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ESPRIT HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(STOCK CODE: 00330)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 31 DECEMBER 2013

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 2013 as follows:

Condensed consolidated income statement

	Notes	Unaudited for the 6 months ended 31 December 2013 HK$ million	2012 HK$ million
Turnover	2	**12,810**	13,554
Cost of goods sold		**(6,462)**	(6,644)
Gross profit		**6,348**	6,910
Staff costs		**(1,984)**	(2,123)
Occupancy costs		**(1,819)**	(1,865)
Logistics expenses		**(670)**	(749)
Marketing and advertising expenses		**(371)**	(602)
Depreciation		**(419)**	(434)
Impairment of property, plant and equipment		**(57)**	(122)
Additional provision for store closures and leases		**(80)**	(21)
Other operating costs		**(694)**	(1,259)
Operating profit/(loss) (EBIT/(LBIT))	3	**254**	(265)
Interest income		**31**	15
Finance costs	4	**(15)**	(17)
Profit/(loss) before taxation		**270**	(267)
Taxation	5	**(175)**	(198)
Profit/(loss) attributable to shareholders of the Company		**95**	(465)
Earnings/(loss) per share			
- Basic and diluted	7	**HK$0.05**	HK$(0.30)

Condensed consolidated statement of comprehensive income

	Unaudited for the 6 months ended 31 December	
	2013	2012
	HK$ million	HK$ million
Profit/(loss) attributable to shareholders of the Company	**95**	(465)
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Fair value loss on cash flow hedge	**(144)**	(229)
Exchange translation	**381**	629
	237	400
Total comprehensive profit/(loss) for the period attributable to shareholders of the Company	**332**	(65)

Condensed consolidated statement of financial position

	Notes	**Unaudited 31 December 2013 HK$ million**	Audited 30 June 2013 HK$ million
Non-current assets			
Intangible assets		**5,802**	5,763
Property, plant and equipment	8	**4,285**	4,363
Investment properties		**15**	15
Other investments		**7**	7
Debtors, deposits and prepayments		**353**	384
Deferred tax assets		**736**	697
		11,198	11,229
Current assets			
Inventories		**3,127**	3,209
Debtors, deposits and prepayments	9	**3,071**	3,375
Tax receivable		**369**	264
Cash, bank balances and deposits	10	**5,701**	5,171
		12,268	12,019
Current liabilities			
Creditors and accrued charges	11	**3,816**	3,951
Provision for store closures and leases	12	**593**	591
Tax payable		**741**	799
Bank loans	13	**260**	520
		5,410	5,861
Net current assets		**6,858**	6,158
Total assets less current liabilities		**18,056**	17,387
Equity			
Share capital	14	**194**	194
Reserves		**16,753**	16,402
Total equity		**16,947**	16,596
Non-current liabilities			
Bank loans	13	**260**	-
Deferred tax liabilities		**849**	791
		1,109	791
		18,056	17,387

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 18 for the six months ended 31 December 2013 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 2013. 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 2013.

In the current period, the Group has adopted the following IASs, International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretations Committee ("IFRIC") interpretation which do not have any significant impact on the Group's consolidated financial statements.

IAS 19 (Revised)	Employee Benefits – Amended Standard Resulting from the Post-Employment Benefits and Termination Benefits Projects
IAS 27 (Revised)	Consolidated and Separate Financial Statements – Reissued as IAS 27 Separate Financial Statements
IAS 28 (Revised)	Investments in Associates – Reissued as IAS 28 Investments in Associates and Joint Ventures
IFRS 1 (Amendments)	Government Loans
IFRS 7 (Amendments)	Disclosures - Offsetting Financial Assets and Financial Liabilities
IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interests in Other Entities
IFRS 13	Fair Value Measurement
IFRS 10, 11, 12 (Amendments)	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine
IFRSs (Amendments)	Annual Improvements to IFRSs 2009-2011 Cycle

IFRS 13 establishes a single source of guidance for all fair value measurements required or permitted by IFRS. It clarifies the definition of fair value as an exit price, which is defined as a price at which an orderly transaction to sell the asset or transfer the liability would take place between market participants at the measurement date under market conditions, and enhances disclosures about fair value measurement.

1. Basis of preparation (continued)

The Group has not early adopted the following IASs, IFRS and IFRIC interpretation that have been issued but are not yet effective.

		Effective for accounting periods beginning on or after
IAS 19 (Amendments)	Defined Benefit Plans – Employee Contributions	1 July 2014
IAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities	1 January 2014
IAS 36 (Amendments)	Recoverable Amount Disclosures for Non-Financial Assets	1 January 2014
IAS 39 (Amendments)	Novation of Derivatives and Continuation of Hedge Accounting	1 January 2014
IFRS 9 and 7 (Amendments)	Mandatory Effective Date of IFRS 9 and Transition Disclosures	1 January 2015
IFRS 9	Financial Instruments	1 January 2015
IFRS 9, 7 and IAS 39 (Amendments)	Financial Instruments – Hedge Accounting	1 January 2015
IFRS 10, 12 and IAS 27 (Amendments)	Investment Entities	1 January 2014
IFRS 14	Regulatory Deferral Accounts	1 January 2016
IFRIC 21	Levies	1 January 2014
IFRSs (Amendments)	Annual Improvements to IFRSs 2010-2012 Cycle	1 July 2014
IFRSs (Amendments)	Annual Improvements to IFRSs 2011-2013 Cycle	1 July 2014

2. Turnover and segment information

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

	Unaudited for the 6 months ended 31 December	
	2013	2012
	HK$ million	HK$ million
Revenue		
Wholesale	**4,724**	5,356
Retail	**7,985**	8,102
Licensing and other income	**101**	96
	12,810	13,554

The chief operating decision maker has been identified as the 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 an operations nature perspective, including wholesale and retail distribution and licensing of quality fashion and non-apparel products designed under its own internationally-known Esprit brand name.

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)

	Unaudited for the 6 months ended 31 December 2013				
	Wholesale HK$ million	Retail HK$ million	Licensing HK$ million	Corporate services, sourcing and others HK$ million	Group HK$ million
Total revenue	4,724	7,985	99	10,820	23,628
Inter-segment revenue	-	-	-	(10,818)	(10,818)
Revenue from external customers	4,724	7,985	99	2	12,810
EBIT	555	497	74	(872)	254
Interest income					31
Finance costs					(15)
Profit before taxation					270
Capital expenditure	29	117	-	52	198
Depreciation	28	216	-	175	419
Impairment of property, plant and equipment	-	57	-	-	57
Additional provision for store closures and leases	-	80	-	-	80

2. Turnover and segment information (continued)

	Unaudited for the 6 months ended 31 December 2012				
	Wholesale HK$ million	Retail HK$ million	Licensing HK$ million	Corporate services, sourcing and others HK$ million	Group HK$ million
Total revenue	5,356	8,102	88	11,725	25,271
Inter-segment revenue	-	-	-	(11,717)	(11,717)
Revenue from external customers	5,356	8,102	88	8	13,554
LBIT	686	87	71	(1,109)	(265)
Interest income					15
Finance costs					(17)
Loss before taxation					(267)
Capital expenditure	30	350	-	95	475
Depreciation	24	254	-	156	434
Impairment of property, plant and equipment	-	122	-	-	122
Additional provision for store closures and leases	-	21	-	-	21

3. Operating profit/(loss) (EBIT/(LBIT))

	Unaudited for the 6 months ended 31 December	
	2013	2012
	HK$ million	HK$ million
EBIT/(LBIT) is arrived at after charging and (crediting) the following:		
Depreciation	**419**	434
Amortization of customer relationships	**33**	29
(Gain)/loss on disposal of property, plant and equipment	**(4)**	12
Impairment of property, plant and equipment	**57**	122
Additional provision for store closures and leases	**80**	21
Net exchange gains	**(111)**	(100)
(Write-back of)/provision for obsolete inventories, net	**(64)**	151
Occupancy costs		
- Operating lease charge	**1,472**	1,479
- Other occupancy costs	**347**	386
Provision for impairment of trade debtors, net	**122**	149

4. Finance costs

	Unaudited for the 6 months ended 31 December	
	2013	2012
	HK$ million	HK$ million
Interest on bank loans wholly repayable within five years	**2**	13
Imputed interest on financial assets and financial liabilities	**13**	4
	15	17

5. Taxation

	Unaudited for the 6 months ended 31 December	
	2013	2012
	HK$ million	HK$ million
Current tax		
Hong Kong profits tax		
Provision for current period	**1**	2
Overseas taxation		
Provision for current period	**106**	122
Under/(over)-provision for prior years	**26**	(11)
	133	113
Deferred tax		
Current period net charge	**42**	85
Taxation	**175**	198

Hong Kong profits tax is calculated at **16.5%** (2012: 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.

During the last financial year, the Inland Revenue Department of Hong Kong ("IRD") had initiated tax inquiries and issued notices of tax assessment for additional tax in an aggregate sum of approximately HK$449 million for the year of assessment 2006/2007 concerning taxability of income generated by a subsidiary engaged in the distribution operation of the Group. Objections and holdover applications against the additional tax assessment had been lodged. The IRD agreed to hold over the additional tax subject to the purchase of a tax reserve certificate ("TRC") of HK$99 million. The TRC was purchased in the last financial year. Subsequent to the period ended 31 December 2013, the IRD issued notices of tax assessment for additional tax in an aggregate sum of approximately HK$550 million for the year of assessment 2007/2008. Objections and holdover applications against the additional tax assessment had been lodged. While the ultimate outcome of these tax inquiries cannot presently be determined, after considering the advice from the tax advisor and based on the current facts and circumstances, the Directors of the Company are of the opinion that adequate provision has been made in the Group's consolidated financial statements.

6. Interim dividend

	Unaudited for the 6 months ended 31 December	
	2013	2012
	HK$ million	HK$ million
Interim dividend declared of **HK$0.03** (2012: Nil) per share	**58**	-

The amount of interim dividend is based on **1,939,824,064** shares in issue on **21 February 2014** (2012: Nil).

7. Earnings/(loss) per share

Basic

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

	Unaudited for the 6 months ended 31 December	
	2013	2012
Profit/(loss) attributable to shareholders of the Company (HK$ million)	**95**	(465)
Weighted average number of ordinary shares in issue (million)	**1,940**	1,574
Basic earnings/(loss) per share (HK dollars per share)	**0.05**	(0.30)

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

Diluted

Diluted earnings or loss per share is calculated based on the profit or loss attributable to shareholders of the Company, and the weighted average number of shares in issue during the period after adjusting for the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares granted under the Company's share option schemes. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares during the period) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	Unaudited for the 6 months ended 31 December	
	2013	2012
Profit/(loss) attributable to shareholders of the Company (HK$ million)	**95**	(465)
Weighted average number of ordinary shares in issue (million)	**1,940**	1,574
Adjustments for share options (million)	**4**	-
Weighted average number of ordinary shares for diluted earnings per share (million)	**1,944**	1,574
Diluted earnings/(loss) per share (HK dollars per share)	**0.05**	(0.30)

Diluted loss per share for the six months ended 31 December 2012 was the same as the basic loss per share since the share options had anti-dilutive effect.

8. Property, plant and equipment

	Unaudited HK$ million
At 1 July 2013	**4,363**
Exchange translation	**210**
Additions	**198**
Disposals	**(10)**
Depreciation (Note 3)	**(419)**
Impairment charge (Note 3)	**(57)**
At 31 December 2013	**4,285**

9. 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:

	Unaudited 31 December 2013 HK$ million	Audited 30 June 2013 HK$ million
Current portion	**1,629**	1,666
1-30 days	**258**	171
31-60 days	**92**	114
61-90 days	**83**	62
Over 90 days	**302**	302
Amount past due but not impaired	**735**	649
	2,364	2,315

The Group's sales to retail customers are made in cash, bank transfer or by credit card. The Group also grants credit period, which is usually 30 to 60 days to certain wholesale and franchise customers.

10. Cash, bank balances and deposits

	Unaudited 31 December 2013 HK$ million	Audited 30 June 2013 HK$ million
Bank balances and cash	**2,424**	1,723
Bank deposits with maturities within three months	**756**	459
Bank deposits with maturities of more than three months	**2,521**	2,989
	5,701	5,171

11. Creditors and accrued charges

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

	Unaudited 31 December 2013 HK$ million	Audited 30 June 2013 HK$ million
0-30 days	**795**	1,084
31-60 days	**37**	12
61-90 days	**8**	7
Over 90 days	**16**	19
	856	1,122

12. Provision for store closures and leases

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

	Unaudited for the 6 months ended 31 December	
	2013	2012
	HK$ million	HK$ million
At 1 July	**591**	446
Additional provision for store closures and leases	**80**	21
Amounts used during the period	**(106)**	(206)
Exchange translation	**28**	17
At 31 December	**593**	278

The provision for store closures and leases was made in connection with the store closures and provision for onerous lease contracts for loss-making stores. The store closures are still ongoing.

During the period ended 31 December 2013, the Group recognized a net additional provision of **HK$80 million**, mainly arising from additional provision for store closures and onerous leases in relation to loss-making stores announced in prior years.

The amounts used during the period include compensation paid to landlords and staff, payments of other direct costs attributable to store closures/divestment and occupancy costs under lease contracts recognized during the period.

13. Bank loans

At 31 December 2013, the Group's bank loans were payable as follows:

	Unaudited 31 December 2013 HK$ million	Audited 30 June 2013 HK$ million
Unsecured long-term bank loans repayable within one year	**260**	520
Unsecured long-term bank loans repayable between one and two years	**260**	-
	520	520

The carrying amounts of the total borrowings are denominated in the following currency and interest rate structure:

	Unaudited 31 December 2013 HK$ million	Audited 30 June 2013 HK$ million
Floating rate borrowings		
Hong Kong dollar	**520**	520
	520	520

14. Share capital

	Number of shares of HK$0.10 each million	Unaudited HK$ million
Authorized		
At 1 July 2013 and 31 December 2013	**3,000**	**300**

	Number of shares of HK$0.10 each million	Nominal value HK$ million
Issued and fully paid		
At 1 July 2013	**1,939**	**194**
Exercise of share options (Note a)	**1**	**-**
At 31 December 2013	**1,940**	**194**

Notes:

(a) Exercise of share options

During the period, 750,000 ordinary shares of HK$0.10 each were issued in respect of share options exercised under the 2009 Share Option Scheme (defined in note (b) below) at an exercise price of HK$8.76 each (representing a premium of HK$8.66 each).

(b) Share options

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Esprit's strategic priorities for the period under review remained unchanged from those set out in FY12/13. During the period, the management team continued to be highly focused on initiatives to stabilize the Group's business performance in the short term, and worked towards adopting a faster and more efficient business model to regain competitiveness in the medium term. We are pleased to report that the Group is on track on both fronts.

Short term stabilization

As a result of concerted efforts to reduce costs, normalize inventory levels, overhaul operations and employ sales activation tactics over the past few months, the Group is beginning to see some signs of stabilization throughout the business and, more importantly, we are beginning to see improvement in profitability. For the six months ended 31 December 2013, the Group reported operating profit of HK$254 million (1H FY12/13: operating loss of HK$265 million) mainly driven by the cost reduction initiatives undertaken by the management team. For the period under review, turnover declined by -9.3% year-on-year in local currency, but this impact was offset by a reduction in total operating expenses ("OPEX") of -18.2% year-on-year in local currency. As a result, the Group has improved its OPEX-to-sales ratio to 47.6%, down from 52.9% in the same period last year. The Group generated positive net cash of +HK$530 million, thereby increasing our net cash position to HK$5,181 million.

Implementation of a high performance product engine in the medium term

Following the Group's decision to adopt a faster and more efficient vertically integrated business model in order to regain competitiveness, management continues to work on implementing this strategic initiative and we are pleased by the progress made thus far:

1. The appointment of a new Chief Product Officer with significant experience and knowledge of product development within a vertical business model;

2. The restructuring of our sourcing offices in Asia to better mirror our Product Divisions and the completion of the re-organization of the Category Management Teams necessary to manage a vertical business model;

3. The development of solutions vital to adapt the vertical business model for our wholesale partners (e.g. new structure and calendar for our collections), resulting in differentiated approaches to each wholesale segment;

4. The beginning of operations of the Trend Division (in September 2013) as a "laboratory" to develop a fast-to-market supply chain for Esprit and to test a range of strategic alternatives for our concept (e.g. new pricing approach, stock replenishment model); and

5. The successful development of pricing tests at all levels: country (e.g. Taiwan), product category (e.g. outerwear) and individual items (e.g. Hero Product).

Transforming the existing business model to a vertical one is undoubtedly a challenging process that involves significant change throughout the organization. The goals we have set are ambitious and the Group will remain vigilant and fully committed to delivering on our plan through consistent and focused execution. Moreover, the Group will endeavor to ensure that our stakeholders are informed of the potential risks and the progress made in due course.

Financial Review

Highlights for the six months ended 31 December 2013

- Group turnover amounted to HK$12,810 million (1H FY12/13: HK$13,554 million), representing a decline of -5.5% year-on-year (-9.3% in local currency) in line with the reduction (downsizing) of net sales area in our retail and wholesale businesses

- Gross profit margin decreased by -1.4 percentage points year-on-year to 49.6%, as a result of continued investment in product quality enhancement

- Cost reduction initiatives led to a -15.1% year-on-year decrease in OPEX (-18.2% in local currency), bringing the OPEX-to-sales ratio down to 47.6% (1H FY12/13: 52.9%)

- Profitability improved, with a positive EBIT of HK$254 million, compared to an EBIT loss of HK$265 million a year ago

- Net cash increased by +HK$530 million to HK$5,181 million (30 June 2013: HK$4,651 million), primarily driven by a HK$920 million cash inflow from operations (1H FY12/13: cash outflow)

- Improved inventory position with a -13.1% reduction in inventory units and an 11-day decrease in inventory turnover days to 91 days as compared to a year ago

- Interim dividend of HK$0.03 per share with scrip alternative

Revenue analysis

Group turnover amounted to HK$12,810 million (1H FY12/13: HK$13,554 million), representing a decline of -5.5% year-on-year (-9.3% in local currency). The majority of this decline was attributed to a loss of space in both our retail and our wholesale businesses. Retail experienced a -5.0% decline of turnover in local currency while retail net sales area was reduced by -5.7% year-on-year. Wholesale turnover decreased by -16.1% in local currency and wholesale controlled space was reduced by -13.9% over the same period last year.

Turnover by product divisions

In 1H FY13/14, the share of turnover from Esprit branded products increased slightly to 76.7% of Group turnover (1H FY12/13: 76.1%), while the share of turnover from edc branded products decreased to 23.3% of Group turnover (1H FY12/13: 23.9%).

Turnover by product divisions

	For the 6 months ended 31 December				Change in %	
	2013		2012			
	HK$ million	% to Group Turnover	HK$ million	% to Group Turnover	HK$	Local currency
women	**5,322**	**41.5%**	5,376	39.7%	-1.0%	-4.9%
women casual #	**3,708**	**28.9%**	3,792	28.0%	-2.2%	-5.9%
women collection	**1,441**	**11.3%**	1,485	11.0%	-2.9%	-6.9%
trend	**173**	**1.3%**	99	0.7%	74.6%	67.0%
men	**1,963**	**15.4%**	2,243	16.6%	-12.5%	-15.8%
men casual #	**1,553**	**12.2%**	1,749	13.0%	-11.2%	-14.5%
men collection	**410**	**3.2%**	494	3.6%	-17.0%	-20.3%
others	**2,537**	**19.8%**	2,694	19.8%	-5.8%	-9.8%
accessories	**601**	**4.7%**	649	4.8%	-7.3%	-10.8%
bodywear	**492**	**3.8%**	486	3.6%	1.3%	-3.5%
shoes	**488**	**3.8%**	517	3.8%	-5.7%	-10.3%
kids	**453**	**3.5%**	488	3.6%	-7.1%	-11.0%
sports	**138**	**1.1%**	165	1.2%	-16.4%	-19.8%
de. corp	**12**	**0.1%**	88	0.6%	-86.3%	-86.2%
others*	**353**	**2.8%**	301	2.2%	17.2%	12.7%
Esprit total	**9,822**	**76.7%**	10,313	76.1%	-4.8%	-8.5%
edc women	**2,285**	**17.8%**	2,447	18.1%	-6.6%	-10.6%
edc men	**552**	**4.3%**	627	4.6%	-12.0%	-15.6%
edc others^	**151**	**1.2%**	167	1.2%	-9.6%	-13.9%
edc total	**2,988**	**23.3%**	3,241	23.9%	-7.8%	-11.7%
Group Total	**12,810**	**100.0%**	13,554	100.0%	-5.5%	-9.3%

Turnover of denim is re-grouped into women casual and men casual in 1H FY13/14 and 1H FY12/13
* Others include mainly licensing income & licensed products like timewear, eyewear, jewellery, bed & bath, houseware, etc.
^ edc others include edc shoes, edc accessories and edc bodywear

Turnover from Esprit branded products declined by -8.5% in local currency. On a positive note, the Group is pleased to see a stabilization of the women’s divisions, which delivered a slight decline in turnover of -1.0% year-on-year (-4.9% in local currency).

During 1H FY13/14, we intensified our efforts to improve the value-for-money proposition of our products for women. The associated initiatives have an impact on our gross profit margin, but the enhanced quality has contributed to the stabilization of top line performance.

Unfortunately performance of the men’s divisions has not yet been stabilized.

As for the performance of the other product divisions, it is worth differentiating between two types of situations: on the one hand, there are divisions that the Group is deliberately scaling back, such as kids, sports and de. corp; while on the other hand, there are divisions, mostly shoes and bodywear, that suffered from IT and logistics issues last summer during the implementation of the last phase of our new IT platform. These issues have already been resolved and will not affect our performance in the coming months.

The turnover of edc branded products declined by -11.7% in local currency. As edc continues to evolve towards a clearer brand focus on younger customers, this evolution may lead to a loss of sales in the short term.

Analysis of Group turnover

Turnover by distribution channels

The Group's operating activities are primarily retail, wholesale and licensing businesses. As a result of the different development of our retail and our wholesale businesses over the last few years, the retail channel is gaining relative weight over the total revenue of the Group.

For the six months ended 31 December 2013, turnover from the retail, wholesale and licensing businesses represented 62.3% (1H FY12/13: 59.8%), 36.9% (1H FY12/13: 39.5%) and 0.8% (1H FY12/13: 0.6%) of Group turnover respectively.

Turnover by distribution channels

	For the 6 months ended 31 December				Change in %	
	2013		2012			
Key Distribution Channels	**HK$ million**	**% to Group Turnover**	HK$ million	% to Group Turnover	HK$	Local currency
Retail#	**7,985**	**62.3%**	8,102	59.8%	-1.4%	-5.0%
Europe	**5,970**	**46.6%**	5,675	41.9%	5.2%	0.1%
Asia Pacific	**1,629**	**12.7%**	1,925	14.2%	-15.4%	-14.5%
Subtotal	**7,599**	**59.3%**	7,600	56.1%	0.0%	-3.6%
Store closures and stores with onerous contracts *	**386**	**3.0%**	502	3.7%	-23.0%	-25.8%
Wholesale	**4,724**	**36.9%**	5,356	39.5%	-11.8%	-16.1%
Europe	**4,245**	**33.1%**	4,552	33.6%	-6.7%	-11.4%
Asia Pacific	**479**	**3.8%**	746	5.5%	-35.8%	-38.2%
North America	**-**	**-**	58	0.4%	-100.0%	-100.0%
Licensing and others	**101**	**0.8%**	96	0.7%	4.8%	3.9%
Licensing	**99**	**0.8%**	88	0.6%	12.6%	11.6%
Others	**2**	**0.0%**	8	0.1%	-77.1%	-78.0%
Total	**12,810**	**100.0%**	13,554	100.0%	-5.5%	-9.3%

Retail sales include sales from e-shops in countries where available

* Represent store closures and stores with onerous contracts announced in prior financial year(s)

Retail performance scorecard

	For the 6 months ended 31 December	
	2013	2012
Year-on-year local currency turnover growth	**-5.0%**	-13.0%
Segment EBIT margin	**6.2%**	1.1%
No. of POS	**963**	1,060
Net sales area (m^2)	**340,661**	361,360
Year-on-year change in net sales area	**-5.7%**	-10.4%
Comparable store sales growth	**-4.1%**	-3.6%

In 1H FY13/14, **retail turnover** amounted to HK$7,985 million (1H FY12/13: HK$8,102 million) representing a decline of -1.4% year-on-year (-5.0% in local currency). Excluding store closures and stores with onerous contracts ("Core Retail"), retail turnover declined year-on-year by -3.6% in local currency, primarily due to a -3.7% year-on-year decline in net sales area.

Comparable stores represented 57.5% (1H FY12/13: 40.0%) of total retail net sales area or 52.7% (1H FY12/13: 41.6%) of total retail point-of-sales ("POS") and registered a -4.1% year-on-year decline in turnover.

In terms of Core Retail operation, in Europe, the Group recorded a turnover growth of +0.1% year-on-year in local currency which was in line with the development of controlled space (+0.9% year-on-year). In Germany, our largest market, we also see a stable development with turnover declining -0.1% year-on-year in local currency in line with the -0.2% decrease of net sales area. We stabilized retail sales performance through improvement in our sales activation initiatives, with a strong focus on return on investment, and improved management of inventory. Unfortunately, this positive development was offset by the weaker retail performance in Asia Pacific region where the Group recorded a retail turnover decline of -14.5% year-on-year in local currency. This decline was primarily due to a -11.6% year-on-year reduction in retail net sales area as well as stock availability issues. This year-on-year reduction in retail net sales area in Asia Pacific was largely attributed to space reduction in China (-12.6% year-on-year) and Australia (-23.5% year-on-year).

In terms of quarterly sales performance, Europe experienced a relatively weak second quarter ("2Q"). Turnover of the Core Retail declined by -4.0% in local currency as compared to a growth of +5.6% in the first quarter ("1Q"). This significant slowdown in sales was attributed to a combination of factors including: i) the calendar effect which resulted from advancing promotional activities from October to September 2013 and ii) the fact that this year's mid-season sales were not as successful as in the previous year.

Retail turnover by countries

Countries	For the 6 months ended 31 December				Change in %	
	2013		2012			
	HK$ million	**% of Retail Turnover**	HK$ million	% of Retail Turnover	HK$	Local currency
Europe	**5,970**	**74.8%**	5,675	70.0%	5.2%	0.1%
Germany	**3,647**	**45.7%**	3,472	42.9%	5.1%	-0.1%
Benelux	**963**	**12.1%**	878	10.8%	9.6%	4.2%
Switzerland	**474**	**5.9%**	468	5.8%	1.4%	-2.3%
Austria	**396**	**5.0%**	397	4.9%	-0.3%	-5.2%
France	**359**	**4.5%**	331	4.1%	8.3%	3.0%
Finland	**42**	**0.5%**	44	0.6%	-3.8%	-8.6%
United Kingdom	**39**	**0.5%**	39	0.5%	-0.3%	-3.6%
Denmark	**24**	**0.3%**	27	0.3%	-8.9%	-13.4%
Sweden	**7**	**0.1%**	3	0.0%	177.6%	163.6%
Spain	**3**	**0.0%**	2	0.0%	31.0%	24.0%
Italy	**2**	**0.0%**	2	0.0%	6.7%	1.3%
Ireland	**1**	**0.0%**	1	0.0%	-8.3%	-13.1%
Others*	**13**	**0.2%**	11	0.1%	11.1%	5.5%
Asia Pacific	**1,629**	**20.4%**	1,925	23.8%	-15.4%	-14.5%
China	**712**	**8.9%**	796	9.8%	-10.4%	-13.1%
Australia and New Zealand	**230**	**2.9%**	339	4.2%	-32.1%	-24.3%
Hong Kong	**206**	**2.6%**	250	3.1%	-17.6%	-17.6%
Singapore	**178**	**2.2%**	204	2.5%	-13.0%	-11.2%
Malaysia	**132**	**1.7%**	153	1.9%	-13.8%	-10.0%
Taiwan	**108**	**1.3%**	125	1.6%	-13.9%	-13.2%
Macau	**63**	**0.8%**	58	0.7%	8.3%	8.3%
Subtotal	**7,599**	**95.2%**	7,600	93.8%	0.0%	-3.6%
Store closures and stores with onerous contracts#	**386**	**4.8%**	502	6.2%	-23.0%	-25.8%
Total	**7,985**	**100.0%**	8,102	100.0%	-1.4%	-5.0%

* Others' retail turnover represented retail turnover from e-shops in Czech Republic, Poland, Slovakia, Hungary, Slovenia, Latvia, Greece, Malta, Estonia and Portugal

\# Represent store closures and stores with onerous contracts announced in prior financial year(s)

As at 31 December 2013, the Group's distribution network consisted of 963 directly managed retail stores (31 December 2012: 1,060). The Group continued to make progress in closing its loss making stores. In 1H FY13/14, a total of 5 stores under 'store closures and stores with onerous contracts' announced in prior financial year(s) were closed. However the Group is facing increasing difficulty in closing some of the stores due to a variety of reasons, such as finding replacement tenants and higher-than-market rentals. To avoid further possible delays in closing these stores, the Group is looking at package deals to overcome these issues which may result in giving up stores not earmarked for closures.

Directly managed retail stores by countries – movement since 1 January 2013

As at 31 December 2013

Countries	No. of stores	Net opened stores*	Net sales area m^2	Net change in net sales area*	No. of comp-stores	Comp-store sales growth
Europe	**320**	**(2)**	**203,582**	**0.9%**	**233**	**-3.4%**
Germany**	141	(3)	113,642	-0.2%	111	-3.1%
Netherlands	52	1	20,507	2.7%	39	-3.9%
Switzerland	36	-	16,241	1.3%	30	-5.5%
Belgium	29	-	18,634	1.9%	20	2.1%
France	24	4	13,850	17.0%	17	-5.0%
Austria	17	-	16,154	-7.5%	12	-6.6%
United Kingdom	15	(5)	949	-31.2%	-	-3.4%
Finland	3	-	1,739	-0.1%	2	-8.0%
Luxembourg	3	1	1,866	62.4%	2	-6.3%
Asia Pacific	**587**	**(79)**	**104,696**	**-11.6%**	**276**	**-7.1%**
China**	333	(38)	51,962	-12.6%	127	-3.8%
Australia	92	(33)	12,483	-23.5%	51	-5.2%
Taiwan	76	(7)	7,321	-13.3%	52	-3.8%
Malaysia	35	1	12,444	0.0%	18	-9.8%
Singapore	24	1	9,187	2.9%	14	-14.9%
Hong Kong	15	(1)	7,286	-13.1%	7	-11.2%
New Zealand	8	(2)	1,826	-19.6%	4	-5.8%
Macau	4	-	2,187	0.0%	3	-2.0%
Subtotal	**907**	**(81)**	**308,278**	**-3.7%**	**509**	**-4.1%**
Store closures and stores with onerous contracts#	56	(16)	32,383	-21.5%	n.a.	n.a.
Total	**963**	**(97)**	**340,661**	**-5.7%**	**509**	**-4.1%**

* Net change from 1 January 2013

** All e-shops within Europe and the e-shop in China are shown as one comparable store in Germany and one comparable store in China

\# Represents store closures and stores with onerous contracts announced in prior financial year(s)

n.a. Not applicable

Directly managed retail stores by store types – movement since 1 January 2013

	No. of POS					Net sales area (m^2)				
	As at	vs 1 January 2013		As at		As at	vs 1 January 2013		As at	
Store types	**31 December 2013**	**Opened**	**Closed**	**1 January 2013**	**Net change**	**31 December 2013**	**Opened**	**Closed**	**1 January 2013**	**Net change**
Stores/ Concession counters	828	48	(129)	909	(81)	270,225	13,056	(26,467)	283,636	-4.7%
Outlets	79	13	(13)	79	-	38,053	4,822	(3,262)	36,493	4.3%
Subtotal	**907**	**61**	**(142)**	**988**	**(81)**	**308,278**	**17,878**	**(29,729)**	**320,129**	**-3.7%**
Store closures and stores with onerous contracts#	56	-	(16)	72	(16)	32,383	-	(8,848)	41,231	-21.5%
Total	**963**	**61**	**(158)**	**1,060**	**(97)**	**340,661**	**17,878**	**(38,577)**	**361,360**	**-5.7%**

\# Represent store closures and stores with onerous contracts announced in prior financial year(s)

Wholesale turnover amounted to HK$4,724 million (1H FY12/13: HK$5,356 million), representing a decrease of -11.8% year-on-year (-16.1% in local currency). The decline was mainly attributed to the continued weakness in the business performance of the wholesale channel and a -13.9% year-on-year decrease in controlled wholesale space. As at 31 December 2013, the Group had 8,653 controlled space wholesale POS (31 December 2012: 9,958) with controlled wholesale space of 529,136 m^2 (31 December 2012: 614,618 m^2).

Wholesale turnover by countries

Countries	For the 6 months ended 31 December 2013 HK$ million	2013 Wholesale Turnover	2012 HK$ million	2012 Wholesale Turnover	Change in % HK$	Change in % Local currency
Europe	**4,245**	**89.9%**	4,552	85.0%	-6.7%	-11.4%
Germany*	**2,334**	**49.4%**	2,327	43.4%	0.3%	-4.8%
Benelux	**611**	**12.9%**	796	14.9%	-23.3%	-27.1%
France	**411**	**8.7%**	436	8.1%	-5.8%	-10.8%
Scandinavia	**363**	**7.7%**	459	8.6%	-20.9%	-23.9%
Austria	**182**	**3.9%**	191	3.6%	-4.6%	-9.5%
Spain	**105**	**2.2%**	98	1.8%	7.8%	2.3%
Switzerland	**99**	**2.1%**	117	2.2%	-16.0%	-18.7%
Italy	**78**	**1.7%**	80	1.5%	-3.2%	-8.1%
United Kingdom	**53**	**1.1%**	38	0.7%	42.1%	43.2%
Portugal	**6**	**0.1%**	6	0.1%	-5.4%	-10.0%
Ireland	**3**	**0.1%**	4	0.1%	-25.6%	-29.2%
Asia Pacific	**479**	**10.1%**	746	13.9%	-35.8%	-38.2%
China	**270**	**5.7%**	462	8.6%	-41.6%	-43.2%
Macau**	**204**	**4.3%**	267	5.0%	-23.3%	-27.1%
Australia	**5**	**0.1%**	17	0.3%	-73.7%	-70.3%
North America	**-**	**-**	58	1.1%	-100.0%	-100.0%
Canada	**-**	**-**	58	1.1%	-100.0%	-100.0%
Total	**4,724**	**100.0%**	5,356	100.0%	-11.8%	-16.1%

* Germany wholesale sales include sales to other European countries mainly Russia, Poland, Czech Republic, Bulgaria and Ukraine

** Macau sales include wholesale sales to other countries mainly Chile, Thailand and the Middle East

As with the retail channel, the performance of wholesale was relatively better in Europe (-11.4% year-on-year decrease in turnover in local currency and -11.7% year-on-year decrease in wholesale controlled space) than in Asia Pacific (-38.2% and -22.7% respectively). The higher decline in turnover in Asia Pacific is due to a larger reduction in space and inventory clearance of wholesale customers in the region.

On a positive note, we observed some signs of recovery in our largest market, Germany, where the wholesale turnover decline narrowed to -4.8% year-on-year in local currency (1H FY12/13: -9.9%) despite a -10.2% year-on-year decrease in space during the period, an indication of improving productivity. The turnover decline was also significantly less than that recorded in other markets.

In terms of quarterly performance, the wholesale business in both Europe and Asia Pacific recorded a larger turnover decline in 2Q. In Europe, excluding currency impact, the wholesale turnover decline widened to -16.3% year-on-year in 2Q (1Q FY13/14: -7.9%). In Asia Pacific, the wholesale turnover decline widened to -51.2% year-on-year in 2Q (1Q FY13/14: -23.8%) as a result of a large reduction in space in China, reduced ordering due to a high level of inventory from last year and shipments to Thailand, Indonesia and the Philippines being deferred to the second half of the financial year.

Wholesale distribution channel by countries (controlled space only) – movement since 1 January 2013

As at 31 December 2013

	Franchise stores*				Shop-in-stores*				Identity corners*				Total*			
Countries	No. of stores	Net sales area m^2	Year-on-year net change in no. of stores	Year-on-year change in net sales area	No. of stores	Net sales area m^2	Year-on-year net change in no. of stores	Year-on-year change in net sales area	No. of stores	Net sales area m^2	Year-on-year net change in no. of stores	Year-on-year change in net sales area	No. of stores	Net sales area m^2	Year-on-year net change in no. of stores	Year-on-year change in net sales area
Europe	**885**	**219,425**	**(107)**	**-12.0%**	**4,147**	**154,791**	**(279)**	**-7.9%**	**2,831**	**59,703**	**(663)**	**-19.3%**	**7,863**	**433,919**	**(1,049)**	**-11.7%**
Germany**	348	91,596	(27)	-9.9%	3,190	123,872	(228)	-8.2%	1,669	30,852	(316)	-17.8%	5,207	246,320	(571)	-10.2%
Benelux	143	46,159	(18)	-10.2%	151	6,264	(7)	-5.5%	335	8,264	(124)	-25.4%	629	60,687	(149)	-12.2%
France	147	26,619	(17)	-9.1%	314	7,107	(39)	-13.7%	170	5,243	(87)	-25.9%	631	38,969	(143)	-12.6%
Sweden	52	18,153	(21)	-20.9%	-	-	-	-	44	1,210	(20)	-12.9%	96	19,363	(41)	-20.4%
Austria	72	12,071	(4)	-8.8%	91	3,146	1	-2.0%	54	1,387	(16)	-23.2%	217	16,604	(19)	-9.0%
Finland	26	6,761	(3)	-16.7%	91	3,989	-	-4.8%	200	5,082	(73)	-27.4%	317	15,832	(76)	-18.0%
Italy	29	5,420	(17)	-38.6%	35	1,179	6	14.0%	141	2,349	(20)	-13.0%	205	8,948	(31)	-28.8%
Denmark	17	4,510	(2)	-14.5%	-	-	(1)	-100.0%	30	750	(12)	-32.1%	47	5,260	(15)	-17.9%
Switzerland	26	4,425	(5)	-18.7%	61	2,822	1	-6.8%	26	484	(14)	-39.1%	113	7,731	(18)	-16.6%
Spain	18	2,437	7	37.6%	195	5,654	(9)	-2.3%	81	2,317	23	37.9%	294	10,408	21	12.7%
Portugal	2	576	-	1.2%	-	-	-	-	5	85	-	-	7	661	-	1.1%
United Kingdom	4	456	1	23.2%	14	524	2	10.8%	68	1,554	(4)	-4.5%	86	2,534	(1)	2.6%
Norway	1	242	-	0.8%	-	-	-	-	-	-	-	-	1	242	-	0.8%
Ireland	-	-	(1)	-100.0%	5	234	(5)	-40.2%	8	126	-	-	13	360	(6)	-49.3%
Asia Pacific	**700**	**93,246**	**(243)**	**-22.8%**	**90**	**1,971**	**(13)**	**-21.9%**	**-**	**-**	**-**	**-**	**790**	**95,217**	**(256)**	**-22.7%**
China	418	57,443	(193)	-26.7%	-	-	-	-	-	-	-	-	418	57,443	(193)	-26.7%
The Middle East	41	9,462	(1)	-13.8%	-	-	-	-	-	-	-	-	41	9,462	(1)	-13.8%
Thailand	103	7,278	11	3.1%	-	-	-	-	-	-	-	-	103	7,278	11	3.1%
India	-	-	(64)	-100.0%	-	-	-	-	-	-	-	-	-	-	(64)	-100.0%
Philippines	29	4,325	5	42.9%	-	-	-	-	-	-	-	-	29	4,325	5	42.9%
Australia	-	-	-	-	-	-	(18)	-100.0%	-	-	-	-	-	-	(18)	-100.0%
Others	109	14,738	(1)	3.3%	90	1,971	5	6.5%	-	-	-	-	199	16,709	4	3.6%
Total	**1,585**	**312,671**	**(350)**	**-15.5%**	**4,237**	**156,762**	**(292)**	**-8.1%**	**2,831**	**59,703**	**(663)**	**-19.3%**	**8,653**	**529,136**	**(1,305)**	**-13.9%**

* Excludes salon

** Germany controlled space wholesale POS includes controlled space wholesale POS in countries outside Germany, mainly Russia, Poland, Czech Republic, Bulgaria and Ukraine

Wholesale performance scorecard

	For the 6 months ended 31 December	
	2013	2012
Year-on-year local currency turnover growth	**-16.1%**	-13.7%
Segment EBIT margin	**11.8%**	12.8%
No. of controlled space POS	**8,653**	9,958
Controlled space area (m^2)	**529,136**	614,618
Year-on-year change in controlled space area	**-13.9%**	-9.0%

Licensing turnover amounted to HK$99 million (1H FY12/13: HK$88 million), representing an increase of +12.6% year-on-year (+11.6% in local currency). The increase was partly attributed to the continued growth of existing licensed products.

In 1H FY13/14, the Group continued to concentrate on optimizing its licensing portfolio by focusing on core licensed product categories while terminating brand-dilutive licenses, primarily those under Home World and Babies & Kids World. As at 31 December 2013, the number of licensed product categories decreased to 18 as we continued to consolidate the portfolio and bring it in line with our brand positioning. The Group expects that this optimization exercise will be completed by the end of FY13/14.

Key licensed products categories

As at 31 December 2013	Europe	Asia Pacific	North America	Latin America
Accessories World				
costume jewellery	■	■		
eyewear	■	■	■	■
fragrance	■	■		■
jewellery	■	■		■
luggage	■	■		
outerwear			■	■
shoes			■	■
socks + tights	■	■	■	■
stationery	■			
timewear	■	■	■	■
umbrellas	■	■	■	■
Home World				
bathroom	■	■		
bedding	■	■	■	■
decoration	■	■		■
carpets	■	■		
wallpaper	■	■		
Babies & Kids World				
kids' shoes			■	
maternity	■			

Turnover by Geographies

The majority of the Group's businesses are located in Europe and Asia Pacific. In terms of turnover, Europe is the Group's largest region, with Germany the Group's largest country within this region. Excluding store closures and stores with onerous contracts ("Core Operations"), turnover from Europe and Germany accounted for 79.9% (1H FY12/13: 75.6%) and 46.8% (1H FY12/13: 42.9%) of the Group's total turnover respectively.

Turnover by countries

	For the 6 months ended 31 December				Change in %	
	2013		2012			
Countries#	**HK$ million**	**% to Group Turnover**	HK$ million	% to Group Turnover	HK$	Local currency
Europe	**10,232**	**79.9%**	10,243	75.6%	-0.1%	-5.0%
Germany* ##	5,992	46.8%	5,807	42.9%	3.2%	-1.9%
Benelux*	1,580	12.4%	1,682	12.4%	-6.0%	-10.8%
France	770	6.0%	768	5.7%	0.3%	-4.9%
Austria	578	4.5%	588	4.3%	-1.7%	-6.6%
Switzerland	573	4.5%	585	4.3%	-2.1%	-5.6%
Scandinavia	436	3.4%	532	3.9%	-18.0%	-21.3%
Spain	108	0.9%	100	0.8%	8.3%	2.8%
United Kingdom	92	0.7%	77	0.6%	20.5%	19.3%
Italy	80	0.6%	82	0.6%	-2.9%	-7.9%
Portugal	6	0.0%	6	0.0%	-4.4%	-9.1%
Ireland	4	0.0%	5	0.0%	-21.6%	-25.4%
Others	13	0.1%	11	0.1%	10.9%	4.7%
Asia Pacific	**2,110**	**16.5%**	2,679	19.8%	-21.2%	-21.3%
China**	984	7.7%	1,266	9.4%	-22.3%	-24.5%
Macau###	267	2.1%	325	2.4%	-17.7%	-20.9%
Australia and New Zealand	235	1.8%	356	2.6%	-34.0%	-26.4%
Hong Kong	206	1.6%	250	1.9%	-17.6%	-17.6%
Singapore	178	1.4%	204	1.5%	-13.0%	-11.2%
Malaysia	132	1.0%	153	1.1%	-13.8%	-10.0%
Taiwan	108	0.9%	125	0.9%	-13.9%	-13.2%
Subtotal	**12,342**	**96.4%**	12,922	95.4%	-4.5%	-8.4%
Store closures and stores with onerous contracts* **	**386**	**3.0%**	502	3.7%	-23.0%	-25.8%
North America	**82**	**0.6%**	130	0.9%	-36.8%	-36.9%
United States*	82	0.6%	72	0.5%	14.4%	14.4%
Canada	-	-	58	0.4%	-100.0%	-100.0%
Total	**12,810**	**100.0%**	**13,554**	**100.0%**	**-5.5%**	**-9.3%**

\# Country as a whole includes retail, wholesale and licensing operations
\## Germany sales include wholesale sales to other European countries mainly Russia, Poland, Czech Republic, Bulgaria and Ukraine
\### Macau sales include wholesale sales to other countries mainly Chile, Thailand and the Middle East
* Includes licensing
** Includes salon
*** Represent store closures and stores with onerous contracts announced in prior financial year(s)

In Europe, turnover from the Group's Core Operations declined by -5.0% in local currency primarily due to the decline in wholesale turnover as explained in the previous section. On a positive note, we are seeing signs of stabilization in both the retail and the wholesale business in Germany, the Group's largest market in the region.

In Asia Pacific, turnover from the Group's Core Operations declined by -21.3% in local currency, due to certain developments in both the retail and wholesale channels as explained in the previous sections. China remained the largest market for the Group in the region and the third largest market overall within the

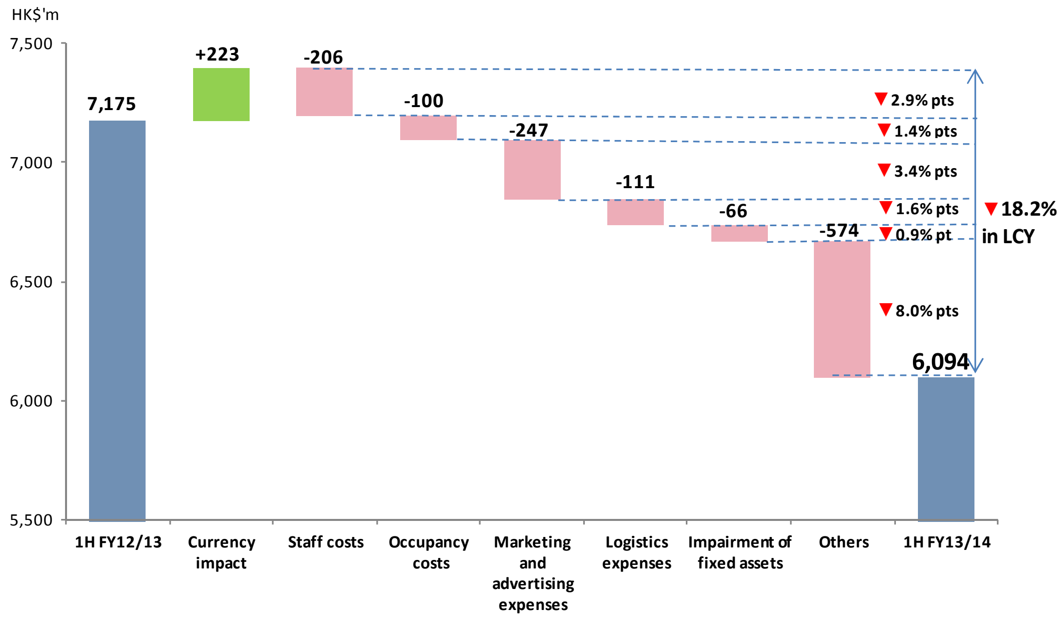
Group. For the period under review, business performance of the Core Operations in China was far from satisfactory, recording a decline in turnover of -24.5% in local currency. A number of factors, both external and internal, have led to this decline: i) a tough operating environment; ii) stock availability issues, especially in outlets; iii) a loss of space in both the retail and wholesale channels due to closures of retail stores with large loss making performance and weak sales performance of wholesale POS; and iv) inventory clearance by wholesale partners in progress. The management team is intensifying its efforts to improve the situation.

Profitability Analysis

Gross profit was HK$6,348 million (1H FY12/13: HK$6,910 million). **Gross profit margin** decreased by -1.4 percentage points to 49.6% (1H FY12/13: 51.0%). This is in line with the controlled reduction of gross profit margin as part of our short term strategy to invest in improving product quality, activate sales with pricing initiatives, and continue rationalization of smaller wholesale accounts where we have higher gross profit margins. This margin reduction was partially offset by an increased share of retail having a higher gross margin and improved management of markdowns.

Operating expenses ("OPEX") amounted to HK$6,094 million (1H FY12/13: HK$7,175 million) representing a significant reduction of -HK$1,081 million or -15.1% year-on-year (-18.2% in local currency). **OPEX-to-sales ratio** also improved significantly to 47.6%, representing a -5.3 percentage points reduction as compared to 52.9% in the same period last year. This improvement was the result of cost reduction initiatives undertaken by the management team to reduce operating expenses. All expense items recorded a year-on-year decline in local currency, with the biggest declines seen in other operating costs (-HK$574 million), marketing and advertising expenses (-HK$247 million), and staff costs (-HK$206 million).

Analysis of OPEX



▲/▼ year-on-year change

The substantial decrease in OPEX has enabled the Group to return to profitability in 1H FY13/14, notwithstanding the decline in the top line and gross profit. The Group recorded a positive **EBIT** of HK$254 million (1H FY12/13: EBIT loss of HK$265 million) and **EBIT margin** of 2.0% (1H FY12/13: -2.0%).

Profit before taxation was HK$270 million (1H FY12/13: loss before taxation of HK$267 million). **Taxation** amounted to HK$175 million (1H FY12/13: HK$198 million) with an effective tax rate of 64.9%. The relatively high effective tax rate was due to the fact that although some entities were loss making, their losses could not be used to offset the profits from profitable entities which were subject to income tax.

Net profit was HK$95 million as compared to net loss of HK$465 million for the same period of the last financial year.

Liquidity and financial resources analysis

	For the 6 months ended 31 December	
HK$ million	**2013**	2012
Cash, bank balances and deposits as at 1 July	**5,171**	3,171
Cash generated from / (used in) operations	**920**	(1,091)
Tax paid, net	**(299)**	(51)
Net cash generated from / (used in) operating activities	**621**	(1,142)
Net cash (used in) / generated from investing and financing	**(150)**	4,700
Effect of change in exchange rates	**59**	54
Cash, bank balances and deposits as at 31 December	**5,701**	6,783
Less:		
Bank loans	**520**	1,809
Net cash balance	**5,181**	4,974

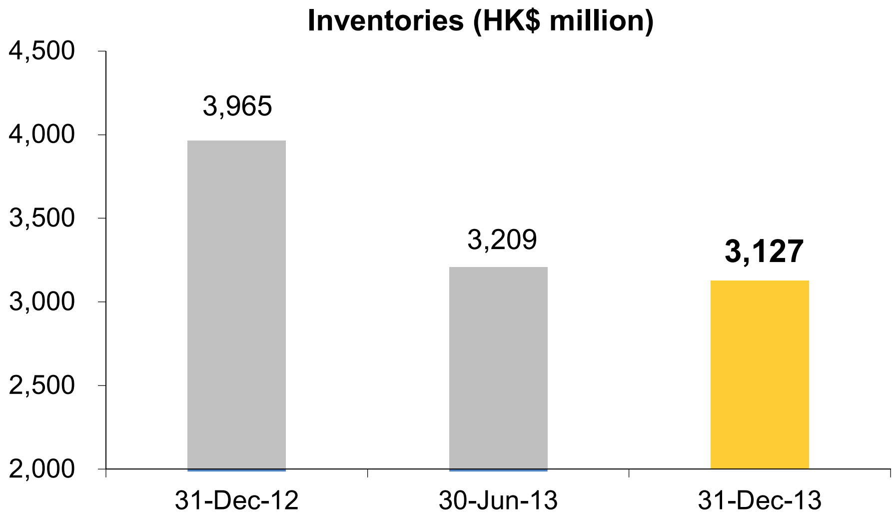
Cash: During 1H FY13/14, the Group continued to focus on stabilizing cash consumption by reducing costs and improving working capital management through inventory normalization and reduction of trade debtors. As a result of these efforts, the Group generated HK$920 million (1H FY12/13: an outflow of -HK$1,091 million) cash inflow from operations. Together with selective investment in capital expenditure, the Group generated positive net cash of +HK$530 million as compared to a net cash utilization (excluding rights issue) of -HK$1,552 million in the same period last year. Consequently, the Group's **cash, bank balances and deposits** increased to HK$5,701 million (30 June 2013: HK$5,171 million). **Net cash** grew to HK$5,181 million (30 June 2013: HK$4,651 million) and stabilized to the highest level over the last three years.

Fund flow analysis

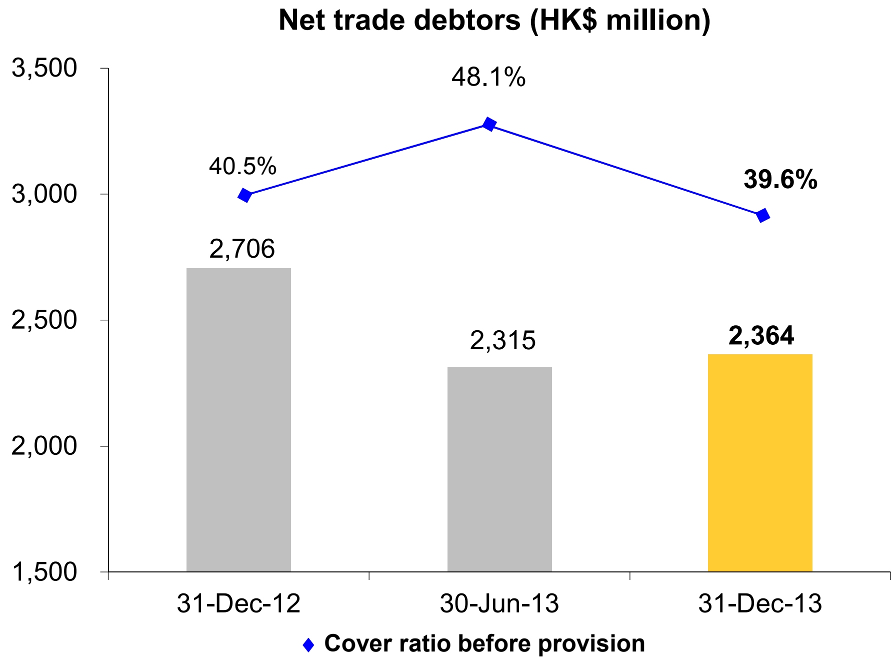
	For the 6 months ended 31 December	
HK$ million	**2013**	2012
Cash generated from / (used in) operations	**920**	(1,091)
Tax paid, net	**(299)**	(51)
Net cash used in investing and financing activities*	**(91)**	(410)
Net cash generation / (utilization)	**530**	(1,552)

* Excludes net proceeds from rights issue and bank loans

Inventories: The Group's bold measures to normalize inventory levels are delivering encouraging results. Inventories decreased by -21.1% year-on-year to HK$3,127 million (31 December 2012: HK$3,965 million) notwithstanding the +4.4% appreciation of the EUR/HKD closing rate to 10.703 (31 December 2012: 10.254). Inventory turnover days shortened to 91 days, representing a year-on-year reduction of 11 days. By implementing bold measures to reduce aged inventory, taking ambitious control of the season's inventory by tightening purchases to align with sales levels, the Group successfully reduced the number of finished goods units by -13.1% year-on-year.



Net trade debtors amounted to HK$2,364 million, representing a decrease of -12.6% year-on-year notwithstanding a +4.4% appreciation of the EUR/HKD closing rate to 10.703 (31 December 2012: 10.254). The amount of net trade debtors aged over 90 days was HK$302 million (31 December 2012: HK$334 million). The cover ratio before provision (the amount of insured and secured gross trade debtors including VAT over total gross trade debtors including VAT) of 39.6% was similar to last year (31 December 2012: 40.5%).



Capital expenditure: In 1H FY13/14, the Group invested capital expenditure ("CAPEX") of HK$198 million (1H FY12/13: HK$475 million), representing a significant reduction of -HK$277 million or -58.3% year-on-year. The decline was mainly attributed to the decrease in CAPEX on new stores and store refurbishment, which is in line with the Group's strict policy of selective store expansion and moderate deployment of refurbishment. Additionally, following the successful completion of two major infrastructure projects, i.e. the SAP system and the new European distribution center at the end of FY12/13, there was also a noticeable decline in CAPEX for IT projects, office and others.

	For the 6 months ended 31 December	
HK$ million	**2013**	2012
Retail stores	**118**	348
IT projects	**41**	73
Office & others	**39**	54
Purchase of property, plant and equipment	**198**	475

Total interest bearing external borrowings amounted to HK$520 million (30 June 2013: HK$520 million). All of the Group's bank borrowings are subject to floating interest rates and are denominated in Hong Kong dollar. The bank loans are unsecured. None of the Group's assets were pledged as security for overdraft or any short-term revolving facility.

HK$ million	**31-Dec-13**	30-Jun-13	31-Dec-12
Unsecured short-term bank loans	**-**	-	249
Unsecured long-term bank loans repayable within one year	**260**	520	520
	260	520	769
Unsecured long-term bank loans			
- Repayable between one and two years	**260**	-	520
- Repayable between two and five years	**-**	-	520
	260	-	1,040
Total interest bearing external borrowings	**520**	520	1,809

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 the business and should not be extrapolated to provide a reliable forecast.

Foreign Exchange Risk Management

The Group uses foreign currency contracts for risk management purposes, for hedging transactions and for managing the Group's asset and liabilities.

The Group faces foreign exchange risk arising from various currency exposures, primarily with respect to the Euro. As a majority of the Group's suppliers in Asia quote and settle in US dollars, the Group enters into foreign currency forward contracts with reputable financial institutions to hedge against such foreign exchange risks.

2H FY13/14 Outlook

Looking ahead to the second half of the financial year, the Group's performance remains uncertain as: (i) the Group is currently implementing major changes to its business model in order to regain long term competitiveness and to establish a solid platform for long term growth; (ii) the operating environment continues to be very challenging; and (iii) due to the seasonality of the business, the performance in the second half is normally not as good as it is in the first half.

The Group maintains FY13/14 full year guidance as announced on 10 September 2013. For the financial year FY13/14, the Group expects a further decline in turnover, mainly due to reduced controlled space in both the retail and wholesale channels that will result from store closures and further rationalization of our wholesale customer base. On the positive side, we expect that the cost measures undertaken by the management team will continue to bear fruit. Reduction of operational expenses will be complemented by careful management of the Group's CAPEX so that cash consumption remains under control.

INTERIM DIVIDEND

The Board of Directors maintains the dividend payout ratio of 60% of basic earnings per share. It has declared an interim dividend for the six months ended 31 December 2013 of HK$0.03 per share (1H FY12/13: nil).

In addition, the Board of Directors has provided the shareholders with an option to receive the interim dividend in form of new fully paid shares in lieu of cash (the "Scrip Dividend Reinvestment Scheme"). The dividend reinvestment price shall be determined by the average closing price of the shares of the Company as quoted on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for the five consecutive trading days preceding Tuesday, 4 March 2014. Further details of the Scrip Dividend Reinvestment Scheme and the election form will be despatched to the shareholders on or around Tuesday, 11 March 2014 and the election period will commence on Tuesday, 11 March 2014 to Tuesday, 25 March 2014, both dates inclusive.

The dividend will be payable on or around Wednesday, 16 April 2014 to the shareholders whose names appear on the Registers of Members of the Company at the close of business on Monday, 3 March 2014 (the "Shareholders"). The relevant dividend warrants and/or share certificates for new shares of the Company are expected to be despatched to the Shareholders on or around Wednesday, 16 April 2014.

The Scrip Dividend Reinvestment Scheme is conditional upon the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the new shares of the Company 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 Tuesday, 4 March 2014 to Wednesday, 5 March 2014, both dates inclusive, during which period no transfer of shares of the Company will be effected.

In order to qualify for the entitlement to the interim dividend mentioned above, all transfers forms 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 for registration not later than 4:00 pm on Monday, 3 March 2014.

AUDIT COMMITTEE

The Audit Committee currently comprises four Non-executive Directors, three 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 unaudited interim results of the Group for the six months ended 31 December 2013 with the management.

HUMAN RESOURCES

As at 31 December 2013, the Group employed over 10,000 full-time equivalent staff (31 December 2012: over 12,000) around the globe. Competitive remuneration packages that take into account business performance, market practices and competitive market conditions are offered to employees in compensation for their contribution. In addition, share options 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.

CORPORATE GOVERNANCE

The Company has applied the principles of, and complied with the Corporate Governance Code and Corporate Governance Report (the "Code") as set out in Appendix 14 of the Listing Rules for the six months ended 31 December 2013, except that Non-executive Directors of the Company do not have specific term of appointment (code provision A.4.1 of the Code). Nevertheless, under Bye-law 87 of the Company's Bye-laws, all Directors, including Non-executive Directors, of the Company are subject to retirement by rotation and re-election in the annual general meeting of the Company and each Director is effectively appointed under an average term of not more than three years.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

The Company has made specific enquiry with all Directors and all of them confirmed that they have complied with the required standard set out in the Model Code for the six months ended 31 December 2013.

BOARD OF DIRECTORS

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

Executive Directors:	Mr Jose Manuel MARTINEZ GUTIERREZ *(Group CEO)* Mr Thomas TANG Wing Yung *(Group CFO)*
Non-executive Director:	Mr Jürgen Alfred Rudolf FRIEDRICH
Independent Non-executive Directors:	Mr Raymond OR Ching Fai *(Chairman)* Mr Paul CHENG Ming Fun *(Deputy Chairman)* Mrs Eva CHENG LI Kam Fun Mr Alexander Reid HAMILTON Mr Carmelo LEE Ka Sze Mr Norbert Adolf PLATT

By Order of the Board
Florence NG Wai Yin
Company Secretary

Hong Kong, 21 February 2014

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.