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- Group turnover down 3.1% while retail turnover up 9.5% yoy
- Retail comp-store-growth +0.4% in 2<sup>nd</sup> quarter vs -3.5% in 1<sup>st</sup> quarter
- Continued strengthening of wholesale channel mix
- Gross profit margin and operating profit margin increased by 2.7ppt and 0.3ppt yoy respectively
- Operating expense increased slightly despite expansion of retail selling space by 10.2% as compared to 31 December 2008
- Continued improvement in working capital efficiency, both inventories and trade receivables declined
- Net cash balance increased HK\$3.0 billion in the 6 months to HK\$7.9 billion
- Launched strategic initiatives to strengthen platform for growth and profitability

## **ESPRIT HOLDINGS LIMITED**

*(Incorporated in Bermuda with limited liability)*  
(Stock Code: 00330)

**INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED**

**31 DECEMBER 2009**

## INTERIM RESULTS

The Board of Directors of Esprit Holdings Limited (the "Company") is pleased to present the unaudited condensed consolidated interim financial information, along with selected explanatory notes, of the Company and its subsidiaries (the "Group") for the six months ended 31 December 2009 as follows:

### Condensed consolidated income statement

		<b>Unaudited</b>	
		<b>For the 6 months ended</b>	
		<b>31 December</b>	
	Notes	<b>2009</b>	2008
		HK\$ million	HK\$ million (restated)
<b>Turnover</b>	2	<b>18,475</b>	19,064
Cost of goods sold		<b>(8,377)</b>	(9,154)
<b>Gross profit</b>		<b>10,098</b>	9,910
Staff costs		<b>(2,251)</b>	(2,110)
Occupancy costs		<b>(1,881)</b>	(1,627)
Logistics expenses		<b>(692)</b>	(615)
Advertising expenses		<b>(338)</b>	(496)
Depreciation		<b>(431)</b>	(375)
Other operating costs		<b>(1,138)</b>	(1,276)
<b>Operating profit</b>	3	<b>3,367</b>	3,411
Interest income		<b>16</b>	64
Share of results of associates		<b>65</b>	91
<b>Profit before taxation</b>	2	<b>3,448</b>	3,566
Taxation	4	<b>(743)</b>	(713)
<b>Profit attributable to shareholders</b>		<b>2,705</b>	2,853
<b>Interim dividend</b>	5	<b>946</b>	996
<b>Earnings per share</b>			
- Basic	6	<b>HK\$2.12</b>	HK\$2.24
- Diluted	6	<b>HK\$2.11</b>	HK\$2.23

## Condensed consolidated statement of comprehensive income

	Unaudited	
	For the 6 months ended	
	31 December	
	2009	2008
	HK\$ million	HK\$ million
<b>Profit attributable to shareholders</b>	<b>2,705</b>	<b>2,853</b>
<b>Other comprehensive income</b>		
Fair value gain on cash flow hedge	4	9
Exchange translation recognised directly in equity	196	(1,328)
<b>Total comprehensive income for the period attributable to shareholders</b>	<b>2,905</b>	<b>1,534</b>

## Condensed consolidated balance sheet

	Notes	Unaudited 31 December 2009 HK\$ million	Audited 30 June 2009 HK\$ million
<b>Non-current assets</b>			
Intangible assets		2,071	2,061
Property, plant and equipment	7	4,602	4,228
Other investments		7	7
Investments in associates		341	522
Prepaid lease payments		163	165
Deferred tax assets		465	408
		<u>7,649</u>	<u>7,391</u>
<b>Current assets</b>			
Inventories		2,722	2,997
Debtors, deposits and prepayments	8	4,408	4,392
Amounts due from associates		72	71
Cash and cash equivalents		7,863	4,840
		<u>15,065</u>	<u>12,300</u>
<b>Current liabilities</b>			
Creditors and accrued charges	9	3,762	3,849
Dividend payable		870	-
Taxation		1,207	1,142
		<u>5,839</u>	<u>4,991</u>
<b>Net current assets</b>		<u>9,226</u>	<u>7,309</u>
<b>Total assets less current liabilities</b>		<u>16,875</u>	<u>14,700</u>
<b>Equity</b>			
Share capital	10	125	125
Reserves		16,451	14,284
<b>Total equity</b>		<u>16,576</u>	<u>14,409</u>
<b>Non-current liabilities</b>			
Deferred tax liabilities		299	291
		<u>16,875</u>	<u>14,700</u>

## **Notes to the condensed consolidated interim financial information**

### **1. Basis of preparation**

This unaudited condensed consolidated interim financial information (“interim financial information”) on pages 2 to 14 for the six months ended 31 December 2009 has been prepared in accordance with the International Accounting Standard (“IAS”) 34 “Interim Financial Reporting” issued by the International Accounting Standards Board and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

This interim financial information should be read in conjunction with the annual financial statements for the year ended 30 June 2009. The accounting policies and methods of computation used in the preparation of this interim financial information are consistent with those used in the annual financial statements for the year ended 30 June 2009.

In the current period, the Group has adopted the International Financial Reporting Standard (“IFRS”) 3 (revised) “Business Combinations”, IFRS 8 “Operating Segments”, IAS 1 (Revised) “Presentation of Financial Statement” and IAS 27 (Revised) “Consolidated and Separate Financial Statements”.

IFRS 3 (Revised), “Business Combinations”. The revised standard continues to apply the acquisition method to business combinations, with some significant changes. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest’s proportionate share of the acquiree’s net assets. All acquisition-related costs should be expensed. The Group has applied IFRS 3 (Revised) prospectively to all business combinations from 1 July 2009, but there is no significant financial impact to the consolidated financial statements during the interim period.

IFRS 8, “Operating Segments”, replaces IAS 14, “Segment Reporting”, and aligns segment reporting with the requirements of the US standard SFAS 131, “Disclosures about segments of an enterprise and related information”. The new standard requires a “management approach”, under which segment information is presented on the same basis as that used for internal reporting purposes. This has resulted in an increase in the number of reportable segments presented. In addition, the segments are reported in a manner that is more consistent with the internal reporting provided to the chief operating decision-maker management. Comparatives for 2008 have been restated.

IAS 1 (Revised), “Presentation of Financial Statement”. The revised standard prohibits the presentation of items of income and expenses (that is “non-owner changes in equity”) in the statement of changes in equity, requiring “non-owner changes in equity” to be presented separately from owner changes in equity. All “non-owner changes in equity” are required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the consolidated income statement and statement of comprehensive income). The Group has elected to present two statements: a condensed consolidated income statement and a condensed consolidated statement of comprehensive income. The interim financial report has been prepared under the revised disclosure requirements.

## 1. Basis of preparation (continued)

IAS 27 (Revised), "Consolidated and Separate Financial Statements". The revised standard requires the effects of all transactions with minority interest to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the equity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The Group has applied IAS 27 (Revised) prospectively to transactions with minority interest from 1 July 2009, but there is no significant financial impact to the consolidated financial statements during the interim period.

The Group did not early adopt the following IAS, IFRS and International Financial Reporting Interpretations Committee ("IFRIC") interpretations that have been issued in the period from 1 July 2009 to 31 December 2009. The adoption of such standards is anticipated not to result in substantial changes to the Group's accounting policies.

		Effective for accounting periods beginning on or after
IAS 32 (Amendment)	Financial Instruments – Classification of Rights Issues	1 February 2010
IAS 24 (Amendment)	Related Party Disclosures	1 January 2011
IFRS 1 (Amendment)	First-time Adoption of IFRS - Oil and Gas Assets and Determining Whether an Arrangement Contains a Lease	1 January 2010
IFRS 9	Financial Instruments	1 January 2013
IFRIC 14 (Amendment)	Prepayment of a Minimum Funding Requirement	1 January 2011
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	1 July 2010

## 2. Turnover and segment information

The Group is principally engaged in wholesale and retail distribution and licensing of quality fashion and life-style products designed under its own internationally-known Esprit brand name.

	Unaudited For the 6 months ended 31 December	
	2009	2008
	HK\$ million	HK\$ million
Turnover		
Sales of goods	18,362	18,941
Licensing and other income	113	123
	<u>18,475</u>	<u>19,064</u>

## **2. Turnover and segment information (continued)**

The chief operating decision-maker has been identified as the board of executive directors (“Executive Directors”) of the Group.

Management has determined the operating segments based on the reports reviewed by the Executive Directors that are used to assess performance and allocate resources.

The Executive Directors consider the business from operations nature perspective, including wholesale and retail distribution and licensing of quality fashion and life-style products designed under its own internationally-known Esprit brand name.

Each of the Group’s business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Inter-segment transactions are entered into under the normal commercial terms and conditions that would also be available to unrelated third parties.

## 2. Turnover and segment information (continued)

The segment information provided to the Executive Directors for the reportable segments is as follows:

	Unaudited For the 6 months ended 31 December 2009				
	Wholesale HK\$ million	Retail HK\$ million	Licensing HK\$ million	Corporate services, sourcing and consolidation HK\$ million	Group HK\$ million
Total revenue	8,738	9,642	92	14,041	32,513
Inter-segment revenue	-	(18)	-	(14,020)	(14,038)
Revenue from external customers	<u>8,738</u>	<u>9,624</u>	<u>92</u>	<u>21</u>	<u>18,475</u>
Segment results	<u>2,210</u>	<u>1,467</u>	<u>83</u>	<u>(393)</u>	<u>3,367</u>
Interest income					16
Share of results of associates					65
Profit before taxation					<u>3,448</u>
Capital expenditure	15	403	-	325	743
Depreciation	<u>31</u>	<u>353</u>	<u>2</u>	<u>45</u>	<u>431</u>

	Unaudited As at 31 December 2009				
	Wholesale HK\$ million	Retail HK\$ million	Licensing HK\$ million	Corporate services, sourcing and consolidation HK\$ million	Group HK\$ million
Segment assets	2,813	8,018	189	9,210	20,230
Interest in associates					413
Intangible assets					2,071
					<u>22,714</u>



## 2. Turnover and segment information (continued)

Unaudited  
For the 6 months ended 31 December 2008 (restated)

	Wholesale HK\$ million	Retail HK\$ million	Licensing HK\$ million	Corporate services, sourcing and consolidation HK\$ million	Group HK\$ million
Total revenue	10,150	8,802	95	15,804	34,851
Inter-segment revenue	-	(11)	-	(15,776)	(15,787)
Revenue from external customers	10,150	8,791	95	28	19,064
Segment results	2,737	1,291	68	(685)	3,411
Interest income					64
Share of results of associates					91
Profit before taxation					3,566
Capital expenditure	53	842	1	271	1,167
Depreciation	33	298	-	44	375

Audited  
As at 30 June 2009 (restated)

	Wholesale HK\$ million	Retail HK\$ million	Licensing HK\$ million	Corporate services, sourcing and consolidation HK\$ million	Group HK\$ million
Segment assets	3,200	7,466	81	6,290	17,037
Interest in associates					593
Intangible assets					2,061
					19,691

### 3. Operating profit

	Unaudited For the 6 months ended 31 December	
	2009	2008
	HK\$ million	HK\$ million
Operating profit is arrived at after charging and (crediting) the following:		
Depreciation	431	375
Loss on disposal of property, plant and equipment	6	24
Impairment of property, plant and equipment	10	13
Net exchange (gains)/losses	(76)	127
Net charge for provision for obsolete inventories	25	14
Occupancy costs		
Operating lease charge	1,439	1,234
Other occupancy costs	442	393
Provision for impairment of trade debtors / bad debts written off	151	70
	<u>          </u>	<u>          </u>

### 4. Taxation

	Unaudited For the 6 months ended 31 December	
	2009	2008
	HK\$ million	HK\$ million
Current tax		
Hong Kong profits tax		
Provision for current period	1	1
Underprovision in prior years	54	-
Overseas taxation		
Provision for current period	724	756
Underprovision in prior years	7	3
	<u>          </u>	<u>          </u>
	786	760
Deferred tax		
Current period net credit	(43)	(47)
	<u>          </u>	<u>          </u>
Taxation	<u>          </u>	<u>          </u>
	743	713

Hong Kong profits tax is calculated at **16.5%** (2008: 16.5%) on the estimated assessable profit for the period, net of tax losses carried forward, if applicable.

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

#### 4. Taxation (continued)

Share of associates' taxation for the six months ended 31 December 2009 was a net tax charge of **HK\$23 million** (2008: a net tax charge of HK\$24 million) which has been included in the condensed consolidated income statement as share of results of associates.

#### 5. Interim dividend

	Unaudited For the 6 months ended 31 December	
	2009 HK\$ million	2008 HK\$ million
Interim dividend declared of <b>HK\$0.74</b> (2008: HK\$0.80) per share	<b>946</b>	996

The amount of interim dividend is based on **1,278,934,879** shares in issue on **3 February 2010** (2008: 1,245,049,934 shares in issue on 4 February 2009).

#### 6. Earnings per share

##### Basic

Basic earnings per share is calculated by dividing the profit attributable to shareholders by the weighted average number of ordinary shares in issue during the period after adjusting the outstanding number of ordinary shares deemed to be issued as at the beginning of the period as a result of the scrip dividend (note).

	Unaudited For the 6 months ended 31 December	
	2009	2008 (restated)
Profit attributable to shareholders (HK\$ million)	<b>2,705</b>	2,853
Weighted average number of ordinary shares in issue (million)	<b>1,246</b>	1,243
Adjustments for scrip shares (million) (note)	<b>31</b>	31
	<b>1,277</b>	1,274
Basic earnings per share (HK\$ per share)	<b>2.12</b>	2.24

## 6. Earnings per share (continued)

### Diluted

Diluted earnings per share is calculated based on the profit attributable to shareholders, and the weighted average number of shares in issue during the period and the outstanding number of ordinary shares deemed to be issued as at the beginning of the period as a result of the scrip dividend (note) after adjusting for the number of dilutive potential ordinary shares granted under the Company's share option scheme.

	Unaudited For the 6 months ended 31 December	
	2009	2008 (restated)
Profit attributable to shareholders (HK\$ million)	<u>2,705</u>	<u>2,853</u>
Weighted average number of ordinary shares in issue (million)	1,246	1,243
Adjustments for scrip shares (million) (note)	31	31
Adjustments for share options (million)	3	4
Weighted average number of ordinary shares for diluted earnings per share (million)	<u>1,280</u>	<u>1,278</u>
Diluted earnings per share (HK\$ per share)	<u>2.11</u>	<u>2.23</u>

Note: On 10 December 2009, the shareholders approved a special dividend of HK\$1.33 per share for the year ended 30 June 2009 by way of new fully paid shares ("scrip shares"). Approximately 31 million scrip shares were issued on 15 January 2010. The basic and diluted earnings per share for the six months ended 31 December 2008 have been restated since the scrip shares have been treated as outstanding as if the issue had occurred as at 1 July 2008.

## 7. Property, plant and equipment

	Unaudited HK\$ million
Balance at 1 July 2009	4,228
Exchange translation	88
Additions	743
Disposals	(16)
Depreciation (note 3)	(431)
Impairment charge (note 3)	(10)
<b>Balance at 31 December 2009</b>	<u><u>4,602</u></u>

## 8. Debtors, deposits and prepayments

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

	<b>Unaudited 31 December 2009 HK\$ million</b>	Audited 30 June 2009 HK\$ million
Current	<b>2,048</b>	2,410
1-30 days	<b>299</b>	246
31-60 days	<b>196</b>	137
61-90 days	<b>85</b>	76
Over 90 days	<b>261</b>	170
Amount past due but not impaired	<b>841</b>	629
	<b>2,889</b>	3,039

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

Creditors and accrued charges include trade creditors and their ageing analysis is as follows:

	<b>Unaudited 31 December 2009 HK\$ million</b>	Audited 30 June 2009 HK\$ million
0-30 days	<b>721</b>	1,065
31-60 days	<b>54</b>	59
61-90 days	<b>9</b>	17
Over 90 days	<b>10</b>	24
	<b>794</b>	1,165

## 10. Share capital

	Unaudited 31 December 2009 HK\$ million	Audited 30 June 2009 HK\$ million
<b>Authorised</b>		
2,000,000,000 shares of HK\$0.10 each	<u>200</u>	<u>200</u>
	<b>Number of shares of HK\$0.10 each Million</b>	<b>Nominal value HK\$ million</b>
<b>Issued and fully paid</b>		
Balance at 1 July 2009	1,246	125
Exercise of share options (note 1)	<u>2</u>	<u>-</u>
<b>Balance at 31 December 2009</b>	<u><u>1,248</u></u>	<u><u>125</u></u>

Note 1: During the period, **1,495,000** ordinary shares of **HK\$0.10** each were issued in respect of the share options exercised by Directors and employees under the share option scheme at exercise prices in the range of **HK\$24.20** to **HK\$42.58** each (representing a premium in the range of **HK\$24.10** to **HK\$42.48** each).

Note 2: On 10 December 2009, the shareholders approved a final dividend of HK\$0.72 per share and a special dividend of HK\$1.33 per share for the year ended 30 June 2009. The shareholders were provided with an option to receive the final dividend in form of shares in lieu of cash while the special dividend was paid out in form of shares. On 15 January, 2010, 531,079 and 30,816,866 shares were issued in respect of the final dividend and special dividend respectively.

## 11. Comparative Figures

Certain comparative figures relating to the operating costs, cost of goods sold and segment information have been reclassified to conform with the current period's presentation.

## MANAGEMENT DISCUSSION AND ANALYSIS

### REVENUE ANALYSIS

The Group's turnover was HK\$18.5 billion (1H FY08/09: HK\$19.1 billion), representing 3.1% year-on-year decline. In local currency, the Group's turnover fell 5.6%. Retail, wholesale and licensing contributed turnover of HK\$9,624 million, HK\$8,738 million and HK\$92 million representing 52.1%, 47.3% and 0.5% of the Group's turnover respectively.

#### Turnover by Products

PRODUCT DIVISIONS	For the 6 months ended 31 December				Change in %	
	2009		2008		HK\$	Local currency
	HK\$ million	% to Group Turnover	HK\$ million	% to Group Turnover		
<b>casual</b>	<b>8,939</b>	<b>48.4%</b>	<b>8,838</b>	<b>46.4%</b>	<b>1.1%</b>	<b>-0.9%</b>
women's casual	6,515	35.3%	6,426	33.7%	1.4%	-0.7%
men's casual	2,424	13.1%	2,412	12.7%	0.5%	-1.5%
<b>edc</b>	<b>4,378</b>	<b>23.7%</b>	<b>4,582</b>	<b>24.0%</b>	<b>-4.5%</b>	<b>-6.6%</b>
edc women	3,129	17.0%	3,288	17.2%	-4.8%	-6.9%
edc men	704	3.8%	736	3.9%	-4.4%	-6.7%
edc others <sup>^</sup>	545	2.9%	558	2.9%	-2.4%	-4.7%
<b>collection</b>	<b>1,716</b>	<b>9.3%</b>	<b>1,681</b>	<b>8.8%</b>	<b>2.1%</b>	<b>-0.1%</b>
women's collection	1,277	6.9%	1,235	6.5%	3.4%	1.2%
men's collection	439	2.4%	446	2.3%	-1.4%	-3.7%
<b>others</b>	<b>3,442</b>	<b>18.6%</b>	<b>3,963</b>	<b>20.8%</b>	<b>-13.1%</b>	<b>-14.9%</b>
accessories	919	5.0%	991	5.2%	-7.3%	-9.4%
kids	595	3.2%	667	3.5%	-10.8%	-12.4%
shoes	473	2.6%	652	3.4%	-27.4%	-28.7%
bodywear	464	2.5%	451	2.4%	2.8%	0.4%
sports	355	1.9%	448	2.3%	-20.6%	-22.2%
de. corp	193	1.0%	164	0.9%	17.4%	14.4%
red earth	7	0.0%	16	0.1%	-53.7%	-54.1%
others <sup>*</sup>	436	2.4%	574	3.0%	-24.1%	-25.2%
<b>TOTAL</b>	<b>18,475</b>	<b>100.0%</b>	<b>19,064</b>	<b>100.0%</b>	<b>-3.1%</b>	<b>-5.6%</b>

<sup>^</sup> edc others include edc kids, edc shoes, edc accessories and edc bodywear

<sup>\*</sup> others include salon, licensing income & licensed products like timewear, eyewear, jewellery, bed & bath, houseware, etc.

## Turnover by Countries

COUNTRIES <sup>#</sup>	For the 6 months ended 31 December				Change in %	
	2009		2008 <sup>^</sup>			
	HK\$ million	% to Group Turnover	HK\$ million	% to Group Turnover	HK\$	Local currency
<b>EUROPE</b>	<b>15,705</b>	<b>85.0%</b>	<b>16,207</b>	<b>85.0%</b>	<b>-3.1%</b>	<b>-5.4%</b>
Germany* <sup>##</sup>	8,317	45.0%	8,556	44.9%	-2.8%	-5.6%
Benelux*	2,741	14.8%	2,873	15.1%	-4.6%	-6.3%
France	1,613	8.7%	1,719	9.0%	-6.2%	-7.6%
Austria	833	4.5%	833	4.4%	-0.1%	-2.5%
Scandinavia	797	4.3%	917	4.8%	-13.0%	-12.9%
Switzerland	775	4.2%	655	3.4%	18.4%	11.0%
U.K.	252	1.4%	229	1.2%	10.0%	14.4%
Italy	174	1.0%	205	1.1%	-15.0%	-16.0%
Spain	165	0.9%	173	0.9%	-4.8%	-6.0%
Ireland	19	0.1%	40	0.2%	-53.7%	-54.2%
Portugal	16	0.1%	7	0.0%	118.3%	105.8%
Others	3	0.0%	0	0.0%	n.a.	n.a.
<b>ASIA PACIFIC</b>	<b>2,178</b>	<b>11.8%</b>	<b>2,299</b>	<b>12.1%</b>	<b>-5.3%</b>	<b>-9.4%</b>
Macau <sup>###</sup>	882	4.8%	1,029	5.4%	-14.3%	-17.6%
Australia and New Zealand	494	2.7%	411	2.2%	20.0%	5.3%
Hong Kong <sup>**</sup>	362	1.9%	396	2.1%	-8.6%	-8.6%
Singapore	200	1.1%	206	1.1%	-3.0%	-4.7%
Taiwan	134	0.7%	142	0.7%	-5.4%	-3.9%
Malaysia	106	0.6%	115	0.6%	-8.0%	-7.3%
<b>NORTH AMERICA AND OTHERS</b>	<b>592</b>	<b>3.2%</b>	<b>558</b>	<b>2.9%</b>	<b>6.2%</b>	<b>3.7%</b>
Canada	310	1.7%	291	1.5%	6.9%	1.7%
United States*	282	1.5%	267	1.4%	5.6%	5.9%
<b>TOTAL</b>	<b>18,475</b>	<b>100.0%</b>	<b>19,064</b>	<b>100.0%</b>	<b>-3.1%</b>	<b>-5.6%</b>

n.a. Means not applicable

# Country as a whole includes retail stores, outlet stores, edc standalone stores and e-shop

## Germany sales includes wholesale sales to other European countries mainly Russia, Poland, Greece, and Croatia

### Macau sales includes wholesale sales to other countries mainly China, Middle East, Thailand, and India

\* Includes licensing

\*\* Includes salon

<sup>^</sup> Turnover by countries for the 6 months ended 31 December 2008 were restated for comparison purpose as a result of the adoption of the new IFRS 8 "Operating Segments"



## Turnover by Distribution Channels

KEY DISTRIBUTION CHANNELS	For the 6 months ended 31 December				Change in %	
	2009		2008			
	HK\$ million	% to Group Turnover	HK\$ million	% to Group Turnover	HK\$	Local currency
<b>RETAIL<sup>#</sup></b>	<b>9,624</b>	<b>52.1%</b>	<b>8,791</b>	<b>46.1%</b>	<b>9.5%</b>	<b>5.5%</b>
Europe	7,905	42.8%	7,158	37.6%	10.4%	6.5%
Asia Pacific	1,287	7.0%	1,245	6.5%	3.4%	-1.3%
North America	432	2.3%	388	2.0%	11.6%	8.5%
<b>WHOLESALE</b>	<b>8,738</b>	<b>47.3%</b>	<b>10,150</b>	<b>53.2%</b>	<b>-13.9%</b>	<b>-15.4%</b>
Europe	7,783	42.1%	9,031	47.3%	-13.8%	-15.0%
Asia Pacific	872	4.7%	1,026	5.4%	-15.0%	-18.6%
North America and Others	83	0.5%	93	0.5%	-11.2%	-13.7%
<b>LICENSING AND OTHERS</b>	<b>113</b>	<b>0.6%</b>	<b>123</b>	<b>0.7%</b>	<b>-8.3%</b>	<b>-8.7%</b>
Licensing	92	0.5%	95	0.5%	-3.3%	-3.8%
Salon	18	0.1%	28	0.2%	-34.3%	-34.3%
Others	3	0.0%	0	0.0%	3461.9%	619.0%
<b>TOTAL</b>	<b>18,475</b>	<b>100.0%</b>	<b>19,064</b>	<b>100.0%</b>	<b>-3.1%</b>	<b>-5.6%</b>

# Retail sales includes sales from e-shop in countries where available

### Retail

The retail turnover growth of 9.5% year-on-year was mainly driven by 10.2% year-on-year increase in retail selling space as compared to 31 December 2008 (net change from 30 June 2009: +5.9%) and the continual growth of turnover contribution from e-club members.

The retail operating environment remained volatile but we noticed some signs of improvement in the second quarter of the financial year. Retail turnover local currency growth accelerated from 4.5% in the first quarter of the financial year to 6.3% in the second quarter. While comparable store sales still fell 1.2% year-on-year in the first half of the financial year, it improved substantially from -3.5% in the first quarter to 0.4% in the second quarter.

### Retail Performance Scorecard

	For the 6 months ended 31 December	
	2009	2008
Year-on-year local currency turnover growth	5.5%	12.4%
Segment EBIT Margin <sup>^</sup>	15.2%	14.7%
No. of POS <sup>*</sup>	829	774
Sales area (m <sup>2</sup> )	332,053	301,340
Year-on-year change in sales area	10.2%	17.4%
Comparable store sales growth	-1.2%	6.3%

\* calculation excludes salon

<sup>^</sup> segment EBIT margin for the 6 months ended 31 December 2008 was restated as the basis of EBIT and EBIT margin have been changed as a result of the adoption of the new IFRS 8 "Operating Segments"

During the reporting period, the Group grew the retail distribution network by opening 46 and closing 18 directly managed retail stores bringing the total number of directly managed retail stores to 829 at 31 December 2009. Our retail selling space grew 5.9% to 332,053 m<sup>2</sup> as compared to 30 June 2009. The focus has been on the quality of our new store locations. Among the new stores opened in the reporting period are the two new concept stores in Oldenburg, Germany and Tsim Sha Tsui, Hong Kong. The market response to these two new stores has been positive.

### Directly managed retail stores by countries

As at 31 December 2009						
	No. of store	Net: opened: stores*	Sales area m <sup>2</sup>	Change in sales area*	No. of comp stores	Comp-store sales growth
<b>Europe</b>	<b>413</b>	<b>28</b>	<b>236,521</b>	<b>6.9%</b>	<b>260</b>	<b>-0.7%</b>
Germany **	170	6	120,223	5.2%	118	-0.7%
Benelux	83	5	36,518	5.3%	60	-2.2%
France	50	2	23,375	14.0%	37	-4.6%
Switzerland	39	5	16,404	15.7%	22	8.9%
U.K.	35	6	10,800	-0.4%	10	-4.6%
Austria	13	1	13,320	2.5%	7	-3.7%
Scandinavia	13	3	9,112	24.4%	3	12.2%
Spain	7	(1)	4,979	2.8%	3	-4.5%
Portugal	2	-	1,667	n.a.	-	n.a.
Ireland	1	1	123	n.a.	-	n.a.
<b>Asia Pacific</b>	<b>337</b>	<b>(1)</b>	<b>66,616</b>	<b>4.0%</b>	<b>220</b>	<b>-5.4%</b>
Australia	157	1	23,131	7.0%	97	-2.3%
Taiwan	88	(1)	8,220	2.9%	53	-6.1%
Malaysia	29	(1)	8,464	-1.0%	26	-4.8%
Hong Kong	24	(1)	13,045	3.3%	18	-6.2%
Singapore	23	-	9,048	5.3%	17	-12.2%
New Zealand	13	2	3,006	6.7%	6	4.2%
Macau	3	(1)	1,702	-8.7%	3	0.6%
<b>North America</b>	<b>79</b>	<b>1</b>	<b>28,916</b>	<b>2.5%</b>	<b>62</b>	<b>0.4%</b>
Canada	49	-	16,953	0.8%	40	2.9%
United States **	30	1	11,963	5.2%	22	-2.4%
<b>Total</b>	<b>829</b>	<b>28</b>	<b>332,053</b>	<b>5.9%</b>	<b>542</b>	<b>-1.2%</b>

n.a. Means not applicable

\* Net change from 30 June 2009

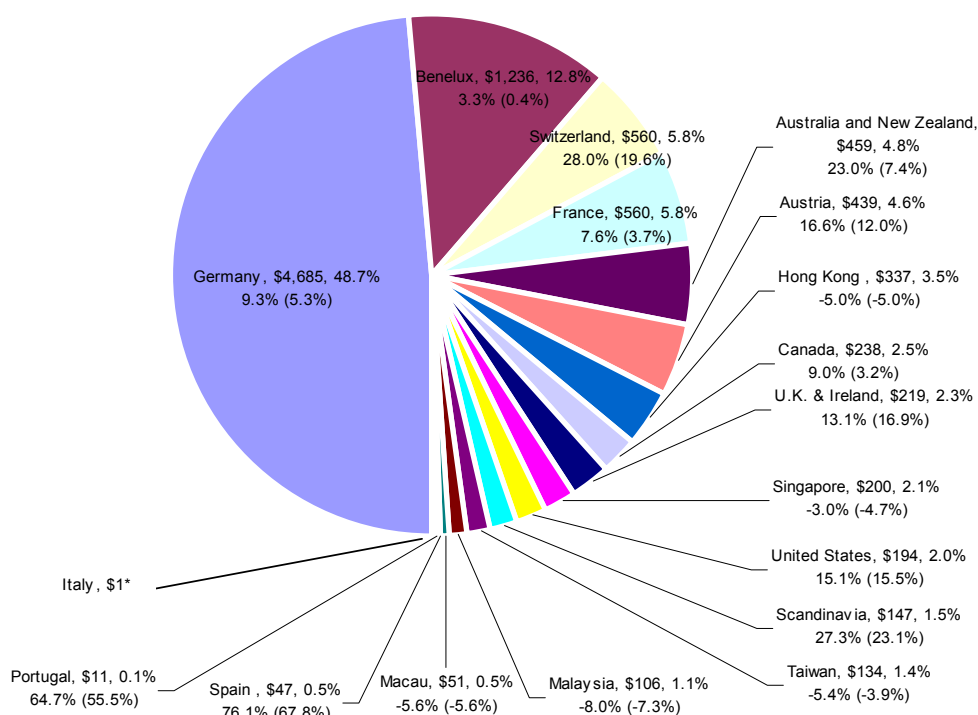
\*\* All e-shops within Europe are shown as 1 comparable store in Germany and the e-shop in U.S. is shown as 1 comparable store in U.S.

Customer loyalty continued to play a major role in driving retail turnover growth. As at 31 December 2009, the number of e-club members grew to about 6 million worldwide.

In view of the success of e-club, the Group will put even more effort in enhancing this loyalty program to reward our loyal customers and strengthen the loyalty of our customer base by bringing retail-members to our e-shop and e-shop-members to our retail stores.

## Retail turnover by countries

**Total retail turnover: HK\$9,624 million**



Country, HK\$ million, % of retail turnover

% HK\$ growth (% local currency growth)

\* Italy's retail turnover represented retail turnover from its e-shop which was first launched in the reporting period

### Europe

The Group recorded HK\$7,905 million retail turnover in Europe (1H FY08/09: HK\$7,158 million) representing a local currency growth of 6.5%. Comparable store sales slightly declined 0.7% year-on-year due to a decline of comparable store traffic, partially offset by an increase in conversion rate. Comparable store sales growth in the second quarter, however, improved to 0.9% from -2.9% in the first quarter.

**Germany** continued to be the Group's largest retail market and generated HK\$4,685 million retail turnover with -0.7% comparable store sales growth. **Switzerland**, being the Group's third largest retail market in the reporting period, delivered a retail turnover of HK\$560 million, representing 19.6% year-on-year growth in local currency. Its robust retail turnover growth was mainly driven by 8.9% comparable store sales growth and 30.1% year-on-year increase in its retail selling space as compared to 31 December 2008.

During the reporting period, our e-shop platform in Europe extended its reach to Czech Republic, Italy, Poland, Hungary and Greece, where we have no directly managed retail stores at present. The launch of e-shop in these countries will facilitate us in reaching our target customers in an efficient and cost-effective way.

### **Asia Pacific**

Asia Pacific delivered a retail turnover of HK\$1,287 million (1H FY08/09: HK\$1,245 million) representing a year-on-year decline of 1.3% in local currency. The retail turnover of **Australia and New Zealand** grew to HK\$459 million, representing 7.4% year-on-year increase in local currency mainly driven by 12.9% year-on-year increase in retail selling space while its comparable store sales dropped 1.9%.

In view of the success of our e-club loyalty program in Europe, the concept was launched in Australia and New Zealand, replacing the previous program. Following a successful introduction, the Group will consider rolling out this program to other markets in Asia Pacific in the future.

### **North America**

North America generated HK\$432 million retail turnover representing 8.5% year-on-year growth in local currency. The **U.S. and Canada** delivered retail turnover of HK\$194 million and HK\$238 million respectively. The retail turnover growth of the region continued to benefit from non-comparable stores sales growth while the regional comparable store sales grew 0.4% year-on-year.

Retail sales growth momentum in North America had showed a solid improvement in the second quarter of the financial year, especially in November and December 2009, driven by better comparable store traffic. In addition, customers also appeared to buy more items in these two months leading to higher year-on-year increase in the number of items per transaction achieved in November and December 2009.

### **Wholesale**

Wholesale turnover of the Group was HK\$8,738 million representing 13.9% year-on-year decrease. The year-on-year wholesale turnover decline was mainly due to loss of turnover from bankrupt customers, lower demand from existing wholesale customers, as well as our effort in rationalising the list of wholesale accounts to enhance efficiency and brand loyalty, which has a short term impact, but longer term, will have a positive effect on the top line and profitability of our wholesale channel as well as on our brand.

## Wholesale Performance Scorecard

For the 6 months ended 31 December  
2009 2008

Year-on-year local currency turnover growth	<b>-15.4%</b>	-2.9%
Segment EBIT Margin <sup>^</sup>	<b>25.3%</b>	27.0%
No. of controlled space POS	<b>12,946</b>	15,150
Controlled space area (m <sup>2</sup> )	<b>806,458</b>	800,935
Year-on-year change in controlled space area	<b>0.7%</b>	15.2%

<sup>^</sup> segment EBIT margin for the 6 months ended 31 December 2008 was restated as the basis of EBIT and EBIT margin have been changed as a result of the adoption of the new IFRS 8 "Operating Segments"

## Wholesale Distribution Channel by Countries (controlled space only)

COUNTRIES	As at 31 December 2009											
	Franchise stores**				Shop-in-stores**				Identity Corners**			
	No. of stores	Sales area m <sup>2</sup>	Net opened stores*	Net change in sales area*	No. of stores	Sales area m <sup>2</sup>	Net opened stores*	Net change in sales area*	No. of stores	Sales area m <sup>2</sup>	Net opened stores*	Net change in sales area*
<b>ESPRIT EUROPE</b>	<b>1,216</b>	<b>302,947</b>	<b>(15)</b>	<b>3.7%</b>	<b>5,047</b>	<b>204,452</b>	<b>(125)</b>	<b>-2.4%</b>	<b>5,303</b>	<b>119,163</b>	<b>(563)</b>	<b>-8.4%</b>
Germany	418	124,922	4	8.2%	3,907	164,608	(147)	-3.2%	2,827	57,894	(351)	-11.6%
Benelux	177	51,123	1	1.1%	184	7,737	(11)	-4.4%	754	18,937	(92)	-3.0%
France	273	45,027	(1)	4.7%	369	10,515	-	0.4%	459	11,887	(29)	-6.0%
Scandinavia	123	36,120	1	0.8%	109	4,754	2	0.7%	687	16,470	(66)	-6.8%
Austria	89	17,766	(20)	-14.5%	134	4,876	6	0.2%	219	5,555	(4)	-0.6%
Italy	60	11,262	(1)	9.0%	28	1,393	3	5.8%	162	4,099	(1)	-0.4%
Switzerland	48	9,330	1	1.3%	53	3,175	-	0.4%	87	2,049	(19)	-21.6%
Spain and Portugal	16	4,765	1	18.1%	217	5,556	19	11.2%	10	175	2	20.7%
U.K. and Ireland	12	2,632	(1)	-6.7%	46	1,838	3	0.1%	98	2,097	(3)	-9.5%
<b>ESPRIT ASIA PACIFIC</b>	<b>293</b>	<b>76,905</b>	<b>(3)</b>	<b>0.8%</b>	<b>254</b>	<b>10,084</b>	<b>30</b>	<b>-2.7%</b>	<b>823</b>	<b>92,430</b>	<b>27</b>	<b>8.2%</b>
China***	109	39,820	(2)	1.5%	-	-	-	-	823	92,430	27	8.2%
The Middle East	53	13,622	(3)	-3.0%	4	863	1	48.5%	-	-	-	-
India	21	6,064	-	-7.9%	23	1,570	(1)	-2.2%	-	-	-	-
Thailand	25	4,035	1	2.3%	76	3,019	(3)	-3.6%	-	-	-	-
Philippines	16	2,290	-	-	-	-	-	-	-	-	-	-
Australia	-	-	-	-	58	2,029	3	3.8%	-	-	-	-
Others	69	11,074	1	8.9%	93	2,603	30	-15.7%	-	-	-	-
<b>ESPRIT NORTH AMERICA AND OTHERS</b>	<b>2</b>	<b>300</b>	<b>-</b>	<b>-</b>	<b>8</b>	<b>177</b>	<b>2</b>	<b>29.2%</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Mexico	2	300	-	-	8	177	2	29.2%	-	-	-	-
Canada	-	-	-	-	-	-	-	-	-	-	-	-
United States	-	-	-	-	-	-	-	-	-	-	-	-
<b>RED EARTH<sup>^</sup></b>	<b>-</b>	<b>-</b>	<b>(22)</b>	<b>-100.0%</b>	<b>-</b>	<b>-</b>	<b>(7)</b>	<b>-100.0%</b>	<b>-</b>	<b>-</b>	<b>(445)</b>	<b>-100.0%</b>
<b>TOTAL</b>	<b>1,511</b>	<b>380,152</b>	<b>(40)</b>	<b>2.9%</b>	<b>5,309</b>	<b>214,713</b>	<b>(100)</b>	<b>-2.5%</b>	<b>6,126</b>	<b>211,593</b>	<b>(981)</b>	<b>-3.4%</b>

\* Net change from 30 June 2009

\*\* Include Esprit and Red Earth stores/units

\*\*\* Managed by China associated companies or its franchise partners

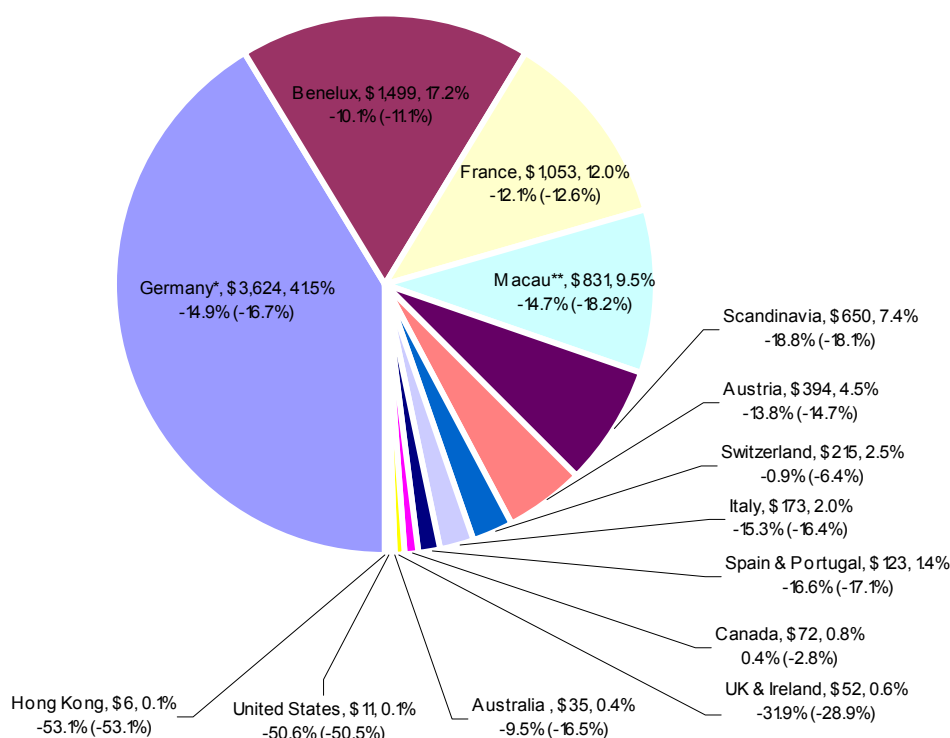
<sup>^</sup> The decline in Red Earth stores/units was due to the disposal of Red Earth brand and related operation

Franchise stores sales area was further expanded during the reporting period as a result of our continual focus on strengthening this channel of the wholesale segment. As at 31 December 2009, total controlled wholesale space of franchised stores grew 2.9% to 380,152 m<sup>2</sup> from 30 June 2009 while the total controlled wholesale space declined slightly by 0.3% to 806,458 m<sup>2</sup> from 30 June 2009.

The decline in the number of identity corners was heavily impact by the disposal of the Red Earth brand and related operation leading to 445 fewer identity corners as compared to 30 June 2009.

## Wholesale turnover by countries

Total wholesale turnover: HK\$8,738 million



Country, HK\$ million, % of wholesale turnover  
% HK\$ growth (% local currency growth)

\* Germany wholesale sales includes sales to other European countries mainly Russia, Poland, Greece, and Croatia

\*\* Macau wholesale sales includes sales to other countries mainly China, Middle East, Thailand and India

### Europe

Europe's wholesale turnover was HK\$7,783 million and declined 15.0% year-on-year in local currency due to continued cautious customer demand and the loss of department store and multi-label customers. As compared to 30 June 2009, controlled wholesale space of franchised stores in Europe grew 3.7% while the controlled wholesale space of shop-in-stores and identity corners declined.

### Asia Pacific

Asia Pacific generated wholesale turnover of HK\$872 million representing 18.6% year-on-year drop in local currency mainly due to weak demand from China. The decline in wholesale turnover from China was partially due to a high base in the same period last year as wholesale customers over estimated demand arising from the Beijing Olympic Games. As a result of that, wholesalers focused on clearing inventory accumulated previously leading to lower demand in the reporting period.

**Middle East** delivered HK\$71 million wholesale turnover, representing 0.1% year-on-year local currency growth, with momentum accelerated substantially in the second quarter to 11.5% from -15.7% in the first quarter.

### North America

North America recorded wholesale turnover of HK\$83 million which was contributed by HK\$72 million from **Canada** and HK\$11 million from the **U.S.** In local currency

terms, the wholesale turnover recorded in North America declined 13.7% year-on-year mainly due to a refocusing of the U.S. customer base which started since the second half of last financial year.

In Canada, our strategic partnership with The Bay, Canada's largest diversified general merchandise retailer, is continuing to grow. They have been expanding the number of stores that carry Esprit as Esprit is among one of the top performing brands in The Bay.

### **Licensing and Others**

Licensing and others generated turnover of HK\$113 million representing 8.7% year-on-year decline in local currency. Licensing turnover fell 3.8% year-on-year in local currency as licensees' customers were cautious in placing orders to minimize inventory on hand.

The new Esprit Collection line for timewear and jewellery was introduced successfully in October 2009 at one of the hottest locations in Hong Kong - the Seva. In addition to 350 existing point-of-sales where Esprit home textiles and accessories are showcased in China, the new Esprit Home Collection was introduced to China via the opening of the first Esprit Home concept store in Beijing in December 2009. Our license business is growing continuously and is having a positive impact on our brand equity and brand relevance.

Going to the second half of the financial year, several new licensed products are developed and ready for market launch. In March 2010, a new fragrance "Imagine" and a new travel and business luggage line will be introduced.

### **PROFITABILITY ANALYSIS**

The Group's **gross profit** was HK\$10,098 million (1H FY08/09: HK\$9,910 million) while the Group's gross profit margin increased to 54.7% (1H FY08/09: 52.0%) mainly due to change in channel mix.

**Operating profit** of the Group was HK\$3,367 million (1H FY08/09: HK\$3,411 million). The Group's operating profit margin improved to 18.2% (1H FY08/09: 17.9%) mainly due to improvement in retail EBIT margin, partially offset by the decline in wholesale EBIT margin and the change in channel mix.

Retail EBIT margin was 15.2% (1H FY08/09: 14.7%). The improvement was mainly due to tight cost control.

Wholesale EBIT margin was 25.3% (1H FY08/09: 27.0%). The decline in wholesale EBIT margin reflected the tough wholesale market conditions in the reporting period. The lower wholesale sales reduced the leverage benefits that could be yielded. Total wholesale operating expenses actually fell 7.2% year-on-year.

**Profit contribution from our China associated companies** decreased to HK\$65 million (1H FY08/09: HK\$91 million) mainly due to 2.5% year-on-year decline in turnover.

**The Group's effective tax rate** was 21.6% (1H FY08/09: 20.0%). The increase in the Group's effective tax rate was mainly due to a one-off underprovision in prior years. Excluding this impact, the Group's effective tax rate would be 20.0%.

**Net profit** of the Group was HK\$2,705 million (1H FY08/09: HK\$2,853 million) and net profit margin of the Group was 14.6% (1H FY08/09: 15.0%).

## BALANCE SHEET REVIEW

### LIQUIDITY AND FINANCIAL RESOURCES

The Group had a **net cash balance** of HK\$7,863 million (30 June 2009: HK\$4,840 million). The increase in net cash balance was mainly due to a strong cashflow generated from operating activities, partially offset by capital expenditure and payment in relation to acquisition of remaining interest in China Joint Venture.

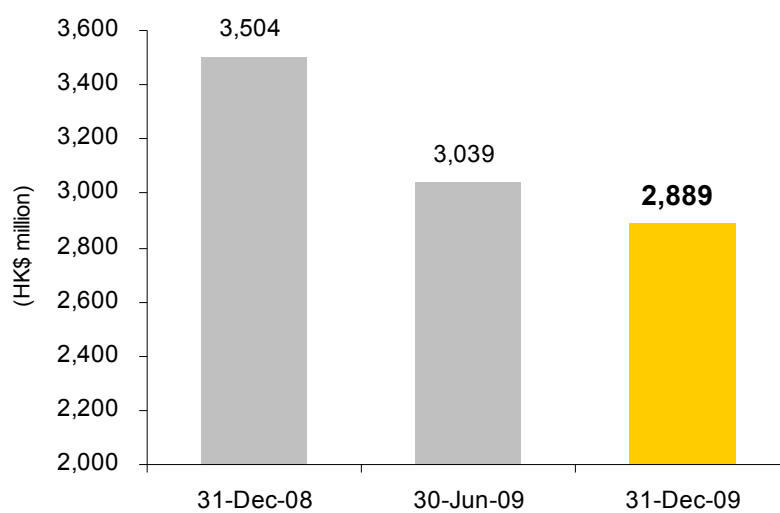
HK\$ million	For 6 months ended 31 December		
	2009	2008	Variance
Cash and cash equivalents as at 1 July	4,840	6,521	(1,681)
Net cash inflow from operating activities	3,768	2,527	1,241
Net cash used in investing activities	(858)	(879)	21
Deposit paid for acquisition of remaining interest in the associated companies	(388)	-	(388)
Purchase of property, plant and equipment	(743)	(1,167)	424
Proceeds from disposal of property, plant & equipment	10	4	6
Interest received	18	64	(46)
Dividend received from an associate	245	220	25
Net cash inflow from/(used in) financing activities	61	(4,154)	4,215
Repurchase of shares	-	(204)	204
Net proceeds on issues of shares for cash	61	92	(31)
Dividends paid	-	(4,042)	4,042
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>2,971</b>	<b>(2,506)</b>	<b>5,477</b>
<b>Effect of change in exchange rates</b>	<b>52</b>	<b>(167)</b>	<b>219</b>
<b>Cash and cash equivalents as at 31 December</b>	<b>7,863</b>	<b>3,848</b>	<b>4,015</b>

During the six months ended 31 December 2009, the Group invested HK\$743 million (1H FY08/09: HK\$1,167 million) in capital expenditure. Among which, HK\$320 million (1H FY08/09: HK\$539 million) was invested in opening new stores and expanding existing stores while HK\$99 million (1H FY08/09: HK\$306 million) was invested in refurbishing existing stores. To support continual improvement in operational efficiency, the Group increased its investment in IT to HK\$299 million (1H FY08/09: HK\$266 million).



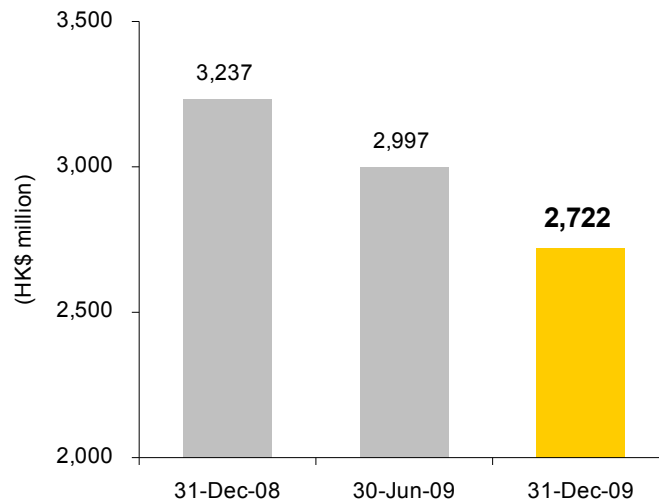
As at 31 December 2009, **net trade debtors balance** dropped to HK\$2,889 million (30 June 2009: HK\$3,039 million). The amount of uninsured and/ or unsecured net trade debtors accounted for 63.0% of net trade debtors (30 June 2009: 54.8%). The increase in the portion of uninsured and/ or unsecured net trade debtors was mainly due to the increase of minimum individual trade debtors balance that is eligible for insurance coverage.

### Net trade debtors balance



As at 31 December 2009, **inventory** was HK\$2,722 million (30 June 2009: HK\$2,997 million). Total number of pieces of finished goods dropped by about 13.9% as compared to 30 June 2009. During the reporting period, the Group continued to work hard on managing the inventory and made progress in shortening the inventory turnover days to 60 days (FY08/09: 65 days).

## Inventory balance



## BALANCE SHEET RATIOS

The Group's business had no long-term bank borrowings and did not pledge any assets as security for overdraft or any short-term revolving facility. The debt-to-equity ratio (interest bearing external borrowings divided by total equity) was 0% (30 June 2009: 0%). During the reporting period, the Group continued to strengthen its liquidity management as reflected by improved liquidity ratios achieved and better control on inventory as compared to the last reporting period. The Group considered its financial health remained in good shape.

	31-Dec-09	30-Jun-09
<b>Liquidity</b>		
Current ratio (times)	<b>2.6</b>	2.5
Quick ratio <sup>1</sup> (times)	<b>1.8</b>	1.6
Net cash to debt ratio <sup>2</sup>	<b>net cash</b>	net cash
<b>Efficiency</b>		
Inventory turnover <sup>3</sup> (days)	<b>60</b>	65

1 Calculated by dividing the sum of net trade debtors and cash and cash equivalents by current liabilities

2 Calculated by dividing the net cash balance by interest bearing external borrowings

3 Calculated by dividing average inventory (excluding consumables) by average daily cost of goods sold for the reporting period

## SEASONALITY OF BUSINESS

The Group's business is affected by seasonal trends. These trends are primarily attributable to seasonal shipments to wholesale customers and key holiday sales periods, as well as the pricing of seasonal products. Due to the fact that sales and operating income may fluctuate in any reporting period, half year financials may not be indicative of the future trend of business and may not be extrapolated to provide a reliable forecast.

## **FOREIGN EXCHANGE RISK MANAGEMENT**

To minimize our foreign exchange exposure on sourcing costs for merchandise produced for Europe in Asia, most of the suppliers in Asia were asked to quote and settle in Euros. In addition, the Group entered into foreign exchange forward contracts with reputable financial institutions to hedge foreign exchange risk.

## **STRATEGIC REVIEW AND PROSPECTS**

During the past six months, the Group continued its efforts to reinventing itself to grow stronger and to ensure that we will be among the first to rebound when the market recovers. Significant further progress was made with respect to improve the differentiation and newness of the collections of our various divisions. Brand books were developed by the divisions and half year concepts including colour cards were introduced. In addition, the “Essentials by Esprit” line was successfully introduced. High quality Essentials belong in the basic wardrobe of every Esprit customer. Yet the unusual and regularly changing details make them more than just basics.

It is our vision to develop Esprit into a truly global brand and company. In order to achieve this, specific strategic initiatives have been formulated to strengthen our platform for growth and profitability.

1. Global brand – Strengthening brand equity and improving shopping experience to drive traffic and customer loyalty.
2. Products – Improving product differentiation and newness to grow sales per square meter.
3. Channel and country – Ensuring a better execution of the multi-channel strategy to fuel growth and profitability
4. Cost of goods sold – Achieving savings in sourcing by using synergies across divisions.
5. Support functions – Establishing a best-in-class support backbone for growth.
6. Organization and structure – Ensuring better alignment and execution across divisions, regions and channels.

The Group has announced on 17 December 2009 to acquire from China Resources Enterprise the 51% interest which it does not own in the joint venture business in China. The Group will receive the full economic benefit of the business and consolidate its results into the Group on or before the end of February 2010 if conditions stated in the sale and purchase agreement are met. The integration plan is being finalized. The transaction will enable the Group to unify its interests in China, gain full control of the business and integrate its operation into its global business system. We see opportunities to enhance the operation by increase sales productivity, improve stock turn and lower sourcing cost. There is also vast potential to improve penetration and increase market share in existing cities and to

continue the expansion from 150 cities in China currently to over 450 in the future. We believe China will become one of the most important growth engines of the Group in the medium term. It also represents an important step for the Group in becoming a truly global company as it will strengthen our presence in Asia Pacific considerably hence improving our geographical balance further.

Global expansion continues and the Group maintains the target of 5-10% year-on-year growth in retail selling space for the full financial year FY09/10. Our clear focus is to improve the quality of our new store locations. New stores opened this year generally have a larger footprint than the average size of our existing stores, enabling higher store efficiency and better brand building. Among those opened in the reporting period, two new concept stores were piloted in Hong Kong and Oldenburg, Germany to bring a whole new shopping experience to customers.

Wholesale operating environment is still challenging during the early stage of market recovery in Europe and elsewhere with wholesalers continue to order very cautiously. Wholesale order booked for the period from January to April 2010 still shows an average mid-teen percentage year-on-year decline in local currency, but the trend has been improving month by month. The Group will continue to strengthen the mix of our wholesale channel.

With respect to brand and marketing communications, the Group will introduce a number of new initiatives in different media to strengthen Esprit's brand relevance and to drive traffic to our stores and other point of sales.

## **INTERIM DIVIDEND**

The Board of Directors has declared an interim dividend for the six months ended 31 December 2009 of HK\$0.74 per share (FY2008/2009: HK\$0.80).

In order to maintain a strong balance sheet for future growth, the Board has provided the shareholders with an option to receive the interim dividend in form of new fully paid shares in lieu of cash. The dividend reinvestment price shall be determined by the average closing price of the shares of the Company for the five trading days preceding 8 March 2010. Further details of the scrip dividend reinvestment scheme and the election form will be despatched on or around 12 March 2010 and the election period will commence on 12 March 2010 to 26 March 2010, both days inclusive.

The dividend will be payable on or about 12 April 2010 to the shareholders whose names appear on the Registers of Members of the Company at the close of business on 5 March 2010 (the "Shareholders"). The relevant dividend warrants and/or share certificates will be despatched to the Shareholders on or about 12 April 2010.

The scrip dividend reinvestment scheme is conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of and permission to deal in the new shares to be issued under the scrip dividend reinvestment scheme.

## **CLOSURE OF REGISTERS OF MEMBERS**

The Registers of Members of the Company will be closed from 8 March 2010 to 9 March 2010, both days inclusive, during which period no transfer of shares will be effected.

In order to qualify for the interim dividend mentioned above, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Secretaries Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:00 pm on 5 March 2010.

## **HUMAN RESOURCES**

As at 31 December 2009, the Group employed over 11,500 full-time equivalent staff (31 December 2008: over 11,100) 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 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 quarterly newsletters and global intranet.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES**

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

## **AUDIT COMMITTEE**

The Audit Committee currently comprises five Independent Non-executive Directors. The Audit Committee has reviewed the accounting principles and practices adopted by the Group and has also discussed auditing, internal controls, and financial reporting matters including the review of the unaudited interim results for the six months ended 31 December 2009 with the management.

## **CORPORATE GOVERNANCE**

The Company has complied with the code provisions of Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules throughout the six months ended 31 December 2009, with the deviations as stated below:

Under the code provision A.2.1 of the Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The Company is now in compliance with such code provision. With effect from 1 November 2009, Mr Ronald VAN DER VIS has been appointed as the new Group CEO and Mr Heinz Jürgen KROGNER-KORNALIK has stepped down from his position as Group CEO and remains in his role as Executive Chairman.

Under the code provision A.4.1 of the Code, non-executive directors should be appointed for a specific term, subject to re-election. Non-executive Directors of the Company have not been appointed for a specific term. However, 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 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 as contained in Appendix 10 (the "Model Code") to the Listing Rules.

The Company has made specific enquiry with all Directors and all of them confirmed that they have complied with the required standard set out in the Model Code for the six months ended 31 December 2009.

## **BOARD OF DIRECTORS**

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

Executive Directors : Mr Heinz Jürgen KROGNER-KORNALIK (Chairman)  
Mr Ronald VAN DER VIS (Group Chief Executive Officer)  
Mr CHEW Fook Aun (Group Chief Financial Officer)

Non-executive Director : Mr Jürgen Alfred Rudolf FRIEDRICH

Independent Non-executive Directors : Mr Paul CHENG Ming Fun (Deputy Chairman)  
Mr Alexander Reid HAMILTON  
Mr Raymond OR Ching Fai  
Dr Hans-Joachim Körber  
Mr Francesco TRAPANI

By Order of the Board  
**Bella CHHOA Peck Lim**  
*Company Secretary*

Hong Kong, 3 February 2010