For Immediate Release

ESPRIT

ESPRIT REPORTS A POSITIVE YEAR NET PROFIT OF HK$21M FOR FY15/16

Revenue stabilized thanks to improved sales performance

- Revenue was almost flat yoy in LCY (-1.1%), a favorable development against -13.1% reduction in total controlled space
- Key driver was the gain in retail space productivity for the first time in 9 years
  - ✓ Retail comparable store sales (including e-shop) grew +8.1% yoy in LCY
  - ✓ e-shop, representing 23.3% of Group revenue, grew +15.3% yoy in LCY

Accelerated cost restructuring measures improved profitability

- -10.9% of retail space was primarily driven by the closure of unprofitable stores
- Other measures also started to take effect, enabling a reduction of Regular OPEX[1] in the second half of the year by -10.4% in LCY

Net gain from exceptional items ("Exceptional Items") contributed positively to the bottom line

- One-off exceptional expenses in relation to cost restructuring measures (-HK$755m) were offset by gain from disposal of Hong Kong office premises (+HK$731m)
- Bottom line was improved by a positive net tax balance (+HK$606m)

The Group kept a healthy net cash balance of HK$5.3 bn, representing a year-on-year increase of HK$324 m, with zero debt

(20 September 2016, Hong Kong) – **ESPRIT HOLDINGS LIMITED** ("Esprit" or "the Group"; SEHK: 330) has today announced its full year financial results for the 12 months ended 30 June 2016 ("FY15/16"). The Group achieved a net profit of HK$21 million for FY15/16, after a net loss of HK$3,696 million last year, thanks to a combination of improved retail sales performance, accelerated cost reduction, and net gains from exceptional items.

Positive Financial Performance in FY15/16

Revenue of the Group was HK$17,788 million in the financial year ended 30 June 2016 ("FY15/16"), stable year-on-year ("yoy") with a slight decline of -1.1% in local currency ("LCY"). This is a favorable development against the reduction in total controlled space of -13.1%. The key driver of such improvement was the positive sales performance (productivity gains) of retail operations, including e-shop, which had a positive impact across different financial metrics. Due to unfavorable foreign exchange rate, principally the Euro currency, the decline in the revenue of the Group was -8.4% in Hong Kong Dollars terms.

[1] *Regular OPEX refers to operating expenses of the underlying operations, excluding exceptional gains and expenses arising from non-operational activities of the Group*

Gross profit margin improved by 0.3 percentage points to 50.2%. The pressure from weakness in the Euro and slightly increased markdowns was offset by benefit from a higher proportion of retail (including e-shop) revenue (67.3% of Group revenue this year as opposed to 64.0% of Group revenue last year).

Operating expenses (“OPEX”) amounted to HK$9,525 million, representing a yoy reduction of 23.3% in LCY. OPEX are categorized into two categories: “Regular OPEX” of the underlying operations and “Exceptional Items” comprising relevant expenses/gains that are expected to be non-recurring and those relating to the net provisions for store closures and onerous leases, and impairment of fixed assets on stores.

- **Regular OPEX:** Savings were achieved in most of the recurring cost lines of the underlying operations, except i) marketing & advertising expenses (“Marketing”) and ii) logistics expenses (“Logistic Costs”). The increase in Marketing is in association with our strategic decision to increase spending in brand campaigns and Omnichannel initiatives to fuel future growth, and the increase in Logistic Costs was directly correlated to the positive growth of our e-shop business. Excluding Marketing and Logistics Costs, the Regular OPEX of the underlying operations was reduced by 6.2% yoy in LCY.

  The Group has implemented cost-saving measures throughout the year, changing structural aspects (e.g. legal entities, IT systems, business models, core operational processes, etc.) in order to bring Regular OPEX down to a healthier level in the coming years. These changes triggered some of the provisions and impairment charges classified as Exceptional Items this year. The corresponding savings are expected to take full effect during the next two years, although some have already started to happen in the second half of FY15/16 (“2HFY15/16”), enabling us to reduce Regular OPEX in 2HFY15/16 by -10.4% yoy in LCY.
- **Exceptional Items**: As detailed in the beginning of this press release, there were net exceptional non-recurring expenses of HK$755 million in relation to our recent acceleration of cost restructuring measures, and net exceptional gains of HK$731 million from disposal of the Hong Kong office premises.

EBIT of the Group was a loss of HK$596 million (2015: loss of HK$3,683 million). Excluding the Exceptional Items, the EBIT of the Underlying Operations was a loss of -HK572 million (2015: loss of -HK$718 million).

Taxation resulted in a net tax credit of HK$606 million (2015: net tax charge of HK$29 million), mainly as a result of the exceptional net gain of i) HK$409 million arising from write-back of tax provision and ii) HK$197 million mainly from tax deductibility of the Exceptional Items and the release of tax provision from previous years.

Net profit was HK$21 million as compared to a net loss of HK$3,696 million last year. And the **net cash** balance of HK$5.3 billion is an increase over the HK$5.0 billion position at the end of the previous year.

Commenting on the results, **Mr. Thomas Tang, Group Chief Financial Officer of Esprit**, said, “The results of the underlying operations visibly improved over last year and were better than expected. This improvement was driven by strong performance of our retail channels (offline and online), reduced cost of the operations and a favorable net tax balance this year. Moreover, preserving a strong financial position through prudent cash management continued to be a top priority during the year. As a consequence, the Group maintained a healthy net cash position of HK$5,341 million as at 30 June 2016, representing a year-on-year increase of HK$324 million.”

Successful Development of the Strategic Plan

The Transformation phase in the financial year ended 30 June 2015 ("FY14/15") was the most demanding and riskiest phase of the strategic plan ("Strategic Plan") for the turnaround of Esprit, as the Company introduced a whole new way of working for the entire organization and for its business partners, including suppliers and wholesale partners. More specifically, in FY14/15 the Group implemented faster and more cost-efficient product development and supply chain processes (the "Vertical Model"), in order to significantly enhance the design and value-for-money of its products. In parallel, the Group also started to develop an ambitious project to fully integrate and maximize the joint performance of all its sales channels, i.e. retail and wholesale, offline and online (the "Omnichannel Model"). FY15/16 was then the time when the Group expected to observe an improved performance of the first collections developed under the Vertical Model ("Vertical Products") and the first results from the initial Omnichannel initiatives. The positive developments in FY15/16 showed that the Transformation has begun to bear fruit.

Mr. Jose Manuel Martínez, Group Chief Executive Officer of Esprit, said, "I am pleased to report that FY15/16 has been a positive year with improved financial performance and successful development of the most critical elements of our Strategic Plan. The positive progress made this year reflects the benefits of our Strategic Plan, which is proving effective to enhance the competitiveness of our products and channels. We are especially encouraged by the noticeable gain in the sales per square meter performance of our retail space and the sales growth achieved by our e-shops in FY15/16. We are gratified to see that these operational improvements are also contributing to improvements in financial metrics. This reaffirms the potential of Esprit and lays the foundation for our road to recovery."

Since the introduction of the first Vertical Products in Spring/Summer 2015, a positive trend is observed in the retail sales, confirmed by the encouraging performance in FY15/16:

- Retail revenue, including e-shop (67.3% of the Group's revenue), grew +3.8% yoy in LCY, despite a year-on-year reduction in retail net sales area of -10.9%, fueled by sales growth in comparable stores of +8.1% in LCY
- Retail revenue, including e-shop, in European countries grew even stronger at +8.0% yoy in LCY, with comparable stores sales growth of +9.2% in LCY
- e-shop, representing 23.3% of Group revenue, grew +15.3% yoy in LCY
- In Germany, the Group's largest market, comparable stores[2] outperformed the market throughout the year virtually every month, by an average of +9.5 percentage points[3]
- From a product perspective, growth was driven by the Esprit Women product group (45.4% of the Group's revenue) and the edc product group (edc women and edc men) (21.8% of the Group's revenue), which reported comparable retail stores sales growth of +10.3% and +11.2% in LCY respectively

With respect to sales channels, although the Omnichannel Model is still at an early stage of implementation, the developments in FY15/16 were visibly positive:

- +27% year-on-year growth of active Esprit Friends members (i.e., members of Esprit's loyalty program who have purchased in the last 12 months)

[2] *Only full price brick and mortar stores because this is the type of stores used by TextilWirtschaft to present the German retail market performance*
[3] *Based on the comparable market data published by TextilWirtschaft*

- Share of Esprit Friends of the Group's retail net sales increased to +70%
- Number of cross-channel Esprit Friends members buying both offline and online increased by +12% year-on-year
- Some 95% of invited wholesale partners offered an opportunity to join the Group's Omnichannel Model already signed up for an incentive scheme that fully integrates them into the "Esprit Friends" program, Esprit's Commercial Plan and the business of the e-shop "esprit.com"
- e-shop traffic from smartphone increased yoy by +64%

These impacts from better products and improved channels operations have led to a positive development of the general financial performance, reinforcing the confidence that the strategic initiatives are bringing Esprit on the right track.

Mr. Jose Manuel Martínez continued, "Esprit is operating in an industry that is undergoing fundamental changes, which are placing considerable pressure on many players in the market. Companies best poised to navigate these challenges are those with the agility to quickly react to product trends, and the ability to serve consumers seamlessly across different channels. We believe that our Vertical and Omnichannel models offer the best way to confront these challenges and they are already enhancing the strength of Esprit to compete in the longer term."

Continued recovery of the Group's overall profitability

Moving forward, the Group will keep the focus on improving its bottom line and step up the efforts to accelerate the positive trends of last year. Sustaining the productivity increase will remain the key focus by systematically enhancing the execution of the Vertical and Omnichannel models. This increase in productivity will be complemented by reduced OPEX, as a result of the accelerated closure of loss making stores and the impact of the cost restructuring measures already implemented, and thereby driving bottom line improvement.

Dr. Raymond Or, Chairman of Esprit, commented: "Esprit has achieved good progress both strategically and financially over the past financial year. Notwithstanding the macroeconomic headwinds ahead, the progress we have made gives us much confidence that we are now a step closer and in a much stronger positon to restoring Esprit back to its full potential. The Board remains confident that the Strategic Plan stands us in good stead, and remains fully committed to adhering to it as the best way forward to deliver long-term value to our shareholders."

ESPRIT HOLDINGS LIMITED AUDITED CONSOLIDATED FINANCIAL DATA

(In HK$ Million)

	For the Year Ended 30 June 2016	For the Year Ended 30 June 2015
Revenue	**17,788**	19,421
Gross Profit	**8,929**	9,695
Operating Loss	**(596)**	(3,683)
Net Profit/(Loss)	**21**	(3,696)
Net Cash Balance	**5,341**	5,017
Earnings/(Loss) Per Share (HK$)	**0.01**	(1.90)
Interim Dividend Per Share (HK cents)	**Nil**	1.5
Final Dividend Per Share (HK cents)	**Nil**	Nil

- End -

About Esprit Holdings Limited

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

Esprit's collections are available in over 40 countries worldwide, in around 760 directly managed retail stores and through over 6,300 wholesale points of sales including franchise stores and sales space in department stores. The Group markets its products under two brands, namely the Esprit brand and the edc brand. Listed on the Hong Kong Stock Exchange since 1993, Esprit has headquarters in Germany and Hong Kong.

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