

## Esprit Transformation Plan on track – successful start with first positive effects

- Transformation Plan started off well and in line with targets
- Important implementation milestones achieved
- Continued challenging macroeconomic environment in Europe
- Group turnover declined 5.6% year-on-year to HK\$16.7 billion, in line with the plan of 3% to 5% year-on-year decline
- Significant improvement in retail performance in 2Q
- Deliberate rationalization of wholesale customer base in progress
- Operating profit margin was 4.7%, well above the planned full year of 1% to 2%
- New branding strategy delivering good results
- Successful launch of new store concept in Cologne
- Finalizing wind-down of operations in North America by 31 March 2012
- Balance sheet and cash position remain strong

**HONG KONG, 23 February 2012** – During the first half of FY11/12, Esprit Holdings Limited, listed on the Hong Kong Stock Exchange, has taken the first successful steps towards implementing its comprehensive Transformation Plan 2014/15, which was announced on 15 September 2011. Initial positive effects have been achieved subsequent to implementation of the transformation initiatives. For the first half of the financial year, the results were within the projected range, despite the continued difficult conditions that dominate the current economic climate, such as materializing sourcing cost inflation and warm weather conditions in important markets. During the period, the Group’s turnover reached HK\$16.7 billion (1H FY10/11: HK\$17.7 billion) representing 5.6% year-on-year decline, in line with the plan of 3% to 5% year-on-year decline. Operating profit margin was 4.7%, well above the planned full year operating profit margin of 1% to 2%.

Ronald van der Vis, CEO of Esprit, said, “The first positive results of the Transformation Plan are becoming visible. We were able to hold our ground in a challenging market environment and are altogether very well on track. We are pleased with the progress so far and will continue our path systematically. Our goal is to re-establish the company in the coming years as a leading, inspiring fashion brand with a clear identity and to restore long-term profitability. The successful start demonstrates Esprit’s potential.”

## **Updates on Transformation Plan 2014/15**

Over the past few months, Esprit has launched its new brand strategy to emotionally recharge the brand profile based on a clear customer segmentation and customer profile. Brand communication measures featuring internationally renowned model Gisele Bündchen, presented the new brand direction and themes for Fall/Winter 2011 and ran from September to December 2011, have been successful. Consumer consideration of Esprit increased 9% points to 59% in Germany and increased even 19% points to 49% in China. Products shown in the campaign had a significantly higher sell through than the regular collections. This underlines that the new brand and product direction of offering more fashionable collections with outstanding value for money is appreciated by the customers. Esprit will continue its successful cooperation with Gisele Bündchen for the presentation of Spring/Summer 2012 collections.

To create a more inspiring shopping environment for the customers, Esprit launched a new retail store concept that matches the new brand vision. Design and product presentation are geared towards the lifestyle and self-image of Esprit's target customers – modern, confident, fashionable women – while reflecting the company's heritage of a Californian lifestyle and sustainability. In November 2011, the first new store concept was successfully launched in Cologne. Comments and reviews from customers and market have been very positive. Year-on-year traffic in the store has increased by 25% since re-opening, while year-on-year growth of average price per transaction has increased by 54%. Its gross profit margin was 10% points higher than other stores. Based on the success of the pilot project, learning from the Cologne store will be translated into the refurbishment of 14 stores in key locations in the second half of FY11/12. In addition, the new, successful visual and merchandise management of the Cologne store will be rolled out into a bigger group of controlled test stores. Next to this, two other new store concepts are being developed and tested in Antwerp in April 2012 and in Düsseldorf in July 2012.

In order to ensure brand consistency and product development efficiency as outlined in the Transformation Plan, all product, design and licensing activities have been pulled together. To lead this new role, Melody Harris-Jensbach has been appointed as Chief Product & Design Officer and she has been on board since January 2012. Melody has over 20 years of industry experience and is widely recognized for her outstanding, international expertise and track record in the fields of products, design and licensing in the fashion and lifestyle industry. To further enhance the product design, the new Trend division, the China design centre as well as the new Denim division were launched in the first half of the financial year. The Trend division has started its operation and is expected to have its first product delivery in September 2012. The China design centre has delivered its first concepts already. New product designs are expected to be showcased in the product offering in August 2012. In the newly launched Denim division, new fits are already being included into Esprit's denim lines, and the first styles will be in store in December 2012.

In the wholesale segment, Esprit has stepped up its efforts to support its strong and committed partners. About 650 wholesale partners responsible for a major part of the wholesale business are selected as key partners with highest growth potential and strong strategic fit. Esprit intends to work even closer than before with these partners

and will assist them with tailored support packages, i.e. refurbishment and expansion support, tactical returns and margin invest, in exchange for growth commitment. This initiative has already taken on form. Over 50 point-of-sales (approximately one-third in China) of key strategic partners will be refurbished based on the successful new store concept in Cologne. In FY11/12, Esprit plans to refurbish over 50,000 m<sup>2</sup> controlled wholesale space (approximately 10% of controlled wholesale space of franchise stores / shop-in-stores). In addition, to ensure consistent brand message, around 10 showrooms will also be refurbished in Europe and Asia and majority of this investment will be deployed in the second half of the financial year.

Esprit's growth plan roll-out in China continued to make progress and had a net addition of 9 cities during the six months ended 31 December 2011. Total controlled space (retail and wholesale combined) increased by 1.8% from 30 June 2011 to 140,764 m<sup>2</sup>. Expansion is expected to accelerate in the second half. Esprit highlighted the increasing importance of its business in China by appointing Holly Li, an experienced senior management professional with broad China, retail and franchise experience, as the new China CEO to lead the China team to achieve the growth ambitions in this important market. Holly reports directly to the Group CEO.

As a part of its strategy of focusing on attractive growth markets, the company is divesting its North America business following years of losses. Esprit has decided not to sell the business as it was not willing to compromise on brand positioning and distribution channels. The company has commenced the wind-down of its store operations in North America. It is expected that the last day of the store operations will be 31 March 2012.

Ronald van der Vis further commented, "We will continue the rigorous and systematic implementation of our Transformation Plan in the second half of FY11/12 in a continued challenging business environment. We are determined to re-establish Esprit as a successful fashion brand. The company, our customers, and our shareholders will all benefit from this. The measures we've taken and our investments in the Esprit brand will form the basis for sustainable, profitable growth in the future. However, as said before, we're on a long-term path. The full scale of success will become visible step-by-step up until the end of the Transformation Plan in FY14/15."

### **Half-year result for the period ended 31 December 2011**

The results of the first half of FY11/12 have been influenced as expected by measures related to the Transformation Plan. Group turnover was HK\$16.7 billion (1H FY10/11: HK\$17.7 billion), representing 5.6% year-on-year decline, as a result of decline in wholesale and retail turnover amid continued macro headwinds in Europe, adverse weather conditions especially during the second quarter of the reporting period and a deliberate rationalization of the wholesale channel.

Retail turnover amounted to HK\$9.8 billion (1H FY10/11: HK\$10.0 billion). There were a 4.6% comparable store sales decline and the expected loss of sales in relation to the planned store closure program as guided. Over 50% of the 80 planned store closures which were announced in FY10/11 as part of the Transformation Plan have been executed or are in final negotiations. During the first half of the financial year, 60 new

directly managed retail stores were opened with a retail selling space of over 16,000 m<sup>2</sup>, bringing the retail space growth in line with the plan. Comparable store sales growth showed quarter-on-quarter improvement in the second quarter, thanks to the Transformation Plan related initiatives on branding and products.

Wholesale turnover fell 11.7% year-on-year to HK\$6.7 billion (1H FY10/11: HK\$7.6 billion), in line with the Transformation Plan. The decline was mainly due to an active rationalization of wholesale space. Additionally, the company supported wholesale customers against the backdrop of challenging overall conditions via targeted return initiatives and discounts.

Despite the additional spending on the Transformation Plan, the balance sheet and cash position remained strong.

The interim dividend payout ratio of 60% of basic earnings per share has been maintained. On this basis, the Board of Directors has declared an interim dividend for the six months ended 31 December 2011 of HK\$0.26 per share (1H FY10/11: HK\$1.00 per share).

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Esprit Holdings Limited ([www.espritholdings.com](http://www.espritholdings.com)) is a constituent stock of the Hang Seng Index, MSCI Hong Kong Small Cap Index and FTSE All-World Index for Hong Kong. Its subsidiaries are engaged in the retail and wholesale distribution of quality lifestyle products designed under its globally recognized Esprit and edc brands. The Group operates over 1,100 directly managed retail stores worldwide and distribute through more than 11,000 controlled space wholesale point-of-sales internationally, occupying total selling space of over 1,000,000 m<sup>2</sup>.

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