revenue is recognized when the control of a good or service transfers to a customer.

The Group's revenue is generated from the sales of products to its customers through wholesale, retail (excluding eshop) and eshop channels and licensing income. The Group's management has assessed that the adoption of IFRS 15 has no significant impact on the Group's revenue recognition policy.

Accounting for customer loyalty programme

In previous reporting periods, the consideration received from the sale of goods was allocated to the points and the goods sold using the residual method. Under this method, a part of the consideration equalling the fair value of the points was allocated to the points. The residual part of the consideration was allocated to the goods sold.

Under IFRS 15, the total consideration is allocated to the points and goods based on the relative stand-alone selling prices. There is no significant impact resulted from the adoption.

Accounting for sales returns

The Group grants its retail and wholesale customers with rights of return in a designated time period. Prior to the adoption of IFRS 15, the Group used expected value method to estimate the value of returns and recognized net liabilities under creditors and accrued charges in the consolidated statement of financial position. Upon the adoption of IFRS 15, the Group recognizes return liabilities and assets for the rights to recover products from customers upon return separately in the consolidated statement of financial position.

The impact of the reclassification on the consolidated statement of financial position is as follows:

	Debtors, deposits and prepayments HK\$ million	At 1 July 2018 Creditors and accrued charges HK\$ million
Opening balance – IAS 18	1,418	2,919
Increase in right of return assets and return liabilities with the adoption of IFRS 15	38	38
Opening balance – after IFRS 15	1,456	2,957

1. Basis of preparation (continued)

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

		Effective for accounting periods beginning on or after
IAS 1 and IAS 8 (Amendments)	Definition of Material	1 January 2020
IAS 19 (Amendments)	Plan Amendment, Curtailment or Settlement	1 January 2019
IAS 28 (Amendments)	Long-term Interests in Associates and Joint Ventures	1 January 2019
IFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019
IFRS 3 (Amendments)	Definition of Business	1 January 2020
IFRS 9 (Amendments)	Prepayment Features with Negative Compensation	1 January 2019
IFRS 10 and IAS 28 (Amendments)	Sales or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined
IFRS 16	Leases	1 January 2019
IFRS 17	Insurance Contracts	1 January 2021
IFRSs (Amendments)	Annual Improvements to IFRSs 2015-2017 Cycle	1 January 2019

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

1. Basis of preparation (continued)

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 Group is assessing the impact of the adoption of IFRS 16 which is expected to lead to a material increase in both assets and liabilities at 1 July 2019. As at 30 June 2019, the Group had operating lease commitments of **HK\$5,578 million**. Based on information currently available, the Group expects to recognize right-of-use assets and lease liabilities of approximately HK\$4,270 million and HK\$5,092 million respectively on 1 July 2019. The adoption of IFRS 16 will have no impact on the Group’s cash flows except to present part of cash outflows as financing instead of operating. The actual impact upon the initial adoption of this standard however may differ as the assessment to date is based on the information currently available to the Group, and further impacts may be identified before the standard is initially applied in the Group’s interim financial report for the six months ending 31 December 2019.

Fixed lease expenses in the consolidated income statement will be replaced by depreciation and interest expenses. Adoption of the new standard will have effects to the financial performance of the Group by increasing EBITDA and EBIT, while, when comparing to the IAS 17, higher expenses will be incurred in the early years of lease terms, diminishing over the lease terms and will result lower expenses in the later part of the lease terms.

The Group does not intend to adopt the standard before its effective date. The Group intends to apply the modified retrospective approach and will not restate comparative amounts for the year prior to first adoption.

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.

	2019	2018
	HK\$ million	HK\$ million
Revenue from external customers		
Germany	4,426	5,281
Rest of Europe	3,559	4,199
Asia Pacific	1,102	1,674
eshop	3,728	4,169
Licensing and others	117	132
	12,932	15,455

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.

2. Revenue and segment information (continued)

	For the year ended 30 June 2019					
	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	2,226	1,805	1,003	3,728	-	8,762
Wholesale	2,200	1,754	99	-	-	4,053
Licensing and others	-	-	-	-	5,776	5,776
Total	4,426	3,559	1,102	3,728	5,776	18,591
Inter-segment revenue	-	-	-	-	(5,659)	(5,659)
Revenue from external customers						
Retail	2,226	1,805	1,003	3,728	-	8,762
Wholesale	2,200	1,754	99	-	-	4,053
Licensing and others	-	-	-	-	117	117
Total	4,426	3,559	1,102	3,728	117	12,932
Segment results						
Retail	(150)	(132)	(101)	679	-	296
Wholesale	477	122	5	-	-	604
Licensing and others	-	-	-	-	(1,487)	(1,487)
EBIT/(LBIT) of the underlying operations	327	(10)	(96)	679	(1,487)	(587)
Provision for store closures and leases, net						
Retail	(686)	(174)	(35)	-	-	(895)
One-off costs in relation to staff reduction plans						
Retail	(74)	9	(3)	(7)	-	(75)
Wholesale	(1)	(5)	(1)	-	-	(7)
Licensing and others	-	-	-	-	(272)	(272)
Total	(75)	4	(4)	(7)	(272)	(354)
Inventory provision						
Retail	-	-	(4)	(1)	-	(5)
Licensing and others	-	-	-	-	(154)	(154)
Total	-	-	(4)	(1)	(154)	(159)

2. Revenue and segment information (continued)

	For the year ended 30 June 2019					
	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
Impairment of property, plant and equipment						
Retail	(66)	(33)	(5)	-	-	(104)
Wholesale	-	(5)	-	-	-	(5)
Licensing and others	-	-	-	-	(1)	(1)
Total	(66)	(38)	(5)	-	(1)	(110)
Write back of provision for closure costs of operations in Australia and New Zealand						
Retail	-	-	23	-	-	23
Licensing and others	-	-	-	-	2	2
Total	-	-	23	-	2	25
(LBIT)/EBIT of the Group	(500)	(218)	(121)	671	(1,912)	(2,080)
Interest income						49
Finance costs						(35)
Loss before taxation						<u>(2,066)</u>
Capital expenditure						
Retail	27	31	11	12	6	87
Wholesale	6	5	9	-	4	24
Licensing and others	-	-	4	-	48	52
Total	33	36	24	12	58	163
Depreciation						
Retail	52	52	26	12	-	142
Wholesale	9	9	2	-	-	20
Licensing and others	-	-	-	-	293	293
Total	61	61	28	12	293	455

2. Revenue and segment information (continued)

	For the year ended 30 June 2018					
	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	2,660	2,031	1,560	4,169	-	10,420
Wholesale	2,621	2,168	114	-	-	4,903
Licensing and others	-	-	-	-	7,144	7,144
	<u>5,281</u>	<u>4,199</u>	<u>1,674</u>	<u>4,169</u>	<u>7,144</u>	<u>22,467</u>
Inter-segment revenue	-	-	-	-	(7,012)	(7,012)
Revenue from external customers						
Retail	2,660	2,031	1,560	4,169	-	10,420
Wholesale	2,621	2,168	114	-	-	4,903
Licensing and others	-	-	-	-	132	132
	<u>5,281</u>	<u>4,199</u>	<u>1,674</u>	<u>4,169</u>	<u>132</u>	<u>15,455</u>
Segment results						
Retail	(349)	(181)	(258)	668	1	(119)
Wholesale	628	211	15	-	-	854
Licensing and others	-	-	-	-	(1,644)	(1,644)
	<u>279</u>	<u>30</u>	<u>(243)</u>	<u>668</u>	<u>(1,643)</u>	<u>(909)</u>
(Additional)/write back of provision for store closure and leases, net						
Retail	(124)	1	(29)	-	-	(152)
One-off costs in relation to staff reduction plans						
Retail	(46)	(7)	(4)	-	(1)	(58)
Wholesale	(4)	(9)	-	-	(1)	(14)
Licensing and others	-	-	-	-	(47)	(47)
	<u>(50)</u>	<u>(16)</u>	<u>(4)</u>	<u>-</u>	<u>(49)</u>	<u>(119)</u>
Inventory provision						
Retail	-	-	(15)	(6)	-	(21)
Licensing and others	-	-	-	-	(55)	(55)
	<u>-</u>	<u>-</u>	<u>(15)</u>	<u>(6)</u>	<u>(55)</u>	<u>(76)</u>

2. Revenue and segment information (continued)

	For the year ended 30 June 2018					
	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
Impairment of property, plant and equipment						
Retail	(50)	(17)	(8)	-	-	(75)
Licensing and others	-	-	-	-	(15)	(15)
Total	<u>(50)</u>	<u>(17)</u>	<u>(8)</u>	<u>-</u>	<u>(15)</u>	<u>(90)</u>
Provision for closure costs of operations in Australia and New Zealand						
Retail	-	-	(122)	(2)	-	(124)
Licensing and others	-	-	-	-	(5)	(5)
Total	<u>-</u>	<u>-</u>	<u>(122)</u>	<u>(2)</u>	<u>(5)</u>	<u>(129)</u>
Impairment of goodwill						
Retail	-	-	(37)	(511)	-	(548)
Wholesale	-	-	(116)	-	-	(116)
Total	<u>-</u>	<u>-</u>	<u>(153)</u>	<u>(511)</u>	<u>-</u>	<u>(664)</u>
Impairment of customer relationships						
Wholesale	-	-	(130)	-	-	(130)
Gain on disposal of a property						
Retail	-	-	16	-	-	16

2. Revenue and segment information (continued)

	For the year ended 30 June 2018					
	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
EBIT/(LBIT) of the Group	55	(2)	(688)	149	(1,767)	(2,253)
Interest income						58
Finance costs						(31)
Loss before taxation						(2,226)
Capital expenditure						
Retail	32	69	31	21	10	163
Wholesale	7	6	1	-	1	15
Licensing and others	-	1	8	-	118	127
Total	39	76	40	21	129	305
Depreciation						
Retail	72	67	47	8	13	207
Wholesale	12	13	2	-	1	28
Licensing and others	-	-	-	-	293	293
Total	84	80	49	8	307	528

2. Revenue and segment information (continued)

Revenue from external customers is attributed to the following countries based on the location in which the sales originated:

	2019 HK\$ million	2018 HK\$ million
Germany (Note 1)	4,426	5,281
Rest of Europe		
Benelux	1,113	1,332
Switzerland	572	634
France	531	675
Austria	470	535
Spain	189	211
Finland	173	196
Sweden	151	183
Italy	105	121
Poland	55	65
United Kingdom	50	63
Denmark	34	52
Others (Note 2)	116	132
	<u>3,559</u>	<u>4,199</u>
Asia Pacific		
China	380	585
Singapore	185	222
Malaysia	140	155
Taiwan	120	151
Hong Kong	102	173
Macau	59	73
Australia and New Zealand	35	241
Others (Note 3)	81	74
	<u>1,102</u>	<u>1,674</u>
eshop		
Germany	2,232	2,479
Benelux	509	562
France	205	231
Austria	199	207
Switzerland	190	204
China	101	175
United Kingdom	45	49
Poland	35	28
Denmark	34	38
Sweden	32	36
Finland	27	28
Spain	19	18
Italy	9	9
Australia and New Zealand	1	21
Others	90	84
	<u>3,728</u>	<u>4,169</u>

2. Revenue and segment information (continued)

	2019 HK\$ million	2018 HK\$ million
Licensing and others		
Rest of Europe (Note 4)	87	101
Germany	30	31
	<u>117</u>	<u>132</u>
	<u><u>12,932</u></u>	<u><u>15,455</u></u>

Note 1: Germany revenue includes wholesale revenue from other European countries mainly from Bosnia-Herzegovina, Slovenia and Russia.

Note 2: Others under Rest of Europe include revenue from other countries mainly Chile, Colombia and Canada.

Note 3: Others under Asia Pacific include wholesale revenue from other countries mainly Thailand, India and the Philippines.

Note 4: Revenue from Rest of Europe represents licensing income that comes from Asia Pacific, Europe other than Germany and America.

3. Operating loss (LBIT)

	2019 HK\$ million	2018 HK\$ million
LBIT is arrived at after charging and (crediting) the following:		
Staff costs (Note)	2,806	3,087
Occupancy costs		
- operating lease charge (including variable rental of HK\$109 million (2018: HK\$177 million))	1,607	1,986
- other occupancy costs	481	540
Provision for store closures and leases, net (Note)	895	152
Depreciation	455	528
Provision for obsolete inventories, net	141	96
Impairment of property, plant and equipment (Note)	110	90
Other net exchange losses/(gains)	39	(31)
Provision for impairment of trade debtors, net	20	54
Auditor's remuneration	14	16
Loss on disposal of plant and equipment	6	11
Decrease in fair value of financial assets at fair value through profit or loss	5	-
(Write back of)/additional provision for closure costs of operations in Australia and New Zealand (Note 11)	(25)	129
Impairment of goodwill (Note)	-	664
Impairment of customer relationships (Note)	-	130
Amortization of customer relationships	-	30
Gain on disposal of a property (Note 12)	-	(16)
	<u> </u>	<u> </u>

Note : During the year, the Group executed a restructuring plan i) to reduce complexity and improve accountability in the Group by becoming a leaner organization and ii) eliminate loss-making parts of the business to build a stronger foundation for the future. The Group recognized one-off costs in relation to staff reduction plans of **HK\$354 million** of which **HK\$350 million** was reported under staff costs and **HK\$4 million** was reported under other operating costs, a net additional provision for store closures and onerous leases of **HK\$895 million** (Note 10) and an impairment of property, plant and equipment of **HK\$110 million**.

In the last financial year, 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, amounting to HK\$664 million and HK\$130 million respectively during the year ended 30 June 2018.

4. Finance costs

	2019 HK\$ million	2018 HK\$ million
Imputed interest on financial assets and financial liabilities	<u>35</u>	<u>31</u>

5. Taxation

	2019 HK\$ million	2018 HK\$ million
Current tax		
Hong Kong profits tax		
Provision for current year	-	-
Overseas taxation		
Provision for current year	134	84
Under-provision for prior years	-	49
	<u>134</u>	<u>133</u>
Deferred tax		
Current year net (credit)/charge	(56)	195
	<u>78</u>	<u>328</u>

Hong Kong profits tax is calculated at **16.5%** (2018: 16.5%) on the estimated assessable profit for the year, net of tax losses carried forward, if applicable.

Overseas (outside of Hong Kong) taxation has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group companies operate, net of tax losses carried forward, if applicable.

6. Dividends

The Board did not declare and recommend the distribution of any dividend for the year ended 30 June 2019 (2018: nil).

7. Loss per share

Basic

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

	2019	2018
Loss attributable to shareholders of the Company (HK\$ million)	<u>(2,144)</u>	<u>(2,554)</u>
Number of ordinary shares in issue at 1 July (million)	1,887	1,944
Adjustment for shares repurchased (million)	-	(38)
Adjustment for shares held for Share Award Scheme (million)	<u>(8)</u>	<u>(8)</u>
Weighted average number of ordinary shares in issue less shares held for Share Award Scheme (million)	<u>1,879</u>	<u>1,898</u>
Basic loss per share (HK\$ per share)	<u>(1.14)</u>	<u>(1.35)</u>

Diluted

Diluted loss per share is calculated based on dividing the loss attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the year (less shares held for Share Award Scheme) adjusted by the dilutive effect of share options and awarded shares.

	2019	2018
Loss attributable to shareholders of the Company (HK\$ million)	<u>(2,144)</u>	<u>(2,554)</u>
Weighted average number of ordinary shares in issue less shares held for Share Award Scheme (million)	1,879	1,898
Adjustments for share options and awarded shares (million)	<u>-</u>	<u>-</u>
Weighted average number of ordinary shares for diluted earnings per share (million)	<u>1,879</u>	<u>1,898</u>
Diluted loss per share (HK\$ per share)	<u>(1.14)</u>	<u>(1.35)</u>

Diluted loss per share of the year ended 30 June 2019 was the same as the basic loss per share since the share options and awarded shares had anti-dilutive effect.

8. Debtors, deposits and prepayments

	2019 HK\$ million	2018 HK\$ million
Trade debtors	1,205	1,178
Less: provision for impairment of trade debtors	(179)	(204)
	<u>1,026</u>	<u>974</u>
Deposits	92	123
Prepayments	164	126
Right of return assets	88	-
Other debtors and receivables	249	335
	<u>1,619</u>	<u>1,558</u>
Non-current portion of deposits	(68)	(82)
Non-current portion of prepayments	(38)	(46)
Non-current portion of other debtors and receivables	(14)	(12)
	<u>1,499</u>	<u>1,418</u>

The aging analysis by invoice date of trade debtors net of provision for impairment is as follows:

	2019 HK\$ million	2018 HK\$ million
0-30 days	725	628
31-60 days	113	126
61-90 days	74	79
Over 90 days	114	141
	<u>1,026</u>	<u>974</u>

As of 30 June 2019, trade debtors net of provision for impairment of **HK\$232 million** (30 June 2018: HK\$169 million) were past due but not impaired. The aging analysis of these trade debtors is as follows:

	2019 HK\$ million	2018 HK\$ million
1-30 days	167	95
31-60 days	16	8
61-90 days	4	15
Over 90 days	45	51
	<u>232</u>	<u>169</u>

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.

9. Creditors and accrued charges

	2019 HK\$ million	2018 HK\$ million
Trade creditors	425	722
Accruals	1,267	1,436
Return liabilities	202	-
Other creditors and payables	610	761
	<u>2,504</u>	<u>2,919</u>

The aging analysis by invoice date of trade creditors is as follows:

	2019 HK\$ million	2018 HK\$ million
0-30 days	335	460
31-60 days	54	194
61-90 days	27	39
Over 90 days	9	29
	<u>425</u>	<u>722</u>

10. Provision for store closures and leases

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

	2019 HK\$ million	2018 HK\$ million
At 1 July	397	393
Provision for store closures and leases, net	895	152
Amounts used during the year	(348)	(152)
Exchange translation	(4)	4
At 30 June	<u>940</u>	<u>397</u>

During the year, the Group executed a restructuring plan i) to reduce complexity and improve accountability in the Group by becoming a leaner organization and ii) eliminate loss-making parts of the business to build a stronger foundation for the future. The Group recognized a net additional provision of **HK\$895 million** (2018: HK\$152 million) for store closures and onerous leases in relation to loss-making stores in Europe and Asia.

During the year, the Group recognized unwinding of discount totaling **HK\$35 million** (2018: HK\$27 million) which was recognized under amounts used during the year.

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

10. Provision for store closures and leases (continued)

As at 30 June 2019, the provision expected to be settled within twelve months after the date of the statement of financial position is **HK\$783 million** (2018: HK\$57 million) and the provision expected to be settled more than twelve months after the date of the statement of financial position is **HK\$157 million** (2018: HK\$340 million).

11. Provision for closure costs of operations in Australia and New Zealand

In order to allow management to concentrate efforts and resources in developing other markets in Asia with profitable growth opportunities for the future, and avoid incurring further losses from the non-performing operations in Australia and New Zealand, management has decided to divest the operations in Australia and New Zealand during the year ended 30 June 2018. In this connection, the Group recognized total closure costs of HK\$129 million which included impairment of property, plant and equipment of HK\$18 million, inventory write down of HK\$23 million, and additional provision for lease obligations, staff severance and retention, legal and professional fees totaling HK\$88 million. The operations in Australia and New Zealand have completely been closed down in September 2019. During the year ended 30 June 2019, the Group has recognized an over-provision of the closure costs of **HK\$25 million** in the consolidated income statement.

12. 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 for the year ended 30 June 2018. Total consideration amount of HK\$34 million were received in cash during the year.

LETTER FROM CHAIRMAN

Dear Shareholders,

The last financial year marked a year of significant changes for the Group and will be remembered as being pivotal towards the turnaround and restoration of the longer-term profitability of Esprit.

Our mission last year was to formulate a plan to realign our strategic direction and priorities, and to ensure that we have the right talent on board to drive a timely and efficient execution in order to deliver positive results. I am delighted to report to you that FY18/19 has been a year of positive initial advances on both fronts. Testimony to this progress is that we now have a clear strategy plan (“Strategy Plan”) and the right team in place to return Esprit to sustainable growth and profitability. The concerted efforts of the team in the past year have laid a solid foundation of our future business model and have resulted in early signs of improvement in our business performance.

Strategy

Following appointment of our new Group CEO, Anders Kristiansen, in June 2018, the management team has conducted reviews of the Company’s strategy in the context of a rapidly changing market. We realized that it is vital to establish our ability to deliver appealing high-quality products with an attractive price-value proposition and across channels, to ensure the Esprit brand is well placed for the years ahead. The Board and management were united that bold changes were needed to, first and foremost, reduce losses and to right size the organization for high-quality cost-effective execution of our plan and, in parallel, to build a new business model to sharpen our brand, improve our products and enhance our customer and brand experience to regain the confidence of consumers and our competitiveness in the market. We are gratified to see that these changes are already yielding results contributing to improvements in the operational metrics as they have laid the foundation for our road to recovery.

Results and Financial Position

Overall market conditions have remained challenging in the past year. On the one hand, our target customer demographics are evolving rapidly as the industry continues to undergo extensive transition driven by increased digitalization which is intensifying price competition. On the other hand, the macroeconomic picture remains uncertain amid escalation of trade tensions which has damaged economic growth and weighed on consumer sentiment and spending.

Against the backdrop of this challenging operating environment, we have taken effective measures and have achieved a financial result better than last year’s performance. The Group’s underlying operations reported a loss before exceptional items, interest and taxation (“Underlying LBIT”) of HK\$(587) million, as compared with HK\$(909) million in the previous financial year. It is also important to note that the Strategy Plan and the relevant measures have only started to take effect in the second half of the year, hence the second half of FY18/19 (“2H FY18/19”) is more representative of the beneficial effects of the Strategy Plan. To this end, 2H FY18/19 recorded an Underlying LBIT of HK\$(255) million, as compared with HK\$(773) million for the same period last year, reflecting a positive trend of improvement.

This improvement in performance was primarily the result of our proactive and decisive cost control initiatives highlighted by actions to eliminate loss-making stores as well as bold measures to right-size the organization and our global distribution network, including downsizing of corporate offices so as to achieve savings across all key cost lines (“Restructuring Plan”). Taken as a whole, these initiatives resulted in Regular OPEX savings of HK\$(1,742) million or -16.6% yoy in local currency terms (“LCY”); thus we are well on track to achieve the targeted annualized expenses savings of HK\$2 billion over two years from the FY17/18 level. These savings have significantly reduced our cost base and will provide a leaner platform that we can leverage in the future as we embark on top-line growth.

As previously announced, the Company has taken provisions for one-off restructuring costs in connection with the Restructuring Plan, which makes up the majority of the net exceptional expense totaling HK\$(1,493) million for the year. Taking into account the net exceptional expense, LBIT of the Group was HK\$(2,080) million. As the Group recorded a loss for the full financial year, the Board has not recommended the payment of a final dividend.

The Group remains debt free with a net cash balance of HK\$3,282 million as at 30 June 2019. While maintaining a healthy financial position, prudent cash management has continued to be our top priority, and during the year, the Group has invested HK\$563 million in the Restructuring Plan which is necessary to reduce losses and build a healthy platform for future growth.

Human Resources

As ever, our success is enabled by the passion and commitment of the professionals who work for Esprit. Towards that end, we are happy to see a wealth of new talent join the Esprit family during the year. Most notably in that regard, I would like to welcome our new Chief Product and Brand Officer, our new Regional CEO for Europe and the Americas, and our new Regional CEO for Asia, who have joined us during the year. They are all professionals with extensive experience and expertise in their own respective fields, and I look forward to their contributions in moving the company forward.

Our Board has also evolved during the financial year. Mr Paul Cheng and Dr José María Castellano Ríos have decided to retire from the Board during the financial year. Paul had been an Independent Non-Executive Director of the Company (“INED”) since November 2002 and was appointed as Deputy Chairman of the Board since July 2008. He has helped steer the Company through its growth as well as in challenging times. His energy, sincere commitment, steadfast support and industry insight have been second-to-none during his tenure. I would like to personally thank Paul for all that he has contributed to Esprit and he will be missed by us all. I would also like to thank Dr Castellano for his positive contribution to Esprit and we have greatly appreciated his wise counsel since his appointment as INED in December 2014.

We will continue to adjust the composition of our Board in light of our desire for greater diversity, skills and experience to support our strategy, and to ensure that we have the capability to deliver both growth and operational leverage in the future.

Shareholder Engagement

The Board enthusiastically encourages and supports management's efforts to engage more closely with our shareholders to keep closely apprised of their expectations, and to ensure that we exercise judgement in the best interest of the Company, as well as that of our stakeholders. As part of our ongoing Investor Relations efforts, we maintain regular and ongoing conversations with investors and the market in order to provide them with transparent and timely information, especially at this period of business transition. In the first half of this financial year, we conducted an Investors Day in November 2018 to update the market on our strategic focus which was well-received by shareholders, investors and analysts.

Closing

Finally, I would like to thank all our employees for their hard work over the last financial year. Our Company is a global family where the unique contribution of every colleague is highly valued. I would also like to thank our business partners, our customers and our shareholders for their loyalty and support during these challenging times.

Looking ahead, the economic conditions are expected to remain challenging, but the intense efforts exerted over the past year have laid a solid foundation of our future business model and have resulted in positive initial progress. Our commitment to move forward with our strategy plan remains intact as we firmly believe that this plan is vital to creating long-term value for all stakeholders. I have full confidence that with our strengthened management team and razor-sharp focus on achieving our goals, we are well along the road to recovery.

Dr Raymond OR Ching Fai
Executive Chairman
18 September 2019

LETTER FROM GROUP CEO

Dear Shareholders,

Looking back over my first year here at Esprit, I am extremely proud of our team and the positive progress we have made across operational and financial metrics.

In November 2018, we formulated and laid out a strategy plan (the “Strategy Plan”) to rebuild our business model and create an effective organization, while restructuring our costs base and eliminating loss-making stores. Our vision is to re-establish Esprit to become an iconic brand again. It is evident that bold changes are needed and I strongly believe our ambition can be achieved over time by: (i) sharpening Esprit’s brand identity and putting the customer at the center of everything we do; (ii) improving the product offering and how it relates to our customers and brand positioning; (iii) reducing complexity and improving accountability by becoming a leaner and more efficient organization; and (iv) eliminating loss-making areas of the business to build a stronger foundation for the future.

In the first year of implementation, despite the difficult retail environment and global macroeconomic headwinds, the Board and the management team of Esprit have maintained a strong commitment to diligently executing the Strategy Plan. We have taken tough but necessary decisions, and in the process, we unfortunately have had to say farewell to many of our good colleagues, nevertheless we have come far and we have accomplished a lot in a short time. I am very pleased to report that good positive progress has been made and the Strategy Plan is on track.

Amongst the year’s highlights: We have closed 169 non-profitable stores and trimmed headcount for non-store employees translating into reduction in cost by almost one-third, including new hires for investment in projects for future growth. We have simplified the organization structure and streamlined work flow to facilitate faster decision making. We have redefined Esprit’s positioning based on findings of an in-depth consumer survey and launched new campaigns with points of view that reinforce the new brand direction. With respect to products, we have significantly reduced the number of options and created new in-season collections, quality is back on the top of our agenda, and, most importantly, we have a new product strategy that is game changing and brings us to the market with a fresh start. Our profitable wholesale business is now playing a central role in the new direction of the Group. We strive to be best-in-class in what we offer to our wholesale partners through many initiatives currently in progress. Last but not least, we are forging ahead with our commitment to empowering our leaders and cultivating a solutions-oriented mindset, while fostering a joyful, happy and healthy culture amongst employees around the globe by promoting a vibrantly positive attitude towards everything we do.

While there are still many tasks to complete and we will continue to work hard and diligently on them, the steps we have taken under new management so far are showing promising early signs and contributing to the improvement in the performance across our operation.

Financial Performance

Although Group revenue was affected by bold decisions to close-down unprofitable stores and exit the Australia and New Zealand (“ANZ”) markets leading to decline in selling space and therefore revenue, it is encouraging to see that the decline in Group Revenue of -12.9% year-on-year (“yoy”) in local currency terms (“LCY”) compares favorably against the corresponding reduction in total controlled space of -14.3% yoy. This marks the first time since FY15/16 where the Group recorded a revenue decline that is less than the corresponding space reduction. Another positive note worth mentioning is that the rate of revenue decline has continued to narrow quarter-on-quarter throughout the financial year (Q1: -16.2%, Q2: -12.5%, Q3: -11.6%, Q4: -10.8%), reflecting a positive trend of improvement and such quarter-on-quarter improvement was mainly driven by Germany which accounted for the largest share of the Group revenue.

There was also improvement in comparable store sales. The fourth quarter was a quarter where we recorded positive comparable store sales growth in Europe of +1.4% yoy including both retail and eshop. For European Retail (excluding eshop), comparable store sales growth has substantially improved from -9.9% yoy in LCY in 1H FY18/19 to -1.1% yoy in LCY in 2H FY18/19; the improvement in 2H FY18/19 was mainly driven by the highly positive month of June 2019 where European Retail (excluding eshop) recorded a positive comparable store sales growth of +3.5% (Germany: +4.8% and Rest of Europe: +1.9%). It is worth mentioning that this positive performance was achieved despite having two fewer trading days as compared with the same month last year (one more Sunday and one more public holiday due to shift of Whit Monday from May last year to June this year). Similarly, for Eshop Europe, we were encouraged by the positive performance for the fourth quarter which reported a sales growth of +3.9% yoy in LCY (Q1: -14.1%, Q2: -3.8%, Q3: -6.0%, Q4: +3.9%).

Gross profit margin was 50.3%, lower than last year by -1.1% points in LCY mainly due to clearance of inventory in the 1H FY18/19 as part of the Strategy Plan. We were encouraged by the positive half-on-half development (1H FY18/19: -1.6% points, 2H FY18/19: -0.4% point) primarily driven by fewer markdowns/discounts for the new products partly offset by investment in quality.

With respect to costs, as a result of our bold decision to reduce headcount, closure/resizing of unprofitable stores, and our overall discipline on cost reduction measures, we were able to achieve savings in regular operating expenses (“**Regular OPEX**”) of HK\$1,742 million yoy or -16.6% yoy in LCY. As a result, we now have a much healthier cost base and are well on track to achieve the announced annualized expense savings target of HK\$2 billion over two years from the FY17/18 level.

In terms of profitability, pressure from the decline in revenue and the slightly lower gross profit margin were outweighed by the significant reduction in Regular OPEX. The results show an **underlying LBIT** of HK\$(587) million before exceptional items, much improved compared with the previous financial year FY17/18 of HK\$(909) million.

Overall, it is truly encouraging to see how the Strategy Plan is being realized and how the brand’s core competencies and potential have already begun to unfold.

Strategic Update

As the financial performance indicates, we have made a positive start to the execution of the Strategy Plan.

Sharpen ESPRIT Brand Identity

The starting point of the Strategy Plan is the new direction of the ESPRIT brand. Based on findings of an in-depth consumer research and market segmentation, we have redefined both the positioning of the ESPRIT brand and who we are targeting as our customer. ESPRIT is not fast fashion. ESPRIT is not a discounter. ESPRIT stands for “Radical Positivity - Loving Our Customer - Quality Always.” Our purpose is “To Deliver Joy” and our vision is to “Offer products that make people feel good every day.” With this new brand ethos, our mission is to deliver a consistent experience across brand, product and channels with a clear handwriting.

Enhance Customer Experience

We are adopting a brand-based, customer focused, and data driven approach to improve consumers’ experience online and offline. On the one hand, we have embarked on brand campaigns (e.g., joining forces with UN Women Germany on the WE ALL campaign to raise awareness for empowerment of women and gender equality) and product collaboration (e.g., teaming up with design duo Craig & Karl on a limited-edition collection comprising unisex pieces in bright colors and bold graphics to promote messages of love, equality and unity) with fashion statements that support the new direction of the brand. On the other hand, we are stepping up efforts to improve direct communication with customers via social media, as well as introducing enhanced and more precisely targeted experiences across key touch points. Our online presence will be refreshed in the second half of FY19/20 to generate increased customer engagement. In terms of brick and mortar retail, a new store concept is under development. The first pilot store has already been opened in Beijing in August 2019 to test run the concept, and roll-out in other countries is expected to commence during FY19/20. We are also revamping our CRM loyalty program from a promotional to a true loyalty tool with data driven marketing capabilities. This series of initiatives clearly shows how we are putting the customer at the center of everything we do.

Improving the Product Offering

Crucial to our future success is our ability to revamp our product offering to ensure everything we do is customer focused and relevant in terms of style, price and quality. In order to assure brand and product consistency, all product design and development as well as execution of the brand strategy across all product divisions and consumer touch points have been more closely integrated. To lead this new function, in March 2019, we welcomed our new Chief Product and Brand Officer, who brings with her a wealth of experience in product design, branding as well as market communication. Under her leadership, the Group has formulated a new product strategy for Esprit. Based on the redefined brand direction, we are creating a unique and easily conveyed brand expression; establishing a clear divisional strategy; launching new labels and product categories; integrating science back into creating our collections; and most importantly, improving quality is back at the top of our agenda. I am tremendously thrilled about this new product strategy because it is a game changer for the brand. We will embark on a fresh start introducing a new and exciting concept to the market. It marks yet another milestone for us.

Best in class Wholesale

Our profitable wholesale business is now playing a central role in the new direction of the Group. Many initiatives are in progress to better serve our wholesale partners. We have performed a thorough segmentation of our partner portfolio to assess improvement in service for each type of customer. Towards that end, we have already adjusted our delivery schedules to ensure our partners receive appropriate priority. We are also well on the way to implementing e-billing which will lead to efficiencies and cost savings. A pilot for our digital ordering tool has been completed in the Nordic countries and rolled out with early successful results. At the same time, stronger collaboration with third party wholesale ecommerce partners is already underway. To demonstrate our determination, we held a major event, “Esprit Partner Day” in Germany last Spring to share and discuss our vision and new directions with them in depth. Their initial response has been highly positive and supportive. Our selected partners have recently improved their order intake; Europe Wholesale (excluding eshop) accounted for 97.5% of total wholesale (excluding eshop) revenue, reported a much lower rate of decline yoy in LCY in the second half as compared to first half (1HFY18/19: -16.2%, 2HFY18/19: -11.1%), reflecting a positive trend of improvement.

Restructure the Cost Base

The Group has undertaken an in-depth review of the entire cost base to identify potential cost saving opportunities. It is evident that our cost base was far too excessive given the current business scale, and bold decisions were needed to eliminate loss-making stores and to rationalize operations so as to become a leaner and more efficient organization. We have conducted comprehensive assessment of the loss-making retail stores to consider measures such as rent reduction, downsizing or closure. While negotiation with some landlords are still ongoing, we have already reached agreements for 206 stores, of which 169 were closed, 14 received rental reduction, 3 resized during the financial year, and the remaining 20 are either expected to be closed or with rent reduction, which is our preference, in FY19/20. Continuous efforts will be made to eliminate loss-making stores in order to improve profitability. With respect to headcount reduction, voluntary programs as well as social plans were rolled out to non-store staff in Europe during the financial year. In Asia, staff reduction efforts along with downsizing of the Hong Kong office and the closure of the ANZ operation have been completed. Overall, we have so far already trimmed headcount of non-store employees by 28% (net of new hires in certain areas to fuel sales growth), well on track to achieve the target for reduction of non-store employees. These savings are already evident in the occupancy and personnel costs lines, which will provide operating leverage in the future.

Build a Powerful Organization

Throughout the financial year, we have redefined the organization structure for best performance as well as building the team to develop and deliver our strategy. The leaner organization structure has simplified decision making and increased efficiency. We now have a streamlined management team with new leadership on brand, product and the geographic markets, i.e., Europe and Asia. We are forging ahead with our commitment to empowering our leaders, promoting a vibrantly positive mindset amongst employees and cultivating a solution-oriented culture. Secondly, the future of Esprit is all about “Radical Positivity”; hence nothing is more important to me than having a team that embraces this same attribute. As such, efforts have been made to advocate a positive and solutions-oriented mind-set within the organization, where we stand united as a family and we support each other to restore the competitiveness of Esprit.

Sustainability Is in Our DNA

Operating our business responsibly and in a sustainable manner has always been an integral part of the Esprit culture, simply because it is good for the planet and right for future generations. This is something that has always been important to Esprit since our inception, and Esprit has always been at the forefront of the topic. We have done a lot of amazing things, but we have probably not talked so much about it in the past. Hence efforts are being made to communicate the relevant initiatives to the market, so that we can build awareness and enthusiasm among our customers and inspire them to act sustainably in their own endeavors.

As we continue to work towards building a circular economy for the fashion sector, taking into account environmental protection, worker well-being, efficiency of resources, and technological innovation, we are also monitoring the latest developments, best practices, customer concerns, and pressing agenda items in the realm of sustainability — even beyond fashion. We are pleased to have passed the 50% mark in terms of our sustainable cotton, on our way to the 100% goal we set for July 2021. Even more broadly, we have seen and been inspired by the actions of young people around the globe who are standing up and taking measures to address climate change and demonstrating to all of us both what passion really is, and what it can accomplish. We have been invigorated by the #FridaysforFuture campaign, and by the increasing alignment between our sustainability concerns, and those of our customers. Together, we are making a difference.

In respect of our efforts on sustainability, the Group is pleased to have been awarded the “ESG Report of the Year Awards, Best in ESG Awards and Best in Reporting Awards” organized by BDO (Binder Dijker Otte) Limited and co-organized by the South China Morning Post. This accolade recognizes the Group’s efforts in upholding the best practices in ESG (Environmental, Social and Governance).

Closing

Overall, I am very happy with the progress we have made since we announced our Strategy Plan, and we have delivered on what we set out to achieve this financial year. I am convinced that we are on a far better footing now compared with where we were 12 months ago. From the outset, I have been deeply impressed by the strong passion and enthusiasm of the people at Esprit, and none of this past year's achievements would have been possible without their commitment and hard work. I want to express my sincere gratitude to all of them for their dedication and contributions throughout the year. I would also like to thank the Board of Directors and my colleagues in the Executive Management team for their guidance and support.

While there is much more to do, the positive development for the financial year just past demonstrated the effectiveness of the Strategic Plan and our ability in execution. I believe the future is super bright for Esprit. Our goal for FY19/20 is to continue our transformation journey, implementing the Strategy Plan consistently but rapidly, and continually refining it whenever deemed necessary. Barring unexpected circumstances, we are on plan and on track to achieve our target of EBIT breakeven by FY21/22. The plan is ambitious, and times are challenging, but with the concerted efforts and passion from all our employees, as well as with the continued support from other stakeholders, I have full confidence that Esprit will succeed. Our teams are committed and energized by the opportunity ahead.

Anders Christian KRISTIANSEN
Executive Director and Group CEO
18 September 2019

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

During FY18/19, the Group presented and began execution of the Strategy Plan to restore Esprit to sustainable growth and profitability. As mentioned in this financial year's Interim Report, the first two fiscal years of the Strategy Plan are expected to be characterized by the strategic measures to build a leaner organization and resizing the retail store footprint, which will result in a decline in revenue with one-off restructuring costs. Correspondingly, Esprit's business in FY18/19 was impacted by (i) the Group's bold decision to close unprofitable stores and resize the retail store footprint which led to a year-on-year ("yoy") reduction in total controlled space of -14.3%, and (ii) Exceptional Items totaling HK\$(1,493) million primarily related to staff reduction plans, closure of global distribution network (including corporate offices), and writing off of aged inventory.

Taken as a whole, the Group's revenue recorded a yoy decline of -12.9% excluding the effect of foreign exchange ("FX"), which compares favorably against the corresponding reduction in total controlled space of -14.3% yoy. In terms of profitability, pressure from revenue decline was outweighed by successful reduction in Regular OPEX. As a result of the Group's bold decision to reduce staff headcount and resize or close unprofitable stores, key elements of the overall discipline on cost reduction measures, savings in Regular OPEX of HK\$(1,742) million or -16.6% yoy were achieved excluding the FX effect. All in all, the results showed an underlying LBIT of HK\$(587) million before Exceptional Items, much improved compared with that of the last financial year FY17/18 of HK\$(909) million.

It is important to note that the Strategy Plan and the relevant measures only started to take effect in the second half of the financial year, and the business is already showing half-on-half and quarter-on-quarter improvements in different aspects of the underlying operation. Management is encouraged by these promising early signs which inspires confidence that the Group is on the right track.

RESULTS OF OPERATION

The following table summarizes the results of the Group for FY18/19 and FY17/18, with a differentiation of “Regular OPEX” and “Exceptional Items”. Regular OPEX comprises recurring expenses of the underlying operation (“Underlying Operation”). Exceptional Items are exceptional gains and expenses arising from non-regular operational activities of the Group comprising those related to the net provisions for store closures and onerous leases, provision for one-off costs in relation to staff reduction plans, inventory provision, impairment of fixed assets, and write-back of one-off costs in relation to closure of Australia and New Zealand (“ANZ”) operations.

	For the year ended 30 June			
	2019	2018	Change in %	
	HK\$ million	HK\$ million	HK\$	Local currency
Revenue	12,932	15,455	-16.3%	-12.9%
Cost of goods sold	(6,431)	(7,534)	-14.6%	-11.1%
Gross profit	6,501	7,921	-17.9%	-14.7%
<i>Gross profit margin</i>	50.3%	51.3%	-1.0% pt	-1.1% pts
Regular OPEX				
Staff costs	(2,456)	(2,968)	-17.2%	-13.9%
Occupancy costs	(2,088)	(2,526)	-17.4%	-14.2%
Logistics expenses	(821)	(1,029)	-20.2%	-17.2%
Marketing and advertising expenses	(634)	(900)	-29.6%	-26.7%
Depreciation	(455)	(528)	-13.9%	-10.4%
Other operating costs	(634)	(879)	-27.8%	-24.9%
Subtotal	(7,088)	(8,830)	-19.7%	-16.6%
(LBIT) of Underlying Operations	(587)	(909)		
Exceptional items				
i) Net provision for store closures and onerous leases	(895)	(152)		
ii) One-off costs in relation to staff reduction plans	(354)	(119)		
iii) Inventory provision	(159)	(76)		
iv) Impairment of property, plant and equipment	(110)	(50)		
v) Write back of / (additional) provision for one-off costs in relation to closure of ANZ operations	25	(129)		
vi) Impairment of China goodwill and customer relationships	-	(794)		
vii) Provision for SAP applications	-	(26)		
viii) Fixed assets impairment for small loss-making stores	-	(14)		
ix) Net gain on disposal of properties		16		
Subtotal	(1,493)	(1,344)		
LBIT of the Group	(2,080)	(2,253)		
Net interest income	14	27		
Loss before taxation	(2,066)	(2,226)		
Net taxation	(78)	(328)		
Net loss	(2,144)	(2,554)		

REVENUE ANALYSIS

For the financial year ended 30 June 2019 (“FY18/19” or “Period Under Review”), the Group recorded revenue of HK\$12,932 million (2018: HK\$15,455 million), representing a decline of -12.9% yoy in local currency terms (“LCY”) which compares favorably against the controlled space reduction of -14.3% yoy. This is the first-time since FY15/16 where the Group recorded a revenue decline that is less than the corresponding space reduction.

The decline in Hong Kong dollar terms was moderately higher (-16.3% yoy) due to the slight weakness of the Euro against the Hong Kong Dollar during the Period under Review (average rate decrease of -4.2% compared with last year).

Also worth mentioning is that while FY18/19 recorded a revenue decline, the rate of decline during the year has continued to narrow quarter-on-quarter, reflecting a positive trend of improvement and such sequential improvement was mainly driven by the market in Germany which accounted for the largest share of the Group’s revenue. It is worth highlighting that one of the key reasons behind the negative quarter-on-quarter trend seen in Asia Pacific was the closure of the ANZ market.

By Region ^	Revenue change in % (yoy in LCY)					
	First Quarter	Second Quarter	1H FY18/19	Third Quarter	Fourth Quarter	FY18/19
Germany	-16.8%	-11.1%	-13.9%	-8.6%	-4.4%	-10.4%
Rest of Europe	-14.5%	-7.1%	-11.0%	-8.0%	-7.7%	-9.5%
Asia Pacific	-20.0%	-31.2%	-26.6%	-35.2%	-44.9%	-33.2%
Total	-16.2%	-12.5%	-14.4%	-11.6%	-10.8%	-12.9%

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

Revenue by region and by distribution channel

The business is organized into four operating segments: “Germany”, “Rest of Europe” (including America and the Middle East), “Asia Pacific” (“APAC”) and “Global Eshop”. The following table summarizes the breakdown of revenue by operating segments, as well as the changes in each segment’s revenue from the comparable period last year.

	For the year ended 30 June						
	2019		2018		Revenue Change in %		Net change in net sales area ^
	HK\$ million	% to Group Revenue	HK\$ million	% to Group Revenue	HK\$	Local currency	
Germany	6,687	51.7%	7,791	50.4%	-14.2%	-10.4%	-11.6%
Retail (excl. eshop)	2,226	17.2%	2,660	17.2%	-16.3%	-12.8%	-14.8%
Wholesale (excl. eshop)	2,200	17.0%	2,621	17.0%	-16.1%	-12.3%	-9.3%
eshop	2,232	17.2%	2,479	16.0%	-10.0%	-6.0%	n.a.
Licensing	29	0.3%	31	0.2%	-3.1%	1.3%	n.a.
Rest of Europe	5,012	38.8%	5,769	37.3%	-13.1%	-9.5%	-10.8%
Retail (excl. eshop)	1,805	14.0%	2,031	13.1%	-11.1%	-7.6%	-8.8%
Wholesale (excl. eshop)	1,754	13.6%	2,168	14.0%	-19.1%	-15.5%	-12.1%
eshop	1,365	10.6%	1,469	9.5%	-7.1%	-2.8%	n.a.
Licensing and others	88	0.6%	101	0.7%	-14.1%	-13.8%	n.a.
Asia Pacific	1,233	9.5%	1,895	12.3%	-34.9%	-33.2%	-33.3%
Retail (excl. eshop)	1,003	7.7%	1,560	10.1%	-35.7%	-34.0%	-35.5%
Wholesale (excl. eshop)	99	0.8%	114	0.7%	-12.7%	-12.1%	-20.7%
eshop	131	1.0%	221	1.5%	-40.7%	-38.2%	n.a.
Total	12,932	100.0%	15,455	100.0%	-16.3%	-12.9%	-14.3%
Retail (excl. eshop)	5,034	38.9%	6,251	40.4%	-19.5%	-16.4%	-18.1%
Wholesale (excl. eshop)	4,053	31.4%	4,903	31.7%	-17.3%	-13.7%	-10.9%
eshop	3,728	28.8%	4,169	27.0%	-10.6%	-6.6%	n.a.
Licensing and others	117	0.9%	132	0.9%	-11.5%	-10.3%	n.a.

^ Net change since 1 July 2018

n.a. Not applicable

Germany, the largest market of the Group, accounted for 51.7% of total Group's revenue, recorded revenue of HK\$6,687 million in FY18/19, representing a yoy decline of -10.4% in LCY. In terms of distribution channels, Retail (excluding eshop), Wholesale (excluding eshop), eshop and the Licensing businesses contributed 33.3%, 32.9%, 33.4%, and 0.4% of revenue in Germany, respectively.

- Germany Retail (excluding eshop)** recorded revenue of HK\$2,226 million, representing a decline of -12.8% yoy in LCY, which compares favorably against the reduction in net sales area of -14.8% yoy. The reduction in net sales area is in line with the Strategy Plan of the Group for closure of unprofitable retail stores. It is worth noting that while comparable store sales for the full financial year recorded a decline of -6.3% yoy in LCY, the rate of decline significantly narrowed from -10.7% yoy in LCY in the first half ("1H FY18/19") to -1.2% yoy in LCY in the second half ("2H FY18/19"). The improvement was mainly driven by the very positive month of June 2019 where Germany retail recorded a positive comparable stores growth of +4.8% yoy in LCY. What is more encouraging is that this positive performance was achieved despite having two fewer trading days as compared with the same month last year (one more Sunday and one more public holiday due to shift of Whit Monday from May last year to June this year).
- Germany Wholesale (excluding eshop)** recorded revenue of HK\$2,200 million, representing a yoy decline of -12.3% in LCY. While there was a decline, we saw significant improvement in the 2H FY18/19 with the decline in revenue significantly narrowed to -6.8% yoy in LCY (1HFY18/19: -17.4% yoy in LCY), due to many initiatives in progress to build a best-in-class wholesale model to better serve the Group's wholesale customers in the region.

Rest of Europe comprises countries in Europe except Germany but includes America and Middle East accounted for 38.8% of the Group's total revenue. The region recorded revenue of HK\$5,012 million in FY18/19, representing a yoy decline of -9.5% in LCY. In terms of distribution channels, Retail (excl. eshop), Wholesale (excl. eshop), eshop, and Licensing businesses contributed 36.0%, 35.0%, 27.2% and 1.8% of the region's revenue, respectively.

- **Rest of Europe Retail (excluding eshop)** recorded revenue of HK\$1,805 million, representing a yoy decline of -7.6% in LCY, better than the corresponding space reduction of -8.8%. Similar to Germany, while comparable store sales for the full financial year recorded a decline of -5.3% yoy in LCY, the rate of decline narrowed significantly from -9.1% yoy in LCY in the 1H FY18/19 to -1.0% yoy in LCY in the 2H FY18/19. Such half-on-half improvement was mainly driven by the very positive month of June 2019 where Rest of Europe retail recorded a positive comparable store sales growth of +1.9% yoy in LCY.
- **Rest of Europe Wholesale (excluding eshop)** recorded revenue of HK\$1,754 million, representing a yoy decline of -15.5% in LCY (1H FY18/19: -14.8%, 2H FY18/19: -16.2%). The revenue decline was mainly attributable to Benelux where we lost a few customers and recorded a revenue decline of -25.1% yoy in LCY against a reduction in controlled space of -23.4%.

Asia Pacific ("APAC") comprising mainly China, Singapore, Hong Kong, Malaysia, Taiwan, Macau, Thailand, India, Myanmar and the Philippines, accounted for 9.5% of the Group's total revenue. The region recorded revenue of HK\$1,233 million, representing a yoy decline of -33.2% in LCY. In terms of distribution channels, Retail (excluding eshop), Wholesale (excluding eshop), and eshop businesses contributed 81.3%, 8.1%, and 10.6% of the region's revenue, respectively.

- **Asia Pacific Retail (excluding eshop)** recorded revenue of HK\$1,003 million, accounting for 7.7% of total Group's revenue, representing a decline of -34.0% yoy in LCY, mainly due to (i) reduction in net sales area of -35.5% yoy, and (ii) a decline in comparable store sales of -6.2% yoy excluding FX effects (China: -15.8%, Rest of APAC: -0.2%) due to decline in customer traffic. The significant reduction in net sales area include management's decision to exit the ANZ market. Excluding the ANZ market, where all stores were closed since the end of September 2018, Asia Pacific Retail (excluding eshop) revenue declined by -24.8% yoy excluding FX effects, with a corresponding space reduction of -28.4% yoy.
- **Asia Pacific Wholesale (excluding eshop)** recorded revenue of HK\$99 million, accounting for 0.8% of total Group's revenue, representing a decline of -12.1% yoy in LCY. The revenue development compares favorably against the corresponding controlled space reduction of -20.7% yoy, due to improved order intake from wholesale partner in Thailand partly offset by reduced order intake from others for some expected store closures.

Global Eshop, accounting for 28.8% of total Group's revenue (2018: 27.0%), comprises its directly managed ecommerce business in European and APAC countries including sales to third party online distributors in APAC. In FY18/19, this channel generated HK\$3,728 million in revenue, representing a decline of -6.6% yoy in LCY.

- **Eshop Europe** (Germany and Rest of Europe) accounted for 96.5% of Global Eshop revenue and reported a decline of -4.8% yoy excluding FX effects. Whilst there was a decline in revenue for the full financial year, we were encouraged by the positive performance for the fourth quarter which recorded a revenue growth of +3.9% yoy excluding FX effects.

Eshop Europe

	Change in % (yoy in LCY)			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenue	-14.1%	-3.8%	-6.0%	3.9%

- **Eshop APAC** recorded revenue of HK\$131 million, representing a decline of -38.2% yoy in LCY, accounting for 3.5% of Global Eshop revenue in FY18/19. The decline was mainly due to (i) the closure of Eshop in July 2018 for the ANZ market, and (ii) the decline in consumer traffic to the Eshop on Tmall.

PROFITABILITY ANALYSIS

Gross Profit margin was 50.3%, lower than last year by -1.1% points in LCY. While there was a yoy decline in gross profit margin for the financial year, the decline was mainly attributable to the decline in the 1H FY18/19 (-1.6% points) when the Group was clearing old inventory as part of the Strategy Plan. The situation has much improved in the 2HFY18/19 where the gross profit margin decline had significantly narrowed to -0.4% point, thanks to less discount and markdown for the new products partly offset by investment in quality.

Regular OPEX (excluding Exceptional Items) include staff costs, occupancy costs, logistics expenses, marketing and advertising expenses, depreciation and other operating costs. Regular OPEX amounted to HK\$(7,088) million in FY18/19, representing a significant yoy decline of -16.6% in LCY. Benefiting from the restructuring program, the Group continues to reduce operating expenses, with savings achieved across all of the major cost lines, including personnel cost (-13.9% yoy in LCY), occupancy costs (-14.2% yoy in LCY), logistic expenses (-17.2% yoy in LCY) and marketing & advertising expenses (-26.7% yoy in LCY). The Group now has a much healthier cost base and are well on track to achieve the announced annualized expense savings target of HK\$2 billion over two years from the FY17/18 level.

LBIT of Underlying Operations (i.e., excluding the Exceptional Items) was HK\$(587) million, much improved compared with HK\$(909) million last year. Decrease in revenue and lower gross profit margin were outweighed by the significant reduction in Regular OPEX.

Exceptional Items of HK\$(1,493) million were recorded primarily in connection with the one-off restructuring costs as mentioned at the beginning of this “Management Discussion and Analysis” section, comprising of: i) a net additional provision for store closures and onerous leases & impairment of fixed assets totaling HK\$(1,005) million; ii) a one-off cost in relation to staff reduction plans of HK\$(354) million; iii) an inventory provision of HK\$(159) million, and iv) a write-back of one-off costs in relation to closure of ANZ operations of HK\$25 million. These restructuring costs are necessary to reduce losses and build a healthy platform for future growth.

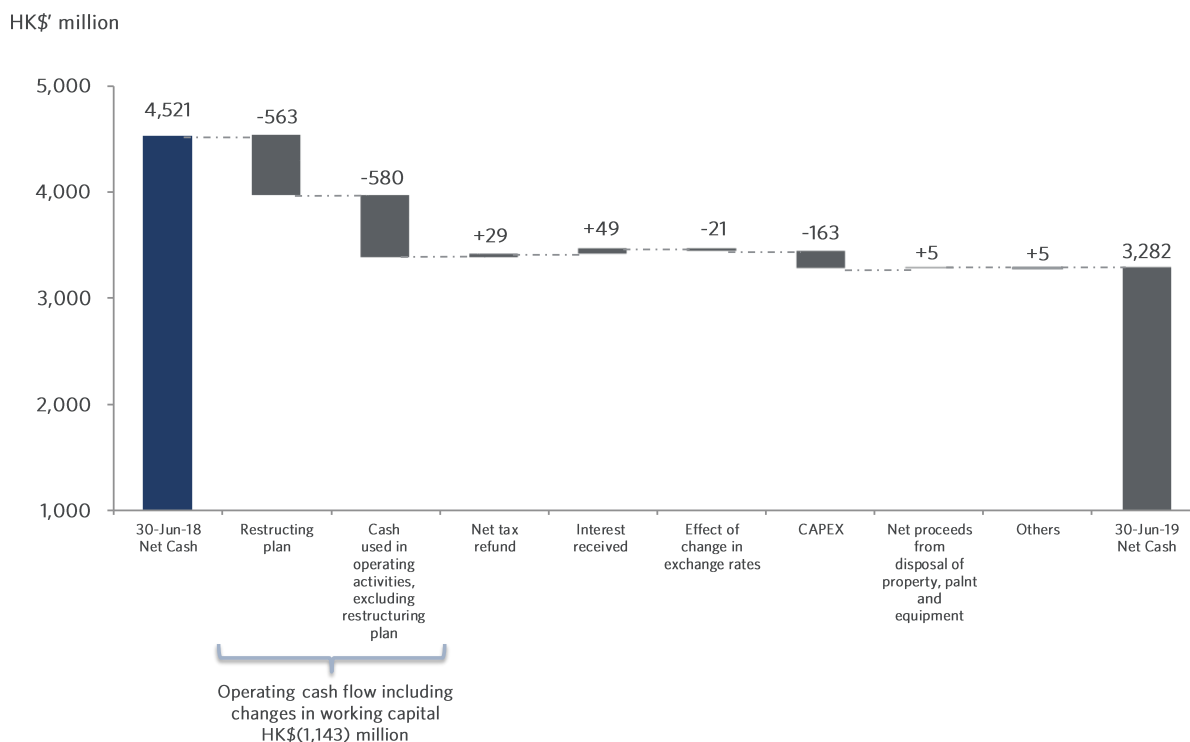
LBIT of the Group for FY18/19 was adversely impacted by Exceptional Items as previously discussed. Including the Exceptional Items, LBIT of the Group was HK\$(2,080) million in FY18/19 as compared with LBIT of HK\$(2,253) million in the same period last year.

Interest was a net income of HK\$14 million (FY17/18: HK\$ 27 million), comprising i) interest earned on cash, bank balances and deposits of HK\$49 million (FY17/18: HK\$58 million), representing an effective interest rate of 1.4% per annum (FY17/18: 1.2%), offset by ii) non-cash interest expenses primarily related to time value of provision for store closures and onerous leases.

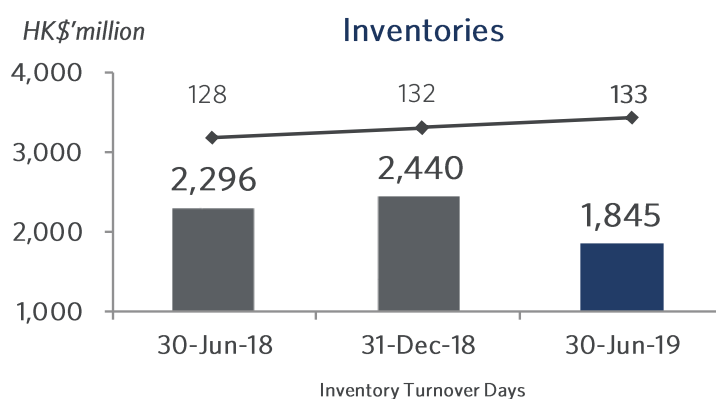
Taking into account the net **Taxation** expense of HK\$(78) million in FY18/19, (FY17/18: net taxation expense of HK\$(328) million), **Net Loss** of the Group was HK\$(2,144) million (FY17/18: net loss of HK\$(2,554) million).

LIQUIDITY AND FINANCIAL RESOURCES ANALYSIS

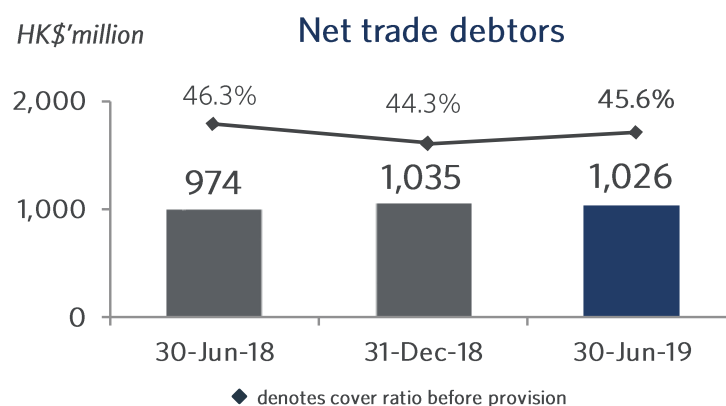
Net Cash: As at 30 June 2019, the Group remained debt free with net cash of HK\$3,282 million (30 June 2018: HK\$4,521 million), representing a net cash utilization of HK\$(1,239) million for FY18/19, as compared with HK\$(700) million for the last financial year. The cash utilization this year was partly due to cash used in the Restructuring Plan totaling HK\$563 million (staff reduction: HK\$123 million, store closure plan: HK\$383 million, and exit of ANZ market: HK\$57 million). Excluding cash used in the Restructuring Plan, net cash used in operating activities amounted to HK\$580 million.



Inventories: The inventory balance amounted to HK\$1,845 million (30 June 2018: HK\$2,296 million), representing a yoy reduction of -19.6% after reflecting a special write-off of aged inventory. In terms of units, the total inventory at the end of June 2019 was 28.3 million pieces, a yoy decrease of -14.1% as compared with the 32.9 million pieces at the end of June 2018 due to action taken to reduce inventory purchase to align with sales. Inventory turnover days were 133 days, an increase of 5 days as compared with a year ago (30 June 2018: 128 days).



Net Trade Debtors was HK\$ 1,026 million (30 June 2018: HK\$974 million), representing a yoy increase of 5.4%, mainly due to growth in Europe Eshop sales in the fourth quarter as mentioned earlier. 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 45.6% (30 June 2018: 46.3%).



Capital Expenditure (CAPEX): The Group has remained cautious in CAPEX investments as it remains vigilant in cash flow management and cost control. The Group invested HK\$163 million in CAPEX in FY18/19 (FY17/18: HK\$305 million), representing a decrease of -46.6% yoy mainly due to a high base last year because of an investment in the extension of its distribution center in Mönchengladbach which has subsequently been completed.

HK\$ million	For the year ended 30 June	
	2019	2018
New stores	36	30
Refurbishment	31	76
IT projects	30	45
Office & others	66	154
Purchase of property, plant and equipment	163	305

Total Interest Bearing External Borrowings: As at 30 June 2019, the Group had no interest-bearing external borrowings (30 June 2018: Nil).

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 Euros, it reports financial results in Hong Kong Dollars. As a result, fluctuations in the value of the Euro against the Hong Kong Dollar could affect its revenue as reported in Hong Kong Dollars. In addition, the purchases of finished goods in Euros account for only a small portion of its total purchases of finished goods while the Group's revenue is generated primarily in Euros, therefore fluctuations in the value of the Euro against other currencies, mostly against the US Dollar, could affect its margins and profitability.

OUTLOOK FOR FY19/20

Looking ahead, the macro environment in FY19/20 continues to present challenges and uncertainties amid escalation of trade tensions damaging economic growth and weighing on consumer sentiment. Notwithstanding this macro headwind, the Strategy Plan is well underway, and management of the Group is encouraged by the initial positive progress achieved during the past year which gives the management much confidence that it is on the right track.

In FY19/20, the Group's goal is to stay on course and remain focused on rapidly executing the Strategy Plan. The first and foremost priority is to leverage the new brand ethos and the strengths of its new dynamic organization to improve products and enhance the ESPRIT experience across channels with a clear handwriting/presentation. The Group will drive its business performance through a brand based, customer centric, and data driven-approach to improve our operational and financial metrics both online and offline.

Taking all factors into consideration, the Group anticipates a low-double-digit percentage decline in **Revenue** in FY19/20 as the focus is on healthy and profitable sales. In terms of margin, we aim to achieve a slight improvement yoy increase in **Gross Profit Margin** mainly through having less discount while keeping retail price stable. As for **Regular OPEX**, the Group expects a high-single-digit percentage reduction yoy for FY19/20, mainly driven by (i) the full-year effect of the cost restructuring measures achieved in the past year, and (ii) savings from further store closures, partly offset by necessary spending in certain areas e.g., insourcing of ecommerce, IT, marketing etc. in order to facilitate future growth.

Investment in **Capital Expenditure** will remain selective but will increase compared with last year as the Group invests in relevant technology to facilitate a simple, fast and digitalized operating process.

Whilst the Group is confident in its strategic direction, the ambitious project ahead, combined with the challenging and demanding market environment, may present uncertainty to its short-term performance. As the Group advances along this journey, it will continuously track its progress and performance so as to adapt and make appropriate adjustments in a dynamic manner as and when necessary.

APPENDIX

Retail (excluding eshop) Distribution Channels by Region (Directly Managed Retail Stores)

	For the year ended 30 June											
	No. of stores				Net sales area (m ²)						No. of comp-stores	Comp-store sales growth
	As at 30 June 2019	Open	Close	Net change [^]	As at 30 June 2019	Open	Close	Net change [^]				
							(m ²)	(%)				
Germany	122	4	(22)	(18)	93,349	1,777	(17,943)	(16,166)	-14.8%	111	-6.3%	
Rest of Europe	130	4	(11)	(7)	71,684	1,525	(8,457)	(6,932)	-8.8%	100	-5.3%	
Asia Pacific	177	4	(136)	(132)	40,675	999	(23,400)	(22,401)	-35.5%	113	-6.2%	
Total	429	12	(169)	(157)	205,708	4,301	(49,800)	(45,499)	-18.1%	324	-5.9%	

[^] Net change since 1 July 2018

Wholesale (excluding eshop) Distribution Channel by Region (controlled space only)

	For the year ended 30 June										
	No. of stores				Net sales area (m ²)						
	As at 30 June 2019	Open	Close	Net change [^]	As at 30 June 2019	Open	Close	Net change [^]			
							(m ²)	(%)			
Germany	3,106	191	(441)	(250)	138,332	6,327	(20,493)	(14,166)	-9.3%		
Franchise stores	201	6	(32)	(26)	44,527	1,008	(7,214)	(6,206)	-12.2%		
Shop-in-stores	1,887	80	(241)	(161)	72,806	2,789	(9,813)	(7,024)	-8.8%		
Identity corners	1,018	105	(168)	(63)	20,999	2,530	(3,466)	(936)	-4.3%		
Rest of Europe	1,767	87	(336)	(249)	107,856	5,382	(20,192)	(14,810)	-12.1%		
Franchise stores	383	18	(56)	(38)	70,832	3,414	(11,588)	(8,174)	-10.3%		
Shop-in-stores	727	34	(85)	(51)	22,058	1,279	(3,858)	(2,579)	-10.5%		
Identity corners	657	35	(195)	(160)	14,966	689	(4,746)	(4,057)	-21.3%		
Asia Pacific	97	7	(20)	(13)	8,935	758	(3,096)	(2,338)	-20.7%		
Franchise stores	97	7	(20)	(13)	8,935	758	(3,096)	(2,338)	-20.7%		
Total	4,970	285	(797)	(512)	255,123	12,467	(43,781)	(31,314)	-10.9%		
Franchise stores	681	31	(108)	(77)	124,294	5,180	(21,898)	(16,718)	-11.9%		
Shop-in-stores	2,614	114	(326)	(212)	94,864	4,068	(13,671)	(9,603)	-9.2%		
Identity corners	1,675	140	(363)	(223)	35,965	3,219	(8,212)	(4,993)	-12.2%		

[^] Net change since 1 July 2018

Revenue Development by Quarter

	Revenue change in % (yoy in LCY)				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	FY18/19
By Distribution Channel					
Retail (excl. eshop)	-17.8%	-14.5%	-14.9%	-18.7%	-16.4%
Wholesale (excl. eshop)	-15.5%	-16.5%	-11.0%	-11.6%	-13.7%
eshop	-14.9%	-5.5%	-7.9%	1.2%	-6.6%
Licensing and others	-11.2%	-11.5%	-10.0%	-8.6%	-10.3%
Total	-16.2%	-12.5%	-11.6%	-10.8%	-12.9%
By Region ^					
Germany	-16.8%	-11.1%	-8.6%	-4.4%	-10.4%
Rest of Europe	-14.5%	-7.1%	-8.0%	-7.7%	-9.5%
Asia Pacific	-20.0%	-31.2%	-35.2%	-44.9%	-33.2%
Total	-16.2%	-12.5%	-11.6%	-10.8%	-12.9%

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

Revenue by Product

Product division	For the year ended 30 June					
	2019		2018		Change in %	
	HK\$ million	% to Group Revenue	HK\$ million	% to Group Revenue	HK\$	Local currency
Women (Esprit & edc)	8,715	67.4%	10,220	66.1%	-14.7%	-11.2%
women casual #	4,478	34.6%	5,347	34.6%	-16.3%	-12.8%
women edc	2,429	18.8%	2,865	18.5%	-15.2%	-11.7%
women collection	1,808	14.0%	2,008	13.0%	-10.0%	-6.0%
Men (Esprit & edc)	2,146	16.6%	2,525	16.3%	-15.0%	-11.6%
men casual	1,319	10.2%	1,471	9.5%	-10.3%	-6.6%
men edc	656	5.1%	769	5.0%	-14.8%	-11.4%
men collection	171	1.3%	285	1.8%	-39.7%	-37.6%
Lifestyle and others *	2,071	16.0%	2,710	17.6%	-23.6%	-20.4%
Total	12,932	100.0%	15,455	100.0%	-16.3%	-12.9%

Women casual is grouped together with Trend in FY18/19 figures, while they were disclosed separately for the same period last year. Comparative figures of women casual are restated accordingly. The Trend Division was set up as a laboratory to test the Group's fast-to-market product development processes. The lessons the Group have learned have been applied to other product divisions under the Women segment.

* 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.

Revenue by Country

Country ^{^^}	For the year ended 30 June						
	2019		2018		Revenue change in %		Net change in net sales area [^]
	HK\$ million	% to Group Revenue	HK\$ million	% to Group Revenue	HK\$	Local currency	
Germany [#]	6,687	51.7%	7,791	50.4%	-14.2%	-10.4%	-11.6%
Rest of Europe	5,012	38.8%	5,769	37.3%	-13.1%	-9.5%	-10.8%
Benelux [#]	1,633	12.6%	1,910	12.4%	-14.6%	-10.9%	-15.4%
Switzerland	762	5.9%	838	5.4%	-9.0%	-6.4%	-7.9%
France	736	5.7%	906	5.9%	-18.8%	-15.3%	-6.7%
Austria	668	5.2%	742	4.8%	-9.9%	-5.9%	-6.6%
Spain	208	1.6%	229	1.5%	-9.4%	-5.3%	-3.6%
Finland	200	1.6%	224	1.5%	-10.5%	-6.8%	-5.2%
Sweden	183	1.4%	219	1.4%	-16.3%	-8.6%	-28.3%
Italy	114	0.9%	130	0.8%	-12.2%	-8.4%	-11.3%
United Kingdom	95	0.7%	112	0.7%	-15.1%	-11.9%	-10.2%
Poland	90	0.7%	93	0.6%	-2.9%	2.3%	-8.3%
Denmark	68	0.5%	90	0.6%	-25.3%	-21.9%	-33.0%
Ireland	7	0.1%	7	0.0%	0.2%	4.7%	-19.7%
Norway	2	0.0%	3	0.0%	-18.9%	-13.7%	-
Portugal	1	0.0%	1	0.0%	12.5%	18.0%	n.a.
Others ^{##}	245	1.9%	265	1.7%	-7.5%	-5.1%	-9.5%
Asia Pacific	1,233	9.5%	1,895	12.3%	-34.9%	-33.2%	-33.3%
China	481	3.7%	760	4.9%	-36.7%	-33.8%	-30.6%
Singapore	208	1.6%	240	1.6%	-13.5%	-12.2%	-24.1%
Malaysia	143	1.1%	158	1.0%	-9.3%	-8.2%	-19.3%
Taiwan	122	0.9%	154	1.0%	-20.8%	-18.3%	-30.2%
Hong Kong	104	0.8%	174	1.1%	-40.2%	-40.2%	-61.8%
Macau	58	0.5%	73	0.5%	-20.2%	-20.2%	-33.0%
Australia and New Zealand	36	0.3%	262	1.7%	-86.4%	-85.5%	-100.0%
Others [@]	81	0.6%	74	0.5%	10.3%	10.3%	-1.7%
Total	12,932	100.0%	15,455	100.0%	-16.3%	-12.9%	-14.3%

[^] Net change since 1 July 2018

^{^^} 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, Estonia, Malta, Romania, Greece, Croatia and Bulgaria; ii) wholesale (excl. eshop) revenue from other countries mainly Chile, Colombia and Canada, 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, India and the Philippines

n.a. not applicable

Retail (excl. eshop) revenue by country

Country	For the year ended 30 June						
	2019		2018		Revenue change in %		Net change in net sales area [^]
	HK\$ million	% to Total Revenue	HK\$ million	% to Total Revenue	HK\$	Local currency	
Germany	2,226	44.2%	2,660	42.5%	-16.3%	-12.8%	-14.8%
Rest of Europe	1,805	35.9%	2,031	32.5%	-11.1%	-7.6%	-8.8%
Benelux	725	14.4%	792	12.7%	-8.5%	-4.6%	-8.3%
Switzerland	468	9.3%	516	8.3%	-9.4%	-7.4%	-4.6%
Austria	314	6.2%	346	5.5%	-9.2%	-5.3%	-3.3%
France	140	2.8%	188	3.0%	-25.3%	-22.2%	-15.9%
Sweden	58	1.2%	61	1.0%	-4.2%	5.1%	-33.4%
Poland	55	1.1%	65	1.0%	-14.4%	-9.5%	-8.3%
Finland	43	0.9%	49	0.8%	-11.9%	-8.4%	-
Denmark	2	0.0%	14	0.2%	-89.3%	-89.4%	-100.0%
Asia Pacific	1,003	19.9%	1,560	25.0%	-35.7%	-34.0%	-35.5%
China	362	7.2%	545	8.7%	-33.5%	-30.4%	-27.5%
Singapore	185	3.7%	222	3.6%	-17.1%	-15.9%	-24.1%
Malaysia	140	2.8%	155	2.5%	-9.4%	-8.2%	-19.3%
Taiwan	120	2.4%	151	2.4%	-20.5%	-18.0%	-30.2%
Hong Kong	102	2.0%	173	2.8%	-40.9%	-40.9%	-61.8%
Macau	59	1.1%	73	1.2%	-20.2%	-20.2%	-33.0%
Australia and New Zealand	35	0.7%	241	3.8%	-85.5%	-84.5%	-100.0%
Total	5,034	100.0%	6,251	100.0%	-19.5%	-16.4%	-18.1%

[^] Net change since 1 July 2018

Directly managed retail stores by country – movement since 1 July 2018

Country	As at 30 June 19					
	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	122	(18)	93,349	-14.8%	111	-6.3%
Rest of Europe	130	(7)	71,684	-8.8%	100	-5.3%
Switzerland	35	(1)	15,478	-4.6%	30	-5.7%
Netherlands	24	-	14,442	-6.9%	16	-7.4%
Belgium	21	(2)	13,996	-12.1%	16	-4.4%
Austria	19	-	14,247	-3.3%	17	-4.4%
France	10	(1)	4,490	-15.9%	8	-2.8%
Poland	10	(1)	2,965	-8.3%	7	-5.6%
Sweden	5	(2)	2,376	-33.4%	2	-5.8%
Luxembourg	4	1	2,109	12.8%	3	-5.7%
Finland	2	-	1,581	-	1	-8.3%
Denmark	-	(1)	-	-100.0%	-	n.a.
Asia Pacific	177	(132)	40,675	-35.5%	113	-6.2%
China	100	(45)	19,815	-27.5%	56	-15.8%
Taiwan	30	(22)	3,480	-30.2%	23	2.6%
Malaysia	24	(5)	9,543	-19.3%	19	-2.0%
Singapore	15	(4)	4,634	-24.1%	10	-1.1%
Hong Kong	4	(5)	1,569	-61.8%	3	10.6%
Macau	4	(1)	1,634	-33.0%	2	-10.6%
Australia	-	(45)	-	-100.0%	-	n.a.
New Zealand	-	(5)	-	-100.0%	-	n.a.
Total	429	(157)	205,708	-18.1%	324	-5.9%

[^] Net change since 1 July 2018

n.a. Not applicable

Directly managed retail stores by store type – movement since 1 July 2018

Store type	No. of stores					Net sales area (m ²)				
	As at	vs 1 July 2018		As at	Net change	As at	vs 1 July 2018		As at	Net change
	30 June 2019	Opened	Closed	1 July 2018		30 June 2019	Opened	Closed	1 July 2018	
Stores	293	9	(69)	353	(60)	166,872	3,214	(36,852)	200,510	-16.8%
- Germany	105	2	(20)	123	(18)	78,927	962	(17,246)	95,211	-17.1%
- Rest of Europe	122	4	(10)	128	(6)	66,595	1,525	(7,882)	72,952	-8.7%
- Asia Pacific	66	3	(39)	102	(36)	21,350	727	(11,724)	32,347	-34.0%
Concession counters	89	-	(75)	164	(75)	12,382	102	(5,291)	17,571	-29.5%
- Germany	4	-	(1)	5	(1)	1,829	-	(228)	2,057	-11.1%
- Asia Pacific	85	-	(74)	159	(74)	10,553	102	(5,063)	15,514	-32.0%
Outlets	47	3	(25)	69	(22)	26,454	985	(7,657)	33,126	-20.1%
- Germany	13	2	(1)	12	1	12,593	815	(469)	12,247	2.8%
- Rest of Europe	8	-	(1)	9	(1)	5,089	-	(575)	5,664	-10.2%
- Asia Pacific	26	1	(23)	48	(22)	8,772	170	(6,613)	15,215	-42.3%
Total	429	12	(169)	586	(157)	205,708	4,301	(49,800)	251,207	-18.1%

Wholesale (excl. eshop) revenue by country

Country	For the year ended 30 June						
	2019		2018		Revenue change in %		Net change in net sales area [^]
	HK\$ million	% to Total Revenue	HK\$ million	% to Total Revenue	HK\$	Local currency	
Germany	2,200	54.3%	2,621	53.5%	-16.1%	-12.3%	-9.3%
Rest of Europe	1,754	43.3%	2,168	44.2%	-19.1%	-15.5%	-12.1%
France	391	9.7%	487	9.9%	-19.7%	-16.3%	-5.1%
Benelux	388	9.6%	540	11.0%	-28.2%	-25.1%	-23.4%
Spain	189	4.7%	211	4.3%	-10.4%	-6.4%	-3.6%
Austria	156	3.8%	189	3.8%	-17.6%	-13.9%	-10.6%
Finland	130	3.2%	147	3.0%	-10.9%	-7.2%	-6.1%
Italy	105	2.6%	121	2.5%	-13.2%	-9.4%	-11.3%
Switzerland	104	2.5%	118	2.4%	-12.0%	-9.8%	-16.9%
Sweden	93	2.3%	122	2.5%	-23.8%	-15.8%	-23.8%
United Kingdom	50	1.2%	63	1.3%	-21.3%	-18.6%	-10.2%
Denmark	32	0.8%	38	0.8%	-17.1%	-13.1%	-10.9%
Ireland	3	0.1%	3	0.1%	-8.1%	-4.1%	-19.7%
Norway	2	0.1%	3	0.0%	-18.9%	-13.7%	-
Others [#]	111	2.7%	126	2.6%	-11.6%	-8.4%	-9.5%
Asia Pacific	99	2.4%	114	2.3%	-12.7%	-12.1%	-20.7%
China	18	0.4%	40	0.8%	-55.7%	-54.0%	-49.6%
Others [@]	81	2.0%	74	1.5%	10.3%	10.3%	-1.7%
Total	4,053	100.0%	4,903	100.0%	-17.3%	-13.7%	-10.9%

[^] Net change since 1 July 2018

[#] Others under Rest of Europe include wholesale (excl. eshop) revenue from other countries mainly Chile, Colombia and Canada

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

Wholesale distribution channel by country (controlled space only) – movement since 1 July 2018

															As at 30 June 2019		
	Franchise stores				Shop-in-stores				Identity corners				Total				
Country	No. of stores	Net sales area (m ²)	Net opened stores [^]	Net change in net sales area [^]	No. of stores	Net sales area (m ²)	Net opened stores [^]	Net change in net sales area [^]	No. of stores	Net sales area (m ²)	Net opened stores [^]	Net change in net sales area [^]	No. of stores	Net sales area (m ²)	Net opened stores [^]	Net change in net sales area [^]	
Germany	201	44,527	(26)	-12.2%	1,887	72,806	(161)	-8.8%	1,018	20,999	(63)	-4.3%	3,106	138,332	(250)	-9.3%	
Rest of Europe	383	70,832	(38)	-10.3%	727	22,058	(51)	-10.5%	657	14,966	(160)	-21.3%	1,767	107,856	(249)	-12.1%	
France	112	19,507	(6)	-3.9%	254	5,558	(5)	-4.4%	120	3,488	(25)	-12.1%	486	28,553	(36)	-5.1%	
Benelux	67	19,063	(13)	-16.1%	36	1,806	(12)	-26.9%	55	1,578	(94)	-61.8%	158	22,447	(119)	-23.4%	
Austria	43	6,534	(6)	-15.4%	98	3,558	3	1.4%	19	505	(6)	-20.0%	160	10,597	(9)	-10.6%	
Sweden	5	2,143	(4)	-28.9%	5	290	3	195.9%	25	630	(12)	-30.5%	35	3,063	(13)	-23.8%	
Finland	21	4,798	-	-0.9%	45	1,785	(12)	-23.1%	93	2,622	-	-0.5%	159	9,205	(12)	-6.1%	
Switzerland	20	2,952	(1)	-10.8%	40	1,744	(5)	-24.1%	10	226	(5)	-28.7%	70	4,922	(11)	-16.9%	
Italy	12	2,144	(2)	-15.5%	29	727	(5)	-29.1%	234	3,452	(2)	-3.3%	275	6,323	(9)	-11.3%	
Spain	26	3,156	-	5.7%	152	4,910	(11)	-6.5%	50	1,345	(3)	-11.6%	228	9,411	(14)	-3.6%	
Denmark	5	1,395	(1)	-9.8%	2	28	-	-	10	269	(4)	-17.0%	17	1,692	(5)	-10.9%	
Norway	1	242	-	-	-	-	-	n.a.	1	15	-	-	2	257	-	-	
United Kingdom	2	152	-	1.3%	9	328	1	-0.6%	37	808	(7)	-15.4%	48	1,288	(6)	-10.2%	
Ireland	-	-	-	n.a.	1	78	-	-4.9%	3	28	(2)	-44.0%	4	106	(2)	-19.7%	
Others *	69	8,746	(5)	-9.2%	56	1,246	(8)	-11.4%	-	-	-	n.a.	125	9,992	(13)	-9.5%	
Asia Pacific	97	8,935	(13)	-20.7%	-	-	-	n.a.	-	-	-	n.a.	97	8,935	(13)	-20.7%	
China	16	2,261	(16)	-49.6%	-	-	-	n.a.	-	-	-	n.a.	16	2,261	(16)	-49.6%	
Thailand	57	3,789	1	-4.5%	-	-	-	n.a.	-	-	-	n.a.	57	3,789	1	-4.5%	
Philippines	14	1,541	(1)	-12.6%	-	-	-	n.a.	-	-	-	n.a.	14	1,541	(1)	-12.6%	
Others	10	1,344	3	27.0%	-	-	-	n.a.	-	-	-	n.a.	10	1,344	3	27.0%	
Total	681	124,294	(77)	-11.9%	2,614	94,864	(212)	-9.2%	1,675	35,965	(223)	-12.2%	4,970	255,123	(512)	-10.9%	

[^] Net change since 1 July 2018

* Others under Rest of Europe include controlled wholesale point of sales and space in countries outside Europe, mainly Colombia and Chile

HUMAN RESOURCES

As at 30 June 2019, the Group employed over 4,900 full-time equivalent staff (30 June 2018: over 6,400) 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 global intranet.

DIVIDEND

The Board maintains the dividend payout ratio of 60% of basic earnings per share. As the Group recorded a loss for the year ended 30 June 2019, the Board has not recommended the distribution of a final dividend for the year ended 30 June 2019 (FY17/18: Nil).

CLOSURE OF REGISTERS OF MEMBERS

For determining the eligibility of shareholders to attend and vote at the forthcoming annual general meeting of the Company

Latest time to lodge transfer documents for registration At 4:30 pm on Friday, 29 November 2019

Closure of Registers of Members Monday, 2 December 2019 to Thursday, 5 December 2019 (both dates inclusive)

Record date Thursday, 5 December 2019

During the above closure period, no transfer of shares of the Company will be effected. To be eligible to attend and vote at the forthcoming annual general meeting, all transfer forms, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong, Tricor Secretaries Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than the aforementioned latest time.

AUDIT COMMITTEE

The Audit Committee currently comprises three Non-executive Directors (two of whom are Independent). 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 consolidated results of the Group for the year ended 30 June 2019 have been reviewed by the Audit Committee and audited by the independent auditor of the Company, PricewaterhouseCoopers.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

Neither the Company nor any of its subsidiaries have purchased, sold or redeemed any of the Company's shares during the year under review.

CORPORATE GOVERNANCE

The Company has applied the principles of, and complied with the Corporate Governance Code and Corporate Governance Report (the “Code”) as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) for the year ended 30 June 2019, except that Non-executive Directors of the Company do not have specific term of appointment (code provision A.4.1 of the Code). Nevertheless, under bye-law 87 of the Company’s Bye-laws, all Directors, including Non-executive Directors, of the Company are subject to retirement by rotation and re-election in the annual general meeting of the Company and each Director is effectively appointed under an average term of not more than three years.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding Directors’ securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as contained in Appendix 10 of the Listing Rules.

The Company has made specific enquiry with all Directors and all of them confirmed that they have complied with the required standard set out in the Model Code for the year ended 30 June 2019.

BOARD OF DIRECTORS

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

Executive Directors:	Dr Raymond OR Ching Fai (<i>Executive Chairman</i>) Mr Anders Christian KRISTIANSEN (<i>Group Chief Executive Officer</i>) Mr Thomas TANG Wing Yung (<i>Group Chief Financial Officer</i>)
Non-executive Director:	Mr Jürgen Alfred Rudolf FRIEDRICH
Independent Non-executive Directors:	Mr Alexander Reid HAMILTON Mr Carmelo LEE Ka Sze Mr Norbert Adolf PLATT

By Order of the Board
HUNG Lee Lee
Company Secretary

Hong Kong, 18 September 2019

Forward-Looking Statements

This announcement contains certain forward-looking statements. Such forward-looking statements are subject to various risks and uncertainties, including without limitation, statements relating to our plans to transform the Company’s business, make significant investment in our businesses and achieve sustainable profitability in the future, and other risks and factors identified by us from time to time. Although the Group believes that the anticipations, beliefs, estimates, expectations and/or plan stated in this announcement are, to the best of its knowledge, true, actual events and/or results could differ materially. The Group cannot assure you that those current anticipations, beliefs, estimates, expectations and/or plan will prove to be correct and you are cautioned not to place undue reliance on such statements. The Group undertakes no obligation to publicly update or revise any forward-looking statements contained in this announcement, whether as a result of new information, future events or otherwise, except as required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited or any other applicable laws and regulations. All forward-looking statements contained in this announcement are expressly qualified by these cautionary statements.