



Esprit Announces Interim Results for FY18/19 Strategy Plan is progressing well and on track

- **Strategy Plan** to restore ESPRIT to sustainable growth and profitability is progressing well and is on track
- **Revenue** of HK\$6,766 million, down -14.4% yoy in LCY, affected by the Group's strategic rationalization of distribution footprint, and reduced customer traffic due to weaknesses in brand and product which are being addressed in the Strategy Plan
- **Gross Profit Margin** slightly down by -1.6% points to 51.3% mainly due to investment in improving product quality and higher level of discount
- **Regular OPEX** continued to improve, declined by -11.9% yoy in LCY, reflecting cost savings from restructuring activities
- **Result of Underlying Operations** (LBIT excl. exceptional items) of HK\$(332) million
- **Net Loss** was HK\$(1,773) million after taking into account the exceptional items of HK\$(1,418) million, mainly in connection with the restructuring plan to eliminate loss-making stores and reduce headcount
- **Net Cash** position of HK\$3.64 billion with zero debt

(26 February 2019, Hong Kong) – ESPRIT HOLDINGS LIMITED (“Esprit” or “the Group;” HKEx: 330) has today announced its interim financial results for the six months ended 31 December 2018 (“1H FY18/19” or “Period under Review”).

At the results press conference in Hong Kong today, **Mr. Anders Kristiansen, Group Chief Executive Officer of Esprit**, said, “We have a great plan and are making the bold changes needed to restore Esprit to sustainable growth and profitability. The teams are working intensively on all initiatives but the brand re-positioning and changes in product will take time to become visible and attract customers back.”

Financial Highlights

Revenue of the Group for 1H FY18/19 amounted to HK\$6,766 million, representing a decline of -14.4% yoy in local currency terms (“LCY”), as compared with HK\$8,039 million for the same period last year. The decline in Hong Kong dollar terms was slightly higher (-15.8% yoy) due to the slight weakness of the Euro against the Hong Kong Dollar during the Period under Review. The decline in revenue was the result of a combination of the impact of (i) the Group’s strategic rationalization of its distribution footprint leading to a controlled space reduction of -11.0% yoy, and (ii) reduced customer traffic across the distribution channels due to the weakness in brand identity and product appeal as discussed at the Esprit Investor Day held in November 2018.

The Group recorded a **Gross Profit** of HK\$3,471 million, resulting in a **Gross Profit Margin** of 51.3% (1H FY17/18: 52.9%). The moderate yoy decrease of -1.6% points in LCY was mainly due to (i) investment in improving product quality and (ii) higher level of discount. It is worth noting that while there is a yoy decline in gross profit margin for 1H FY18/19, the Group is seeing positive improvement from a quarter-on-quarter perspective.

Regular OPEX (excluding Exceptional Items) amounted to HK\$3,803 million in 1H FY18/19, representing a yoy decline of -11.9% in LCY, attributable to savings across all the major cost lines, including staff costs, occupancy costs, logistics expenses, marketing and advertising expenses etc.. These savings reflect the operational discipline and cost savings associated with its restructuring activities. In terms of profitability, improvements in Regular OPEX were not sufficient to offset the decline in revenue. As a result, **LBIT of Underlying Operations** (i.e., excluding the Exceptional Items) recorded a loss of HK\$(332) million as compared with HK\$(136) million in the same period last year.

On top of the LBIT of underlying operations, the Group’s financial results for 1H FY18/19 were negatively impacted by **Exceptional Items** totaling HK\$(1,418) million, consisting of i) net additional provision for store closures and leases of HK\$(924) million, (ii) impairment of property, plant and equipment of HK\$(116) million, (iii) one-off costs in relation to staff reduction plans of HK\$(401) million, and (iv) write-back of one-off costs in relation to closure of the Australia and New Zealand operations of HK\$23 million. After including all the Exceptional Items, **LBIT** of the Group was HK\$(1,750) million for 1H FY18/19.

Mr. Thomas Tang, Group Chief Financial Officer of Esprit, commented, “It is important to highlight that all of the abovementioned one-off restructuring costs are necessary to reduce losses and build a healthier platform for future growth.”

Taking into account **Net Interest Income** of HK\$13 million and **Net Taxation Expenses** of HK\$(36) million, **Net Loss** of the Group was HK\$(1,773) million for 1H FY18/19. As the Group recorded a loss for 1H FY18/19, the Board of Directors has resolved not to declare an interim dividend for the six months ended 31 December 2018.

Outlook

Moving forward, to achieve a positive business performance, the Group is building a new model for the future. This includes i) sharpening the brand identity of ESPRIT and putting the customer at the center of everything the Group does; and ii) improving the product offering and how it relates to the ESPRIT consumer and brand positioning. At the same time, the Group is building a more efficient organization and restructuring the cost base. This includes i) reducing complexity and improving accountability throughout the organization by becoming a leaner and more responsive organization; and ii) eliminating loss-making areas of the business in order to build a stronger foundation for the future.

Mr. Kristiansen added, "Looking ahead, we expect the next two financial years to be a period of transition. We are reducing complexity and right sizing the organization. At the same time, we are working on the elimination of our loss-making stores. In parallel, we are building a new model for the future. We expect to see further decline in revenue in the next two years due to closure of loss-making stores, before reviving growth driven by product and brand initiatives." Overall, the Group expects a compound annual growth rate in revenue of a mid-to-high single-digit percentage in LCY between FY19/20 and FY23/24. In terms of underlying operating profit (EBIT), the Group expects to achieve breakeven in two to three years' time. Thereafter, underlying operating profit margin (EBIT margin) is expected to expand gradually to mid-single digit percentages by FY22/23 in LCY.

Dr. Raymond Or, Executive Chairman of Esprit, concluded, "While the Group is confident of its strategic direction aimed at restoring its long-term sustainable growth and profitability, the ambitious nature of the work ahead, combined with the challenging and demanding market environment, may present uncertainty to its short-term performance. The Group will continuously monitor its progress and performance, so as to proactively adapt and make appropriate adjustments in a dynamic manner as and when necessary."

ESPRIT HOLDINGS LIMITED UNAUDITED CONSOLIDATED FINANCIAL RESULTS

(In HK\$ Million)	For the 6 Months Ended 31 December 2018	For the 6 Months Ended 31 December 2017
Revenue	6,766	8,039
Gross Profit	3,471	4,252
LBIT of Underlying Operations	(332)	(136)
LBIT of the Group	(1,750)	(958)
Net Loss	(1,773)	(954)
Net Cash Balance	3,635	4,575
Loss Per Share (HK\$)	(0.94)	(0.50)

- End -

About Esprit Holdings Limited

Founded in 1968, Esprit is an iconic international fashion brand that takes responsibility for its environment and expresses a positive 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 quality and sustainability to make consumers feel good to look good. Esprit's brand purpose is to deliver joy to its customers and create experiences that lift the spirit.

Esprit's collections are available in over 40 countries worldwide, in around 500 directly managed retail stores and through over 5,000 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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