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ESPRIT

ESPRIT HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

Stock Code: 00330

UNAUDITED FY16/17 THIRD QUARTER UPDATE FOR THE NINE MONTHS ENDED 31 MARCH 2017

THIRD QUARTER UPDATE

The board of directors (the “Board”) of Esprit Holdings Limited (the “Company”) presents the unaudited FY16/17 third quarter update of the Company and its subsidiaries (the “Group”) for the nine months ended 31 March 2017. This announcement is made pursuant to Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) and Rule 13.09 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Revenue by product division

Product division	For the 9 months ended 31 March					
	2017		2016		Change in %	
	HK\$ million	% to Group Revenue	HK\$ million	% to Group Revenue	HK\$	Local currency
Esprit Women	5,739	47.0%	6,178	45.1%	-7.1%	-5.6%
women casual	3,931	32.2%	4,169	30.4%	-5.7%	-4.2%
women collection	1,570	12.9%	1,677	12.3%	-6.3%	-4.6%
trend [#]	238	1.9%	332	2.4%	-28.3%	-27.2%
Esprit Men	1,515	12.4%	1,866	13.6%	-18.8%	-17.2%
men casual	1,237	10.1%	1,516	11.1%	-18.4%	-16.9%
men collection	278	2.3%	350	2.5%	-20.6%	-18.8%
Lifestyle and others[*]	2,164	17.7%	2,688	19.6%	-19.5%	-18.3%
edc[^]	2,793	22.9%	2,973	21.7%	-6.0%	-4.4%
Total	12,211	100.0%	13,705	100.0%	-10.9%	-9.4%

[#] The Trend Division was set up as a laboratory to test our fast-to-market product development processes. The lessons we have learned have been applied to other product divisions under the Women segment, hence it is more meaningful to interpret the combined performance of these product divisions

^{*} Lifestyle and others mainly include accessories, bodywear, shoes, and the sales and royalty income from licensed products such as kidswear, timewear, eyewear, jewelry, bed & bath, and houseware. The largest decline in revenue in this product group came from the Kids division due to the licensing of this business to Groupe Zannier since January 2016

[^] Accessories, bodywear, and shoes under edc brand are grouped together with those under Esprit brand in Lifestyle and others for the nine months ended 31 March 2017 while they were grouped under the edc brand for the nine months ended 31 March 2016. Comparative figures of edc has been restated accordingly

Revenue by region and by distribution channel

	For the 9 months ended 31 March						
	2017		2016		Revenue Change in %		Net change in net sales area [^]
	HK\$ million	% to Group Revenue	HK\$ million	% to Group Revenue	HK\$	Local currency	
Germany	6,046	49.5%	6,511	47.5%	-7.1%	-5.6%	-7.8%
Retail (excl. eshop)	2,102	17.2%	2,323	17.0%	-9.5%	-8.1%	-2.3%
Eshop	1,761	14.4%	1,812	13.2%	-2.8%	-1.1%	n.a.
Wholesale	2,163	17.7%	2,362	17.2%	-8.4%	-6.9%	-11.2%
Licensing	20	0.2%	14	0.1%	38.0%	40.2%	n.a.
Rest of Europe	4,494	36.8%	5,103	37.2%	-11.9%	-10.4%	-10.8%
Retail (excl. eshop)	1,607	13.2%	1,854	13.5%	-13.3%	-11.9%	-7.3%
Eshop	1,038	8.5%	1,111	8.1%	-6.5%	-5.0%	n.a.
Wholesale	1,769	14.5%	2,041	14.9%	-13.4%	-11.7%	-12.7%
Licensing and others *	80	0.6%	97	0.7%	-17.3%	-17.1%	n.a.
Asia Pacific	1,671	13.7%	2,091	15.3%	-20.1%	-18.6%	-24.1%
Retail (excl. eshop)	1,406	11.5%	1,817	13.3%	-22.6%	-21.5%	-18.1%
Eshop	176	1.5%	122	0.9%	43.4%	50.3%	n.a.
Wholesale (excl. eshop)	89	0.7%	152	1.1%	-41.6%	-39.8%	-43.4%
Total	12,211	100.0%	13,705	100.0%	-10.9%	-9.4%	-11.8%
Retail (excl. eshop)	5,115	41.9%	5,994	43.8%	-14.7%	-13.3%	-8.6%
Eshop	2,975	24.4%	3,045	22.2%	-2.3%	-0.4%	n.a.
Wholesale (excl. eshop)	4,021	32.9%	4,555	33.2%	-11.7%	-10.2%	-14.3%
Licensing and others	100	0.8%	111	0.8%	-10.2%	-9.8%	n.a.

[^] Net change since 1 April 2016

* For the nine months ended 31 March 2017, revenue from North America was re-grouped under Rest of Europe while it was disclosed separately for the nine months ended 31 March 2016. Comparative figures have been restated accordingly

n.a. Not applicable

Retail (excl. eshop) distribution channel by region (directly managed retail stores)

	No. of stores	Net change in no. of stores [^]	Net sales area (m ²)	Net change in net sales area [^]		No. of comp-store	Comp-store sales growth
				(m ²)	(%)		
Germany	147	(2)	118,362	(2,802)	-2.3%	123	-7.3%
Rest of Europe	140	(9)	83,834	(6,604)	-7.3%	116	0.0%
Asia Pacific	394	(111)	75,556	(16,723)	-18.1%	228	-10.7%
Total	681	(122)	277,752	(26,129)	-8.6%	467	-5.5%

[^] Net change since 1 April 2016

Wholesale distribution channel by region (controlled space only)

As at 31 March 2017

	No. of stores	Net change in no. of stores ^	Net sales area (m ²)	Net change in net sales area ^ (m ²)	Net change in net sales area ^ (%)
Germany	3,762	(729)	173,224	(21,930)	-11.2%
Franchise stores	250	(9)	57,493	(6,541)	-10.2%
Shop-in-stores	2,334	(494)	92,598	(11,978)	-11.5%
Identity corners	1,178	(226)	23,133	(3,411)	-12.9%
Rest of Europe	2,228	(424)	140,075	(20,393)	-12.7%
Franchise stores	460	(34)	91,836	(9,823)	-9.7%
Shop-in-stores	848	(186)	26,091	(6,478)	-19.9%
Identity corners	920	(204)	22,148	(4,092)	-15.6%
Asia Pacific	147	(100)	16,247	(12,483)	-43.4%
Franchise stores	147	(100)	16,247	(12,483)	-43.4%
Total	6,137	(1,253)	329,546	(54,806)	-14.3%
Franchise stores	857	(143)	165,576	(28,847)	-14.8%
Shop-in-stores	3,182	(680)	118,689	(18,456)	-13.5%
Identity corners	2,098	(430)	45,281	(7,503)	-14.2%

^ Net change since 1 April 2016

Highlights for the three months ended 31 March 2017

For the three months ended 31 March 2017 (“3Q FY16/17” or “Third Quarter”), we continued to execute our Strategic Plan with the primary focus on improving our bottom line through a combination of (i) closure of unprofitable spaces, (ii) reduction of promotional activities and price markdowns, and (iii) implementation of measures to further streamline our operating costs. We are conscious that this downsizing approach leads to a decline in revenue in the short term, a similar development as observed in the first half of FY16/17 (“1H FY16/17”), but, overall, these measures are producing the intended improvement in the Group’s bottom line and performance remains in line with management expectations.

Revenue Analysis

Group revenue for 3Q FY16/17 amounted to HK\$3,888 million, representing a year-on-year (“yoy”) decline of -8.4% in local currency (“LCY”), less than the corresponding reduction in total controlled space of -11.8% yoy and an improvement over the -9.9% yoy decline in LCY reported in 1H FY16/17. The table below sets forth a summary of sales performance by region and by channel.

	For the 3 months ended 31 March						
	2017		2016		Revenue Change in %		Net change in net sales area ^
	HK\$ million	% to Group Revenue	HK\$ million	% to Group Revenue	HK\$	Local currency	
Germany	1,906	49.0%	2,066	47.1%	-7.8%	-4.2%	
Retail (excl. eshop)	580	14.9%	670	15.3%	-13.5%	-10.3%	-2.3%
Eshop	585	15.0%	560	12.7%	4.6%	8.6%	n.a.
Wholesale	734	18.9%	829	18.9%	-11.4%	-8.0%	-11.2%
Licensing	7	0.2%	7	0.2%	-9.9%	-6.4%	n.a.
Rest of Europe	1,446	37.2%	1,658	37.7%	-12.8%	-9.7%	-10.8%
Retail (excl. eshop)	467	12.0%	538	12.2%	-13.2%	-10.6%	-7.3%
Eshop	341	8.8%	380	8.7%	-10.3%	-6.9%	n.a.
Wholesale	614	15.8%	710	16.2%	-13.5%	-10.1%	-12.7%
Licensing and others *	24	0.6%	30	0.6%	-18.3%	-17.8%	n.a.
Asia Pacific	536	13.8%	667	15.2%	-19.6%	-18.2%	-24.1%
Retail (excl. eshop)	455	11.7%	588	13.4%	-22.6%	-21.4%	-18.1%
Eshop	57	1.5%	44	1.0%	29.6%	35.3%	n.a.
Wholesale (excl. eshop)	24	0.6%	35	0.8%	-31.8%	-30.6%	-43.4%
Total	3,888	100.0%	4,391	100.0%	-11.5%	-8.4%	-11.8%
Retail (excl. eshop)	1,502	38.6%	1,796	40.9%	-16.4%	-14.0%	-8.6%
Eshop	983	25.3%	984	22.4%	-0.1%	3.8%	n.a.
Wholesale (excl. eshop)	1,372	35.3%	1,574	35.9%	-12.8%	-9.5%	-14.3%
Licensing and others	31	0.8%	37	0.8%	-16.5%	-15.4%	n.a.

^ Net change since 1 April 2016

* For the three months ended 31 March 2017, revenue from North America was re-grouped under Rest of Europe while it was disclosed separately for the three months ended 31 March 2016. Comparative figures have been restated accordingly

n.a. Not applicable

We continue to see the ongoing effects of our Strategic Plan across all regions and channels.

The closure of unprofitable stores is fundamental in order to improve the results of the Group. Consequently, in terms of **Retail (excl. eshop)**, the Group executed a net closure of 4,408 sqm of retail sales area during 3Q FY16/17, which, coupled with the net closure of 21,721 sqm in the previous nine months, totaled to a net closure of retail sales area of 26,129 sqm yoy and represented a -8.6% yoy reduction of the retail sales area. Furthermore, the intensity of promotional activities and price markdowns in our full-price stores were reduced and the prices in our off-price outlets were increased. As a result, Retail (excl. eshop) revenue was HK\$1,502 million in 3Q FY16/17, representing a yoy decline of -14.0% in LCY (-13.1% in 1H FY16/17).

Eshop sales totaled HK\$983 million in 3Q FY16/17 and were up +3.8% yoy in LCY (-2.4% in 1H FY16/17).

- **Eshop Germany and Rest of Europe** recorded +2.3% revenue growth yoy in LCY thanks to a combination of lower level of returns and a shift effect of deliveries due to Easter period in March last year. The channel continues to be highly productive and profitable.
- As for **eshop APAC**, the growth momentum in China has continued with revenue up +39.9% yoy in LCY, whereas for the rest of APAC, revenue increased by +12.7% yoy in LCY. This growth is fueled by the successful roll-out of our Omnichannel plan for the region as well as by strategic partnerships with key online retailers in different markets (including Tmall for China, or Zalora and Lazada for South East Asia).

For **Wholesale (excl. eshop)**, wholesale controlled space was reduced by 5,348 sqm in 3Q FY16/17, which coupled with the net closure of 49,458 sqm in the previous nine months, totaled to a net closure of 54,806 sqm yoy and represented a yoy reduction of -14.3%. The closure of non-performing locations is increasing the average sales productivity of the remaining controlled space. Also, actions taken to improve gross profit margins were milder for wholesale and mainly focused on eliminating excessive discounts for selected partners. Hence, the impact on the sales performance of the channel was less significant. For these reasons, the revenue decline of wholesale (excl. eshop) of -9.5% yoy in LCY in 3Q FY16/17 (-10.5% in 1H FY16/17) is much less than the corresponding yoy reduction in wholesale controlled space.

Overall, the financial performance of Esprit is in line with management expectations. Moving forward, the continued closure of unprofitable space will put pressure on revenue development, so we have started to seek opportunities to drive future growth, which may include store openings in selected markets, new product lines, an ambitious campaign to leverage on the 50th year anniversary of Esprit brand in 2018, and the possibility of entering new markets. That being said, this will not be apparent in the very near term. For the fourth quarter of this financial year, we expect a similar development as observed in the first nine months of FY16/17 with a combination of reduced top line resulting into improved bottom line results.

By Order of the Board
Florence Ng Wai Yin
Company Secretary

Hong Kong, 2 May 2017

As at the date of this announcement, the Board comprises (i) Mr Jose Manuel Martínez Gutiérrez (Group Chief Executive Officer) and Mr Thomas Tang Wing Yung (Group Chief Financial Officer) as Executive Directors; (ii) Mr Jürgen Alfred Rudolf Friedrich as Non-executive Director; and (iii) Dr Raymond Or Ching Fai (Chairman), Mr Paul Cheng Ming Fun (Deputy Chairman), Dr José María Castellano Ríos, Mr Alexander Reid Hamilton, Mr Carmelo Lee Ka Sze and Mr Norbert Adolf Platt as Independent Non-executive Directors.