

Interim Report

Esprit Holdings Limited
Six months ended
31 December 2019



ESPRIT





INTERIM REPORT FY 19/20

Esprit Holdings Limited

ESPRIT

Corporate information

Executive Chairman

- Dr Raymond OR Ching Fai

Executive Directors

- Anders Christian KRISTIANSEN
Group CEO
- Dr Johannes Georg SCHMIDT-SCHULTES
Group CFO
(appointed effective 21 October 2019)
- Thomas TANG Wing Yung
Group CFO
(resigned effective 21 October 2019)

Non-executive Director

- Jürgen Alfred Rudolf FRIEDRICH

Independent Non-executive Directors

- Carmelo LEE Ka Sze
- Sandrine Suzanne Eleonore Agar ZERBIB
(appointed effective 3 October 2019)
- Joseph LO Kin Ching
(appointed effective 15 January 2020)
- Dr Martin WECKWERTH
(appointed effective 15 January 2020)
- Alexander Reid HAMILTON
(retired on 5 December 2019)
- Norbert Adolf PLATT
(retired on 5 December 2019)

Company Secretary

- Ophelia LO Tik Man

Principal bankers

- The Hongkong and Shanghai Banking Corporation Limited
- Deutsche Bank AG
- BNP Paribas
- MUFG Bank, Ltd
- Mizuho Bank, Ltd

Auditor

- PricewaterhouseCoopers
Certified Public Accountants

Principal legal advisor

- Baker & McKenzie
- Freshfields Bruckhaus Deringer

Share listing

Esprit's shares are listed on The Stock Exchange of Hong Kong Limited (SEHK). The Company has a Level 1 sponsored American Depositary Receipt (ADR) program.

Stock code

- SEHK : 00330
- ADR : ESPGY

Principal share registrar

MUFG Fund Services (Bermuda) Limited
4th Floor North, Cedar House
41 Cedar Avenue
Hamilton HM 12
Bermuda

Hong Kong branch share registrar

Tricor Secretaries Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

Registered office

Clarendon House
Church Street
Hamilton HM 11
Bermuda

Hong Kong headquarters

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Global business headquarters

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Corporate profile

Fueled by the vision of essential positivity, Esprit was founded in California by couple Susie and Doug Tompkins in 1968. Inspired by the revolutionary spirit of the 60s the brand developed a clear philosophy - always celebrating real people and togetherness, in line with the brand's promise: "We want to make you feel good to look good". The success story of Esprit is based on two pillars: Delivering joy every day through laid-back tailored, high quality essentials and carefully selected fashion-forward pieces while staying true to its core values of sustainability, equality and freedom of choice. Example: In the early 90ies, long before "Eco Fashion" became fashionable, Esprit debuted its first "ecollection" made of 100% organic cotton and featured its own team instead of models in honor of their "Real People Campaign."

Keeping this spirit alive since day one, today Esprit has a presence in over 40 countries around the globe. Esprit's headquarters are located in Germany and Hong Kong, where the brand has been listed on the Hong Kong Stock Exchange since 1993.

Esprit - Keeping it easy, comfortable and looking great. Every day.



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01

Highlights



01 Highlights

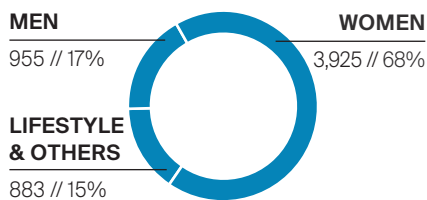
Strategic Plan Execution Continues Well and On Track

- ✓ Financial results in line with expectations despite challenging market conditions
- ✓ LBITDA of underlying operation almost breakeven (-HK\$15 million)
- ✓ Improvement in profitability due to
 - Productivity improvement
 - Wholesale acceleration
 - Full-price sales increase
 - Cost reduction
- ✓ One-off exceptional items mainly for China restructuring
- ✓ Organization is lean, fit, and agile.
- ✓ Experienced leadership team focused on execution
- ✓ Management is confident that the Group is on the right track to recovery

Revenue segmentation

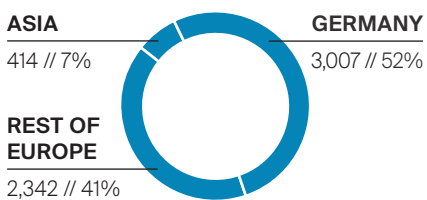
HK\$ million // % of Group revenue

by Product



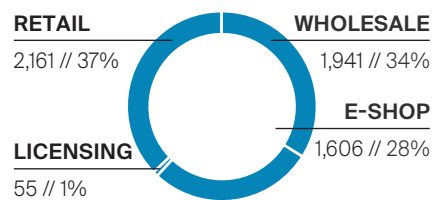
Women wear is our core product group

by Geography



Germany is our biggest market

by Channel



Omnichannel distribution

Our international distribution network

To date, Esprit's collections are distributed via an international network covering over 40 countries worldwide through our directly managed retail stores, third-party online platforms, own eshops and wholesale points of sales.



1H FY19/20 revenue: HK\$5.8 billion

Over 40 countries

19 eshops

389 retail stores

4,793 wholesale POS



A woman with dark hair pulled back is the central figure. She is wearing a white, ribbed, long-sleeved sweater with a square neckline, layered under a dark, possibly navy or black, blazer. She is also wearing blue denim jeans. Her right hand is raised to her chin in a thoughtful gesture. The background is a solid, bright yellow. The lighting is dramatic, coming from the side, creating strong highlights and shadows.

02

Management discussion and analysis

02 Management Discussion and Analysis

Overview

As discussed in the last year's annual report (the "FY2018/19 Annual Report"), the Group is engaging in the execution of a strategic plan (the "Strategic Plan") to realize the following objectives: sharpen Esprit's brand identity; enhance the customer experience; improve the product offering; be best-in-class in serving the Group's wholesale partners; restructure its cost base; build a leaner and more efficient organization; and uphold sustainability as part of the Group's core values. As the initiatives have been presented to the market in the FY2018/19 Annual Report, we will not repeat the details here but rather highlight that execution of the Strategic Plan has continued to progress well and is on track.

Overall, the management is pleased with the performance of the Group for the six months ended 31 December 2019 ("1H FY19/20" or "Period under Review") as we have delivered financial results in line with management expectation despite the challenging market conditions.

Throughout this review, a pro forma 1H FY19/20 before adoption of IFRS 16 ("Pro forma") has been included to aid comparability of performance against same period last year.

Key Take Away

Building on the positive progress made in the last financial year, the Group has continued to deliver on what it set out to achieve in 1H FY19/20. The management is gratified to see that ongoing progress is contributing to improvements in the Group's operational metrics which has yielded clear and tangible financial results for 1H FY19/20.

- 1) **Europe Retail (excl. eshop & excl. outlet)**, representing over 85% of Group Retail (ex-outlet) revenue, recorded the following successes:
 - a) **More full price sales** – The Group's new approach to better managing markdowns and reducing promotions has had a positive effect in full-price sales growth within both the retail and ecommerce channels.
 - b) **Higher comparable gross profit margin** – The Group is continuing to deliver in line with the strategy to reduce promotional pressure, act more like a brand, and find new ways to encourage full-price shopping trips.
 - c) **Comparable store sales grew in three out of the six months during 1H FY19/20** (July 2019: -11.2%, August 2019: +1.3%, September 2019: +1.8%, October 2019: -1.4%, November: +0.1%, December 2019: -8.4%)

- 2) **Europe Eshop**, representing 96.4% of Group Eshop revenue, recorded **higher comparable gross profit margin** for reasons similar to those for the increase in Europe Retail (ex-outlet).
- 3) **Germany Wholesale (excl. eshop)**, representing 54.6% of Wholesale (excl. eshop) revenue of the Group, has **stabilized** and reported broadly flat revenue development of -0.9% year-on-year ("yoy") in local currency terms ("LCY") after eleven consecutive years of decline. This is an encouraging development thanks to ongoing efforts to rebuilding trust and confidence amongst wholesale partners.
- 4) **New partnership in China** – China is and has always been an important pillar of the Group's Strategic Plan. The recently announced partnership with Mulsanne Group Holding Limited ("JV Partner") in China will allow the Group to leverage the JV Partner's local knowledge and expertise to create a strong base for the Esprit brand to improve relevance and accelerate growth.
- 5) **Significant reduction of costs** – Pro forma¹ operating costs of underlying operations ("OPEX of underlying operations") was reduced by HK\$717 million or -20.1% yoy. As a result of its ongoing effort to reduce headcount, closure/resizing of unprofitable stores, and persistent discipline on cost control and efficiency measures, the Group was able to significantly reduce operating expenses across all the major cost lines.
- 6) **Profitability Improvement** – Pro forma¹ LBITDA of underlying operations almost breakeven and came in at HK\$(15) million, substantially better than the HK\$(94) million for the same period last year. Pro forma¹ LBIT of underlying operations was at HK\$(219) million, also substantially better than the HK\$(332) million in the same period last year.

These positive developments demonstrated the effectiveness of the Strategic Plan and management's ability in execution of the plan.

The Group has indeed come far and has accomplished a lot in a short period of time. Today the Group's business is in a much better state than 12 months ago. It is leaner, quicker, fitter, more agile, and is well along the way to creating a new culture which is all about empowering and having fun while delivering results.

Management is encouraged by the progress made in the 1H FY19/20 and is confident that the Group is on the right track to recovery. Looking ahead to the second half of the financial year, there is still much to complete in many areas of the business. The goal for the rest of FY19/20 is to continue its transformation journey, implementing the Strategic Plan more rapidly and with the following priorities:

- Act and behave like a brand,
- Reduce discounting,
- Focus on profitability rather than topline growth, and
- Meticulous attention to sustainability.

1 Pro forma figures for 1H FY19/20 are estimations before adoption of IFRS 16 to aid comparability to 1H FY18/19. Details of this pro forma is set out on page 13.

Results of Operations

The financial performance of the Group has continued to advance positively in line with management expectations.

In the Period under Review, the Group has adopted the new accounting standard IFRS 16, recognizing operating leases as right-of-use assets and lease liabilities on the balance sheet. The impact of this changes is set out on page 36. Throughout this review, to aid comparability of performance against same period last year, a pro forma 1H FY19/20 before adoption of IFRS 16 has been included.

The following table summarizes the results of the Group for 1H FY19/20 and 1H FY18/19.

	For the 6 months ended 31 December				
	Before adoption of IFRS 16			Reported under IFRS 16	
	2019 Pro forma ¹ HK\$ million	2018 HK\$ million	Change in % in HK\$	2019 HK\$ million	Change in % in HK\$
Revenue	5,763	6,766	-14.8%	5,763	-14.8%
Cost of goods sold	(2,930)	(3,295)	-11.0%	(2,930)	-11.0%
Gross profit	2,833	3,471	-18.4%	2,833	-18.4%
<i>Gross profit margin</i>	49.2%	51.3%	-2.1 pts	49.2%	-2.1 pts
OPEX of underlying operations²					
Staff costs	(966)	(1,291)	-25.2%	(966)	-25.2%
Marketing and advertising expenses	(293)	(350)	-16.3%	(293)	-16.3%
Logistics expenses	(324)	(485)	-33.2%	(292)	-39.8%
Occupancy costs	(898)	(1,093)	-17.8%	(238)	-78.2%
Other operating costs	(367)	(346)	6.1%	(506)	46.2%
Subtotal	(2,848)	(3,565)	-20.1%	(2,295)	-35.6%
LBITDA of underlying operations³	(15)	(94)	83.4%	538	678.0%
Depreciation and amortisation					
Depreciation of Right-of-Use Assets	-	-		(525)	
Depreciation of Fixed Assets	(204)	(238)		(203)	
Subtotal	(204)	(238)		(728)	
LBIT of underlying operations³	(219)	(332)		(190)	
Exceptional items⁴					
i) Provision for China restructuring	(104)	-		(104)	
ii) Provision for store closures and leases, net	(21)	(924)		(21)	
iii) One-off costs in relation to staff reduction plans	(5)	(401)		(5)	
iv) Loss on disposal of investment properties	(6)	-		(6)	
v) Impairment of property, plant and equipment	(2)	(116)		(2)	
vi) Write-back of one-off costs in relation to closure of ANZ operations	-	23		-	
Subtotal	(138)	(1,418)		(138)	
Reported LBIT	(357)	(1,750)		(328)	
Interest income	44	31		45	
Finance costs	(2)	(18)		(51)	
Loss before taxation	(315)	(1,737)		(334)	
Taxation credit/(charge)	3	(36)		3	
Net Loss	(312)	(1,773)		(331)	

Notes:

1. **Pro forma** figures for 1H FY19/20 are estimations before adoption of IFRS 16 to aid comparability to 1H FY18/19.
2. **OPEX of underlying operations** comprises recurring expenses of the underlying operations except depreciation and amortization.
3. **LBITDA of underlying operations** and **LBIT of underlying operations** are the LBITDA and LBIT of the Group before exceptional items.
4. **Exceptional Items** are one-off and non-operating gains and expenses arising from non-regular operational activities of the Group.

Revenue Analysis

Group revenue for 1H FY19/20 amounted to HK\$5,763 million, representing a yoy decline of -11.8% in LCY. 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 reduction in total controlled space of -14.8% yoy, and
- (ii) reduction of discount driven promotions which is very much in line with our strategy to behave like a brand.

The decline in Hong Kong dollar terms was moderately higher (-14.8% yoy) due to the relative weakness of the Euro against the Hong Kong Dollar during the Period under Review (average rate decreases of -3.8% compared with last year).

The following table summarizes the breakdown of revenue by region and by distribution channel, as well as the changes in the net sales area from the comparable period last year.

	For the 6 months ended 31 December						
	2019		2018		Revenue Change in %		Net change in net sales area^
	HK\$ million	% to Group Revenue	HK\$ million	% to Group Revenue	HK\$	Local currency	
Germany	3,007	52.2%	3,467	51.3%	-13.3%	-9.8%	-14.1%
Retail (excluding eshop)	990	17.2%	1,218	18.0%	-18.8%	-15.6%	-20.2%
Wholesale (excluding eshop)	1,060	18.4%	1,114	16.5%	-4.8%	-0.9%	-9.7%
eshop	938	16.3%	1,121	16.6%	-16.3%	-13.0%	n.a.
Licensing	19	0.3%	14	0.2%	29.3%	33.8%	n.a.
Rest of Europe	2,342	40.6%	2,601	38.3%	-9.9%	-6.8%	-9.8%
Retail (excluding eshop)	850	14.7%	956	14.1%	-11.1%	-8.6%	-7.4%
Wholesale (excluding eshop)	846	14.7%	943	13.9%	-10.3%	-6.6%	-11.4%
eshop	610	10.6%	659	9.7%	-7.4%	-3.8%	n.a.
Licensing and others	36	0.6%	43	0.6%	-15.2%	-14.8%	n.a.
Asia	414	7.2%	698	10.4%	-40.6%	-40.0%	-33.0%
Retail (excluding eshop)	321	5.6%	567	8.4%	-43.3%	-42.8%	-36.1%
Wholesale (excluding eshop)	35	0.6%	60	0.9%	-41.5%	-41.4%	-17.8%
eshop	58	1.0%	71	1.1%	-18.1%	-16.8%	n.a.
Total	5,763	100.0%	6,766	100.0%	-14.8%	-11.8%	-14.8%
Retail (excluding eshop)	2,161	37.5%	2,741	40.5%	-21.2%	-18.8%	-19.5%
Wholesale (excluding eshop)	1,941	33.7%	2,117	31.3%	-8.3%	-4.6%	-10.7%
eshop	1,606	27.9%	1,851	27.4%	-13.2%	-9.9%	n.a.
Licensing and others	55	0.9%	57	0.8%	-4.0%	-2.5%	n.a.

^ Net change since 1 January 2019

n.a. Not applicable

Germany, the largest geographic market of the Group, recorded revenue of HK\$3,007 million in 1H FY19/20, accounting for 52.2% of total revenue, representing a yoy decline of -9.8% in LCY. In terms of distribution channels, Retail (excluding eshop), Wholesale (excluding eshop), and eshop contributed 32.9%, 35.3%, and 31.2% of revenue respectively within Germany.

- **Germany Retail (excluding eshop)** recorded revenue of HK\$990 million, representing a decline of -15.6% yoy in LCY, comparing favourably against reduction in net sales area of -20.2% yoy. The reduction in net sales area is in line with the Group's efforts in accelerating the closure of unprofitable retail stores. On a like-for-like basis, comparable store sales recorded a decline of -3.0% yoy, a significant improvement from -10.7% yoy in the same period last year, reflecting ongoing improvement in the brand momentum, product offering as well as customer experience. Such comparable store sales performance is encouraging as it is broadly in line with the general market trend e.g. the German apparel market recorded an average decline of -2.2% in 1H FY19/20 according to TextilWirtschaft (a publication that offers in-depth coverage of the textile and clothing industry in Germany and provides relevant industry information).
- **Germany Wholesale (excluding eshop)** recorded revenue of HK\$1,060 million, almost flat yoy (-0.9% in LCY) after eleven consecutive years of decline. This is an encouraging development thanks to ongoing efforts to rebuilding trust and confidence amongst the Group's wholesale partners.

Rest of Europe comprises countries in Europe except Germany and includes the Americas, accounting for 40.6% of the Group's total revenue. The region recorded revenue of HK\$2,342 million in 1H FY19/20, representing a yoy decline of -6.8% in LCY. In terms of distribution channels, Retail (excl. eshop), Wholesale (excl. eshop), and eshop businesses contributed 36.3%, 36.1%, and 26.0% respectively, of the region's revenue.

- **Rest of Europe Retail (excluding eshop)** recorded revenue of HK\$850 million, representing a yoy decline of -8.6% in LCY. Similar to Germany, while comparable store sales recorded a decline, the rate of decline has narrowed significantly from -9.1% yoy in 1H FY18/19 to -2.7% yoy in 1H FY19/20.
- **Rest of Europe Wholesale (excluding eshop)** recorded revenue of HK\$846 million, representing a yoy decline of -6.6% in LCY. The revenue decline was mainly attributable to Benelux and France, where the Group recorded a reduction in controlled space of -24.7% and -9.3%, which in turn led to a corresponding revenue decline of -27.8% and -9.5% yoy in LCY, respectively.

Asia comprising mainly China, Singapore, Malaysia, Taiwan, Hong Kong, Macau, Thailand and the Philippines, accounted for 7.2% of the Group's total revenue. The region recorded revenue of HK\$414 million, representing a yoy decline of -40.0% in LCY. In terms of distribution channels, Retail (excluding eshop), Wholesale (excluding eshop), and eshop businesses contributed 77.5%, 8.5%, and 14.0% respectively of the region's revenue.

- **Asia Retail (excluding eshop)** recorded revenue of HK\$321 million, accounting for 5.6% of total Group revenue. This represent a yoy decline of -42.8% yoy in LCY, mainly due to the -36.1% decrease in trading area. In addition, consumer traffic remains one of the biggest problems for retail in the region which recorded a decline in comparable consumer traffic of approximately -23% yoy. Correspondingly, comparable store sales for the region declined by -16.9% yoy in LCY.
- **Asia Wholesale (excluding eshop)** recorded revenue of HK\$35 million, accounting for only 0.6% of the Group's total revenue, representing a decline of -41.4% yoy in LCY. This is mainly attributable to the transfer of India business to Europe and a lower order intake from wholesale partners in China in anticipation of store closures.

Eshop, accounting for 27.9% of total Group revenue, comprises the Group's directly-managed ecommerce business in European and Asia countries including sales to third party online distributors in Asia. In the Period under Review, this channel generated HK\$1,606 million in revenue, representing a decline of -9.9% yoy in LCY. Europe (Germany and Rest of Europe combined) accounted for 96.4% of the Group's eshop revenue and recorded a decline of -9.6% yoy in LCY. The negative development was due to a deliberate decision to reduce discount-driven promotions in line with the brand strategy. The Group has decided to de-emphasize promotional aspects in communication as well as in products offered on esprit.com and other ecommerce portals, which became especially noticeable over Black Friday and Cyber Monday, as well as during mid-season sales, flash sales where we had fewer promotion days in 1H FY19/20 verse 1H FY18/19. In contrast, the market in general and competitors specifically increased promotional activities quite heavily, hence further leading to a decline in the Group's eshop sales. It is also worth noting that, while sales of Europe eshop was negatively impacted, we have delivered a slight uplift in the corresponding gross profit margin.

Profitability Analysis

Pro forma **LBITDA of underlying operations**, which management uses as the key performance indicator to assess the underlying performance of the Group, almost achieved breakeven and came in at HK\$(15) million, substantially better than the HK\$(94) million for the same period last year. The improvement was driven by enhanced key operational metrics including: improved sales productivity of controlled space, stabilization of wholesale business, more full-price sales, and significant cost reduction.

This result represents a continuation of the positive development seen in the last financial year. Pressure from topline decline was more than offset by significant cost savings which led to an improvement in the Group's profitability. On the one hand, revenue has declined due to bold decisions (the "Strategic Measures") to rationalize the Group's distribution footprint and reduce discount-driven promotions very much in line with the strategy to behave like a brand. On the other hand, these Strategic Measures together with other cost reduction initiatives facilitated a significant reduction of operating expenses and drove efficiencies thereby improving our operating results.

	For the 6 months ended 31 December				
	Before adoption of IFRS 16			Reported under IFRS 16	
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Revenue	5,763	6,766	-14.8%	5,763	-14.8%
Cost of goods sold	(2,930)	(3,295)	-11.0%	(2,930)	-11.0%
Gross profit	2,833	3,471	-18.4%	2,833	-18.4%
<i>Gross profit margin</i>	49.2%	51.3%	-2.1 pts	49.2%	-2.1 pts
OPEX of underlying operations²	(2,848)	(3,565)	-20.1%	(2,295)	-35.6%
LBITDA of underlying operations³	(15)	(94)		538	
Depreciation and amortisation	(204)	(238)		(728)	
LBIT of underlying operations³	(219)	(332)		(190)	
Exceptional items⁴	(138)	(1,418)		(138)	
Reported LBIT	(357)	(1,750)		(328)	
Interest income	44	31		45	
Finance costs	(2)	(18)		(51)	
Taxation credit/(charge)	3	(36)		3	
Net Loss	(312)	(1,773)		(331)	

Notes:

1. **Pro forma** figures for 1H FY19/20 are estimations before adoption of IFRS 16 to aid comparability to 1H FY18/19.
2. **OPEX of underlying operations** comprises recurring expenses of the underlying operations except depreciation and amortization.
3. **LBITDA of underlying operations** and **LBIT of underlying operations** are the LBITDA and LBIT of the Group before exceptional items
4. **Exceptional Items** are one-off and non-operating gains and expenses arising from non-regular operational activities of the Group.

Gross Profit for the Period under Review declined by -18.4% yoy (-15.6% in LCY) mainly due to the decline in revenue of -14.8% yoy (-11.8% in LCY) and **Gross Profit Margin** (49.2%) lower than last year by -2.1% points.

On the positive side, the Group delivered slight increase in gross profit margin for Retail (ex-outlet) and eshop in Europe thanks to reduction of discount-driven promotions, very much in line with the brand strategy. However, this benefit was outweighed by margin pressure from (i) a shift in channel mix, i.e., a higher proportion of Wholesale and eshop which generate lower margins than Retail; (ii) investment in wholesale support measures; (iii) aggressive clearance of old inventories in Asia; and (iv) continued investments in product quality which is not yet adequately reflected in sales price increases.

Pro forma **OPEX of underlying operations** decreased by HK\$717 million or -20.1%, reflecting significant savings attributable to the Group's restructuring measures to reduce headcount and close/resize unprofitable stores ("Restructuring Measures"), as well as management's continuous focus on cost awareness and financial discipline. Savings were achieved across all key costs' lines. The two biggest costs items, namely staff costs and occupancy costs, were reduced by -25.2% and -17.8% yoy on pro forma basis, respectively.

There were **Exceptional Items** totalling HK\$(138) million in the Period under Review, primarily relating to the Restructuring Measures, comprising (i) Provision for China restructuring of HK\$(104) million, (ii) Provision for store closure and onerous leases of HK\$(21) million, (iii) One-off costs in relation to staff reduction plans of HK\$(5) million, (iv) Loss on disposal of investment properties of HK\$(6) million, and (v) Impairment of property, plant and equipment of HK\$(2) million.

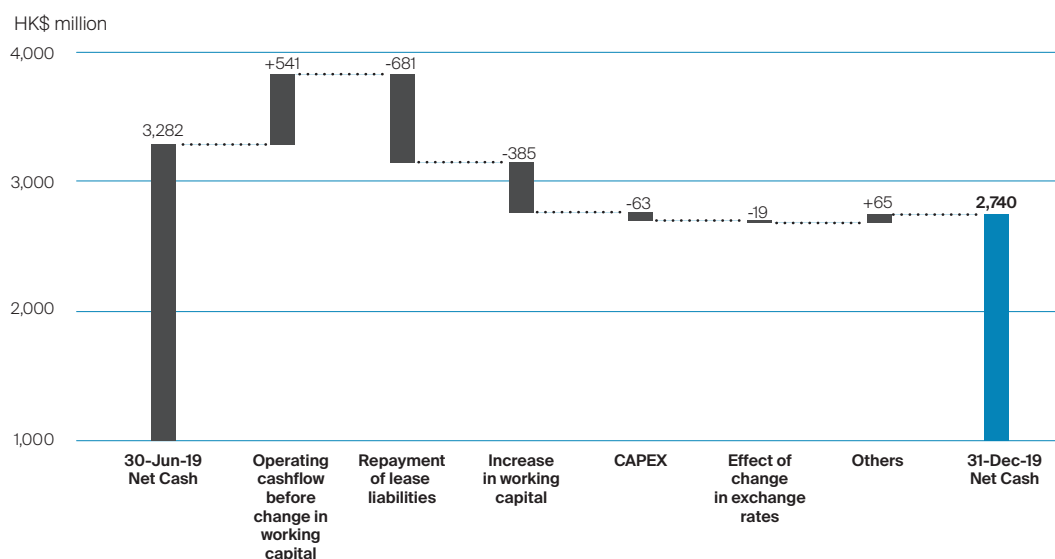
Pro forma **Net interest income** was HK\$42 million (1H FY18/19: Net interest income was HK\$13 million), comprising i) interest income of HK\$44 million, offset by (ii) non-cash finance costs primarily related to time value of provision for store closure and onerous leases of HK\$(2) million. After including the interest on lease liabilities and imputed interest on finance lease receivables under new IFRS 16 of HK\$(49) million and HK\$1 million, respectively, the reported net interest expenses was HK\$(6) million.

Taking into account the net **Taxation** credit of HK\$3 million in 1H FY19/20, (1H FY18/19: Taxation charge of HK\$(36) million), pro forma **Net Loss** of the Group was HK\$(312) million (with application of IFRS 16: HK\$(331) million), a significant improvement from the net loss of HK\$(1,773) million in the same period last year.

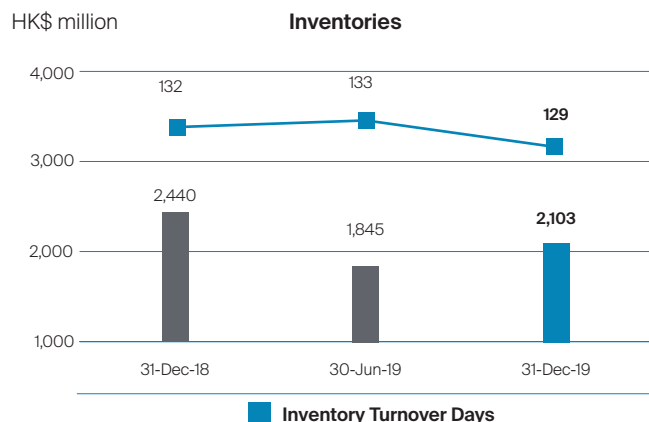
Liquidity and Financial Resources Analysis

Net Cash: As at 31 December 2019, the Group remained debt free with cash, bank balances and deposits totalling HK\$2,740 million (30 June 2019: HK\$3,282 million), representing a net cash utilization of HK\$(542) million in 1H FY19/20, as compared with HK\$(886) million in 1H FY18/19. The outflow primarily reflects operating loss in 1HFY19/20 as well as:

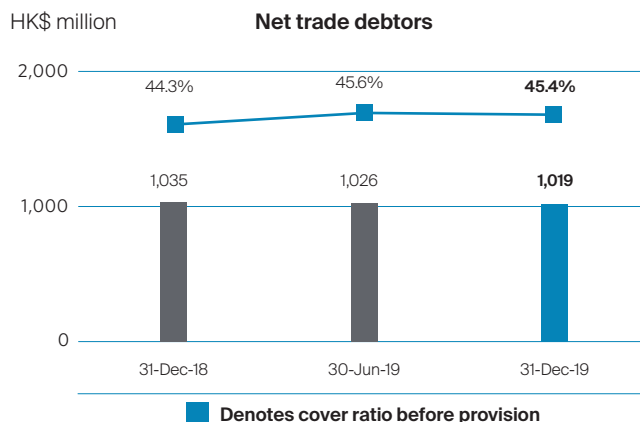
- A HK\$258 million increase in inventories predominantly due to seasonality of the Group's business (winter garments at higher costs)
- Capital expenditure of HK\$63 million as the Group invests in relevant technology to facilitate a simple, fast and digitalized operating process



Inventories: The inventory balance amounted to HK\$2,103 million (31 December 2018: HK\$2,440 million), representing a yoy decrease of -13.8%. In terms of units, the total inventory at the end of December 2019 was 29.9 million pieces, a yoy decrease of -8.3% as compared to the 32.6 million pieces at the end of December 2018. Inventory turnover days were 129 days, an improvement of three days as compared with a year ago (31 December 2018: 132 days), mainly driven by the Group's new tools and processes to support business as well as tighter inventory control.



Net Trade Debtors was HK\$1,019 million (31 December 2018: HK\$1,035 million), roughly flat as compared to the same period last year (-1.5% yoy). The cover ratio before provision (the amount of insured and secured gross trade debtors including VAT over total gross trade debtors including VAT) increased to 45.4% (31 December 2018: 44.3%).



Capital Expenditure (CAPEX): The Group invested HK\$63 million in CAPEX in 1H FY19/20 (1H FY18/19: HK\$77 million), representing a decrease of -18.2% yoy.

HK\$ million	For the 6 months ended 31 December	
	2019	2018
New stores	1	4
Refurbishment	26	17
IT projects	10	9
Office & others	26	47
Purchase of property, plant and equipment	63	77

Total Interest Bearing External Borrowings: As at 31 December 2019, the Group had no external borrowings (31 December 2018: Nil).

Seasonality of Business

The Group's business is affected by seasonal trends 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 faces foreign exchange risks arising from exposure to various currencies, primarily with respect to the Euro.

While most of the Group's revenue is denominated in Euros, it reports financial results in Hong Kong Dollars. As a result, fluctuations in the value of the Euro against the Hong Kong Dollar which has its value pegged at a fixed rate to the U.S. Dollar could affect its revenue as reported in Hong Kong Dollars. In addition, the purchases of finished goods in Euros account for only a small portion of its total purchases of finished goods while its revenue is generated primarily in Euros. Although the Group currently uses foreign currency forward contracts to hedge exposure to the foreign exchange risk related to its purchases, fluctuations in the value of the Euro against other currencies, most notably against the US Dollar, could affect its margins and profitability.

In view of this potential risk, the Group has taken measures to proactively manage its Euro exposure, specifically early hedging of virtually all purchases of finished goods for the rest of FY19/20 at an average Euro:U.S. Dollar exchange rate slightly better than the prevailing market rates. The Group will continuously monitor and review purchases of finished goods as well as potential price adjustment, depending on the movements of relevant exchange rates.

Second Half Outlook for FY19/20

While mindful of the geopolitical and trade tensions alongside intrinsic industry challenges, the Group is pleased with its progress made at this halfway point in its financial year.

The management is pleased with the trajectory of the Group's financial performance and believe the Group is on track to deliver what the Strategic Plan set out to achieve. The positive developments have so far demonstrated the Strategic Plan has set the right direction for the Company and most importantly management's ability in execution. Looking ahead to the second half of FY19/20, the Group's goal is to stay on course and remain focused on rapidly executing the Strategic Plan. With the outbreak of coronavirus, the retail market is going to be challenging, however the management firmly believes that this plan is vital to creating long-term value for all stakeholders.

Appendix

Retail (excluding eshop) Distribution Channels by Region (Directly Managed Retail Stores)

For the 6 months ended 31 December 2019											
	No. of stores				Net sales area (m ²)						
	As at 31 December 2019	Open	Close	Net change [^]	As at 31 December 2019	Open	Close	Net change [^] (m ²)	(%)	No. of Comp-store	comp-stores sales growth
Germany	114	3	(26)	(23)	86,307	1,489	(23,300)	(21,811)	-20.2%	100	-3.0%
Rest of Europe	126	5	(11)	(6)	69,546	1,905	(7,429)	(5,524)	-7.4%	113	-2.7%
Asia	149	1	(78)	(77)	32,329	177	(18,478)	(18,301)	-36.1%	98	-16.9%
Total	389	9	(115)	(106)	188,182	3,571	(49,207)	(45,636)	-19.5%	311	-4.4%

[^] Net change since 1 January 2019

Wholesale (excluding eshop) Distribution Channel by Region (Controlled Space only)

For the 6 months ended 31 December 2019										
	No. of stores				Net sales area (m ²)					
	As at 31 December 2019	Open	Close	Net change [^]	As at 31 December 2019	Open	Close	Net change [^] (m ²)	(%)	
Germany	2,998	485	(751)	(266)	132,902	15,669	(29,868)	(14,199)	-9.7%	
Franchise stores	192	8	(31)	(23)	41,618	1,380	(7,400)	(6,020)	-12.6%	
Shop-in-stores	1,877	345	(466)	(121)	71,189	11,805	(17,705)	(5,900)	-7.7%	
Identity corners	929	132	(254)	(122)	20,095	2,484	(4,763)	(2,279)	-10.2%	
Rest of Europe	1,704	36	(228)	(192)	103,722	1,646	(14,980)	(13,334)	-11.4%	
Franchise stores	370	11	(54)	(43)	67,841	1,408	(10,760)	(9,352)	-12.1%	
Shop-in-stores	697	5	(59)	(54)	21,451	50	(1,478)	(1,428)	-6.2%	
Identity corners	637	20	(115)	(95)	14,430	188	(2,742)	(2,554)	-15.0%	
Asia	91	6	(19)	(13)	8,544	807	(2,663)	(1,856)	-17.8%	
Franchise stores	91	6	(19)	(13)	8,544	807	(2,663)	(1,856)	-17.8%	
Total	4,793	527	(998)	(471)	245,168	18,122	(47,511)	(29,389)	-10.7%	
Franchise stores	653	25	(104)	(79)	118,003	3,595	(20,823)	(17,228)	-12.7%	
Shop-in-stores	2,574	350	(525)	(175)	92,640	11,855	(19,183)	(7,328)	-7.3%	
Identity corners	1,566	152	(369)	(217)	34,525	2,672	(7,505)	(4,833)	-12.3%	

[^] Net change since 1 January 2019

Revenue Development by Quarter

Revenue change in % (yoy in LCY)			
	First Quarter	Second Quarter	1H FY19/20
By Distribution Channel			
Retail (excluding eshop)	-19.8%	-17.9%	-18.8%
Wholesale (excluding eshop)	-2.9%	-7.0%	-4.6%
eshop	-9.4%	-10.3%	-9.9%
Licensing and others	-11.6%	5.5%	-2.5%
Total	-10.8%	-12.7%	-11.8%
By Region[^]			
Germany	-9.0%	-10.6%	-9.8%
Rest of Europe	-5.5%	-8.1%	-6.8%
Asia	-43.4%	-37.2%	-40.0%
Total	-10.8%	-12.7%	-11.8%

[^] Region as a whole includes retail (excluding eshop), eshop, wholesale (excluding eshop) and licensing operations

Revenue by Product

For the 6 months ended 31 December						
Product division	2019		2018		Change in %	
	HK\$ million	% to Group Revenue	HK\$ million	% to Group Revenue	HK\$	Local currency
Women (Esprit & edc)	3,925	68.1%	4,570	67.5%	-14.1%	-11.0%
women casual	2,103	36.5%	2,360	34.9%	-10.9%	-7.7%
women edc	940	16.3%	1,274	18.8%	-26.2%	-23.4%
women collection	882	15.3%	936	13.8%	-5.8%	-2.4%
Men (Esprit & edc)	955	16.6%	1,167	17.3%	-18.1%	-15.3%
men casual	656	11.4%	690	10.2%	-4.9%	-1.6%
men edc	260	4.5%	367	5.4%	-29.1%	-26.7%
men collection	39	0.7%	110	1.7%	-64.5%	-63.2%
Lifestyle and others*	883	15.3%	1,029	15.2%	-14.2%	-11.1%
Total	5,763	100.0%	6,766	100.0%	-14.8%	-11.8%

* Lifestyle and others mainly include bodywear, accessories, shoes, and the sales and royalty income from licensed products such as kidswear, timewear, eyewear, jewelry, bed & bath and houseware.

Revenue by Country

For the 6 months ended 31 December							
Country ^^	2019		2018		Revenue change in %		Net change in net sales area^
	HK\$ million	% to Group Revenue	HK\$ million	% to Group Revenue	HK\$	Local currency	
Germany#	3,007	52.2%	3,467	51.3%	-13.3%	-9.8%	-14.1%
Rest of Europe	2,342	40.6%	2,601	38.3%	-9.9%	-6.8%	-9.8%
Benelux#	719	12.5%	845	12.5%	-14.8%	-11.5%	-17.3%
Switzerland	373	6.5%	392	5.7%	-4.7%	-3.8%	-6.9%
France	344	6.0%	392	5.8%	-12.5%	-8.9%	-10.3%
Austria	317	5.5%	349	5.2%	-9.0%	-5.4%	-1.7%
Finland	104	1.8%	108	1.6%	-3.7%	0.3%	-6.2%
Spain	104	1.8%	103	1.5%	0.9%	5.2%	-4.2%
Sweden	86	1.5%	98	1.5%	-12.5%	-6.8%	-12.8%
Italy	58	1.0%	55	0.8%	4.6%	9.0%	-0.7%
United Kingdom	41	0.7%	52	0.8%	-21.3%	-18.4%	-1.4%
Poland	40	0.7%	45	0.6%	-11.2%	-7.7%	-8.3%
Denmark	34	0.6%	34	0.4%	0.1%	4.2%	5.4%
Ireland	3	0.1%	3	0.0%	-7.1%	-3.2%	-
Norway	1	0.0%	1	0.0%	-7.4%	0.0%	-
Portugal	1	0.0%	1	0.0%	-13.0%	-9.6%	n.a.
Others##	117	2.0%	123	1.9%	-4.6%	-1.9%	-7.9%
Asia	414	7.2%	698	10.4%	-40.6%	-40.0%	-33.0%
China	165	2.9%	264	3.9%	-37.4%	-35.9%	-37.8%
Singapore	83	1.4%	111	1.6%	-24.5%	-24.6%	-17.2%
Malaysia	53	0.9%	78	1.1%	-32.4%	-31.9%	-44.3%
Taiwan	44	0.8%	65	1.0%	-32.1%	-32.1%	-26.9%
Hong Kong	21	0.4%	66	1.0%	-67.4%	-67.4%	-52.1%
Macau	16	0.3%	33	0.5%	-52.6%	-52.6%	-64.6%
Australia and New Zealand	-	0.0%	35	0.6%	-100.0%	-100.0%	n.a.
Others@	32	0.6%	46	0.7%	-31.1%	-31.1%	6.3%
Total	5,763	100.0%	6,766	100.0%	-14.8%	-11.8%	-14.8%

^ Net change since 1 January 2019

^^ Country as a whole includes retail (excl. eshop), eshop, wholesale (excl. eshop) and licensing operations

Includes licensing

Others under Rest of Europe include i) retail (incl. eshop) revenue from Czech Republic, Hungary, Slovakia, Latvia, Slovenia, Estonia, Malta, Romania, Greece, Croatia and Bulgaria; ii) wholesale (excl. eshop) revenue from other countries mainly Chile, Colombia and Canada, as well as iii) third party licensing income globally except Germany and America

@ Others under Asia include wholesale (excl. eshop) revenue from other countries mainly Thailand and the Philippines

n.a. not applicable

Retail (excl. eshop) revenue by country

Country	For the 6 months ended 31 December						
	2019		2018		Revenue change in %		Net change in net sales area [^]
	HK\$ million	% to Total Revenue	HK\$ million	% to Total Revenue	HK\$	Local currency	
Germany	990	45.8%	1,218	44.4%	-18.8%	-15.6%	-20.2%
Rest of Europe	850	39.3%	956	34.9%	-11.1%	-8.6%	-7.4%
Benelux	335	15.5%	384	14.0%	-12.9%	-9.6%	-11.2%
Switzerland	226	10.4%	246	9.0%	-7.9%	-8.0%	-7.5%
Austria	157	7.3%	168	6.1%	-6.7%	-3.1%	3.3%
France	60	2.8%	72	2.6%	-17.3%	-14.1%	-15.9%
Sweden	27	1.2%	32	1.2%	-17.5%	-11.9%	-
Poland	26	1.2%	29	1.1%	-9.3%	-5.8%	-8.3%
Finland	19	0.9%	23	0.8%	-15.5%	-12.1%	-
Denmark	-	0.0%	2	0.1%	-100.0%	-100.0%	n.a.
Asia	321	14.9%	567	20.7%	-43.3%	-42.8%	-36.1%
China	118	5.5%	196	7.2%	-39.7%	-38.2%	-34.2%
Singapore	73	3.4%	98	3.6%	-25.7%	-25.9%	-17.2%
Malaysia	51	2.4%	77	2.8%	-33.7%	-33.2%	-44.3%
Taiwan	43	2.0%	63	2.3%	-31.5%	-31.5%	-26.9%
Hong Kong	20	0.9%	65	2.3%	-68.8%	-68.8%	-52.1%
Macau	16	0.7%	33	1.2%	-52.6%	-52.6%	-64.6%
Australia and New Zealand	-	0.0%	35	1.3%	-100.0%	-100.0%	n.a.
Total	2,161	100.0%	2,741	100.0%	-21.2%	-18.8%	-19.5%

[^] Net change since 1 January 2019

n.a. Not applicable

Directly managed retail stores by country - movement since 1 January 2019

Country	No. of stores	Net change in store number [^]	Net sales area (m ²)	Net change in net sales area [^]	As at 31 December 2019	
					No. of comp stores (excluding eshop)	Comp-store sales growth (excluding eshop)
Germany	114	(23)	86,307	-20.2%	100	-3.0%
Rest of Europe	126	(6)	69,546	-7.4%	113	-2.7%
Switzerland	34	(2)	15,134	-7.5%	29	-5.0%
Netherlands	22	(2)	12,750	-14.6%	19	-0.2%
Belgium	20	(2)	13,893	-10.8%	18	-1.2%
Austria	19	1	14,248	3.3%	18	-1.6%
France	10	(1)	4,490	-15.9%	10	-0.8%
Poland	10	(1)	2,965	-8.3%	9	-4.9%
Sweden	5	-	2,376	-	5	-1.4%
Luxembourg	4	1	2,109	12.8%	3	-9.8%
Finland	2	-	1,581	-	2	-12.2%
Asia	149	(77)	32,329	-36.1%	98	-16.9%
China	82	(41)	15,795	-34.2%	55	-18.4%
Taiwan	30	(17)	3,506	-26.9%	17	-17.8%
Malaysia	17	(11)	6,415	-44.3%	12	-9.2%
Singapore	14	(3)	4,464	-17.2%	9	-19.1%
Hong Kong	4	(3)	1,569	-52.1%	3	-18.9%
Macau	2	(2)	580	-64.6%	2	-13.7%
Total	389	(106)	188,182	-19.5%	311	-4.4%

[^] Net change since 1 January 2019

n.a. Not applicable

Directly managed retail stores by store type – movement since 1 January 2019

Store type	No. of stores					Net sales area (m ²)				
	As at 31 December 2019	vs 1 January 2019		As at 1 January 2019	Net change	As at 31 December 2019	vs 1 January 2019		As at 1 January 2019	Net change
		Opened	Closed				Opened	Closed		
Stores	269	6	(62)	325	(56)	152,830	2,169	(39,563)	190,224	-19.7%
– Germany	97	1	(24)	120	(23)	71,885	674	(22,603)	93,814	-23.4%
– Rest of Europe	117	4	(10)	123	(6)	64,352	1,375	(6,429)	69,406	-7.3%
– Asia	55	1	(28)	82	(27)	16,593	120	(10,531)	27,004	-38.6%
Concession counters	79	–	(37)	116	(37)	11,139	57	(3,563)	14,645	-23.9%
– Germany	4	–	(1)	5	(1)	1,829	–	(228)	2,057	-11.1%
– Asia	75	–	(36)	111	(36)	9,310	57	(3,335)	12,588	-26.0%
Outlets	41	3	(16)	54	(13)	24,213	1,345	(6,081)	28,949	-16.4%
– Germany	13	2	(1)	12	1	12,593	815	(469)	12,247	2.8%
– Rest of Europe	9	1	(1)	9	–	5,194	530	(1,000)	5,664	-8.3%
– Asia	19	–	(14)	33	(14)	6,426	–	(4,612)	11,038	-41.8%
Total	389	9	(115)	495	(106)	188,182	3,571	(49,207)	233,818	-19.5%

Wholesale (excl. eshop) revenue by country

Country	For the 6 months ended 31 December							Net change in net sales area [^]
	2019		2018		Revenue change in %			
	HK\$ million	% to Total Revenue	HK\$ million	% to Total Revenue	HK\$	Local currency		
Germany	1,060	54.6%	1,114	52.7%	-4.8%	-0.9%	-9.7%	
Rest of Europe	846	43.6%	943	44.5%	-10.3%	-6.6%	-11.4%	
France	193	9.9%	222	10.5%	-13.2%	-9.5%	-9.3%	
Benelux	146	7.5%	211	10.0%	-30.7%	-27.8%	-24.7%	
Spain	95	4.9%	93	4.4%	2.2%	6.6%	-4.2%	
Austria	75	3.9%	82	3.9%	-8.7%	-4.9%	-7.8%	
Finland	75	3.9%	72	3.4%	3.3%	7.6%	-7.2%	
Switzerland	58	3.0%	54	2.5%	6.9%	7.0%	-4.8%	
Sweden	46	2.4%	52	2.4%	-10.2%	-3.9%	-20.9%	
Italy	53	2.7%	51	2.4%	4.7%	9.2%	-0.7%	
United Kingdom	22	1.1%	29	1.4%	-23.0%	-20.4%	-1.4%	
Denmark	17	0.9%	16	0.8%	5.1%	9.7%	5.4%	
Ireland	2	0.1%	2	0.1%	0.9%	5.4%	–	
Norway	1	0.0%	1	0.0%	-7.4%	0.0%	–	
Others [#]	63	3.2%	58	2.7%	8.8%	13.0%	-7.9%	
Asia	35	1.8%	60	2.8%	-41.5%	-41.4%	-17.8%	
China	3	0.2%	14	0.6%	-75.7%	-75.0%	-61.0%	
Others [@]	32	1.6%	46	2.2%	-31.1%	-31.1%	6.3%	
Total	1,941	100.0%	2,117	100.0%	-8.3%	-4.6%	-10.7%	

[^] Net change since 1 January 2019

[#] Others under Rest of Europe include wholesale (excl. eshop) revenue from other countries mainly Chile, Colombia and Canada

[@] Others under Asia include wholesale (excl. eshop) revenue from other countries mainly Thailand and the Philippines

Wholesale distribution channel by country (controlled space only) – movement since 1 January 2019

As at 31 December 2019																
Country	Franchise stores				Shop-in-stores				Identity corners				Total			
	No. of stores	Net sales area (m ²)	Net change in store number [^]	Net change in net sales area [^]	No. of stores	Net sales area (m ²)	Net change in store number [^]	Net change in net sales area [^]	No. of stores	Net sales area (m ²)	Net change in store number [^]	Net change in net sales area [^]	No. of stores	Net sales area (m ²)	Net change in store number [^]	Net change in net sales area [^]
Germany	192	41,618	(23)	-12.6%	1,877	71,189	(121)	-7.7%	929	20,095	(122)	-10.2%	2,998	132,902	(266)	-9.7%
Rest of Europe	370	67,841	(43)	-12.1%	697	21,451	(54)	-6.2%	637	14,430	(95)	-15.0%	1,704	103,722	(192)	-11.4%
Benelux	59	17,197	(18)	-21.6%	34	1,770	(5)	-12.1%	50	1,437	(65)	-54.1%	143	20,404	(88)	-24.7%
France	108	18,488	(10)	-9.5%	237	5,236	(19)	-7.3%	113	3,329	(22)	-11.5%	458	27,053	(51)	-9.3%
Austria	41	6,370	(6)	-11.3%	98	3,543	(1)	-1.6%	19	505	(1)	-3.3%	158	10,418	(8)	-7.8%
Sweden	5	2,098	(3)	-27.5%	5	290	-	-	23	588	1	1.4%	33	2,976	(2)	-20.9%
Finland	21	4,799	(1)	-5.0%	45	1,785	(2)	-9.8%	92	2,598	(10)	-9.1%	158	9,182	(13)	-7.2%
Switzerland	20	2,955	(1)	-3.7%	39	1,682	(3)	-6.0%	10	226	(1)	-10.0%	69	4,863	(5)	-4.8%
Italy	11	2,007	(1)	-2.3%	29	721	(2)	-6.7%	237	3,479	11	1.6%	277	6,207	8	-0.7%
Spain	26	3,170	-	0.7%	141	4,700	(15)	-5.0%	45	1,178	(5)	-12.4%	212	9,048	(20)	-4.2%
Denmark	6	1,493	1	7.0%	2	28	-	-	8	262	(2)	-2.6%	16	1,783	(1)	5.4%
Norway	1	242	-	n.a.	-	-	-	-	1	15	-	-	2	257	-	-
United Kingdom	2	152	-	-	9	328	-	-	36	785	(1)	-2.2%	47	1,265	(1)	-1.4%
Ireland	-	-	-	-	1	78	-	-	3	28	-	-	4	106	-	-
Others*	70	8,870	(4)	-7.9%	57	1,290	(7)	-8.3%	-	-	-	-	127	10,160	(11)	-7.9%
Asia	91	8,544	(13)	-17.8%	-	-	-	-	-	-	-	-	91	8,544	(13)	-17.8%
China	9	1,457	(16)	-61.0%	-	-	-	-	-	-	-	-	9	1,457	(16)	-61.0%
Thailand	59	4,521	3	20.6%	-	-	-	-	-	-	-	-	59	4,521	3	20.6%
Philippines	16	1,570	1	-9.8%	-	-	-	-	-	-	-	-	16	1,570	1	-9.8%
Others	7	996	(1)	-15.3%	-	-	-	-	-	-	-	-	7	996	(1)	-15.3%
Total	653	118,003	(79)	-12.7%	2,574	92,640	(175)	-7.3%	1,566	34,525	(217)	-12.3%	4,793	245,168	(471)	-10.7%

[^] Net change since 1 January 2019

* Others under Rest of Europe include controlled wholesale point of sales and space in countries outside Europe, mainly Colombia and Chile





03

Financial section

Independent review report

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION TO THE BOARD OF DIRECTORS OF ESPRIT HOLDINGS LIMITED (incorporated in Bermuda with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 29 to 45, which comprises the interim condensed consolidated statement of financial position of Esprit Holdings Limited (the "Company") and its subsidiaries (together "the Group") as at 31 December 2019 and the related interim condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on the The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting". The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".



PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 26 February 2020

INTERIM FINANCIAL INFORMATION

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 2019 as follows:

Condensed consolidated income statement

	Notes	Unaudited for the 6 months ended 31 December	
		2019 HK\$ million	2018 HK\$ million
Revenue	2	5,763	6,766
Cost of goods sold		(2,930)	(3,295)
Gross profit		2,833	3,471
Staff costs		(971)	(1,692)
Depreciation of right-of-use assets		(525)	-
Occupancy costs		(238)	(1,093)
Logistics expenses		(292)	(485)
Marketing and advertising expenses		(293)	(350)
Depreciation of property, plant and equipment		(203)	(238)
Provision for China restructuring	20	(104)	-
Provision for store closures and leases, net		(21)	(924)
Impairment of property, plant and equipment		(2)	(116)
Loss on disposal of investment properties	21	(6)	-
Other operating costs		(506)	(323)
Operating loss (LBIT)	3	(328)	(1,750)
Interest income	4	45	31
Finance costs	5	(51)	(18)
Loss before taxation		(334)	(1,737)
Taxation credit/(charge)	6	3	(36)
Loss attributable to shareholders of the Company		(331)	(1,773)
Loss per share			
- Basic and diluted	8	HK\$(0.18)	HK\$(0.94)

The notes on pages 35 to 45 form an integral part of this condensed consolidated interim financial information.

Condensed consolidated statement of comprehensive income

	Unaudited for the 6 months ended 31 December	
	2019 HK\$ million	2018 HK\$ million
Loss attributable to shareholders of the Company	(331)	(1,773)
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Fair value loss on cash flow hedge, net of tax	(9)	(19)
Exchange translation	(35)	(100)
	(44)	(119)
Total comprehensive income for the period attributable to shareholders of the Company, net of tax	(375)	(1,892)

The notes on pages 35 to 45 form an integral part of this condensed consolidated interim financial information.

Condensed consolidated statement of financial position

	Notes	Unaudited 31 December 2019 HK\$ million	Audited 30 June 2019 HK\$ million
Non-current assets			
Right-of-use assets	9	3,882	-
Intangible assets		2,039	2,050
Property, plant and equipment	10	929	1,128
Investment properties		-	27
Financial assets at fair value through profit or loss		9	12
Debtors, deposits and prepayments	11	116	120
Deferred tax assets		541	559
		7,516	3,896
Current assets			
Inventories		2,103	1,845
Debtors, deposits and prepayments	11	1,412	1,499
Tax receivable		78	80
Cash, bank balances and deposits	12	2,740	3,282
		6,333	6,706
Current liabilities			
Creditors and accrued charges	13	2,531	2,504
Lease liabilities	14	1,168	-
Provision for store closures and leases	15	-	940
Tax payable		156	161
		3,855	3,605
Net current assets			
		2,478	3,101
Total assets less current liabilities			
		9,994	6,997
Equity			
Share capital	16	189	189
Reserves		6,151	6,524
Total equity		6,340	6,713
Non-current liabilities			
Lease liabilities	14	3,357	-
Deferred tax liabilities		266	253
Retirement benefit obligations		31	31
		3,654	284
		9,994	6,997

The notes on pages 35 to 45 form an integral part of this condensed consolidated interim financial information.

Condensed consolidated statement of cash flows

	Unaudited for the 6 months ended 31 December	
	2019 HK\$ million	2018 HK\$ million
Cash flows from operating activities		
Cash generated from/(used in) operations	156	(836)
Interest on lease liabilities paid	(49)	-
Interest on finance lease received	1	-
Hong Kong profits tax paid, net	-	(1)
Overseas tax refunded, net	28	6
Interest relating to overseas tax refund	33	-
Net cash generated from/(used in) operating activities	169	(831)
Cash flows from investing activities		
Purchase of property, plant and equipment	(63)	(77)
Proceeds from disposal of plant and equipment	3	2
Proceeds from disposal of investment properties	21	-
Receipts of finance lease receivables	16	-
Dividend from other investment	-	5
Interest received	11	31
Net decrease in bank deposits with maturities of more than three months	23	226
Net cash generated from investing activities	11	187
Cash flows from financing activities		
Repayment of lease liabilities	(681)	-
Net cash used in financing activities	(681)	-
Net decrease in cash and cash equivalents	(501)	(644)
Cash and cash equivalents at beginning of period	3,171	3,879
Effect of change in exchange rates	(19)	(13)
Cash and cash equivalents at end of period	2,651	3,222
Analysis of balances of cash and cash equivalents		
Bank balances and cash	1,971	2,191
Bank deposits	769	1,444
Cash, bank balances and deposits	2,740	3,635
Less: bank deposits with maturities of more than three months	(89)	(413)
	2,651	3,222

The total cash outflow for leases amounted to **HK\$730 million** and the total cash inflow from finance sub-leases amounted to **HK\$17 million**

The notes on pages 35 to 45 form an integral part of this condensed consolidated interim financial information.

Condensed consolidated statement of changes in equity

Unaudited for the 6 months ended 31 December 2019											
	Share capital	Share premium	Shares held for Share Award Scheme	Employee share-based payment reserve	Hedging reserve	Remeasurements of retirement defined benefit obligations	Contributed surplus	Translation reserve	Capital reserve	Accumulated losses	Total
	HKS million	HKS million	HKS million	HKS million	HKS million	HKS million	HKS million	HKS million	HKS million	HKS million	HKS million
At 30 June 2019	189	7,988	(40)	904	9	(8)	7	(1,049)	1	(1,288)	6,713
Change in accounting policy	-	-	-	-	-	-	-	-	-	-	-
Restated total equity at 1 July 2019	189	7,988	(40)	904	9	(8)	7	(1,049)	1	(1,288)	6,713
Exchange translation	-	-	-	-	-	-	-	(35)	-	-	(35)
Fair value loss on cash flow hedge, net of tax	-	-	-	-	(1)	-	-	-	-	-	(1)
- net fair value loss	-	-	-	-	(10)	-	-	-	-	-	(10)
- transferred to inventories	-	-	-	-	2	-	-	-	-	-	2
- deferred tax effect	-	-	-	-	-	-	-	-	-	-	-
Loss attributable to shareholders of the Company	-	-	-	-	-	-	-	-	-	(331)	(331)
Total comprehensive income, net of tax	-	-	-	-	(9)	-	-	(35)	-	(331)	(375)
Transactions with owners											
Employee share-based compensation benefits	-	-	-	2	-	-	-	-	-	-	2
Vesting of shares for Share Award Scheme (Note 16(b))	-	-	1	(1)	-	-	-	-	-	-	-
Total transactions with owners	-	-	1	1	-	-	-	-	-	-	2
At 31 December 2019	189	7,988	(39)	905	-	(8)	7	(1,084)	1	(1,619)	6,340

The notes on pages 35 to 45 form an integral part of this condensed consolidated interim financial information.

Condensed consolidated statement of changes in equity (continued)

	Unaudited for the 6 months ended 31 December 2018										
	Share capital	Share premium	Shares held for Share Award Scheme	Employee share-based payment reserve	Hedging reserve	Remeasurements of retirement defined benefit obligations	Contributed surplus	Translation reserve	Capital reserve	Retained profits/ (accumulated losses)	Total
	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million
At 30 June 2018	189	7,988	(47)	916	49	(4)	7	(919)	1	846	9,026
Change in accounting policy	-	-	-	-	-	-	-	-	-	10	10
Restated total equity at 1 July 2018	189	7,988	(47)	916	49	(4)	7	(919)	1	856	9,036
Exchange translation	-	-	-	-	-	-	-	(100)	-	-	(100)
Fair value loss on cash flow hedge, net of tax											
- net fair value gain	-	-	-	-	54	-	-	-	-	-	54
- transferred to inventories	-	-	-	-	(81)	-	-	-	-	-	(81)
- deferred tax effect	-	-	-	-	8	-	-	-	-	-	8
Loss attributable to shareholders of the Company	-	-	-	-	-	-	-	-	-	(1,773)	(1,773)
Total comprehensive income, net of tax	-	-	-	-	(19)	-	-	(100)	-	(1,773)	(1,892)
Transactions with owners											
Employee share-based compensation benefits	-	-	-	(8)	-	-	-	-	-	-	(8)
Vesting of shares for Share Award Scheme (Note 16(b))	-	-	7	(7)	-	-	-	-	-	-	-
Total transactions with owners	-	-	7	(15)	-	-	-	-	-	-	(8)
At 31 December 2018	189	7,988	(40)	901	30	(4)	7	(1,019)	1	(917)	7,136

The notes on pages 35 to 45 form an integral part of this condensed consolidated interim financial information.

Notes to the condensed consolidated interim financial information

1. Basis of preparation

This unaudited condensed consolidated interim financial information ("interim financial information") on pages 29 to 45 for the six months ended 31 December 2019 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 2019. 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 2019.

In the current period, the Group has adopted the following IAS and International Financial Reporting Standards ("IFRS") effective for the Group's financial year beginning 1 July 2019:

IAS 19 (Amendments)	Plan Amendment, Curtailment or Settlement
IAS 28 (Amendments)	Long-term Interests in Associates and Joint Ventures
IFRS 23	Uncertainty over Income Tax Treatments
IFRS 9 (Amendments)	Prepayment Features with Negative Compensation
IFRS 16	Leases
IFRSs (Amendments)	Annual Improvements to IFRSs 2015-2017 Cycle

Apart from IFRS 16, the adoption of the other newly effective standard and the amendments to an existing standard did not result in substantial changes to the Group's accounting policies or financial results. The following describes the key changes arising from the adoption of the IFRS 16 that impact the consolidated financial statements of the Group.

IFRS 16 "Leases"

The Group leases retail stores, offices, warehouse and logistic facilities, motor vehicles and office equipment for its operations. The Group has applied IFRS 16 "Leases" from 1 July 2019. It elected to apply the modified retrospective approach as permitted under the transitional provision of the IFRS 16 and not to restate the comparatives for prior years. The reclassifications and the adjustments are therefore not reflected in the condensed consolidated statement of financial position as at 30 June 2019, but are recognized in the opening condensed consolidated statement of financial position on 1 July 2019.

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosures of leases. The new standard introduces significant changes to the lessee accounting by removing the distinction between operating and finance leases. It requires the recognition of a right-of-use asset (the right to use the leased item) and a financial liability to pay rentals for accounting of leases as a lessee. The only exemptions are for short-term and low-value leases.

After initial recognition of the right-of-use asset and lease liability, the lessee recognizes the depreciation of the right-of-use assets on a straight-line basis over the shorter of the estimated useful life or the lease term and interest expense accrued on the outstanding balance of the lease liability upon the passage of time. The accounting for lessors has not significantly changed. For sublease as an intermediate lessor, the classification of operating and finance lease is determined based on the right-of-use asset arising from the head lease, not with reference to the underlying asset.

Fixed lease expenses in the consolidated income statement are replaced by depreciation and interest expenses. Adoption of IFRS 16 has effects to the financial performance of the Group by increasing EBITDA and EBIT, while, when comparing to IAS 17, higher expenses will be incurred in the early years of lease terms, diminishing over the lease terms and will result lower expenses in the later part of the lease terms. But nonetheless, adopting IFRS 16 has no impact on the Group's cash flows except to present part of the cash outflows as financing instead of operating.

Initial adoption of IFRS 16

For the adoption of IFRS 16, management have reviewed and identified all contracts which contain leases. The Group has applied the changed lease accounting for all leases with no exemptions for short-term and low value leases.

Upon initial adoption, lease liabilities were measured and recognized at the present value of the remaining lease payments, discounted using the lessees' incremental borrowing rates as of 1 July 2019 less prepaid rents. Right-of-use assets were measured and recognized at the initial measurement of the lease liabilities less impairment together with the restoration costs. The Group has applied the transitional provisions of IFRS 16 to:

- exclude the initial direct costs for the initial measurement of the right-of-use asset at the date of initial application
- use a single discount rate to a portfolio of leases with reasonably similar characteristics
- rely on previous assessments on whether leases are onerous

For sublease classified as a finance lease, finance lease receivable was measured and recognized at the present value of the remaining lease receivables.

Lease liabilities and finance lease receivables are classified as non-current liabilities and assets unless payments are within 12 months from the date of the consolidated statement of financial position.

1. Basis of preparation (continued)

Effect on adoption of IFRS 16

The table below shows the adjustments recognized in the opening balances of each individual financial statement line item affected.

Condensed consolidated statement of financial position (extract)

	Impact on initial		
	30 June 2019	adoption of IFRS 16	1 July 2019
	HK\$ million	HK\$ million	HK\$ million
	(as previously reported)		(restated)
Non-current assets			
Right-of-use assets	-	4,304	4,304
Property, plant and equipment	1,128	(8)	1,120
Debtors, deposits and prepayments	120	27	147
Current assets			
Debtors, deposits and prepayments	1,499	18	1,517
Current liabilities			
Creditors and accrued charges	2,504	177	2,681
Provision for store closures and leases	940	(940)	-
Lease liabilities	-	1,249	1,249
Non-current liabilities			
Lease liabilities	-	3,854	3,854
Equity			
Reserves	6,524	-	6,524

Reconciliation from lease commitments to lease liabilities

Set out below is a reconciliation of the operating lease commitments disclosed at 30 June 2019 to lease liabilities recognized on 1 July 2019:

	At 1 July 2019
	HK\$ million
Opening lease commitments disclosed at 30 June 2019	5,578
Discounted using the Group's weighted average incremental borrowing rate of 2.1%	5,233
Add: Lease components of service contracts not included in operating lease commitments	8
Less: Non-lease components included under operating lease commitments	(129)
Prepaid rent and others	(9)
Lease liabilities recognized at 1 July 2019	5,103
Comprising	
Current lease liabilities	1,249
Non-current lease liabilities	3,854
	5,103

The Group has applied IFRS 16 without restating comparative information. The table below shows the effect of adoption of IFRS 16 on the results of the six months ended 31 December 2019 as compared to IAS 17.

Condensed consolidated income statement

	Before adoption of IFRS 16	Effect of adoption of IFRS 16	As reported
	HK\$ million	HK\$ million	HK\$ million
Revenue	5,763	-	5,763
Cost of goods sold	(2,930)	-	(2,930)
Gross profit	2,833	-	2,833
Staff costs	(971)	-	(971)
Depreciation of right-of-use assets	-	(525)	(525)
Occupancy costs	(898)	660	(238)
Logistics expenses	(324)	32	(292)
Marketing and advertising expenses	(293)	-	(293)
Depreciation of property, plant and equipment	(204)	1	(203)
Provision for China restructuring	(104)	-	(104)
Provision for store closures and leases, net	(21)	-	(21)
Impairment of property, plant and equipment	(2)	-	(2)
Loss on disposal of investment properties	(6)	-	(6)
Other operating costs	(367)	(139)	(506)
Operating loss (LBIT)	(357)	29	(328)
Interest income	44	1	45
Finance costs	(2)	(49)	(51)
Loss before taxation	(315)	(19)	(334)
Taxation credit	3	-	3
Loss attributable to shareholders of the Company	(312)	(19)	(331)
Loss per share			
- Basic and diluted	HK\$(0.17)	HK\$(0.01)	HK\$(0.18)

1. Basis of preparation (continued)

The Group has not early adopted the following IASs and IFRSs that have been issued but are not yet effective.

		Effective for accounting periods beginning on or after
IAS 1 and IAS 8 (Amendments)	Definition of Material	1 January 2020
IFRS 3 (Amendments)	Definition of a Business	1 January 2020
IFRS 10 and IAS 28 (Amendments)	Sales or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined
IFRS 17	Insurance Contracts	1 January 2021

2. Revenue and segment information

The Group is principally engaged in retail and wholesale distribution and licensing of quality fashion and non-apparel products designed under its own internationally-known Esprit brand name in Germany, Rest of Europe*, Asia and via eshop platforms.

	Unaudited for the 6 months ended 31 December	
	2019 HK\$ million	2018 HK\$ million
Revenue from external customers		
Germany	2,050	2,332
Rest of Europe	1,696	1,899
Asia	356	627
eshop	1,606	1,851
Licensing and others	55	57
	5,763	6,766

Operating segments are reported in a manner consistent with the internal management reports provided to the chief operating decision-maker. The chief operating decision-maker who is responsible for assessing performance and allocating resources for the reporting segments has been identified as the Executive Directors of the Group. The Group has been undergoing transformation in the past few years that the management and reporting structures have been reorganized. Currently, the chief operating decision-maker determines that the operating segments are Germany, Rest of Europe, Asia and global eshop which are consistent with the latest management organization and reporting structures. Corporate services, sourcing and licensing activities are also determined as a separate operating segment. In addition, within the regions, the chief operating decision-maker also reviews the business in the retail and wholesale channel perspective which are also operating segments. The eshops in Germany, Rest of Europe and Asia are aggregated into one reporting segment under global eshop.

Inter-segment transactions are entered into under the normal commercial terms and conditions that would also be available to unrelated third parties.

* The Rest of Europe region includes our business in America.

2. Revenue and segment information (continued)

Unaudited for the 6 months ended 31 December 2019						
	Germany HK\$ million	Rest of Europe HK\$ million	Asia HK\$ million	eshop HK\$ million	Corporate services, sourcing, licensing and others HK\$ million	Group HK\$ million
Total revenue						
Retail	990	850	321	1,606	-	3,767
Wholesale	1,060	846	35	-	-	1,941
Licensing and others	-	-	-	-	2,999	2,999
Total	2,050	1,696	356	1,606	2,999	8,707
Inter-segment revenue	-	-	-	-	(2,944)	(2,944)
Revenue from external customers						
Retail	990	850	321	1,606	-	3,767
Wholesale	1,060	846	35	-	-	1,941
Licensing and others	-	-	-	-	55	55
Total	2,050	1,696	356	1,606	55	5,763
Segment results						
Retail	(47)	(10)	(118)	260	(3)	82
Wholesale	195	49	(1)	-	9	252
Licensing and others	-	-	-	-	(662)	(662)
EBIT/(LBIT) of the Group	148	39	(119)	260	(656)	(328)
Interest income						45
Finance costs						(51)
Loss before taxation						(334)
Provision for China restructuring						
Retail	-	-	(34)	(3)	-	(37)
Wholesale	-	-	(1)	-	-	(1)
Licensing and others	-	-	-	-	(66)	(66)
Total	-	-	(35)	(3)	(66)	(104)
Provision for store closures and leases, net						
Retail	(21)	-	-	-	-	(21)
One-off costs in relation to staff reduction plans						
Retail	(2)	-	-	-	(1)	(3)
Wholesale	1	(1)	-	-	-	-
Licensing and others	-	-	-	-	(2)	(2)
Total	(1)	(1)	-	-	(3)	(5)
Impairment of property, plant and equipment						
Licensing and others	-	-	-	-	(2)	(2)
Loss on disposal of investment properties						
Licensing and others	-	-	-	-	(6)	(6)
Depreciation						
Retail	(15)	(23)	(8)	(7)	-	(53)
Wholesale	(2)	(4)	-	-	(1)	(7)
Licensing and others	-	-	-	-	(143)	(143)
Total	(17)	(27)	(8)	(7)	(144)	(203)
Capital expenditure						
Retail	7	17	3	1	-	28
Wholesale	1	2	-	-	-	3
Licensing and others	-	-	7	-	25	32
Total	8	19	10	1	25	63

2. Revenue and segment information (continued)

Unaudited for the 6 months ended 31 December 2018						
	Germany HK\$ million	Rest of Europe HK\$ million	Asia HK\$ million	eshop HK\$ million	Corporate services, sourcing, licensing and others HK\$ million	Group HK\$ million
Total revenue						
Retail	1,218	956	567	1,851	-	4,592
Wholesale	1,114	943	60	-	-	2,117
Licensing and others	-	-	-	-	3,128	3,128
Total	2,332	1,899	627	1,851	3,128	9,837
Inter-segment revenue	-	-	-	-	(3,071)	(3,071)
Revenue from external customers						
Retail	1,218	956	567	1,851	-	4,592
Wholesale	1,114	943	60	-	-	2,117
Licensing and others	-	-	-	-	57	57
Total	2,332	1,899	627	1,851	57	6,766
Segment results						
Retail	(860)	(381)	(54)	261	12	(1,022)
Wholesale	245	74	9	-	8	336
Licensing and others	-	-	-	-	(1,064)	(1,064)
(LBIT)/EBIT of the Group	(615)	(307)	(45)	261	(1,044)	(1,750)
Interest income						31
Finance costs						(18)
Loss before taxation						(1,737)
Provision for store closures and leases, net						
Retail	(667)	(221)	(36)	-	-	(924)
One-off costs in relation to staff reduction plans						
Retail	(7)	(37)	(1)	(6)	-	(51)
Wholesale	(1)	(4)	(1)	-	-	(6)
Licensing and others	-	-	-	-	(344)	(344)
Total	(8)	(41)	(2)	(6)	(344)	(401)
Impairment of property, plant and equipment						
Retail	(69)	(41)	(6)	-	-	(116)
Write back of one-off costs in relation to closure of ANZ operations						
Retail	-	-	21	-	-	21
Licensing and others	-	-	-	-	2	2
Total	-	-	21	-	2	23
Depreciation						
Retail	(20)	(29)	(12)	-	(15)	(76)
Wholesale	(5)	(5)	(1)	-	-	(11)
Licensing and others	-	-	-	-	(151)	(151)
Total	(25)	(34)	(13)	-	(166)	(238)
Capital expenditure						
Retail	9	16	8	8	5	46
Wholesale	5	1	1	-	1	8
Licensing and others	-	-	-	-	23	23
Total	14	17	9	8	29	77

3. Operating loss (LBIT)

	Unaudited for the 6 months ended 31 December	
	2019 HK\$ million	2018 HK\$ million
LBIT is arrived at after charging and (crediting) the following:		
Staff costs (Note)	971	1,692
Depreciation of right-of-use assets	525	-
Occupancy costs		
- fixed rents	-	785
- variable rents	42	62
- other occupancy costs	196	246
Depreciation of property, plant and equipment	203	238
Provision for China restructuring (Note 20)	104	-
Provision for store closures and leases, net (Note)	21	924
Impairment of property, plant and equipment (Note)	2	116
Loss on disposal of plant and equipment	4	2
Loss on disposal of investment properties	6	-
Net exchange losses	29	10
Write-back of provision for obsolete inventories, net	(50)	(13)
Additional provision for/(write-back of) impairment of trade debtors, net	12	(3)

Note: During the six months ended 31 December 2019, the Group recognized one-off costs in relation to staff reduction plans of **HK\$5 million** which was grouped under staff costs, impairment of property, plant and equipment of **HK\$2 million** and store staff reduction and closures costs of **HK\$21 million** in connection with the restructuring plan initiated in the financial year 2018/19. The restructuring plan was i) to reduce complexity and improve accountability in the Group by becoming a leaner organization and ii) eliminate loss-making parts of the business to build a stronger foundation for the future. During the six months ended 31 December 2018, the Group recognized one-off costs in relation to staff reduction plans of HK\$401 million, a net additional provision for store closures and onerous leases of HK\$924 million and an impairment of property, plant and equipment of HK\$116 million. Upon initial adoption of IFRS 16, lease components of the provision for store closures and leases was considered as the impairment of the right-of-use assets.

4. Interest income

	Unaudited for the 6 months ended 31 December	
	2019 HK\$ million	2018 HK\$ million
Interest in connection with overseas taxation refunds	33	-
Interest from bank deposits	11	28
Imputed interest on finance lease receivables	1	-
Others	-	3
	45	31

5. Finance costs

	Unaudited for the 6 months ended 31 December	
	2019 HK\$ million	2018 HK\$ million
Interest on lease liabilities	49	-
Imputed interest on financial assets and financial liabilities	2	18
	51	18

6. Taxation

	Unaudited for the 6 months ended 31 December	
	2019 HK\$ million	2018 HK\$ million
Current tax		
Hong Kong profits tax		
Provision for current period	-	1
Overseas taxation		
Provision for current period	23	24
Over-provision for prior years	(52)	-
	(29)	25
Deferred tax		
Current period net charge	26	11
Taxation (credit)/charge	(3)	36

Hong Kong profits tax is calculated at **16.5%** (2018: 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.

In June 2014, a subsidiary of the Group in Germany received a letter from the tax authority in relation to a dispute on a value-added-tax ("VAT") matter involving payment of interests totaling approximately HK\$780 million, to which the subsidiary had lodged objection. Based on the advice from the Group's tax advisor, the Board of Directors considers that the payment of interests is unlikely, and therefore no additional provision has been made.

As a result of a change in tax regulation in Germany, the German tax authority re-assessed one of the Group's German subsidiaries' tax position and refunded corporate income tax of approximately **HK\$52 million** paid in prior years.

7. Interim dividend

The Board of Directors has resolved not to declare an interim dividend for the six months ended 31 December 2019 (2018: Nil).

8. Loss per share

Basic

Basic loss per share is calculated by dividing the loss attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the period less shares held for Share Award Scheme.

	Unaudited for the 6 months ended 31 December	
	2019 HK\$ million	2018 HK\$ million
Loss attributable to shareholders of the Company (HK\$ million)	(331)	(1,773)
Number of ordinary shares in issue at 1 July (million)	1,887	1,887
Adjustment for shares held for Share Award Scheme (million)	(8)	(8)
Weighted average number of ordinary shares in issue less shares held for Share Award Scheme (million)	1,879	1,879
Basic loss per share (HK\$ per share)	(0.18)	(0.94)

Diluted

Diluted loss per share is calculated based on dividing the loss attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the period (less shares held for Share Award Scheme) adjusted by the dilutive effect of share options and awarded shares.

	Unaudited for the 6 months ended 31 December	
	2019	2018
Loss attributable to shareholders of the Company (HK\$ million)	(331)	(1,773)
Weighted average number of ordinary shares in issue less shares held for Share Award Scheme (million)	1,879	1,879
Adjustments for share options and awarded shares (million)	-	-
Weighted average number of ordinary shares for diluted earnings per share (million)	1,879	1,879
Diluted loss per share (HK\$ per share)	(0.18)	(0.94)

Diluted loss per share for the six months ended 31 December 2019 was the same as the basic loss per share since the share options and awarded shares had anti-dilutive effect.

9. Right-of-use assets

	Unaudited for the 6 months ended 31 December 2019 HK\$ million
Initial adoption of IFRS 16 on 1 July	4,304
Exchange translation	(68)
Additions	294
Disposals	(106)
Depreciation (Note 3)	(525)
Impairment charge	(17)
At 31 December	3,882

Upon initial adoption of IFRS 16, right-of-use assets were measured and recognized as the initial lease liabilities less impairment together with the restoration costs.

10. Property, plant and equipment

	Unaudited for the 6 months ended 31 December	
	2019 HK\$ million	2018 HK\$ million
At 1 July	1,128	1,571
Change in accounting policy	(8)	-
Restated at 1 July	1,120	1,571
Exchange translation	(19)	(20)
Additions	63	77
Disposals	(7)	(4)
Depreciation (Note 3)	(203)	(238)
Impairment charge	(25)	(116)
At 31 December	929	1,270

11. Debtors, deposits and prepayments

	Unaudited 31 December 2019 HK\$ million	Audited 30 June 2019 HK\$ million
Trade debtors	1,193	1,205
Less: provision for impairment of trade debtors	(174)	(179)
	1,019	1,026
Deposits	72	92
Prepayments	187	164
Finance lease receivables	79	-
Right of return assets	78	88
Other debtors and receivables	93	249
	1,528	1,619
Non-current portion of deposits	(58)	(68)
Non-current portion of finance lease receivables	(47)	-
Non-current portion of other debtors and receivables	(9)	(14)
Non-current portion of prepayments	(2)	(38)
Current portion	1,412	1,499

11. Debtors, deposits and prepayments (continued)

The aging analysis by invoice date of trade debtors net of provision for impairment is as follows:

	Unaudited 31 December 2019 HK\$ million	Audited 30 June 2019 HK\$ million
0-30 days	657	725
31-60 days	165	113
61-90 days	74	74
Over 90 days	123	114
	1,019	1,026

As of 31 December 2019, trade debtors net of provision for impairment of **HK\$307 million** (30 June 2019: HK\$232 million) were past due but not impaired. The aging analysis of these trade debtors is as follows:

	Unaudited 31 December 2019 HK\$ million	Audited 30 June 2019 HK\$ million
1-30 days	217	167
31-60 days	41	16
61-90 days	3	4
Over 90 days	46	45
Amount past due but not impaired	307	232

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.

12. Cash, bank balances and deposits

	Unaudited 31 December 2019 HK\$ million	Audited 30 June 2019 HK\$ million
Bank balances and cash	1,971	2,438
Bank deposits with maturities within three months	680	733
Bank deposits with maturities of more than three months	89	111
	2,740	3,282

13. Creditors and accrued charges

	Unaudited 31 December 2019 HK\$ million	Audited 30 June 2019 HK\$ million
Trade creditors	566	425
Accruals	1,306	1,267
Return liabilities	177	202
Other creditors and payables	482	610
	2,531	2,504

The aging analysis by invoice date of trade creditors is as follows:

	Unaudited 31 December 2019 HK\$ million	Audited 30 June 2019 HK\$ million
0-30 days	344	335
31-60 days	158	54
61-90 days	36	27
Over 90 days	28	9
	566	425

14. Lease liabilities

	Unaudited for the 6 months ended 31 December 2019 HK\$ million
Initial adoption of IFRS 16 on 1 July	5,103
Exchange translation	(56)
Additions	239
Interest arising from the passage of time	49
Repayments	(730)
De-recognition	(80)
At 31 December	4,525
Current liabilities	1,168
Non-current liabilities	3,357
	4,525

Upon initial adoption of IFRS 16, lease liabilities were measured and recognized as the present value of the minimum lease payments less prepaid rents.

15. Provision for store closures and leases

Upon initial adoption of IFRS 16, lease components of the provision for store closures and leases was considered as impairment of the right-of-use assets and non-lease components was grouped under accrued charges as at 1 July 2019.

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

	Unaudited for the 6 months ended 31 December	
	2019 HK\$ million	2018 HK\$ million
At 1 July	-	397
Provision for store closures and leases, net	-	924
Amounts used during the period	-	(96)
Exchange translation	-	6
At 31 December	-	1,231

During the six months ended 31 December 2018, the Group recognized unwinding of discount totaling HK\$17 million which was recognized under amounts used during the period.

The provision for store closures and leases was made in connection with the store closures and provision for onerous leases for loss-making stores.

16. Share capital

	Number of shares of HK\$0.10 each million		Unaudited HK\$ million
Authorized:			
At 1 July 2019 and 31 December 2019	3,000		300

	Number of shares of HK\$0.10 each million		Unaudited HK\$ million
Issued and fully paid:			
At 1 July 2019 and 31 December 2019	1,887		189
At 1 July 2018 and 31 December 2018	1,887		189

Notes:

(a) Share options

The Company adopted a share option scheme on 10 December 2009 (the "2009 Share Option Scheme"). The 2009 Share Option Scheme was terminated on 5 December 2018, notwithstanding that the share options which have been granted and remained outstanding shall continue to be valid and exercisable subject to and in accordance with the terms on which the share options were granted, the provisions of the 2009 Share Option Scheme and the Listing Rules.

The Company adopted a new share option scheme on 5 December 2018 (the "2018 Share Option Scheme").

(b) Awarded shares

The Board of Directors has adopted the Employees' Share Award Scheme (the "Share Award Scheme") on 17 March 2016. The purpose of the Share Award Scheme is to incentivize and retain selected senior management of the Group.

Pursuant to the rules relating to the Share Award Scheme (the "Scheme Rules"), the Board of Directors shall select any employees of the Group, including Executive Directors of the Company (the "Selected Employees") for participation in the Share Award Scheme and determine the awarded sums or the number of awarded shares. The Company has appointed an independent trustee for the administration of the Share Award Scheme. The trustee shall purchase the relevant number of shares from the market out of the Company's funds paid or to be paid to the trustee. The trustee shall hold such shares on trust for the relevant Selected Employees until they are vested and delivered in accordance with the Scheme Rules and the conditions of the award of such awarded shares (if any).

Details of the awarded shares movement during the period and outstanding awarded shares as at 31 December 2019 under the Share Award Scheme are as follows:

	Number of awarded shares	
	2019	2018
At 1 July	2,868,100	9,004,458
Vested during the period (Note (i))	(95,270)	(1,090,599)
Lapsed during the period	(677,560)	(4,181,594)
At 31 December	2,095,270	3,732,265

Notes:

- (i) During the six months ended 31 December 2019, a total of **95,270 shares** (2018: 1,090,599 shares) of the Company were transferred to relevant Selected Employees upon vesting. The total cost of the vested shares was **HK\$1 million** (including expenses) (2018: HK\$7 million). During the period, **HK\$0.2 million** (2018: HK\$0.1 million) was debited to retain earnings in respect of vesting of shares whose fair values were lower than the costs.

During the six months ended 31 December 2019, the trustee has not purchased any shares (2018: Nil shares) of the Company on the Stock Exchange. No payment has been made to the trustee to purchase any shares (2018: HK\$Nil).

17. Operating lease commitments

Since 1 July 2019, the Group has recognized lease liabilities for all leases, including short-term and low value leases according to IFRS 16. The total lease liabilities as at 31 December 2019 amounted to **HK\$4,525 million** (Note 14). The Group has accounted for subleases as finance leases as lessor and recognized finance lease receivables totaling **HK\$79 million** as at 31 December 2019 (Note 11).

The total future minimum lease payments under non-cancelable operating leases as at 30 June 2019 are as follows:

	Unaudited 31 December 2019 HK\$ million	Audited 30 June 2019 HK\$ million
	Land and buildings	
– within one year	–	1,423
– in the second to fifth year inclusive	–	3,239
– after the fifth year	–	906
	–	5,568
Other equipment		
– within one year	–	5
– in the second to fifth year inclusive	–	5
	–	10
	–	5,578

The operating lease rentals of certain retail outlets are based on the higher of a minimum guaranteed rental or a sales level based rental. The minimum guaranteed rental was used to arrive at the above commitments.

The total future minimum lease receipts under non-cancelable subleases in respect of land and buildings at 30 June 2019 was HK\$117 million.

18. Capital commitments

	Unaudited 31 December 2019 HK\$ million	Audited 30 June 2019 HK\$ million
	Property, plant and equipment	
– Contracted but not provided for	28	31

19. Derivative financial instruments

The Group enters into forward foreign exchange contracts in the management of its exchange rate exposures. The instruments purchased are primarily denominated in the currencies of the Group's principal markets.

At 31 December 2019, there was no outstanding forward foreign exchange contracts. The fair values of the forward foreign exchange contracts included in other receivables and other payables as at 30 June 2019 are as follows:

	Unaudited 31 December 2019		Audited 30 June 2019	
	Assets HK\$ million	Liabilities HK\$ million	Assets HK\$ million	Liabilities HK\$ million
Forward foreign exchange contracts				
– Cash flow hedges	–	–	7	–

The fair values of the forward foreign exchange contracts have been determined by using observable forward exchange rates from market for equivalent instruments at the date of the statement of financial position.

The following table presents the carrying value of derivative financial instruments measured at fair value according to the levels of the fair value hierarchy defined in IFRS 13 "Fair Value Measurement", with the fair value of each asset and liability categorized based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

19. Derivative financial instruments (continued)

	Audited At 30 June 2019			Total HK\$ million
	Level 1 HK\$ million	Level 2 HK\$ million	Level 3 HK\$ million	
Recurring fair value measurements:				
Assets				
Derivative financial instruments:				
– Forward foreign exchange contracts	-	7	-	7

During the six months ended 31 December 2019 and 2018, there were no transfers between Level 1 and Level 2.

The Group's policy is to recognize transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

At the date of the statement of financial position, the total notional amount of outstanding forward foreign exchange contracts to which the Group has committed is as follows:

	Unaudited 31 December 2019 HK\$ million	Audited 30 June 2019 HK\$ million
Forward foreign exchange contracts	-	173

20. China Joint Venture

On 5 December 2019, the Group entered into a joint venture agreement with Mulsanne Group Holdings Limited ("MGH") to establish a joint venture company in the People's Republic of China for the purpose of engaging in operating apparel, apparel accessory and such other business as the joint venture parties may agree for the Esprit brand in China. MGH and the Group will contribute RMB60 million and RMB40 million to the registered capital of the joint venture company, and will hold 60% and 40% of the equity interest in the joint venture company, respectively. Subject to the terms of the joint venture agreement, the Group will enter into a trademark license and transfer agreement to transfer certain trademarks to the joint venture company for the joint venture company's business development. As at 31 December 2019, the joint venture company was not yet formed.

The Group is in the process of restructuring the organization and operations of the current China business. The Group has recognized costs of restructuring totaling **HK\$104 million** for the six months ended 31 December 2019, comprising staff reduction costs of **HK\$55 million**, impairment of plant and equipment of **HK\$23 million**, impairment of right-of-use assets of **HK\$17 million**, inventory provision of **HK\$6 million** and others of **HK\$3 million**.

21. Disposal of investment properties

During the six months ended 31 December 2019, the Group sold all its investment properties in China to several independent third parties at a total consideration of **HK\$21 million**. The loss on disposal of the investment properties, after deducting related expenses incurred for disposal, amounted to **HK\$6 million** and was recognized in the consolidated income statement for the period ended 31 December 2019. Total consideration amount of **HK\$21 million** were received in cash during the six months ended 31 December 2019.



A young man with short brown hair is standing against a clear, bright blue sky. He is wearing a dark navy blue bomber jacket with a ribbed collar, cuffs, and hem. Underneath, he wears a dark blue t-shirt with a colorful, intricate geometric pattern in red, white, and black. He is also wearing light blue denim jeans. The lighting is bright and even, suggesting an outdoor setting.

04

Other information

04 Other information

Directors' profile

Executive Directors

Dr Raymond OR Ching Fai, aged 70, is Executive Chairman of the Board and Executive Director of the Company. He was appointed as Independent Non-executive Director of the Company in March 1996 and became Independent Non-executive Chairman of the Board since June 2012 until his re-designation as Executive Chairman and Executive Director effective 1 April 2018. He is also the chairman of the Nomination Committee and a member of the General Committee of the Board, a director of certain subsidiaries, and a trustee of a charitable trust of the Company.

Dr OR was conferred an Honorary Doctor of Social Science by the City University of Hong Kong in November 2014. He is a non-executive director and non-executive chairman of China Strategic Holdings Limited, of which he was the former chief executive officer until he stepped down on 18 January 2018 and was executive director and executive chairman until his re-designation on 1 April 2018. He is also an independent non-executive director of Chow Tai Fook Jewellery Group Limited and Regina Miracle International (Holdings) Limited. Both companies are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Dr OR was the former vice chairman and chief executive of Hang Seng Bank Limited, the former chairman of Hang Seng Life Limited and a director of The Hongkong and Shanghai Banking Corporation Limited, Cathay Pacific Airways Limited and Hutchison Whampoa Limited until his retirement in May 2009. He was also the former vice chairman and independent non-executive director of G-Resources Group Limited, the former independent non-executive director of Industrial and Commercial Bank of China Limited and Television Broadcasts Limited, and the former deputy chairman and non-executive director of Aquis Entertainment Limited (a company listed on the Australian Securities Exchange).

Mr Anders Christian KRISTIANSEN, aged 53, has been appointed as an Executive Director of the Company and Group Chief Executive Officer since June 2018. He is a member of the Remuneration Committee and the General Committee of the Board, a director of certain subsidiaries, and a trustee of a charitable trust of the Company. Prior to joining Esprit, he was an industrial advisor for a global private equity fund, Permira. He was previously the chief executive officer and director of New Look, a global fast fashion apparel company based in London, from January 2013 to September 2017. Under his leadership, New Look transformed its business model from a traditional high street retailer to a strong omnichannel player, with an enhanced focus on brand building. Mr KRISTIANSEN was instrumental to the successful execution of a 5-year strategic plan. Prior to this role, he has held various senior executive roles in the Bestseller Fashion Group China, Staples Inc. in China, and in Lyreco, an office supplies company, where he managed the business in Europe and then in Asia Pacific.

Dr Johannes Georg SCHMIDT-SCHULTES, aged 54, has been appointed as an Executive Director of the Company and Group Chief Financial Officer since October 2019. He is a member of the Risk Management Committee and the General Committee of the Board, and a director of certain subsidiaries of the Company. Dr SCHMIDT-SCHULTES obtained his PhD in Finance from Ludwig Maximilians University in Munich, Germany, and is an internationally experienced, fully-rounded finance executive. Dr SCHMIDT-SCHULTES has most recently served as chief financial officer and executive director of BMI Group Holdings UK Limited. He was the former chief financial officer and executive director of Apleona Group GmbH in 2017 and of Semperit AG Holding (a company listed on the Vienna Stock Exchange) from 2011 to 2017. He was the former deputy group chief financial officer of Telstra Corporation Limited (a company listed on the Australian Securities Exchange) from 2007 to 2011. Prior to this role, Dr SCHMIDT-SCHULTES was the finance director and executive director of T-Mobile (UK) Limited (2004 - 2007) and T-Mobile Austria GmbH (2001 - 2004).

Non-executive Directors

Mr Jürgen Alfred Rudolf FRIEDRICH, aged 81, founded Esprit's European operations in 1976 and has been a Non-executive Director of the Company since 1997. He is a member of the Audit Committee of the Board. Mr FRIEDRICH has over 32 years of experience in the apparel distribution and marketing business and is currently retired in Switzerland.

Mr Carmelo LEE Ka Sze, aged 59, has been an Independent Non-executive Director of the Company since July 2013. He is the chairman of the Risk Management Committee and a member of the Nomination Committee and the Remuneration Committee of the Board, and a trustee of a charitable trust of the Company. He is a partner of Messrs. Woo Kwan Lee & Lo, Solicitors & Notaries. He is appointed as a chairman of the Listing Review Committee of the Stock Exchange with effect from 5 July 2019. He is a convener and member of the Financial Reporting Review Panel of the Financial Reporting Council of Hong Kong, a Chairman of the Appeal Tribunal Panel constituted under the Buildings Ordinance, a member of the InnoHK Steering Committee, a member of the Campaign Committee and a Co-Chairman of the Corporate Challenge Half Marathon of The Community Chest of Hong Kong. He served as the chairman of the Listing Committee of the Stock Exchange from 2012 to 2015 after serving as deputy chairman and member of the Listing Committee of the Stock Exchange from 2009 to 2012 and from 2000 to 2003 respectively. Mr LEE was a member of the SFC (HKEC Listing) Committee until 1 April 2018.

Mr LEE obtained a Bachelor of Laws degree and Postgraduate Certificate in Laws from The University of Hong Kong and qualified as a solicitor in Hong Kong, England and Wales, Singapore and Australian Capital Territory, Australia.

Mr LEE is a non-executive director of CSPC Pharmaceutical Group Limited, Safety Godown Company Limited and Playmates Holdings Limited and an independent non-executive director of KWG Group Holdings Limited (formerly known as KWG Property Holding Limited) and China Pacific Insurance (Group) Co., Ltd., all these companies are listed on the Stock Exchange. He was a non-executive director of Hopewell Holdings Limited until May 2019, Yugang International Limited (now known as Planetree International Development Limited) until April 2019 and Termbray Industries International (Holdings) Limited until September 2019.

Directors' profile (Continued)

Non-executive Directors (Continued)

Ms Sandrine Suzanne Eleonore Agar ZERBIB, aged 58, has been appointed as an Independent Non-executive Director of the Company since October 2019. She is a member of the Audit Committee, the Remuneration Committee and the Risk Management Committee of the Board. She is the founder and chairman of Full Jet Management Consulting (Shanghai) Co., Ltd., a Shanghai based and China focused brand management and digital agency specializing in digital brand strategy, e-commerce operations and 360 degree marketing. She is a member of the advisory board of Pictet Premium Brands Fund and the China board of Infront Sports & Media AG. She is also a director of Allure Systems, a start-up providing fashion companies with a solution for virtualized apparel enabling virtual try-on.

Ms ZERBIB was the former non-executive chairman of Lacoste China and former executive director and chief executive officer of China Dongxiang (Group) Co., Ltd. (a company listed on the Stock Exchange). She was the managing director of adidas China from 1994 to 2003 and the president of adidas Greater China Area from 2003 to 2007. She was also a former director of Mecox Lane (a company listed on the Nasdaq Stock Market).

Mr Joseph LO Kin Ching, aged 63, has been appointed as an Independent Non-executive Director of the Company since January 2020. He is the chairman of the Audit Committee and a member of the Nomination Committee of the Board. Mr LO is a chartered certified accountant, fellow of the Association of Chartered Certified Accountants, United Kingdom, and a certified public accountant, fellow member of the Hong Kong Institute of Certified Public Accountants. He joined Deloitte Touche Tohmatsu ("Deloitte") in 1980 and was a partner since 1988 until his retirement in 2016. He was chairman of Deloitte Hong Kong from 2006 to 2014 and chairman of Deloitte China from 2008 to 2014. He has 40 years of professional experience in providing auditing, financial advisory, restructuring, insolvency, mergers and acquisitions and initial public offering services.

Mr LO is a member of the Court of the Hong Kong Polytechnic University, a member of the Hospital Governing Committee of Queen Mary Hospital and Tsan Yuk Hospital, Hong Kong, a member of the College Council of Chu Hai College of Higher Education, Hong Kong, a committee member of the Hong Kong Arts Development Council Fund; a director of Hong Kong Design Centre Limited, and a member of the Finance Committee of M+ Museum. He is an independent non-executive director of ZA Bank Limited. He served as a member of the Standing Commission on Civil Service Salaries and Conditions of Service, Hong Kong from 2013 to 2019. He was a member of the Committee of Overseers of Wu Yee Sun College, the Chinese University of Hong Kong, a member of 10th and 11th of Hebei Provincial Committee of the Chinese People's Political Consultative Conference (CPPCC) and an advisor to the China Accounting Standards Committee of the Ministry of Finance of China. He was the former chairman and executive director of Bisu Technology Group International Limited (a company listed on the Stock Exchange). He was an independent non-executive director of Radisson Hospitality AB (a company formerly listed on the stock exchange of Stockholm, Sweden).

Dr Martin WECKWERTH, aged 52, has been appointed as an Independent Non-executive Director of the Company since January 2020. He is the chairman of the Remuneration Committee and a member of the Audit Committee of the Board. Dr WECKWERTH has experience in fashion retail, also in relation to global brands. He joined Permira, a global private equity firm, in 1997 and was a partner from 2002 to 2016. He was part of the consumer team at Permira with focus on fashion retail and brands. Among other engagements Dr WECKWERTH was a member of the supervisory board of Valentino S.p.A and Hugo Boss AG. He is currently managing director of his family office MC Investments GmbH which engages in real estate and minority share investments. Dr WECKWERTH obtained a Bachelor of Science degree in Industrial Engineering (focus Mechanical Engineering) from Technische Universität Darmstadt, Germany ("TU Darmstadt") and University of Illinois, United States of America, and a PhD in Economics from TU Darmstadt.

Disclosure of information of Directors

Pursuant to rule 13.51B(1) of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), the changes in information of Directors, as notified to the Company, subsequent to the date of the 2019 Annual Report are as set out below:

Directors	Details of Changes
Dr Raymond OR Ching Fai	<ul style="list-style-type: none"> • Ceased to act as an independent non-executive director of Television Broadcasts Limited on 1 January 2020
Dr Johannes Georg SCHMIDT-SCHULTES	<ul style="list-style-type: none"> • Appointed as Executive Director and Group Chief Financial Officer of the Company, a member of the Risk Management Committee and the General Committee of the Board on 21 October 2019 • Entitled to a salary of EUR600,000 per annum with an annual discretionary bonus opportunity of EUR300,000, of which EUR150,000 is guaranteed in the first year. He is also entitled to a sign-on bonus of EUR50,000, a car allowance of EUR20,400 per annum, a maximum reimbursement of relocation expenses of EUR50,000 and 2,000,000 share options pursuant to the 2018 Share Option Scheme on 21 October 2019
Mr Carmelo LEE Ka Sze	<ul style="list-style-type: none"> • Appointed as non-executive director of Playmates Holdings Limited on 5 November 2019
Ms Sandrine Suzanne Eleonore Agar ZERBIB	<ul style="list-style-type: none"> • Appointed as <ul style="list-style-type: none"> - Independent Non-executive Director of the Company on 3 October 2019 - Member of the Audit Committee and the Remuneration Committee of the Board on 21 October 2019 - Member of the Risk Management Committee on 26 February 2020 • Entitled to a director's fee of HK\$740,000 per annum, which comprises HK\$480,000 for her directorship on 3 October 2019, HK\$100,000 for acting as a member of the Audit Committee, HK\$85,000 for acting as a member of the Remuneration Committee on 21 October 2019 and HK\$75,000 for acting as a member of the Risk Management Committee on 26 February 2020
Mr Joseph LO Kin Ching	<ul style="list-style-type: none"> • Appointed as Independent Non-executive Director of the Company, chairman of the Audit Committee and a member of the Nomination Committee of the Board on 15 January 2020 • Entitled to a director's fee of HK\$735,000 per annum, which comprises HK\$480,000 for his directorship, HK\$170,000 for acting as chairman of the Audit Committee and HK\$85,000 for acting as a member of the Nomination Committee on 15 January 2020
Dr Martin WECKWERTH	<ul style="list-style-type: none"> • Appointed as Independent Non-executive Director of the Company, chairman of the Remuneration Committee and a member of the Audit Committee of the Board on 15 January 2020 • Entitled to a director's fee of HK\$730,000 per annum, which comprises HK\$480,000 for his directorship, HK\$150,000 for acting as chairman of the Remuneration Committee and HK\$100,000 for acting as a member of the Audit Committee on 15 January 2020
Mr Thomas TANG Wing Yung	<ul style="list-style-type: none"> • Ceased to act as Executive Director and Group Chief Financial Officer of the Company, a member of the Risk Management Committee and the General Committee of the Board on 21 October 2019
Mr Alexander Reid HAMILTON	<ul style="list-style-type: none"> • Retired as Independent Non-executive Director of the Company, chairman of the Audit Committee and a member of the Nomination Committee and the Risk Management Committee of the Board on 5 December 2019
Mr Norbert Adolf PLATT	<ul style="list-style-type: none"> • Retired as Independent Non-executive Director of the Company, chairman of the Remuneration Committee and a member of the Audit Committee of the Board on 5 December 2019

Directors' interests and short positions in shares, underlying shares and debentures

As at 31 December 2019, the interests or short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO")) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 of the Listing Rules, were as follows:

Name of Directors	Capacity	Beneficial interest in shares	Beneficial interest in unlisted underlying shares (Note 4)	Total number of shares	Approximate percentage of aggregate interest to total issued share capital
Raymond OR Ching Fai	Beneficial owner (Note 1)	3,000,000	8,450,000	11,450,000	0.60%
Anders Christian KRISTIANSEN	Beneficial owner	-	12,000,000	14,000,000	0.74%
	Beneficiary of a trust under the Share Award Scheme	2,000,000	-		
Johannes Georg SCHMIDT-SCHULTES	Beneficial owner	-	2,000,000	2,000,000	0.10%
Jürgen Alfred Rudolf FRIEDRICH	Beneficial owner (Note 2)	45,500,000	1,110,000	46,663,669	2.47%
	Interest of spouse (Note 3)	53,669	-		
Carmelo LEE Ka Sze	Beneficial owner	-	1,100,000	1,100,000	0.05%
Sandrine Suzanne Eleonore Agar ZERBIB	Beneficial owner	-	500,000	500,000	0.02%

Notes:

- The interests of 200,000 shares were jointly held by Dr Raymond OR Ching Fai and his spouse, Mrs OR WONG Lai Ning.
- Mr Jürgen Alfred Rudolf FRIEDRICH has entered into a securities lending agreement with a third party for the interest of 10,000,000 shares beneficially owned by him.
- The shares were held by the spouse of Mr Jürgen Alfred Rudolf FRIEDRICH, Mrs Anke Beck FRIEDRICH.
- The interests of the Directors and chief executives of the Company in the underlying shares of equity derivatives in respect of share options and awarded shares of the Company are detailed in sections of "Share options schemes" and "Share award scheme" below respectively.
- All interests disclosed above represent long position in the shares and underlying shares of the Company.

Save as disclosed above, as at 31 December 2019, none of the Directors and chief executives of the Company or their respective associates had any interests or short positions, whether beneficial or non-beneficial, in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Apart from the share option schemes and share award scheme disclosed below, at no time during the period under review was the Company or its subsidiaries a party to any arrangement that enabled the Directors of the Company or any of their spouses or children under the age of 18 to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Share option schemes

2009 Share Option Scheme

The Company adopted a share option scheme on 10 December 2009 (the "2009 Share Option Scheme") and the scheme was terminated on 5 December 2018. Notwithstanding its termination, the share options which have been granted and remained outstanding shall continue to be valid and exercisable subject to and in accordance with the terms on which the share options were granted, the provisions of the 2009 Share Option Scheme and the Listing Rules. A summary of the movements of the outstanding share options under the 2009 Share Option Scheme during the period under review is as follows:

	Date of grant (dd/mm/yyyy)	Exercise price (HK\$)	Vesting date (dd/mm/yyyy)	Exercise period (dd/mm/yyyy)	Number of share options				As at 31/12/2019
					As at 01/07/2019	Granted	Exercised	Lapsed	
Directors									
Raymond OR Ching Fai	30/06/2014	11.00	30/06/2015	30/06/2015 – 29/06/2024	450,000	-	-	-	450,000
	25/06/2018	2.66	25/06/2021	25/06/2021 – 24/06/2028	8,000,000	-	-	-	8,000,000
	In aggregate				8,450,000	-	-	-	8,450,000
Anders Christian KRISTIANSEN	25/06/2018	2.66	25/06/2021	25/06/2021 – 24/06/2028	8,000,000	-	-	-	8,000,000
Jürgen Alfred Rudolf FRIEDRICH	30/06/2014	11.00	30/06/2015	30/06/2015 – 29/06/2024	110,000	-	-	-	110,000
	28/09/2018	1.884	28/09/2019	28/09/2019 – 27/09/2028	500,000	-	-	-	500,000
	In aggregate				610,000	-	-	-	610,000
Carmelo LEE Ka Sze	30/06/2014	11.00	30/06/2015	30/06/2015 – 29/06/2024	100,000	-	-	-	100,000
	28/09/2018	1.884	28/09/2019	28/09/2019 – 27/09/2028	500,000	-	-	-	500,000
	In aggregate				600,000	-	-	-	600,000

Share option schemes (continued)

2009 Share Option Scheme (continued)

	Date of grant (dd/mm/yyyy)	Exercise price (HK\$)	Vesting date (dd/mm/yyyy)	Exercise period (dd/mm/yyyy)	Number of share options				
					As at 01/07/2019	Granted	Exercised	Lapsed	As at 31/12/2019
Employees	27/09/2010	43.00	27/09/2013	27/09/2013 – 26/09/2020	700,000	–	–	–	700,000
	27/09/2011	8.76	27/09/2014	27/09/2014 – 26/09/2021	1,900,000	–	–	50,000	1,850,000
	12/12/2012	12.32	12/12/2015	12/12/2015 – 11/12/2022	1,540,000	–	–	200,000	1,340,000
	11/03/2013	10.04	11/03/2016	11/03/2016 – 10/03/2023	552,000	–	–	–	552,000
			11/03/2017	11/03/2017 – 10/03/2023	184,000	–	–	–	184,000
			11/03/2018	11/03/2018 – 10/03/2023	184,000	–	–	–	184,000
	04/11/2013	14.18	04/11/2016	04/11/2016 – 03/11/2023	2,355,000	–	–	260,000	2,095,000
			04/11/2017	04/11/2017 – 03/11/2023	60,000	–	–	20,000	40,000
			04/11/2018	04/11/2018 – 03/11/2023	60,000	–	–	20,000	40,000
	30/06/2014	11.00	30/06/2017	30/06/2017 – 29/06/2024	180,000	–	–	–	180,000
			30/06/2018	30/06/2018 – 29/06/2024	60,000	–	–	–	60,000
			30/06/2019	30/06/2019 – 29/06/2024	60,000	–	–	–	60,000
	31/10/2014	10.124	23/03/2015	23/03/2015 – 30/10/2024	100,000	–	–	–	100,000
			31/10/2017	31/10/2017 – 30/10/2024	3,800,000	–	–	550,000	3,250,000
	13/10/2015	6.55	13/10/2018	13/10/2018 – 12/10/2025	4,050,000	–	–	700,000	3,350,000
	31/10/2016	6.87	31/10/2019	31/10/2019 – 30/10/2026	4,200,000	–	–	600,000	3,600,000
	07/11/2017	4.65	07/11/2020	07/11/2020 – 06/11/2027	4,800,000	–	–	850,000	3,950,000
	25/06/2018	2.66	25/06/2021	25/06/2021 – 24/06/2028	6,100,000	–	–	1,150,000	4,950,000
	28/09/2018	1.884	28/09/2021	28/09/2021 – 27/09/2028	3,000,000	–	–	–	3,000,000
	In aggregate				33,885,000	–	–	4,400,000	29,485,000
Others	11/03/2013	10.04	11/03/2016	11/03/2016 – 10/03/2023	4,500,000	–	–	–	4,500,000
			11/03/2017	11/03/2017 – 10/03/2023	1,400,000	–	–	–	1,400,000
			11/03/2018	11/03/2018 – 10/03/2023	1,400,000	–	–	–	1,400,000
	04/11/2013	14.18	04/11/2016	04/11/2016 – 03/11/2023	700,000	–	–	–	700,000
	30/06/2014	11.00	30/06/2015	30/06/2015 – 29/06/2024	220,000	–	–	–	220,000
	31/10/2014	10.124	31/10/2017	31/10/2017 – 30/10/2024	700,000	–	–	–	700,000
	28/09/2018	1.884	28/09/2019	28/09/2019 – 27/09/2028	1,000,000	–	–	–	1,000,000
	28/09/2018	1.884	28/09/2021	28/09/2021 – 27/09/2028	1,500,000	–	–	–	1,500,000
	In aggregate				11,420,000	–	–	–	11,420,000
Total					62,965,000	–	–	4,400,000	58,565,000

Note:

1. No share options were canceled under the 2009 Share Option Scheme during the six months ended 31 December 2019.

Share option schemes (continued)

2018 Share Option Scheme

The Company adopted a new share option scheme on 5 December 2018 (the "2018 Share Option Scheme"). A summary of the movements of the outstanding share options under the 2018 Share Option Scheme, including the share options granted, during the period under review is as follows:

	Date of grant (dd/mm/yyyy)	Exercise price (HK\$)	Vesting date (dd/mm/yyyy)	Exercise period (dd/mm/yyyy)	Number of share options				
					As at 01/07/2019	Granted	Exercised	Lapsed	As at 31/12/2019
Directors									
Anders Christian KRISTIANSEN	10/12/2019	1.604	19/09/2022	19/09/2022 – 09/12/2029	-	4,000,000	-	-	4,000,000
Johannes Georg SCHMIDT- SCHULTES	10/12/2019	1.604	10/12/2022	10/12/2022 – 09/12/2029	-	2,000,000	-	-	2,000,000
Jürgen Alfred Rudolf FRIEDRICH	10/12/2019	1.604	19/09/2020	19/09/2020 – 09/12/2029	-	500,000	-	-	500,000
Carmelo LEE Ka Sze	10/12/2019	1.604	19/09/2020	19/09/2020 – 09/12/2029	-	500,000	-	-	500,000
Sandrine Suzanne Eleonore Agar ZERBIB	10/12/2019	1.604	10/12/2020	10/12/2020 – 09/12/2029	-	500,000	-	-	500,000
Employees									
	10/01/2019	1.56	10/01/2022	10/01/2022 – 09/01/2029	1,000,000	-	-	-	1,000,000
	27/02/2019	1.98	27/02/2022	27/02/2022 – 26/02/2029	3,900,000	-	-	-	3,900,000
	10/12/2019	1.604	19/09/2022	19/09/2022 – 09/12/2029	-	8,350,000	-	-	8,350,000
	10/12/2019	1.604	10/12/2022	10/12/2022 – 09/12/2029	-	500,000	-	-	500,000
	In aggregate				4,900,000	8,850,000	-	-	13,750,000
Total					4,900,000	16,350,000	-	-	21,250,000

Notes:

1. The closing price of the shares of the Company immediately before the share options granted on 10 December 2019 was HK\$1.60.
2. No share options were canceled under the 2018 Share Option Scheme during the six months ended 31 December 2019.

Share option schemes (continued)

Share options expenses under 2018 Share Option Scheme

Share option expenses charged to the consolidated income statement are based on valuations determined using the Binomial model. Share options granted during the period were valued based on the following assumptions:

Date of grant	Share option value ¹ HK\$	Share price at the date of grant ² HK\$	Exercise price HK\$	Expected volatility ³	Annual risk-free interest rate ⁴	Life of share option ⁵	Dividend yield ⁶
2018 Share Option Scheme							
10 December 2019	0.38 – 0.50	1.570	1.604	38.91% – 45.17%	1.59% – 1.66%	2 – 4 years	0.00%

Notes:

1. Since the share option pricing model requires input of highly subjective assumptions, fair values calculated are therefore inherently subjective and the model may not necessarily provide a reliable measure of share option expense.
2. The share price at the date of grant disclosed is the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the relevant share option; where the date of grant of the relevant share option did not fall on a Business Day (as defined in the Listing Rules), the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet immediately preceding the date of grant was disclosed.
3. As stated in IFRS 2, the issuer can use either (i) implied volatilities obtained from market information; or (ii) historical volatilities as expected volatility input to the Binomial option pricing model. For share options granted under the 2018 Share Option Scheme, Esprit has estimated volatility based on the historical stock prices over the period corresponding to the expected life preceding the date of grant, expressed as an annualized rate and based on daily price changes.
4. The risk-free interest rate was based on the market yield of Hong Kong Exchange Fund notes with a remaining life corresponding to the expected share option life.
5. The expected share option life was determined by reference to historical data of share option holders' behavior.
6. For share options granted under the 2018 Share Option Scheme, dividend yield was based on the average dividend yield (including special dividend) for the three years preceding the year of grant.

Share award scheme

The Board of Directors has adopted the Employees' Share Award Scheme (the "Share Award Scheme") on 17 March 2016. A summary of the movements of the outstanding awarded shares under the Share Award Scheme during the period under review is as follows:

	Date of grant (dd/mm/yyyy)	Vesting date (dd/mm/yyyy)	Number of awarded shares				As at 31/12/2019
			As at 01/07/2019	Granted	Vested	Lapsed	
Directors							
Anders Christian KRISTIANSEN	22/06/2018	22/06/2021	2,000,000	-	-	-	2,000,000
Thomas TANG Wing Yung (Resigned with effect from 21 October 2019)	31/10/2016	31/10/2019	184,585	-	-	184,585	-
	03/10/2017	03/10/2019	67,630	-	-	67,630	-
	03/10/2017	03/10/2020	67,630	-	-	67,630	-
	In aggregate		319,845	-	-	319,845	-
Employees							
	31/10/2016	31/10/2019	310,885	-	-	310,885	-
	03/10/2017	03/10/2019	118,685	-	95,270	23,415	-
	03/10/2017	03/10/2020	118,685	-	-	23,415	95,270
	In aggregate		548,255	-	95,270	357,715	95,270
Total			2,868,100	-	95,270	677,560	2,095,270

Substantial shareholders' interests

As at 31 December 2019, the following shareholders (other than the Directors and chief executives of the Company whose interests or short positions in the shares and underlying shares of the Company disclosed above) had interests or short positions in the shares and underlying shares of the Company which were recorded in the register required to be kept by the Company under section 336 of the SFO:

Name of shareholders	Capacity	Number of shares (Long position)	Approximate percentage of aggregate interest to total issued share capital
Marathon Asset Management LLP (Note 1)	Investment manager	216,005,166	11.44%
Total Market Limited (Note 2)	Beneficial owner	211,822,656	11.22%
Claudine Lauren YING (Note 2)	Interest in a controlled corporation	211,822,656	11.22%
Eileen YING (Note 2)	Interest in a controlled corporation	211,822,656	11.22%
Melani YING (Note 2)	Interest in a controlled corporation	211,822,656	11.22%

Notes:

1. Marathon Asset Management LLP is 40.05%, 40.05% and 19.90% controlled by Mr William ARAH, Mr Neil OSTREER and Marathon Asset Management (Services) Limited respectively.
2. Total Market Limited is 33.33%, 33.33% and 33.33% owned by Ms Claudine Lauren YING, Ms Eileen YING and Ms Melani YING respectively.

Save as disclosed hereinabove and in the "Directors' interests and short positions in shares, underlying shares and debentures" section above, the Company has not been notified by any person who had interest or short position in the shares or underlying shares of the Company as at 31 December 2019 which were required to be notified to the Company pursuant to Part XV of the SFO or which are recorded in the register required to be kept by the Company under section 336 of the SFO.

Interim dividend

The Board maintains the dividend payout ratio of 60% of basic earnings per share. As the Group recorded a loss for the six months ended 31 December 2019, the Board has resolved not to declare an interim dividend for the six months ended 31 December 2019 (1H FY18/19: Nil).

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 quarterly updates, interim results and annual results of the Group. The unaudited interim results of the Group for the six months ended 31 December 2019 have been reviewed by the Audit Committee with the management.

Human resources

As at 31 December 2019, the Group employed over 4,400 full-time equivalent staff (31 December 2018: over 5,700) 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, awarded shares 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 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.

American depositary receipt program

The Company has established a Level 1 sponsored American Depositary Receipt program with details as stated hereunder.

Symbol	ESPGY
CUSIP	29666V204
ISIN	US29666V2043
Ratio	2 ordinary shares: 1 ADR
Country	Hong Kong
Effective Date	18 November 2009
Depository	Deutsche Bank Trust Company Americas

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 2019, except that:

- (a) 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.
- (b) The Company had failed to meet the following requirements for the period from 5 December 2019 to 14 January 2020 resulting from the retirement of Mr Alexander Reid HAMILTON and Mr Norbert Adolf PLATT, being the then Independent Non-executive Directors, on 5 December 2019:
- the board of directors of the Company must include at least three independent non-executive directors under Rule 3.10(1) of the Listing Rules;
 - at least one of the independent non-executive directors must have appropriate professional qualifications or accounting or related financial management expertise under Rule 3.10(2) of the Listing Rules;
 - the composition of the Audit Committee under Rule 3.21 of the Listing Rules;
 - the composition of the Remuneration Committee under Rule 3.25 of the Listing Rules; and
 - the Nomination Committee shall comprise a majority of independent non-executive directors (code provision A.5.1 of the Code).

Following the appointment of Mr Joseph LO Kin Ching as an Independent Non-executive Director of the Company, chairman of the Audit Committee and a member of the Nomination Committee, and Dr Martin WECKWERTH as an Independent Non-executive Director of the Company, chairman of the Remuneration Committee and a member of the Audit Committee, all with effect from 15 January 2020, the Board comprises eight Directors including three Executive Directors, one Non-executive Director and four Independent Non-executive Directors, one of whom has appropriate professional qualifications or accounting or related financial management expertise. As a result, the Company has complied with the requirements under (i) Rule 3.10 of the Listing Rules in relation to the composition of the Board; (ii) Rule 3.21 of the Listing Rules regarding to the composition of the Audit Committee; (iii) Rule 3.25 of the Listing Rules regarding to the composition of the Remuneration Committee; and (iv) code provision A.5.1 of the Code regarding the majority of the Nomination Committee after the appointment of Mr LO and Dr WECKWERTH come into effect.

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.

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 2019.

On behalf of the Board
ESPRIT HOLDINGS LIMITED

Dr Raymond OR Ching Fai
Executive Chairman

Hong Kong, 26 February 2020





05

Glossary of terms

05 Glossary of terms

A

ADR

American Depository Receipt

C

Capex

Capital expenditure

Comparable store (comp-store)

A directly managed retail store in existence on 1 July of the previous financial year and is still in operation at the reporting period end date and its total net sales area has been changed by less than 10% within the current reporting period

Comp-store sales growth

Local currency year-on-year change in sales generated by comparable stores

Controlled wholesale space

POS which Esprit wholesale management team has control over the look and feel such as Esprit brand name logo, visual merchandising, etc. Includes franchise stores, shop-in-stores and identity corners with wholesale partners

D

Directly managed retail stores

Standalone stores, concession counters mainly in department stores and off-price outlets fully managed by esprit

E

EBIT/LBIT

Earnings before interest and tax/loss before interest and tax

EBITDA/LBITDA

Earnings before interest, tax, depreciation and amortization/loss before interest, tax, depreciation and amortization

Eshop

Online store

F

Franchise stores

Standalone stores or concession counters in department stores managed by wholesale partners

I

IAS

International Accounting Standard

Identity corners

Controlled wholesale space mainly in multi-label retailers offering a limited range of Esprit products. Esprit has limited involvement in store appearance

IFRS

International Financial Reporting Standards

Inventory turnover days

Calculated as average inventory (excluding consumables) over average daily cost of goods sold

L

LCY

Local currency terms

O

Off-price outlets

Situated in the vicinity of major markets. Offer prior season products at a more competitive price and product collection exclusively made for outlets

OPEX

Operating expenses

P

Partnership stores (PSS)

Same as Franchise stores

POS

Point of sales

S

Shop-in-stores

Controlled wholesale space in department stores managed by wholesale partners

Sqm

Square meters

Y

Yoy

Year-on-year





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