ESPRIT HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

STOCK CODE: 00330

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 31 DECEMBER 2018

INTERIM RESULTS

The board of directors (the "Board") of Esprit Holdings Limited (the "Company") announces the unaudited condensed consolidated interim financial information, along with selected explanatory notes, of the Company and its subsidiaries (the "Group" or "Esprit") for the six months ended 31 December 2018 as follows:

Condensed consolidated income statement

	Notes	Unaudited for the 6 months ended 31 December 2018 HK$ million	2017 HK$ million
Revenue	2	**6,766**	8,039
Cost of goods sold		**(3,295)**	(3,787)
Gross profit		**3,471**	4,252
Staff costs		**(1,692)**	(1,516)
Occupancy costs		**(1,093)**	(1,278)
Logistics expenses		**(485)**	(501)
Marketing and advertising expenses		**(350)**	(437)
Depreciation		**(238)**	(263)
(Additional)/write-back of provision for store closures and leases, net		**(924)**	3
Impairment of property, plant and equipment		**(116)**	(13)
Impairment of goodwill	3	**-**	(664)
Impairment of customer relationships	3	**-**	(130)
Gain on disposal of a property	14	**-**	16
Other operating costs		**(323)**	(427)
Operating loss (LBIT)	3	**(1,750)**	(958)
Interest income		**31**	26
Finance costs	4	**(18)**	(17)
Loss before taxation		**(1,737)**	(949)
Taxation	5	**(36)**	(5)
Loss attributable to shareholders of the Company		**(1,773)**	(954)
Loss per share			
- Basic and diluted	7	**HK$(0.94)**	HK$(0.50)

Condensed consolidated statement of comprehensive income

	Unaudited for the 6 months ended 31 December	
	2018	2017
	HK$ million	HK$ million
Loss attributable to shareholders of the Company	**(1,773)**	(954)
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Fair value (loss)/gain on cash flow hedge, net of tax	**(19)**	23
Exchange translation	**(100)**	229
	(119)	252
Total comprehensive income for the period attributable to shareholders of the Company, net of tax	**(1,892)**	(702)

Condensed consolidated statement of financial position

	Notes	**Unaudited 31 December 2018 HK$ million**	Audited 30 June 2018 HK$ million
Non-current assets			
Intangible assets		**2,056**	2,063
Property, plant and equipment	8	**1,270**	1,571
Investment properties		**24**	24
Financial assets at fair value through profit or loss		**16**	-
Other investments		**-**	7
Debtors, deposits and prepayments		**134**	140
Deferred tax assets		**506**	524
		4,006	4,329
Current assets			
Inventories		**2,440**	2,296
Debtors, deposits and prepayments	9	**1,333**	1,418
Tax receivable		**127**	143
Cash, bank balances and deposits	10	**3,635**	4,521
		7,535	8,378
Current liabilities			
Creditors and accrued charges	11	**2,802**	2,919
Provision for store closures and leases	12	**1,231**	397
Tax payable		**72**	57
		4,105	3,373
Net current assets		**3,430**	5,005
Total assets less current liabilities		**7,436**	9,334
Equity			
Share capital	13	**189**	189
Reserves		**6,947**	8,837
Total equity		**7,136**	9,026
Non-current liabilities			
Retirement defined benefit obligations		**26**	26
Deferred tax liabilities		**274**	282
		300	308
		7,436	9,334

Notes to the condensed consolidated interim financial information

1. Basis of preparation

This unaudited condensed consolidated interim financial information ("interim financial information") on pages 2 to 23 for the six months ended 31 December 2018 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 2018. 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 2018.

In the current period, the Group has adopted the following IAS, International Financial Reporting Interpretations Committee ("IFRIC") Interpretation and International Financial Reporting Standards ("IFRS") effective for the Group's financial year beginning 1 July 2018:

IAS 40 (Amendments)	Transfers of Investment Property
IFRIC 22	Foreign Currency Transactions and Advance Consideration
IFRS 2 (Amendments)	Classification and Measurement of Share-based Payment Transactions
IFRS 4 (Amendments)	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
IFRS 15 (Amendments)	Clarification of IFRS 15
IFRSs (Amendments)	Annual Improvements to IFRSs 2014-2016 Cycle

Apart from IFRS 9 and IFRS 15, the adoption of the above newly effective interpretation 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 9 and IFRS 15 that impact the consolidated financial statements of the Group.

The Group elected to adopt IFRS 9 and IFRS 15 without restating comparatives. The reclassifications and the adjustments are therefore not reflected in the condensed consolidated statement of financial position as at 30 June 2018, but are recognized in the opening condensed consolidated statement of financial position on 1 July 2018.

1. Basis of preparation (continued)

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)

	30 June 2018 HK$ million (as previously reported)	**Impact on initial adoption of IFRS 9** HK$ million	**Impact on initial adoption of IFRS 15** HK$ million	**1 July 2018** HK$ million (restated)
Non-current assets				
Financial assets at fair value through profit or loss	-	17	-	17
Other investments	7	(7)	-	-
Current assets				
Debtors, deposits and prepayments	1,418	-	38	1,456
Current liabilities				
Creditors and accrued charges	2,919	-	38	2,957
Equity				
Reserves	8,837	10	-	8,847

The total impact on the Group's retained profits due to the classification and measurement of financial instruments as at 1 July 2018 is as follows:

	At 1 July 2018 HK$ million
Opening retained profits – after IAS 39	846
Adjustment to retained profits from adoption of IFRS 9	10
Opening retained profits – after IFRS 9	856

1. Basis of preparation (continued)

<u>IFRS 9 ”Financial Instruments”</u>

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

Classification and measurement

IFRS 9 categorizes financial assets into three principal classification categories: measured at amortized cost, fair value through other comprehensive income (“FVOCI”) and fair value through profit or loss (“FVPL”). The classification of financial assets under IFRS 9 is based on the business model under which the financial assets is managed and its contractual cash flow characteristics.

The Group’s management has considered the business models applying to the financial assets held by the Group and categorized the financial assets into the appropriate categories upon the initial application of IFRS 9.

The impact of the reclassification on the condensed consolidated statement of financial position is as follows:

		At 1 July 2018
	Other investments	**Financial assets at fair value through profit or loss**
	HK$ million	HK$ million
Opening balance – IAS 39	7	-
Reclassify investment in club debentures to financial assets at fair value through profit or loss	(6)	6
Reclassify investment in equity securities to financial assets at fair value through profit or loss	(1)	1
Opening balance – after IFRS 9	-	7

The Group elected to present in profit or loss changes in the fair value of all its club debentures and investment in equity securities because the club debentures and the investment in equity securities are not qualified to be classified and measured at amortized cost or fair value through other comprehensive income at the date of initial application of IFRS 9.

1. Basis of preparation (continued)

IFRS 9 ”Financial Instruments” (continued)

Impairment of financial assets

The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortized cost, debt instruments measured at fair value through other comprehensive income, contract assets under IFRS 15 “Revenue from Contracts with Customers”, lease receivables, loan commitments and certain financial guarantee contracts. The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. The Group has concluded that there is no material variance in impairment provision between the adoption of IFRS 9 and IAS 39 as at 1 July 2018.

Hedge accounting

The Group applies hedge accounting prospectively. All hedge accounting relationships designated under the previous IAS 39 have continued to be valid hedge accounting relationships in accordance with IFRS 9. Upon transition to IFRS 9, the Group continues to recognize derivative financial instruments which are not under effective hedge relationships to be classified under fair value through profit or loss.

The Group’s risk management strategies and hedge documentation are aligned with the requirements of IFRS 9 and these relationships are therefore treated as continuing hedges. The foreign currency forwards in place as at 30 June 2018 qualified as cash flow hedges under IFRS 9. Consistent with prior periods, the Group has continued to designate the change in fair value of the entire forward contract in the Group’s cash flow hedge relationships and, as such, the adoption of the hedge accounting requirements of IFRS 9 had no material impact on the Group’s financial information.

IFRS 15 “Revenue from Contracts with Customers”

IFRS 15 replaces the provisions of IAS 18, which resulted in changes in accounting policies that relate to revenue recognition, contract costs and presentation of contract assets and liabilities. The new standard is based on the principle that revenue is recognized when the control of a good or service transfers to a customer.

The Group’s revenue is generated from the sales of products to its customers through wholesale, retail (excluding eshop) and eshop channels and licensing income. The Group’s management has assessed that the adoption of IFRS 15 has no significant impact on the Group’s revenue recognition policy.

Accounting for customer loyalty programme

In previous reporting periods, the consideration received from the sale of goods was allocated to the points and the goods sold using the residual method. Under this method, a part of the consideration equalling the fair value of the points was allocated to the points. The residual part of the consideration was allocated to the goods sold.

Under IFRS 15, the total consideration is allocated to the points and goods based on the relative stand-alone selling prices. There is no material variance resulted from the adoption.

1. Basis of preparation (continued)

IFRS 15 "Revenue from Contracts with Customers" (continued)

Accounting for sales returns

The Group grants its retail and wholesale customers with rights of return in a designated time period. Prior to the adoption of IFRS 15, the Group used expected value method to estimate the value of returns and recognized net liabilities under creditors and accrued charges in the condensed consolidated statement of financial position. Upon the adoption of IFRS 15, the Group recognizes return liabilities and assets for the rights to recover products from customers upon return separately in the condensed consolidated statement of financial position.

The impact of the reclassification on the condensed consolidated statement of financial position as follows:

		At 1 July 2018
	Debtors, deposits and prepayments	**Creditors and accrued charges**
	HK$ million	HK$ million
Opening balance – IAS 18	1,418	2,919
Increase in right of return assets and return liabilities with the adoption of IFRS 15	38	38
Opening balance – after IFRS 15	1,456	2,957

1. Basis of preparation (continued)

The Group has not early adopted the following IASs, IFRIC 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
IAS 19 (Amendments)	Plan Amendment, Curtailment or Settlement	1 January 2019
IAS 28 (Amendments)	Long-term Interests in Associates and Joint Ventures	1 January 2019
IFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019
IFRS 3 (Amendments)	Definition of Business	1 January 2020
IFRS 9 (Amendments)	Prepayment Features with Negative Compensation	1 January 2019
IFRS 10 and IAS 28 (Amendments)	Sales or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined
IFRS 16	Leases	1 January 2019
IFRS 17	Insurance Contracts	1 January 2021
IFRSs (Amendments)	Annual Improvements to IFRSs 2015-2017 Cycle	1 January 2019

Amongst these new and revised standards and amendments, IFRS 16 is of higher relevancy to the Group's operations. The following describes the key changes that may impact the consolidated financial statements of the Group.

IFRS 16 "Leases"

IFRS 16 requires almost all leases of lessees to be recognized on the statement of financial position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of **HK$5,466 million**. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

The Group is assessing the impact of the adoption of this new standard and does not intend to adopt the standard before its effective date.

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 Pacific and via eshop platform.

	Unaudited for the 6 months ended 31 December	
	2018	2017
	HK$ million	HK$ million
Revenue from external customers		
Germany	**2,332**	2,822
Rest of Europe	**1,899**	2,201
Asia Pacific	**627**	859
eshop	**1,851**	2,092
Licensing and others	**57**	65
	6,766	8,039

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 Pacific 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 Pacific 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 2018					
	Germany HK$ million	Rest of Europe HK$ million	Asia Pacific 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	(615)	(307)	(45)	261	(1,044)	(1,750)
Interest income						31
Finance costs						(18)
Loss before taxation						(1,737)

2. Revenue and segment information (continued)

	Unaudited for the 6 months ended 31 December 2018					
	Germany HK$ million	Rest of Europe HK$ million	Asia Pacific HK$ million	eshop HK$ million	Corporate services, sourcing, licensing and others HK$ million	Group HK$ million
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
Depreciation						
Retail	20	29	12	-	15	76
Wholesale	5	5	1	-	-	11
Licensing and others	-	-	-	-	151	151
Total	25	34	13	-	166	238
One-off costs in relation to staff reduction plans (note)						
Retail	7	37	1	6	-	51
Wholesale	1	4	1	-	-	6
Licensing and others	-	-	-	-	344	344
Total	8	41	2	6	344	401
Additional provision for store closures and leases, net						
Retail	667	221	36	-	-	924
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)

Note: One-off costs in relation to staff reduction plans of **HK$401 million** was recognized during the six months ended 31 December 2018 (Note 3).

2. Revenue and segment information (continued)

	Unaudited for the 6 months ended 31 December 2017					
	Germany HK$ million	Rest of Europe HK$ million	Asia Pacific HK$ million	eshop HK$ million	Corporate services, sourcing, licensing and others HK$ million	Group HK$ million
Total revenue						
Retail	1,453	1,074	795	2,092	-	5,414
Wholesale	1,369	1,127	64	-	-	2,560
Licensing and others	-	-	-	-	3,877	3,877
Total	2,822	2,201	859	2,092	3,877	11,851
Inter-segment revenue	-	-	-	-	(3,812)	(3,812)
Revenue from external customers						
Retail	1,453	1,074	795	2,092	-	5,414
Wholesale	1,369	1,127	64	-	-	2,560
Licensing and others	-	-	-	-	65	65
Total	2,822	2,201	859	2,092	65	8,039
Segment results						
Retail	(108)	(50)	(90)	397	12	161
Wholesale	338	129	11	-	3	481
Licensing and others	-	-	-	-	(806)	(806)
	230	79	(79)	397	(791)	(164)
Impairment of goodwill (Note)						
Retail	-	-	(37)	(511)	-	(548)
Wholesale	-	-	(116)	-	-	(116)
Total	-	-	(153)	(511)	-	(664)
Impairment of customer relationships (Note)						
Wholesale	-	-	(130)	-	-	(130)
EBIT/(LBIT)	230	79	(362)	(114)	(791)	(958)
Interest income						26
Finance costs						(17)
Loss before taxation						(949)

Note: An impairment charge of HK$664 million for the China goodwill and an impairment charge of HK$130 million for customer relationships were recognized during the six months ended 31 December 2017 (Note 3).

2. Revenue and segment information (continued)

	Unaudited for the 6 months ended 31 December 2017					
	Germany HK$ million	Rest of Europe HK$ million	Asia Pacific HK$ million	eshop HK$ million	Corporate services, sourcing, licensing and others HK$ million	Group HK$ million
Capital expenditure						
Retail	14	31	21	8	3	77
Wholesale	4	4	1	-	-	9
Licensing and others	-	-	4	-	65	69
Total	18	35	26	8	68	155
Depreciation						
Retail	36	34	24	-	8	102
Wholesale	6	7	1	-	1	15
Licensing and others	-	-	-	-	146	146
Total	42	41	25	-	155	263
One-off costs in relation to staff reduction plans						
Retail	17	(1)	(2)	-	-	14
Wholesale	3	6	-	-	1	10
Licensing and others	-	-	-	-	10	10
Total	20	5	(2)	-	11	34
(Write-back of) provision for store closures and leases, net						
Retail	-	(3)	-	-	-	(3)
Impairment of property, plant and equipment						
Retail	13	-	-	-	-	13
(Write-back of) one-off costs in relation to closure of ANZ operations						
Retail	-	-	-	-	-	-
Licensing and others	-	-	-	-	-	-
Total	-	-	-	-	-	-
Gain on disposal of a property						
Retail	-	-	(16)	-	-	(16)

3. Operating loss (LBIT)

	Unaudited for the 6 months ended 31 December	
	2018	2017
	HK$ million	HK$ million
LBIT is arrived at after charging and (crediting) the following:		
Staff costs (Note a)	**1,692**	1,516
Occupancy costs		
- operating lease charges	**847**	1,006
- other occupancy costs	**246**	271
Depreciation	**238**	263
Amortization of customer relationships	**-**	30
Additional/(write-back of) provision for store closures and leases, net (Note a)	**924**	(3)
Impairment of property, plant and equipment (Note a)	**116**	13
Impairment of goodwill (Note b)	**-**	664
Impairment of customer relationships (Note b)	**-**	130
Loss on disposal of plant and equipment	**2**	3
Gain on disposal of a property	**-**	(16)
Net exchange loss/(gain)	**10**	(30)
(Write-back of)/additional provision for obsolete inventories, net	**(13)**	34
(Write-back of)/additional provision for impairment of trade debtors, net	**(3)**	27

Note a: During the six months ended 31 December 2018, the Group executed a restructuring plan 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. The Group recognized one-off costs in relation to staff reduction plans of **HK$401 million** which was grouped under staff costs, 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**.

Note b: The operating environment in China continues to be very challenging. The China operations have experienced significant decline in recent years. Management performed an updated impairment assessment based on the revised financial projection. Based on the assessment, impairment charges for the goodwill and customer relationships in association with the China operations of the Group were recognized, amounting to HK$664 million and HK$130 million respectively for the six months ended 31 December 2017.

4. Finance costs

	Unaudited for the 6 months ended 31 December	
	2018	2017
	HK$ million	HK$ million
Imputed interest on financial assets and financial liabilities	**18**	17

5. Taxation

	Unaudited for the 6 months ended 31 December	
	2018	2017
	HK$ million	HK$ million
Current tax		
Hong Kong profits tax		
Provision for current period	**1**	-
Overseas taxation		
Provision for current period	**24**	37
Over-provision for prior years	**-**	(1)
	25	36
Deferred tax		
Current period net charge/(credit)	**11**	(31)
Taxation charge	**36**	5

Hong Kong profits tax is calculated at **16.5%** (2017: 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 considers that the payment of interests is unlikely, and therefore no additional provision has been made.

6. Interim dividend

The Board has resolved not to declare an interim dividend for the six months ended 31 December 2018 (2017: Nil).

7. Loss per share

Basic

Basic loss or earnings per share is calculated by dividing the loss or profit 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	
	2018	2017
Loss attributable to shareholders of the Company (HK$ million)	**(1,773)**	(954)
Number of ordinary shares in issue at 1 July (million)	**1,887**	1,944
Adjustment for shares repurchased (million)	**-**	(22)
Adjustment for shares held for of Share Award Scheme (million)	**(8)**	(8)
Weighted average number of ordinary shares in issue less shares held for Share Award Scheme (million)	**1,879**	1,914
Basic loss per share (HK$ per share)	**(0.94)**	(0.50)

Diluted

Diluted loss per share is calculated based on dividing the loss or profit 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	
	2018	2017
Loss attributable to shareholders of the Company (HK$ million)	**(1,773)**	(954)
Weighted average number of ordinary shares in issue less shares held for Share Award Scheme (million)	**1,879**	1,914
Adjustments for share options and awarded shares (million)	**-**	-
Weighted average number of ordinary shares for diluted earnings per share (million)	**1,879**	1,914
Diluted loss per share (HK$ per share)	**(0.94)**	(0.50)

Diluted loss per share for the six months ended 31 December 2018 was the same as the basic loss per share since the share options and awarded shares had anti-dilutive effect.

8. Property, plant and equipment

	Unaudited for the 6 months ended 31 December	
	2018	2017
	HK$ million	HK$ million
At 1 July	**1,571**	1,900
Exchange translation	**(20)**	78
Additions	**77**	155
Disposals	**(4)**	(24)
Depreciation (Note 3)	**(238)**	(263)
Impairment charge (Note 3)	**(116)**	(13)
At 31 December	**1,270**	1,833

9. Debtors, deposits and prepayments

	Unaudited 31 December 2018 HK$ million	Audited 30 June 2018 HK$ million
Trade debtors	**1,216**	1,178
Less: provision for impairment of trade debtors	**(181)**	(204)
	1,035	974
Deposits	**109**	123
Prepayments	**133**	126
Right of return assets	**36**	-
Other debtors and receivables	**154**	335
	1,467	1,558
Non-current portion of deposits	**(76)**	(82)
Non-current portion of prepayments	**(45)**	(46)
Non-current portion of other debtors and receivables	**(13)**	(12)
Current portion	**1,333**	1,418

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

	Unaudited 31 December 2018 HK$ million	Audited 30 June 2018 HK$ million
0-30 days	**684**	628
31-60 days	**164**	126
61-90 days	**70**	79
Over 90 days	**117**	141
	1,035	974

9. Debtors, deposits and prepayments (continued)

As of 31 December 2018, trade debtors net of provision for impairment of **HK$312 million** (30 June 2018: HK$169 million) were past due but not impaired. The aging analysis of these trade debtors is as follows:

	Unaudited 31 December 2018 HK$ million	Audited 30 June 2018 HK$ million
1-30 days	**236**	95
31-60 days	**9**	8
61-90 days	**7**	15
Over 90 days	**60**	51
Amount past due but not impaired	**312**	169

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.

The Group applies the IFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all trade debtors. There is no material variance in impairment provision between the adoption of IFRS 9 and IAS 39 on 1 July 2018 and during the reporting period.

10. Cash, bank balances and deposits

	Unaudited 31 December 2018 HK$ million	Audited 30 June 2018 HK$ million
Bank balances and cash	**2,191**	2,472
Bank deposits with maturities within three months	**1,031**	1,407
Bank deposits with maturities of more than three months	**413**	642
	3,635	4,521

11. Creditors and accrued charges

	Unaudited 31 December 2018 HK$ million	Audited 30 June 2018 HK$ million
Trade creditors	**506**	722
Accruals	**1,667**	1,436
Return liabilities	**85**	-
Other creditors and payables	**544**	761
	2,802	2,919

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

	Unaudited 31 December 2018 HK$ million	Audited 30 June 2018 HK$ million
0-30 days	**258**	460
31-60 days	**135**	194
61-90 days	**91**	39
Over 90 days	**22**	29
	506	722

12. Provision for store closures and leases

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

	Unaudited for the 6 months ended 31 December	
	2018 HK$ million	2017 HK$ million
At 1 July	**397**	393
Additional/(write-back of) provision for store closures and leases, net	**924**	(3)
Amounts used during the period	**(96)**	(81)
Exchange translation	**6**	7
At 31 December	**1,231**	316

During the six months ended 31 December 2018, the Group recognized unwinding of discount totaling **HK$17 million** (2017: HK$16 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.

13. Share capital

	Number of shares of HK$0.10 each million	Unaudited HK$ million
Authorized:		
At 1 July 2018 and 31 December 2018	**3,000**	**300**

	Number of shares of HK$0.10 each million	Unaudited Nominal value HK$ million
Issued and fully paid:		
At 1 July 2018 and 31 December 2018	**1,887**	**189**
At 1 July 2017	1,944	194
Shares repurchased and cancelled	(42)	(4)
31 December 2017	1,902	190

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 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 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).

13. Share capital (continued)

(b) Awarded shares (continued)

Details of the awarded shares movement during the period and outstanding awarded shares as at 31 December 2018 under the Share Award Scheme are as follows:

	Number of awarded shares	
	2018	2017
At 1 July	**9,004,458**	8,539,256
Granted during the period	**-**	2,429,966
Vested during the period (Note (i))	**(1,090,599)**	(3,073,675)
Lapsed during the period	**(4,181,594)**	(716,737)
At 31 December	**3,732,265**	7,178,810

(i) During the six months ended 31 December 2018, a total of **1,090,599 shares** (2017: 3,073,675 shares) of the Company were transferred to relevant Selected Employees upon vesting. The total cost of the vested shares was **HK$7 million** (including expenses) (2017: HK$21 million). During the period, **HK$0.1 million** (2017: 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 2018, the trustee has not purchased any shares of the Company on the Stock Exchange (2017: 1,713,200 shares). The total amount paid to the trustee to purchase the shares was **HK$Nil** (including expenses) (2017: HK$7 million).

14. Disposal of a property

On 20 September 2017, the Group sold a property in Taiwan to an independent third party at a consideration of HK$34 million. The gain on disposal of the property, after deducting related expenses incurred for disposal, amounted to HK$16 million and was recognized in the consolidated income statement. Total consideration amount of HK$34 million was received in cash during the six months ended 31 December 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

For the six months ended 31 December 2018 ("1H FY18/19" or "Period under Review"), the financial performance of the Company remained challenging as the Group continued to be affected by the rapidly-evolving retail industry, fueled by changes in consumer behavior and intensification of price competition. The corresponding pressure was further aggravated by Esprit's weaknesses with respect to brand identity and product appeal which lead to reduced customer traffic across the distribution channels. With these internal weaknesses, the new management, at the earliest opportunity, performed an in-depth analysis of the entire situation, as well as a diagnosis of the problems that ESPRIT faces. Subsequent to this exercise, the Group announced at the Investor Day in November 2018 ("Investor Day"), a strategy plan ("Strategy Plan") that is essential to restore ESPRIT to sustainable growth and profitability.

Thus, the Group now has a clear Strategy Plan in place setting forth bold changes, to i) build a powerful organization and restructure the cost base and ii) develop a new model for the future. Management and the board of directors (the "Board") are united on this Strategy Plan and key initiatives to implement include:

- reducing complexity and improving accountability in the organization by becoming a leaner and more efficient organization;
- eliminating loss-making areas of the business to build a stronger foundation for the future;
- sharpening ESPRIT brand identity and putting the customer at the center of everything the Group does; and
- improving the product offering and how it relates to ESPRIT consumer and brand positioning.

As the Strategy Plan has been presented to the market in the recent Investor Day, we will not repeat the details here but rather highlight that execution of the Strategy Plan is progressing well and is on track. While the Group is encouraged by the initial progress and a committed team in place to see the execution through, it is important to appreciate that it will take time to see this translate into a positive business performance, as most initiatives are still at this stage a work-in-progress and it will require time to make the corresponding improvements in brand and product visible to our customers for attracting them back into ESPRIT stores.

Build a powerful organization and restructure the cost base

As disclosed at the Investor Day, the Board approved a restructuring plan ("Restructuring") associated with the Company's strategic objectives to i) eliminate loss-making areas of the business, and ii) become a leaner and more efficient organization. The management is pleased to report that development on both fronts is progressing well as planned. The total one-off restructuring costs are estimated to be approximately HK$1.6 billion, within the guidance given to the market (i.e., HK$1.5 billion to HK$1.7 billion).

- **Eliminate loss-making stores** – To further optimize the store portfolio, the Group has undertaken comprehensive assessment of the loss-making retail stores. Negotiation with relevant landlords are ongoing with respect to the targeted number of stores for rent reduction, space reduction (the preferred options), and closure if required (the “Store Closure Plan”). This Store Closure Plan has resulted in a total provision of HK$1,040 million for 1H FY18/19, comprising provisions for compensation to landlords for early lease termination and onerous leases, and impairment of store assets.

Once lease termination agreements are reached with landlords, and relevant staffs have been notified, pursuant to accounting standard, the Group will then be required to make further provisions for the relevant severance payments estimated to be not more than HK$180 million. All-in-all, total one-off costs for the Store Closure Plan are estimated to be around HK$1,220 million.

For 1H FY18/19, the Group executed a net closure of 91 directly managed retail stores, coupled with the net closure of 50 stores in the previous six months, represented a yoy reduction in retail net sales area of -12.2%. Continuous efforts will be made to eliminate loss making stores to improve sales productivity.

- **Headcount reduction** – For our headquarters in Germany, the Group is cooperating and working very closely by open communication with the social partner (i.e. work councils) as part of its plan to reduce complexity and improve accountability in the organization by becoming a leaner and a more efficient organization. A voluntary program was rolled out to non-store staff and completed in January 2019, as well as a social plan in progress to achieve our goal for the necessary headcount reduction expected to be completed by June 2019. Similar procedures are being replicated and agreements are expected to be reached by Summer 2019 for other countries in Europe. As for Asia Pacific, staff reduction efforts are completed and the Group is on course to reach the targeted reduction by the end of this financial year. Overall, the Group is on track to achieve the target for reduction of non-store employees by approximately 35% to 40%. The sum total of these efforts has resulted in provision for one-off costs in relation to staff reduction plan of HK$401 million for 1H FY18/19 related to severance payments. Following the staff reduction, the Group plans to achieve further savings on rental costs by merging five offices in Ratingen into one and downsizing the Hong Kong office.

Build a new model for the future

- The Group has started efforts to improve its direct communication with customers, already introducing improved and targeted experiences across key touch points. To this end, the Group has already conducted extensive research to gather consumer preference and establish targeted consumer tribes input/feedback. These learnings have been most valuable for us in terms of our product offerings moving forward to align with customers’ expectation.

- To enhance the ESPRIT experience, the Group is adopting a brand based, customer focused and data driven approach to improve consumers’ experience of the brand online and offline. A new store concept is under development and roll-out will commence in second half of 2019. In parallel, our online presence will be refreshed, with the content better curated and editorialized, to generate increased customer engagement, with the ultimate objective to attract customers and entice them to purchase ESPRIT merchandise.

- The Group is introducing a more tightly structured and commercially successful assortment by i) reducing the number of options and kick colors, ii) increasing the share of basic and core products under the fashion pyramid for improved sell-through, and iii) stepping up the quality and fit of its products by reviewing the block system, setting trim guidelines, and establishing a core fabrics program, as well as investing in signature product classes.

- An independent product team has been established to address the specific needs of the Asia markets. The team is creating products dedicated for Asia, as well as select styles from mainline collection, with adaptation of fitting for this region. Furthermore, to complement product development, a new team with local knowledge and expertise in merchandising, marketing and ecommerce has been set up based in Shanghai to better serve customers' need in the region.

- In order to ensure brand and product consistency, all product design and development as well as execution of the brand strategy across all product divisions and consumer touch points have been more closely integrated. To lead this new function, Mia Ouakim has been appointed as Chief Product and Brand Officer of the Group effective 1 February 2019. Ms Ouakim's extensive experience spans corporate strategy, product design, merchandising, planning and development, branding and market communication, and distribution gained from luxury and premium brands in the global market.

- Many initiatives are in progress to better serve our wholesale customers. A thorough segmentation of our partner portfolio is ongoing to assess the right service for each type of customer. We have already made adjustments to our delivery schedules to ensure our partners receive appropriate priority. We are also well on the way to implementing e-billing which leads to efficiencies and cost savings. A pilot for our digital ordering tool has been completed in the Nordic countries with early successful results. Also, a new consignment / concession model is being developed with key wholesale partners, and stronger collaboration with third party wholesale ecommerce partners is underway.

- We are mindful that buying sustainable products is important to our customers; therefore one of our top priorities is to make products that meet our goals in terms of sustainable materials, elimination of hazardous chemicals, and design for circularity. To this end, we believe international standards and certifications are a valuable tool for helping us to achieve this. This is why in addition to our existing collaboration with the Better Cotton Initiative, certified organic cotton and recycled materials, the Responsible Wool Standard, and the Canopy initiative for more sustainable viscose, during 1H FY18/19, we signed the United Nations Fashion Industry Charter for Climate Action. Also, effort is being made to communicate these initiatives to the market, so that we can build awareness and enthusiasm among our customers, and inspire them to join the circular movement with us. In this respect, the Group is pleased to have been awarded the "ESG Report of the Year Awards, Best in ESG Awards and Best in Reporting Awards" organized by BDO (Binder Dijker Otte) Limited and co-organized by South China Morning Post. This accolade recognizes the Group's efforts in upholding the best practices in ESG (Environmental, Social and Governance).

RESULTS OF OPERATION

The following table summarizes the results of the Group for 1H FY18/19 and 1H FY17/18, with a differentiation of "Regular OPEX" and "Exceptional Items". Regular OPEX comprises recurring expenses of the underlying operation ("Underlying Operation"). Exceptional Items are exceptional gains and expenses arising from non-regular operational activities of the Group comprising those related to the net provisions for store closures and onerous leases, provision for one-off costs in relation to staff reduction plans, impairment of fixed assets, as well as other expenses/gains that are expected to be non-recurring.

	For the 6 months ended 31 December			
	2018	2017	Change in %	
	HK$ million	HK$ million	HK$	Local currency
Revenue	**6,766**	8,039	-15.8%	-14.4%
Cost of goods sold	**(3,295)**	(3,787)	-13.0%	-11.5%
Gross profit	**3,471**	4,252	-18.4%	-16.9%
Gross profit margin	***51.3%***	*52.9%*	*-1.6% pts*	*-1.6% pts*
Regular OPEX				
Staff costs	**(1,291)**	(1,482)	-12.9%	-11.4%
Occupancy costs	**(1,093)**	(1,278)	-14.4%	-13.0%
Logistics expenses	**(485)**	(501)	-3.1%	-1.4%
Marketing and advertising expenses	**(350)**	(437)	-19.9%	-18.6%
Depreciation	**(238)**	(263)	-9.3%	-7.7%
Other operating costs	**(346)**	(427)	-19.3%	-18.5%
Subtotal	**(3,803)**	(4,388)	-13.3%	-11.9%
(LBIT) of Underlying Operations	**(332)**	(136)		
Exceptional items				
i) Net (additional) / write back of provision for store closures and onerous leases	**(924)**	3		
ii) Impairment of property, plant and equipment	**(116)**	(13)		
iii) One-off costs in relation to staff reduction plans	**(401)**	(34)		
v) Write-back of one-off costs in relation to closure of ANZ operations	**23**	-		
vi) Impairment of China goodwill and customer relationships	**-**	(794)		
vii) Net gain on disposal of property in Taiwan	**-**	16		
Subtotal	**(1,418)**	(822)		
(LBIT) of the Group	**(1,750)**	(958)		
Net interest income	**13**	9		
(Loss) before taxation	**(1,737)**	(949)		
Net (taxation)	**(36)**	(5)		
Net (loss)	**(1,773)**	(954)		

Revenue Analysis

The Group is principally engaged in design and distribution of apparel and lifestyle products in Europe and Asia Pacific through retail, wholesale and eshop channels.

Revenue of the Group for 1H FY18/19 amounted to HK$6,766 million, representing a decline of -14.4% year-on-year ("yoy") in local currency terms ("LCY"), as compared with HK$8,039 million for the same period last year ("1H FY17/18"). The decline in Hong Kong dollar terms was moderately higher (-15.8% yoy) due to the slight weakness of the Euro against the Hong Kong Dollar during the Period under Review (average rate decrease of -1.7% compared with last year).

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 total controlled space reduction of -11.0% yoy, and (ii) reduced customer traffic across the distribution channels due to the weakness in brand identity and product appeal.

It is worth noting that while revenue continues to decline in 1H FY18/19, the rate of decline has narrowed from -16.2% yoy in LCY for the three months ended 30 September 2018 ("First Quarter"), to -12.5% yoy in LCY for the three months ended 31 December 2018 ("Second Quarter"). As shown in the table below, the quarter-on-quarter improvement was driven by the markets in Germany and Rest of Europe which accounted for the largest share of the Group revenue. Such quarter-on-quarter improvement was mainly due to i) low base effect as we had a weak second quarter last year and ii) lower markdown rates for Europe retail (excluding eshop) in the Second Quarter versus last year. As for Asia Pacific, the higher rate of revenue decline in the Second Quarter was due to the Group's exit of the Australia and New Zealand ("ANZ") market where all stores have been closed by the end of September 2018.

	Revenue change in % (yoy in LCY)		
	First Quarter	**Second Quarter**	**1H FY18/19**
By Region ^			
Germany	**-16.8%**	**-11.1%**	**-13.9%**
Rest of Europe	**-14.5%**	**-7.1%**	**-11.0%**
Asia Pacific	**-20.0%**	**-31.2%**	**-26.6%**
Total	**-16.2%**	**-12.5%**	**-14.4%**

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

Revenue by region and by distribution channel

The business is organized into four operating segments: "Germany", "Rest of Europe" (including America), "Asia Pacific" ("APAC") and "Eshop". The following table summarizes the breakdown of revenue by operating segments, as well as the changes in each segment's revenue from the comparable period last year.

	For the 6 months ended 31 December						
		2018		2017	Revenue Change in %		Net change
	HK$ million	**% to Group Revenue**	HK$ million	% to Group Revenue	HK$	Local currency	in net sales area ^
Germany	**3,467**	**51.2%**	4,098	51.0%	-15.4%	-13.9%	-8.6%
Retail (excluding eshop)	**1,218**	**18.0%**	1,453	18.1%	-16.2%	-14.6%	-6.6%
Wholesale (excluding eshop)	**1,114**	**16.5%**	1,369	17.0%	-18.7%	-17.4%	-10.0%
eshop	**1,121**	**16.6%**	1,260	15.7%	-11.0%	-9.5%	n.a.
Licensing	**14**	**0.2%**	16	0.2%	-8.4%	-6.7%	n.a.
Rest of Europe	**2,601**	**38.3%**	2,975	37.0%	-12.6%	-11.0%	-8.2%
Retail (excluding eshop)	**956**	**14.1%**	1,074	13.4%	-10.9%	-9.3%	-6.5%
Wholesale (excluding eshop)	**943**	**13.9%**	1,127	14.0%	-16.4%	-14.8%	-9.2%
eshop	**659**	**9.7%**	725	9.0%	-9.1%	-7.4%	n.a.
Licensing and others	**43**	**0.6%**	49	0.6%	-12.8%	-12.9%	n.a.
Asia Pacific	**698**	**10.4%**	966	12.0%	-27.8%	-26.6%	-26.3%
Retail (excluding eshop)	**567**	**8.4%**	795	9.9%	-28.8%	-27.6%	-27.9%
Wholesale (excluding eshop)	**60**	**0.9%**	64	0.8%	-5.9%	-5.2%	-17.3%
eshop	**71**	**1.1%**	107	1.3%	-33.9%	-32.0%	n.a.
Total	**6,766**	**100.0%**	8,039	100.0%	-15.8%	-14.4%	-11.0%
Retail (excluding eshop)	**2,741**	**40.5%**	3,322	41.4%	-17.5%	-16.0%	-12.2%
Wholesale (excluding eshop)	**2,117**	**31.3%**	2,560	31.8%	-17.3%	-15.9%	-10.0%
eshop	**1,851**	**27.4%**	2,092	26.0%	-11.5%	-9.9%	n.a.
Licensing and others	**57**	**0.8%**	65	0.8%	-11.7%	-11.4%	n.a.

^ Net change since 1 January 2018
n.a. Not applicable

Germany, the largest market of the Group, accounted for 51.3% of total Group revenue, recording revenue of HK$3,467 million in 1H FY18/19, representing a yoy decline of -13.9% in LCY. In terms of distribution channels, Retail (excluding eshop), Wholesale (excluding eshop), eshop and the Licensing businesses contributed 35.1%, 32.2%, 32.3%, and 0.4% of revenue in Germany, respectively.

- **Germany Retail (excluding eshop)** recorded revenue of HK$1,218 million, representing a decline of -14.6% yoy in LCY, mainly due to i) a reduction in net sales area of -6.6% yoy, and ii) a decline in comparable store sales of -10.7% yoy in LCY. The reduction in net sales area is in line with the Group's efforts in accelerating the closure of unprofitable retail stores, and the decrease in comparable store sales reflects lower consumer traffic. It is worth noting that while comparable store sales continue to decline, the rate of decline has narrowed significantly from -16.3% yoy in the First Quarter to -5.9% yoy in the Second Quarter. As discussed at the beginning of this Revenue Analysis section, such quarter-on-quarter improvement was mainly due to low base effect as we had a weak second quarter last year.

Germany Retail (excluding eshop)

	Change in % (yoy in LCY)		
	First Quarter	**Second Quarter**	**1H FY18/19**
Comparable store sales growth	-16.3%	-5.9%	**-10.7%**
Sales per Square Meter	-14.3%	-3.5%	**-8.6%**

- **Germany Wholesale (excluding eshop)** recorded revenue of HK$1,114 million, representing a yoy decline of -17.4% in LCY, mainly due to our lack of focus on wholesale in the past which led to i) a reduction in controlled space of -10.0% yoy partly as a result of discontinuation of Men and Accessories by a key wholesale partner, and ii) reduced order intake from a few key wholesale partners. Under the new Strategy Plan, our profitable wholesale business will play a central role in the new direction of the Group. As discussed in the Overview section, many initiatives are in progress to better serve our wholesale customers. We aim to put in place a best in class wholesale model by Autumn/Winter 2019.

Rest of Europe comprises countries in Europe except Germany and in America, accounted for 38.3% of the Group's total revenue. The region recorded revenue of HK$2,601 million in 1H FY18/19, representing a yoy decline of -11.0% in LCY. In terms of distribution channels, Retail (excluding eshop), Wholesale (excluding eshop), eshop, and Licensing & others businesses contributed 36.7%, 36.2%, 25.4% and 1.7% of the region's revenue, respectively.

- **Rest of Europe Retail (excluding eshop)** recorded revenue of HK$956 million, representing a yoy decline of -9.3% in LCY, mainly due to i) a reduction in net sales area of -6.5% yoy, and ii) a decline in comparable store sales of -9.1% yoy in LCY. Similar to Germany, the reduction in net sales area is in line with the efforts in accelerating the closure of unprofitable retail stores, and the decrease in comparable store sales reflects lower consumers' traffic. Also similar to Germany, while comparable store sales continue to decline, the rate of decline has narrowed significantly from -15.0% yoy in the First Quarter to -3.6% yoy in the Second Quarter. Such quarter-on-quarter improvement was mainly due to low base effect as we had a weak second quarter last year.

Rest of Europe Retail (excluding eshop)

	Change in % (yoy in LCY)		
	First Quarter	**Second Quarter**	**1H FY18/19**
Comparable store sales growth	-15.0%	-3.6%	**-9.1%**
Sales per Square Meter	-11.7%	0.2%	**-5.5%**

- **Rest of Europe Wholesale (excluding eshop)** recorded revenue of HK$943 million, representing a yoy decline of -14.8% in LCY. Similar to Germany, the decline was mainly due to our lack of focus on wholesale in the past which led to i) a reduction in controlled space of -9.2% yoy, ii) a lower order intake from ecommerce multi-label wholesales partners, and iii) higher returns. Under the new Strategy Plan, our profitable wholesale business will play a central role in the new direction of the Group. Many initiatives are in progress to better serve our wholesale customers. We aim to put in place a best in class wholesale model by Autumn 2019.

Asia Pacific ("APAC") comprising mainly China, Hong Kong, Singapore, Malaysia, Taiwan, Macau, Thailand, India and the Philippines, accounted for 10.4% of the Group's total revenue. The region recorded revenue of HK$698 million, representing a yoy decline of -26.6% in LCY. In terms of distribution channels, Retail (excluding eshop), Wholesale (excluding eshop), and eshop businesses contributed 81.3%, 8.6%, and 10.1% of the region's revenue, respectively.

- **APAC Retail (excluding eshop)** recorded revenue of HK$567 million**,** accounting for 8.4% of total Group revenue, representing a yoy decline of -27.6% in LCY, mainly due to i) a reduction in net sales area of -27.9% yoy, and ii) a decline in comparable store sales of -2.5% yoy in LCY. The significant reduction in net sales area was primarily due to the Group's exit of ANZ market where all stores have been closed since the end of September 2018. Excluding the ANZ market, revenue would have declined by -19.5% yoy in LCY, as compared to the corresponding space reduction of -17.9% yoy. Performance was mixed across China and Rest of APAC. **China** recorded a comparable store sales decline of -14.2% yoy in LCY, mainly due to (i) a decrease in store traffic and (ii) lower sales from Family & Friends promotions, whereas the **Rest of APAC** recorded a comparable store sales growth of +5.6% yoy in LCY. It is worth noting that Hong Kong and Singapore recorded positive comparable store sales growth of +16.6% and +11.0%, respectively. The strong performance was driven by (i) more VIP and private shopping events and (ii) more promotions and the longer sale period compared with last year.

- **APAC Wholesale (excluding eshop)** recorded revenue of HK$60 million**,** accounting for 0.9% of the Group's total revenue, representing a yoy decline of -5.2% in LCY. Revenue development compares favorably against the corresponding controlled space reduction of -17.3% yoy, thanks to improved order intake from wholesale partners in Thailand and India.

Eshop, accounting for 27.4% of total Group revenue (1H FY17/18: 26.0%), comprises its directly managed ecommerce business in European, and APAC countries including sales to third party online distributors in APAC. In the Period under Review, this channel generated HK$1,851 million in revenue, representing a decline of -9.9% yoy in LCY.

- **Eshop Europe** (Germany and Rest of Europe combined) recorded revenue of HK$1,780 million, accounting for 96.2% of Global Eshop revenue in 1H FY18/19, representing a decline of -8.7% yoy in LCY, mainly due to a decline in consumer traffic. While the rate of revenue decline has narrowed from -14.1% yoy in LCY in the First Quarter to -3.8% yoy in LCY in the Second Quarter, such quarter-on-quarter improvement was due to difference in timing of sales cut off.

Eshop Europe

	Change in % (yoy in LCY)		
	First Quarter	**Second Quarter**	**1H FY18/19**
Revenue	-14.1%	-3.8%	**-8.7%**

- **Eshop APAC** recorded revenue of HK$71 million, accounting for 3.8% of Global Eshop revenue in 1H FY18/19, representing a decline of -32.0% yoy in LCY, mainly due to the closure of eshop in ANZ during July 2018 and the decline in consumer traffic to the eshop on Tmall.

Profitability Analysis

Gross Profit for the Period under Review amounted to HK$3,471 million, representing a decrease of -16.9% yoy in LCY, mainly attributable to the decline in revenue of -14.4% yoy in LCY. Gross profit as a percentage of revenue ("**Gross Profit Margin**") was 51.3% as compared with 52.9% for the same period last year. The -1.6% points decrease in gross profit margin was mainly due to (i) investment in improving product quality and (ii) higher level of discount. It is worth noting that while there is a yoy decline in gross profit margin for 1H FY18/19, we are seeing positive development from a quarter-on-quarter perspective. More specifically, gross profit margin for First Quarter and Second Quarter were 49.5% and 53.1%, representing yoy decline of -2.9% points and -0.3% point, respectively.

Regular OPEX (excluding Exceptional Items) include staff costs, occupancy costs, logistics expenses, marketing and advertising expenses, depreciation and other operating costs. Regular OPEX amounted to HK$3,803 million in 1H FY18/19, representing a yoy decline of -11.9% in LCY, attributable to savings across all the major cost lines. It is worth noting that staff costs and occupancy costs, together accounting for 62.7% of total regular OPEX, dropped by -11.4% and -13.0% yoy in LCY, respectively, slightly higher than total controlled space reduction of -11.0%. These savings reflect the Group's operational discipline and cost savings associated with its restructuring activities.

Unfortunately, the improvements in regular OPEX were not sufficient to outweigh the negative impact from the decline in revenue. As a result, **LBIT of underlying operations** (i.e., excluding the Exceptional Items) was a loss of HK$(332) million (1H FY17/18: HK$(136) million).

Exceptional Items refer to exceptional gains and expenses arising from relevant non-operational activities of the Group. As detailed in the table at the beginning of this section, during 1H FY18/19 and as discussed in the OVERVIEW, net exceptional expenses of HK$(1,418) million were recorded, in connection with its Restructuring, consisting of i) net additional provision for store closures and leases of HK$(924) million, (ii) impairment of property, plant and equipment of HK$(116) million, iii) one-off costs in relation to staff reduction plans of HK$(401) million, and (iv) write-back of one-off costs in relation to closure of ANZ operations of HK$23 million. These restructuring costs are necessary to reduce losses and build a healthy platform for future growth.

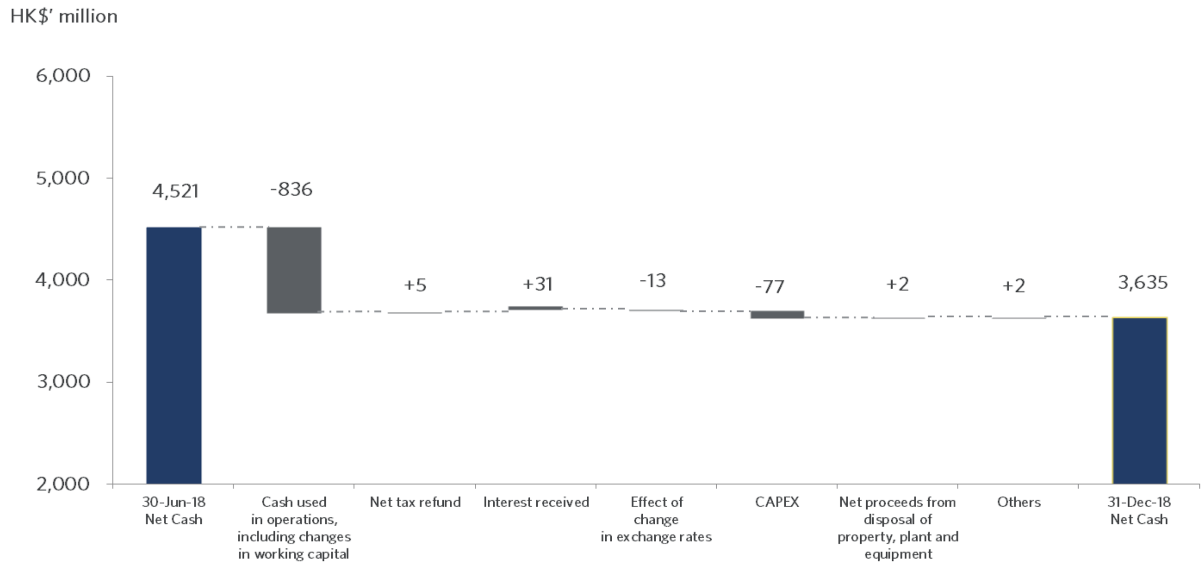
LBIT of the Group for 1H FY18/19 was adversely impacted by Exceptional Items as previously discussed. Including the Exceptional Items, **LBIT** of the Group was HK$(1,750) million in 1H FY18/19 as compared to LBIT of HK$(958) million in the same period last year.

Net Interest Income was HK$13 million (1H FY17/18: HK$ 9 million), comprising i) interest earned on cash, bank balances and deposits of HK$31 million, offset by ii) non-cash interest expenses primarily related to time value of provision for store closure and onerous leases.

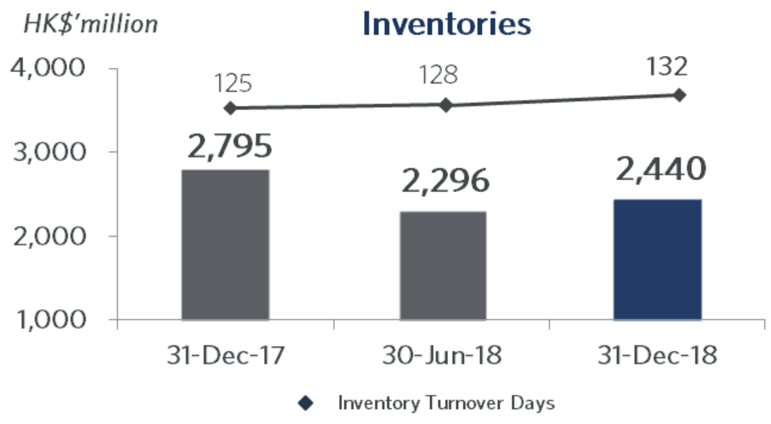
Taking into account the net **Taxation** expense of HK$(36) million in 1H FY18/19, (1H FY17/18: HK$(5) million), **Net Loss** of the Group was HK$(1,773) million (1H FY17/18: HK$(954) million).

LIQUIDITY AND FINANCIAL RESOURCES ANALYSIS

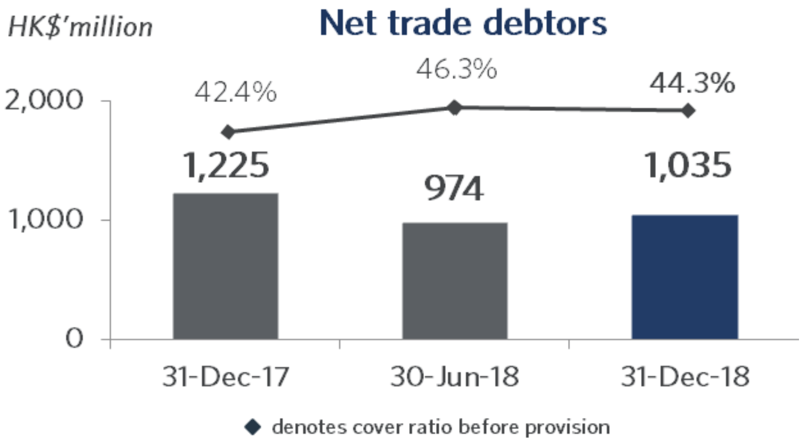
Net Cash: As at 31 December 2018, the Group remained debt free with cash, bank balances and deposits totaling HK$3,635 million (30 June 2018: HK$4,521 million), representing a net cash utilization of HK$(886) million in 1H FY18/19, as compared with HK$(646) million in 1H FY17/18. The increase in net cash utilization as compared to same period last year was primarily due to decline of business which led to cash used in operation (including change in working capital) of HK$(836) million as compared to HK$(558) million in the same period last year. It is worth noting that the net cash balance at the end of December is generally lower than that at the end of June due to the seasonality of our business causing a stock up of higher value winter inventories.



Inventories: The inventory balance amounted to HK$2,440 million (31 December 2017: HK$2,795 million), representing a yoy decrease of -12.7%. In terms of units, the total inventory at the end of December 2018 was 32.6 million pieces, a yoy decrease of -8.2% as compared to the 35.6 million pieces at the end of December 2017. Inventory turnover days were 132 days, an increase of seven days as compared with a year ago (31 December 2017: 125 days), mainly due to a weaker than expected sales performance.



Net Trade Debtors was HK$1,035 million (31 December 2017: HK$1,225 million), representing a yoy decrease of -15.5%, mainly due to the decrease in wholesale revenue of -15.9% yoy for 1H FY18/19. 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 44.3% (31 December 2017: 42.4%).



Capital Expenditure (CAPEX): The Group invested HK$77 million in CAPEX in 1H FY18/19 (1H FY17/18: HK$155 million), representing a decrease of -50.3% yoy mainly due to a high base last year due to investment in the extension of its distribution center in Mönchengladbach which has been completed.

	For the 6 months ended 31 December	
HK$ million	**2018**	2017
New stores	**4**	23
Refurbishment	**17**	36
IT projects	**9**	18
Office & others	**47**	78
Purchase of property, plant and equipment	**77**	155

Total interest bearing external borrowings: As at 31 December 2018, the Group had no interest bearing external borrowings (31 December 2017: 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 risk arising from exposure to various currencies, primarily with respect to the Euro.

While the majority 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 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 our revenue are 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, mostly 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 FY18/19 at an average Euro:USD rate 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 FY18/19

Looking ahead, the Group expects the next two financial years to be a period of transition. As mentioned at Investor Day, the Group aims to have a leaner organization and optimizing the retail store footprint in the initial two years of transformation, and work in parallel to build a new model for the future. Revenue is expected to see further decline in the next two financial years due to closure of loss-making stores, before reverting to growth to be driven by impact from product and brand initiatives. Overall, the Group expects revenue to increase at a compound annual growth rate of a mid-to-high single-digit percentage in LCY between FY19/20 and FY23/24. In terms of underlying operating profit (EBIT), the Group expects to achieve breakeven in two to three years' time. Thereafter, underlying operating profit margin (EBIT margin) is expected to expand gradually to mid-single digit percentages by FY22/23 in LCY.

In view of the aforementioned, the Group does not foresee an improvement of the top line in the second half of the financial year ("2H FY18/19") due to i) pressure from closure of loss-making stores, and ii) seasonality of the business (i.e. sales performance in the second half is normally not as good as it is in the first half). Hence **Revenue** is expected to decline by a low double-digit percentage yoy in 2H FY18/19.

Regarding **Gross Profit Margin**, the Group aims to maintain it at a stable level yoy for 2H FY18/19. While it will continue with decisive measures to reduce utilization of markdowns and promotions, the benefit here is expected to be offset by (i) investment in improving product quality and (ii) a lower proportion of Retail (excluding eshop) revenue which typically enjoys a higher gross margin.

For **Regular OPEX**, the Group expects a mid-to-high single-digit percentage reduction yoy for 2H FY18/19, mainly driven by cost savings associated with restructuring activities and savings resulting from its operational discipline.

As discussed in the OVERVIEW regarding the Store Closure Plan, pursuant to accounting standard, the Group is required to make provision for the relevant severance payment, totaling not more than HK$180 million, as and when lease termination agreements are reached with landlords and relevant staffs have been notified. Some of this is expected to be recognized as one-off costs or **Exceptional Items** in the 2H FY18/19.

With respect to CAPEX, the Group expects to see a level slightly less than the previous year.

Whilst the Group is confident of its strategic direction aimed at restoring the long term sustainable growth and profitability of the Group, the ambitious nature of the work ahead, combined with the challenging and demanding market environment, may present uncertainty to its short-term performance. As it advances along this journey, it will continuously track its progress and performance, including consumer traffic, sell-through rate, sales per square meter, comparable store sales growth, costs to sales ratios, etc., so as to proactively adapt and make appropriate adjustments in a dynamic manner as and when necessary. These key performance indicators will be disclosed to the market in financial reports moving forward.

APPENDIX

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

	As at 31 December 2018						
	No. of stores	Net change in no. of stores ^	Net sales area (m^2)	Net change in net sales area since 1 January 2018 (m^2)	Net change in net sales area since 1 January 2018 (%)	No. of comp-stores	Comp-store sales growth
Germany	137	(8)	108,118	(7,583)	-6.6%	122	-10.7%
Rest of Europe	132	(2)	75,070	(5,225)	-6.5%	104	-9.1%
Asia Pacific	226	(131)	50,630	(19,633)	-27.9%	127	-2.5%
Total	495	(141)	233,818	(32,441)	-12.2%	353	-9.1%

^ Net change since 1 January 2018

Wholesale (excluding eshop) Distribution Channel by Region (controlled space only)

	As at 31 December 2018				
	No. of stores	Net change in no. of stores ^	Net sales area (m^2)	Net change in net sales area since 1 January 2018 (m^2)	Net change in net sales area since 1 January 2018 (%)
Germany	**3,264**	**(312)**	**147,101**	**(16,279)**	**-10.0%**
Franchise stores	215	(23)	47,638	(6,941)	-12.7%
Shop-in-stores	1,998	(228)	77,089	(10,189)	-11.7%
Identity corners	1,051	(61)	22,374	851	4.0%
Rest of Europe	**1,896**	**(248)**	**117,056**	**(11,896)**	**-9.2%**
Franchise stores	413	(27)	77,193	(5,448)	-6.6%
Shop-in-stores	751	(71)	22,879	(2,721)	-10.6%
Identity corners	732	(150)	16,984	(3,727)	-18.0%
Asia Pacific	**104**	**(14)**	**10,400**	**(2,175)**	**-17.3%**
Franchise stores	104	(14)	10,400	(2,175)	-17.3%
Total	**5,264**	**(574)**	**274,557**	**(30,350)**	**-10.0%**
Franchise stores	732	(64)	135,231	(14,564)	-9.7%
Shop-in-stores	2,749	(299)	99,968	(12,910)	-11.4%
Identity corners	1,783	(211)	39,358	(2,876)	-6.8%

^ Net change since 1 January 2018

Revenue Development by Quarter

	Revenue change in % (yoy in LCY)		
	First Quarter	**Second Quarter**	**1H FY18/19**
By Distribution Channel			
Retail (excluding eshop)	**-17.8%**	**-14.5%**	**-16.0%**
Wholesale (excluding eshop)	**-15.5%**	**-16.5%**	**-15.9%**
eshop	**-14.9%**	**-5.5%**	**-9.9%**
Licensing and others	**-11.2%**	**-11.5%**	**-11.4%**
Total	**-16.2%**	**-12.5%**	**-14.4%**
By Region ^			
Germany	**-16.8%**	**-11.1%**	**-13.9%**
Rest of Europe	**-14.5%**	**-7.1%**	**-11.0%**
Asia Pacific	**-20.0%**	**-31.2%**	**-26.6%**
Total	**-16.2%**	**-12.5%**	**-14.4%**

^ 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					
		2018		2017	Change in %	
Product division	**HK$ million**	**% to Group Revenue**	HK$ million	% to Group Revenue	HK$	Local currency
Women (Esprit & edc)	**4,570**	**67.5%**	5,346	66.5%	-14.5%	-13.0%
women casual	**2,360**	**34.9%**	2,825	35.1%	-16.5%	-15.0%
women edc	**1,274**	**18.8%**	1,502	18.7%	-15.2%	-13.8%
women collection	**936**	**13.8%**	1,019	12.7%	-8.2%	-6.4%
Men (Esprit & edc)	**1,167**	**17.3%**	1,332	16.6%	-12.5%	-10.9%
men casual	**690**	**10.2%**	763	9.5%	-9.6%	-7.9%
men edc	**367**	**5.4%**	416	5.2%	-12.0%	-10.4%
men collection	**110**	**1.7%**	153	1.9%	-28.4%	-27.1%
Lifestyle and others *	**1,029**	**15.2%**	1,361	16.9%	24.3%	-23.0%
Total	**6,766**	**100.0%**	8,039	100.0%	-15.8%	-14.4%

Women casual is grouped together with Trend in 1H FY18/19 figures, while they were disclosed separately for the same period last year. Comparative figures of women casual are restated accordingly. The Trend Division was set up as a laboratory to test the Group's fast-to-market product development processes. The lessons the Group have learned have been applied to other product divisions under the Women segment.

* 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						
	2018		2017		Revenue change in %		Net change in net sales area^
Country ^^	**HK$ million**	**% to Group Revenue**	HK$ million	% to Group Revenue	HK$	Local currency	
Germany #	**3,467**	**51.3%**	4,098	51.0%	-15.4%	-13.9%	-8.6%
Rest of Europe	**2,601**	**38.3%**	2,975	37.0%	-12.6%	-11.0%	-8.2%
Benelux #	845	12.5%	980	12.2%	-13.8%	-12.4%	-6.5%
France	392	5.8%	488	6.1%	-19.5%	-18.2%	-8.6%
Switzerland	392	5.7%	427	5.3%	-8.3%	-7.1%	-6.9%
Austria	349	5.2%	391	4.9%	-10.9%	-9.2%	-9.9%
Finland	108	1.6%	119	1.5%	-8.7%	-7.2%	0.4%
Spain	103	1.5%	109	1.3%	-5.3%	-4.0%	-5.3%
Sweden	98	1.5%	109	1.3%	-10.0%	-2.6%	-18.4%
Italy	55	0.8%	62	0.8%	-10.7%	-9.6%	-15.7%
United Kingdom	52	0.8%	58	0.7%	-9.4%	-8.1%	-17.7%
Poland	45	0.6%	48	0.6%	-6.3%	-3.8%	-
Denmark	34	0.4%	46	0.6%	-26.5%	-25.2%	-40.3%
Ireland	3	0.0%	4	0.0%	1.3%	3.1%	-19.7%
Norway	1	0.0%	1	0.0%	-11.2%	-8.0%	6.2%
Portugal	1	0.0%	-	0.0%	21.4%	24.0%	n.a.
Others ##	123	1.9%	133	1.7%	-7.6%	-7.2%	-7.3%
Asia Pacific	**698**	**10.4%**	966	12.0%	-27.8%	-26.6%	-26.3%
China	264	3.9%	388	4.8%	-32.1%	-29.9%	-18.5%
Singapore	111	1.6%	115	1.4%	-4.0%	-3.2%	-18.3%
Malaysia	78	1.1%	76	0.9%	2.0%	0.6%	-5.9%
Hong Kong	66	1.0%	95	1.2%	-31.1%	-31.1%	-39.3%
Taiwan	65	1.0%	80	1.0%	-18.4%	-17.0%	-22.0%
Australia and New Zealand	35	0.6%	137	1.7%	-73.9%	-72.1%	-100.0%
Macau	33	0.5%	37	0.5%	-12.2%	-12.2%	-19.9%
Others @	46	0.7%	38	0.5%	22.4%	22.4%	-14.3%
Total	**6,766**	**100.0%**	8,039	100.0%	-15.8%	-14.4%	-11.0%

^ Net change since 1 January 2018

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

\# Includes licensing

\## Others under Rest of Europe include i) retail (inclding eshop) revenue from Czech Republic, Hungary, Slovakia, Latvia, Slovenia, Estonia, Malta, Romania, Greece, Croatia and Bulgaria; ii) wholesale (excluding eshop) revenue from other countries mainly Chile, Colombia and Canada, as well as iii) third party licensing income that comes from Asia Pacific, Europe other than Germany and America

@ Others under Asia Pacific include wholesale (excluding eshop) revenue from other countries mainly Thailand, India and the Philippines

Retail (excluding eshop) Revenue by Country

	For the 6 months ended 31 December						
	2018		2017		Revenue change in %		Net change in net sales area^
Country	**HK$ million**	**% to Total Revenue**	HK$ million	% to Total Revenue	HK$	Local currency	
Germany	**1,218**	**44.4%**	1,453	43.7%	-16.2%	-14.6%	-6.6%
Rest of Europe	**956**	**34.9%**	1,074	32.3%	-10.9%	-9.3%	-6.5%
Benelux	384	14.0%	409	12.4%	-6.1%	-4.5%	-2.6%
Switzerland	246	9.0%	276	8.3%	-10.9%	-9.9%	-3.6%
Austria	168	6.1%	189	5.7%	-10.9%	-9.2%	-6.4%
France	72	2.6%	101	3.0%	-28.0%	-26.8%	-27.2%
Sweden	32	1.2%	30	0.9%	6.7%	16.3%	-6.5%
Poland	29	1.1%	35	1.0%	-16.7%	-14.1%	-
Finland	23	0.8%	27	0.8%	-13.8%	-12.4%	-
Denmark	2	0.1%	7	0.2%	-79.4%	-79.7%	-100.0%
Asia Pacific	**567**	**20.7%**	795	24.0%	-28.8%	-27.6%	-27.9%
China	196	7.2%	279	8.5%	-29.6%	-27.5%	-17.9%
Singapore	98	3.6%	106	3.2%	-7.6%	-6.8%	-18.3%
Malaysia	77	2.8%	75	2.3%	2.0%	0.6%	-5.9%
Hong Kong	65	2.3%	94	2.8%	-31.4%	-31.4%	-39.3%
Taiwan	63	2.3%	78	2.3%	-18.7%	-17.3%	-22.0%
Australia and New Zealand	35	1.3%	126	3.8%	-72.3%	-70.3%	-100.0%
Macau	33	1.2%	37	1.1%	-12.2%	-12.2%	-19.9%
Total	**2,741**	**100.0%**	3,322	100.0%	-17.5%	-16.0%	-12.2%

^ Net change since 1 January 2018

Directly Managed Retail Stores by Country – Movement Since 1 January 2018

	As at 31 December 2018					
Country	**No. of stores**	**Net opened stores^**	**Net sales area (m²)**	**Net change in net sales area^**	**No. of comp stores (excluding eshop)**	**Comp-store sales growth (excluding eshop)**
Germany	**137**	**(8)**	**108,118**	**-6.6%**	**122**	**-10.7%**
Rest of Europe	**132**	**(2)**	**75,070**	**-6.5%**	**104**	**-9.1%**
Switzerland	36	(2)	16,369	-3.6%	31	-8.0%
Netherlands	24	2	14,933	0.2%	18	-11.8%
Belgium	22	-	15,578	-5.5%	16	-7.9%
Austria	18	(1)	13,787	-6.4%	17	-8.9%
France	11	(1)	5,342	-27.2%	8	-9.2%
Poland	11	-	3,235	-	8	-9.0%
Sweden	5	1	2,376	-6.5%	2	-12.8%
Luxembourg	3	-	1,869	-	3	-5.6%
Finland	2	-	1,581	-	1	-9.3%
Denmark	-	(1)	-	-100.0%	-	n.a.
Asia Pacific	**226**	**(131)**	**50,630**	**-27.9%**	**127**	**-2.5%**
China	123	(35)	24,013	-17.9%	66	-14.2%
Taiwan	47	(17)	4,796	-22.0%	26	0.5%
Malaysia	28	(2)	11,514	-5.9%	20	3.0%
Singapore	17	(4)	5,394	-18.3%	10	11.0%
Hong Kong	7	(3)	3,275	-39.3%	3	16.6%
Macau	4	-	1,638	-19.9%	2	0.7%
Australia	-	(62)	-	-100.0%	-	n.a.
New Zealand	-	(8)	-	-100.0%	-	n.a.
Total	**495**	**(141)**	**233,818**	**-12.2%**	**353**	**-9.1%**

^ Net change since 1 January 2018
n.a. Not applicable

Directly Managed Retail Stores by Store Type – Movement Since 1 January 2018

	No. of stores					Net sales area (m^2)				
Store type	As at 31 December 2018	vs 1 January 2018 Opened	vs 1 January 2018 Closed	As at 1 January 2018	Net change	As at 31 December 2018	vs 1 January 2018 Opened	vs 1 January 2018 Closed	As at 1 January 2018	Net change
Stores	**325**	**16**	**(57)**	**366**	**(41)**	**190,224**	**4,994**	**(24,734)**	**209,964**	**-9.4%**
- Germany	120	4	(12)	128	(8)	93,814	1,115	(8,489)	101,188	-7.3%
- Rest of Europe	123	8	(9)	124	(1)	69,406	2,649	(5,874)	72,631	-4.4%
- Asia Pacific	82	4	(36)	114	(32)	27,004	1,230	(10,371)	36,145	-25.3%
Concession counters	**116**	**-**	**(78)**	**194**	**(78)**	**14,645**	**130**	**(5,283)**	**19,798**	**-26.0%**
- Germany	5	-	(1)	6	(1)	2,057	-	(521)	2,578	-20.2%
- Asia Pacific	111	-	(77)	188	(77)	12,588	130	(4,762)	17,220	-26.9%
Outlets	**54**	**2**	**(24)**	**76**	**(22)**	**28,949**	**495**	**(8,043)**	**36,497**	**-20.7%**
- Germany	12	1	-	11	1	12,247	312	-	11,935	2.6%
- Rest of Europe	9	-	(1)	10	(1)	5,664	-	(2,000)	7,664	-26.1%
- Asia Pacific	33	1	(23)	55	(22)	11,038	183	(6,043)	16,898	-34.7%
Total	**495**	**18**	**(159)**	**636**	**(141)**	**233,818**	**5,619**	**(38,060)**	**266,259**	**-12.2%**

Wholesale (excluding eshop) Revenue by Country

	For the 6 months ended 31 December						
	2018		2017		Revenue change in %		Net change in net sales area^
Country	HK$ million	% to Total Revenue	HK$ million	% to Total Revenue	HK$	Local currency	
Germany	**1,114**	**52.7%**	1,369	53.5%	-18.7%	-17.4%	-10.0%
Rest of Europe	**943**	**44.5%**	1,127	44.0%	-16.4%	-14.8%	-9.2%
France	222	10.5%	272	10.6%	-18.4%	-17.1%	-4.2%
Benelux	211	10.0%	279	10.9%	-24.3%	-23.2%	-10.8%
Spain	93	4.4%	100	3.9%	-6.7%	-5.5%	-5.3%
Austria	82	3.9%	96	3.8%	-14.7%	-13.3%	-13.8%
Finland	72	3.4%	78	3.1%	-7.0%	-5.5%	0.5%
Switzerland	54	2.5%	57	2.2%	-6.4%	-5.4%	-16.0%
Sweden	52	2.4%	62	2.4%	-16.9%	-9.0%	-24.4%
Italy	51	2.4%	58	2.2%	-11.8%	-10.7%	-15.7%
United Kingdom	29	1.4%	33	1.3%	-11.8%	-10.9%	-17.7%
Denmark	16	0.8%	21	0.8%	-22.6%	-21.1%	-23.4%
Ireland	2	0.1%	2	0.1%	-6.8%	-5.3%	-19.7%
Norway	1	0.0%	1	0.0%	-11.2%	-8.0%	6.2%
Others #	58	2.7%	68	2.7%	-15.3%	-15.1%	-7.3%
Asia Pacific	**60**	**2.8%**	64	2.5%	-5.9%	-5.2%	-17.3%
China	14	0.6%	26	1.0%	-46.4%	-44.7%	-22.1%
Others @	46	2.2%	38	1.5%	22.4%	22.4%	-14.3%
Total	**2,117**	**100.0%**	2,560	100.0%	-17.3%	-15.9%	-10.0%

^ Net change since 1 January 2018

\# Others under Rest of Europe include wholesale (excluding eshop) revenue from other countries mainly Canada, Chile and Colombia

@ Others under Asia Pacific include wholesale (excluding eshop) revenue from other countries mainly Thailand, India and the Philippines

Wholesale Distribution Channel by Country (controlled space only) – Movement Since 1 January 2018

																As at 31 December 2018
	Franchise stores				Shop-in-stores				Identity corners				Total			
Country	No. of stores	Net sales area (m^2)	Net opened stores^	Net change in net sales area^	No. of stores	Net sales area (m^2)	Net opened stores^	Net change in net sales area^	No. of stores	Net sales area (m^2)	Net opened stores^	Net change in net sales area^	No. of stores	Net sales area (m^2)	Net opened stores^	Net change in net sales area^
Germany	**215**	**47,638**	**(23)**	**-12.7%**	**1,998**	**77,089**	**(228)**	**-11.7%**	**1,051**	**22,374**	**(61)**	**4.0%**	**3,264**	**147,101**	**(312)**	**-10.0%**
Rest of Europe	**413**	**77,193**	**(27)**	**-6.6%**	**751**	**22,879**	**(71)**	**-10.6%**	**732**	**16,984**	**(150)**	**-18.0%**	**1,896**	**117,056**	**(248)**	**-9.2%**
Benelux	77	21,938	(7)	-6.3%	39	2,013	(12)	-22.5%	115	3,130	(44)	-27.9%	231	27,081	(63)	-10.8%
France	118	20,432	(7)	-3.5%	256	5,647	(3)	-2.9%	135	3,761	(19)	-9.5%	509	29,840	(29)	-4.2%
Austria	47	7,182	(5)	-14.9%	99	3,601	(5)	-4.8%	20	522	(18)	-41.7%	166	11,305	(28)	-13.8%
Sweden	8	2,894	(5)	-27.8%	5	290	4	663.2%	22	580	(19)	-37.8%	35	3,764	(20)	-24.4%
Finland	22	5,054	2	5.5%	47	1,979	(12)	-15.9%	102	2,857	8	5.8%	171	9,890	(2)	0.5%
Switzerland	21	3,069	(1)	-10.5%	42	1,790	(3)	-21.5%	11	251	(6)	-32.9%	74	5,110	(10)	-16.0%
Italy	12	2,055	(1)	-13.2%	31	773	(4)	-26.9%	226	3,423	(24)	-14.1%	269	6,251	(29)	-15.7%
Spain	26	3,149	1	9.4%	156	4,946	(14)	-7.9%	50	1,345	(9)	-21.8%	232	9,440	(22)	-5.3%
Denmark	5	1,395	(2)	-18.3%	2	28	-	-	10	269	(8)	-43.2%	17	1,692	(10)	-23.4%
Norway	1	242	-	-	-	-	-	-	1	15	1	n.a.	2	257	1	6.2%
United Kingdom	2	152	-	1.3%	9	328	1	-0.6%	37	803	(10)	-25.6%	48	1,283	(9)	-17.7%
Ireland	-	-	-	-	1	78	-	-4.9%	3	28	(2)	-44.0%	4	106	(2)	-19.7%
Others *	74	9,631	(2)	-4.0%	64	1,406	(23)	-24.7%	-	-	-	-	138	11,037	(25)	-7.3%
Asia Pacific	**104**	**10,400**	**(14)**	**-17.3%**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**104**	**10,400**	**(14)**	**-17.3%**
China	25	3,733	(9)	-22.1%	-	-	-	-	-	-	-	-	25	3,733	(9)	-22.1%
Thailand	56	3,750	(6)	-21.2%	-	-	-	-	-	-	-	-	56	3,750	(6)	-21.2%
Philippines	15	1,741	(1)	-11.7%	-	-	-	-	-	-	-	-	15	1,741	(1)	-11.7%
Others	8	1,176	2	12.0%	-	-	-	-	-	-	-	-	8	1,176	2	12.0%
Total	**732**	**135,231**	**(64)**	**-9.7%**	**2,749**	**99,968**	**(299)**	**-11.4%**	**1,783**	**39,358**	**(211)**	**-6.8%**	**5,264**	**274,557**	**(574)**	**-10.0%**

^ Net change since 1 January 2018

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

n.a. Not applicable

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 2018, the Board has resolved not to declare an interim dividend for the six months ended 31 December 2018 (1H FY17/18: Nil).

AUDIT COMMITTEE

The Audit Committee currently comprises three Non-executive Directors (two 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 2018 have been reviewed by the Audit Committee with the management.

HUMAN RESOURCES

As at 31 December 2018, the Group employed approximately 5,700 full-time equivalent staff (31 December 2017: approximately 7,100) 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 newsletters and 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.

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 2018, except that 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.

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 for Securities Transactions by Directors of Listed Issuers (the "Model Code") as contained in Appendix 10 of the Listing Rules.

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 2018.

BOARD OF DIRECTORS

As at the date of this announcement, the Directors of the Company are:

Executive Directors:	Dr Raymond OR Ching Fai *(Executive Chairman)* Mr Anders Christian KRISTIANSEN *(Group Chief Executive Officer)* Mr Thomas TANG Wing Yung *(Group Chief Financial Officer)*
Non-executive Director:	Mr Jürgen Alfred Rudolf FRIEDRICH
Independent Non-executive Directors:	Mr Alexander Reid HAMILTON Mr Carmelo LEE Ka Sze Mr Norbert Adolf PLATT

By Order of the Board
Hung Lee Lee
Company Secretary

Hong Kong, 26 February 2019

Forward-Looking Statements

This announcement contains certain forward-looking statements. Such forward-looking statements are subject to various risks and uncertainties, including without limitation, statements relating to our plans to transform the Company's business, make significant investment in our businesses and achieve sustainable profitability in the future, and other risks and factors identified by us from time to time. Although the Group believes that the anticipations, beliefs, estimates, expectations and/or plan stated in this announcement are, to the best of its knowledge, true, actual events and/or results could differ materially. The Group cannot assure you that those current anticipations, beliefs, estimates, expectations and/or plan will prove to be correct and you are cautioned not to place undue reliance on such statements. The Group undertakes no obligation to publicly update or revise any forward-looking statements contained in this announcement, whether as a result of new information, future events or otherwise, except as required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited or any other applicable laws and regulations. All forward-looking statements contained in this announcement are expressly qualified by these cautionary statements.