

# ESPRIT

Interim results for six months ended 31 December 2010

**10 February 2011**

1. Achievements in first half
2. Financial highlights
3. Update on 'Six Strategic Initiatives'
4. Update on China growth plan
5. Second half outlook
6. Corporate social responsibilities
7. Corporate calendar
8. Q&A

## Achievements in first half – financial Significant improvement in Q2



- Turnover up 1.6% in local currency, significant improvement in 2Q

		1Q		2Q	1H
Group turnover LCY growth yoy	▼	-2.6%	▲	5.9%	▲ 1.6%
Retail turnover LCY growth yoy	▲	10.8%	▲	7.2%	▲ 8.7%
Wholesale turnover LCY growth yoy	▼	-12.8%	▲	3.2%	▼ -6.2%
Retail comp store sales growth yoy	▼	-0.1%	▼	-2.6%	▼ -1.5%

- Retail comp. sales growth 1H was flat, excluding December 2010 adverse weather impact
- Strong second quarter for wholesale business. Positive for first time since 30 June 2008
- Efforts in differentiating product divisions bearing fruits – Edc and Collection outperformed other apparel divisions and grew 6.1% and 15.4% in LCY respectively
- Gross profit margin up 0.9% pt to 55.6%
- Effective tax rate down 2.5% pts to 19.1%
- Continued strong balance sheet and cash position of HK\$7.3 billion

## Achievements in first half – financial (cont'd)

### Share of Asia Pacific grows from 12% to 17%

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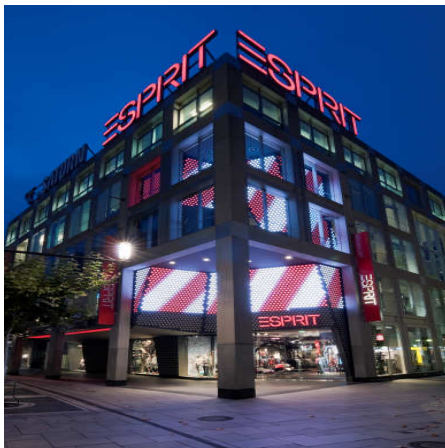
- China starting to accelerate in line with 5-year plan
  - ✓ Successfully completed integration phase
  - ✓ Converted negative retail comp. sales trend prior to acquisition to positive retail comp. sales trend
  - ✓ Expansion in line with 5 year target:
    - Total POS increased from 931 to 1,002 (+7.6%)
  - ✓ Total number of cities increased from 169 to 183
  - ✓ China EBIT margin up 5% pts yoy to 19.7%
- Wholesale turnover in Asia Pacific (excluding China) climbed 29.8% yoy in LCY
- Asia Pacific share in Group turnover increased from 12% to 17%



## Achievements in first half - operational

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- Six Strategic Initiatives are progressing well
- New positions for Creative Director and Brand Director. Started on 1 October 2010
- Largest Esprit flagship store opened in Frankfurt in September 2010
- Reinforcement of our digital marketing
  - ✓ Launched social networks: Facebook, Hyves, iPhone App, YouTube channel and mobile esprit.com
  - ✓ More than 1.2 million number of subscribers of Esprit's weekly online newsletter
  - ✓ More than 4 million Esprit Club members globally
- New channel-based sales organisation effective per 1 November 2010
- EPS/SAP for pilot division Edc Women went live with deliveries in October 2010
- New Europe Distribution Center building completed; installation of technical equipment in progress



## 2. FINANCIAL HIGHLIGHTS

# Performance highlights

## Negatively impacted by currency effect

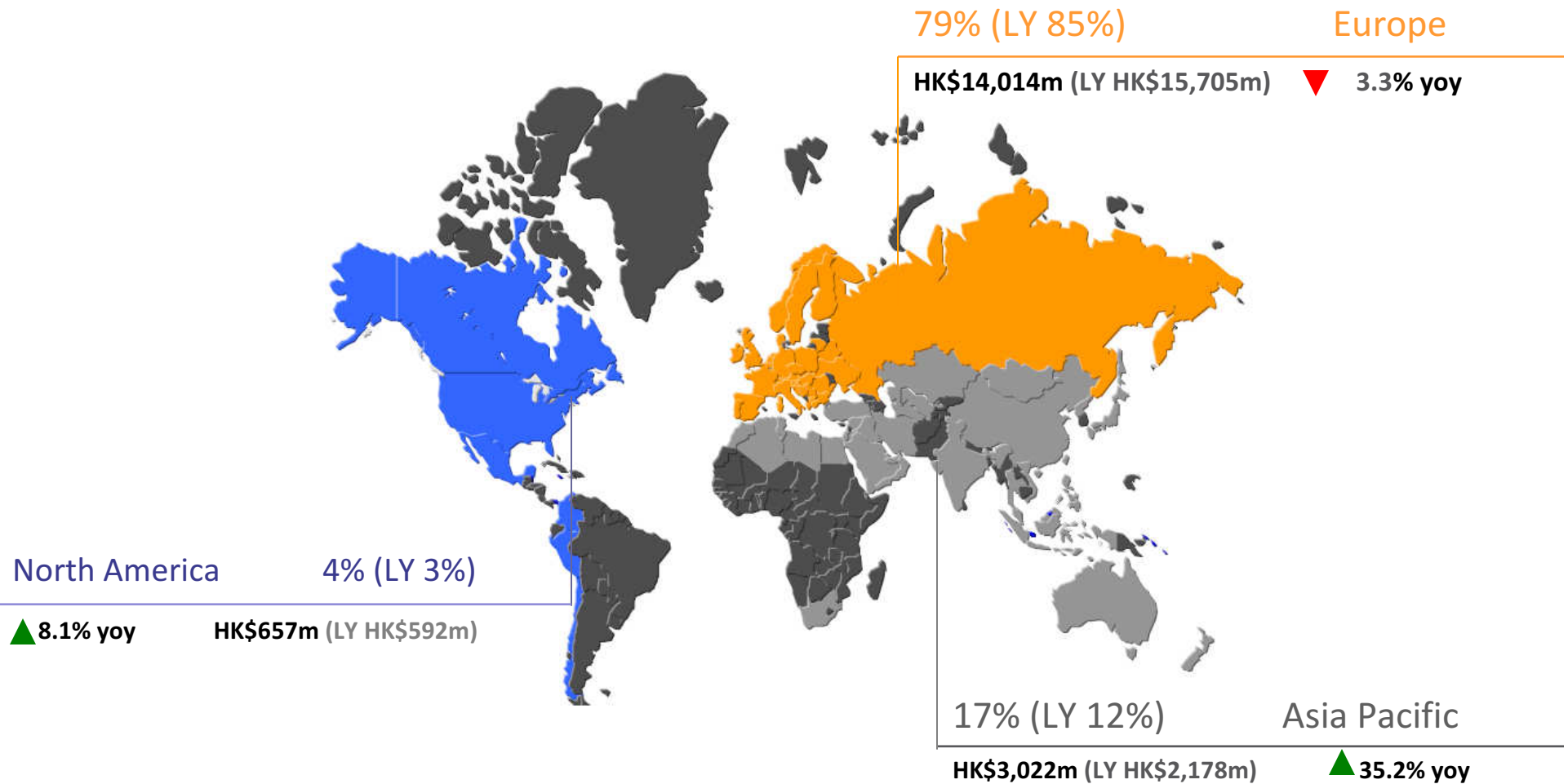


(HK\$)	For the six months ended 31 Dec		LCY growth
	2010	2009	
Turnover	17,693m	18,475m	▲ 1.6%
1Q	8,509m	9,365m	▼ 2.6%
2Q	9,184m	9,110m	▲ 5.9%
Gross profit margin	55.6%	54.7%	
Operating profit margin	14.9%	18.2%	15.3% (in LCY)
Effective tax rate	19.1%	21.6%	
Net profit	2,140m	2,705m	2,350m (in LCY)
EPS (Basic)	1.66	2.12	
Interim dividend per share*	1.00	0.74	

\* Interim dividend per share for 1H10/11 is calculated based on the regular dividend policy of 60% of basic EPS

# Turnover by Regions

Asia Pacific region already accounts for 17%



% to Group turnover (Last Year) // turnover in HK\$ // ▲ ▼ % LCY growth

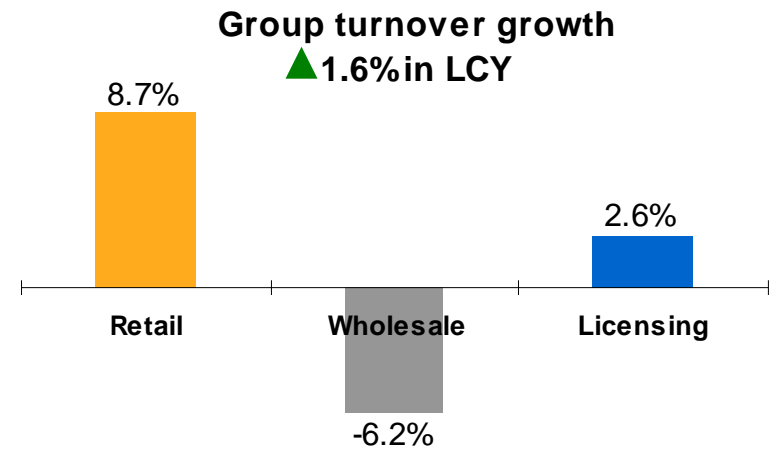
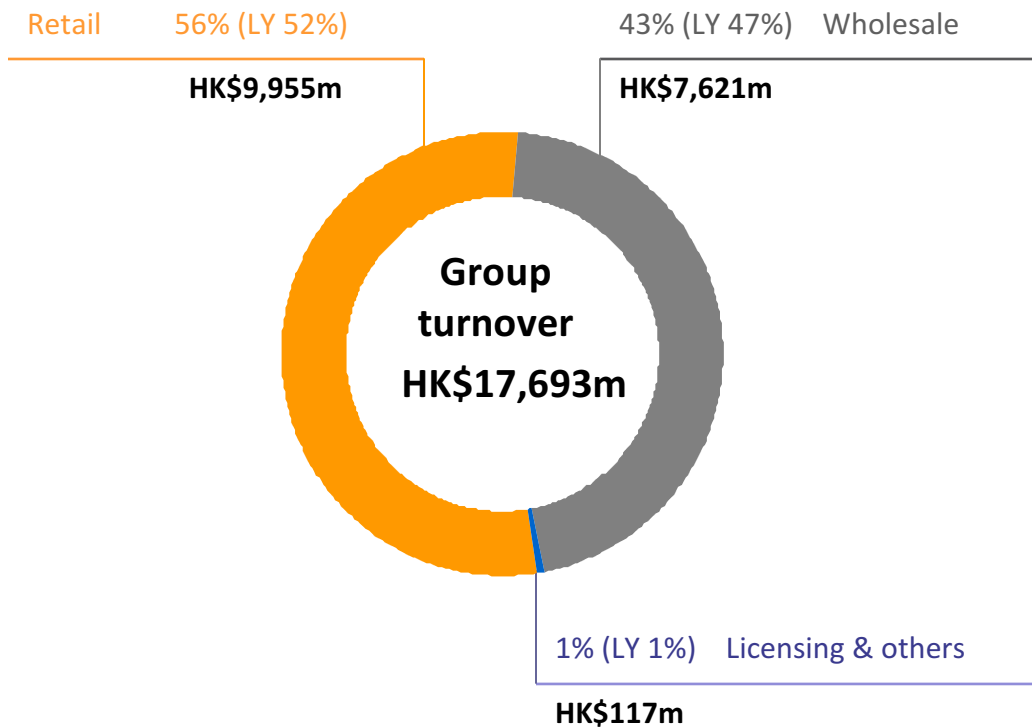


# Turnover mix

## Continued shift towards retail



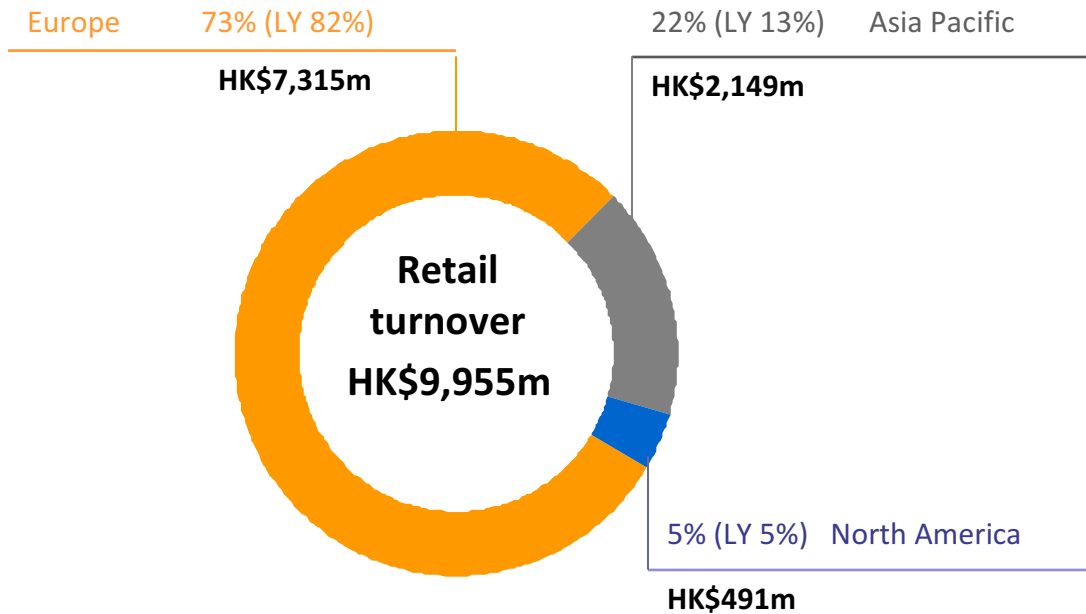
% to Group turnover (Last Year) // turnover in HK\$



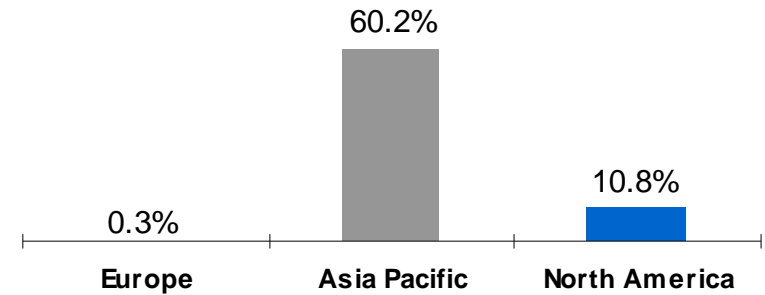
# Retail turnover up 8.7% in LCY



% to Retail turnover (Last Year) // turnover in HK\$



Retail turnover growth ▲ 8.7% in LCY



## Comparable store sales



	Comp-store sales growth	No of comp store	
		as at 31 Dec 2010	YoY chg
Europe	-1.7%	291	31
Asia Pacific	0.6%	354 *	134
North America	-4.9%	66	4
<b>Total</b>	<b>-1.5%</b>	<b>711</b>	<b>169</b>

- Comp. store sales in Europe and North America impacted by weather conditions in December
- Excluding December 2010, comp. store sales growth for 1HFY10/11 is nearly flat

\* Included 126 comp stores in China as at 31 Dec 2010

## Retail expansion on track



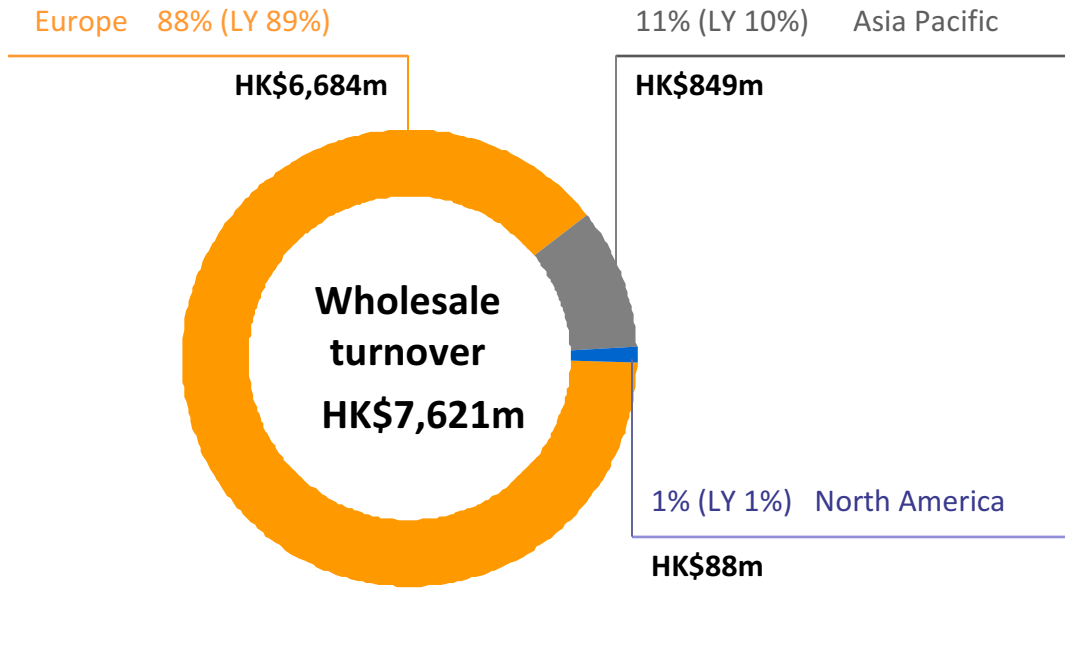
	Directly managed retail stores						
	POS Number				Net sales area (m <sup>2</sup> )		
	As at 1 Jul 2010	vs Jun 2010			As at 31 Dec 2010	Dec 2010	vs Jun 2010
opened		normal closure	exceptional closure				
Europe	419	+9	-4	-5	419	244,322	0.4%
Asia Pacific	622	+50	-30	-2	640	115,532	3.3%
North America	82	+14	-1	-	95	34,822	14.0%
<b>Group total</b>	<b>1,123</b>	<b>+73</b>	<b>-35</b>	<b>-7</b>	<b>1,154</b>	<b>394,676</b>	<b>2.3%</b>

- 7 stores included in the store closure program were closed during the six months
- Excluding this impact, retail space grew 3.1%
- Expansion focus remains on China and core markets in Europe
- Retail expansion capabilities strengthened, but quality before quantity

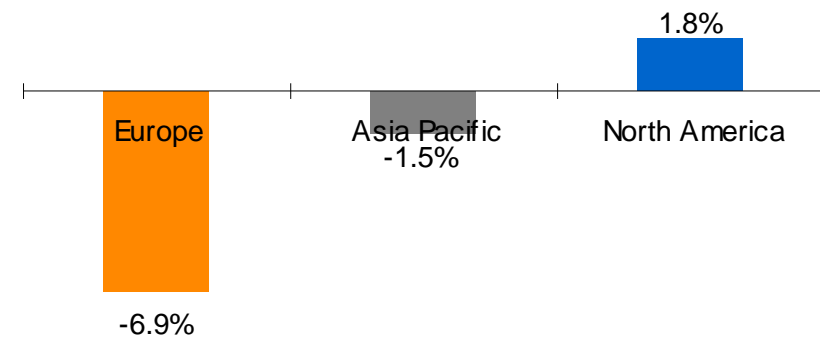
# Wholesale turnover strong in 2Q, despite continued weak consumer spending in EU



% to Wholesale turnover (Last Year) // turnover in HK\$



Wholesale turnover growth ▼ 6.2% in LCY



## Wholesale LCY turnover growth

- Group
- Group (excl China)
- Europe
- Asia Pacific
- Asia Pacific (excl China)
- North America

	1Q10/11	2Q10/11	1H10/11
Group	▼ -12.8%	▲ 3.2%	-6.2%
Group (excl China)	▼ -11.6%	▲ 2.6%	-5.7%
Europe	▼ -12.8%	▲ 1.8%	-6.9%
Asia Pacific	▼ -14.4%	▲ 14.9%	-1.5%
Asia Pacific (excl China)	▲ 36.8%	▲ 23.5%	29.8%
North America	▲ 4.3%	▼ -1.0%	1.8%

# Continued strengthening of wholesale channel Positive for brand and operational efficiency

	Controlled wholesale POS as at 31 December 2010								As at 30 June 2010
	Franchise stores		Shop-in-stores		Identity corners		Total		Total
	No. of POS	Net change in no. of POS	No. of POS	Net change in no. of POS	No. of POS	Net change in no. of POS	No. of POS	Net change in no. of POS	No. of POS @
Esprit Europe <sup>^</sup>	1,149	-	4,943	(74)	4,827	(217)	10,919	(291)	11,210
Esprit Asia Pacific	1,002	180	135	(116)	-	(3)	1,137	61	1,076
<b>Total<sup>^</sup></b>	<b>2,151</b>	<b>180</b>	<b>5,078</b>	<b>(190)</b>	<b>4,827</b>	<b>(220)</b>	<b>12,056</b>	<b>(230)</b>	<b>12,286</b>

	Controlled wholesale space as at 31 December 2010								As at 30 June 2010
	Franchise stores		Shop-in-stores		Identity corners		Total		Total
	Net sales area (m <sup>2</sup> )	Net change in net sales area* (m <sup>2</sup> )	Net sales area (m <sup>2</sup> )	Net change in net sales area* (m <sup>2</sup> )	Net sales area (m <sup>2</sup> )	Net change in net sales area* (m <sup>2</sup> )	Net sales area (m <sup>2</sup> )	Net change in net sales area* (m <sup>2</sup> )	Net sales area (m <sup>2</sup> ) @
Esprit Europe <sup>**</sup>	286,008	1.3%	196,365	-1.7%	109,311	-4.3%	591,684	-0.8%	596,185
Esprit Asia Pacific	126,842	9.8%	3,592	-63.2%	-	-100.0%	130,434	4.1%	125,315
<b>Total<sup>**</sup></b>	<b>412,850</b>	<b>3.8%</b>	<b>199,957</b>	<b>-4.5%</b>	<b>109,311</b>	<b>-4.3%</b>	<b>722,118</b>	<b>0.1%</b>	<b>721,500</b>

\* Net change from 30 June 2010

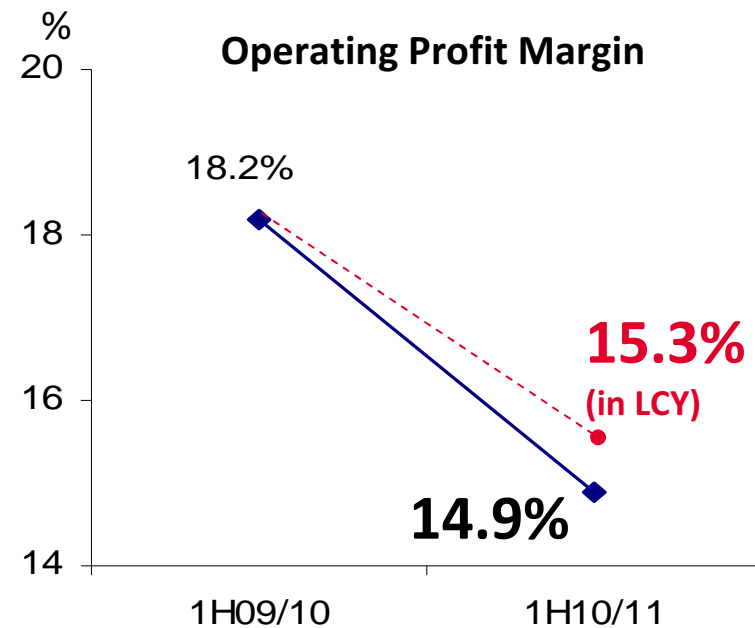
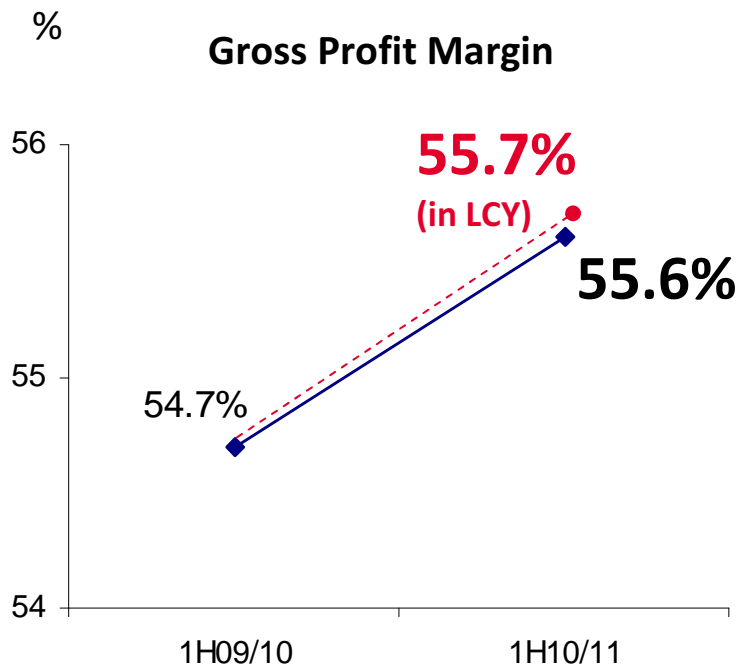
\*\* The selling space of Esprit wholesale POS in Europe as of 30 June 2010 were restated to as follows: 282,297 m<sup>2</sup> for franchise stores, 199,722 m<sup>2</sup> for shop-in-stores and 114,166 m<sup>2</sup> for identity corners; consequently, the selling space of Esprit wholesale POS for the Group as of 30 June 2010 were restated to 397,787m<sup>2</sup> for franchise stores, 209,487m<sup>2</sup> for shop-in-stores and 114,226m<sup>2</sup> for identity corners

<sup>^</sup> The no. of Esprit wholesale POS in Europe as of 30 June 2010 were restated to as follows: 1,149 for franchise stores, 5,017 for shop-in-stores and 5,044 for identity corners; consequently, the no. of Esprit wholesale POS for the Group as of 30 June 2010 were restated as follows: 1,971 for franchise stores, 5,268 for shop-in-stores and 5,047 for identity corners

@ With the roll out of the SAP program for the wholesale business, the Group has tightened the definitions of inactive accounts, resulting in the restatement of wholesale POS and controlled space

# Group margins

## Impacted by continued shift towards retail



- Shift in channel mix continued having positive impact on gross profit margin, but dilution of operating profit margin

6 MONTHS ENDED

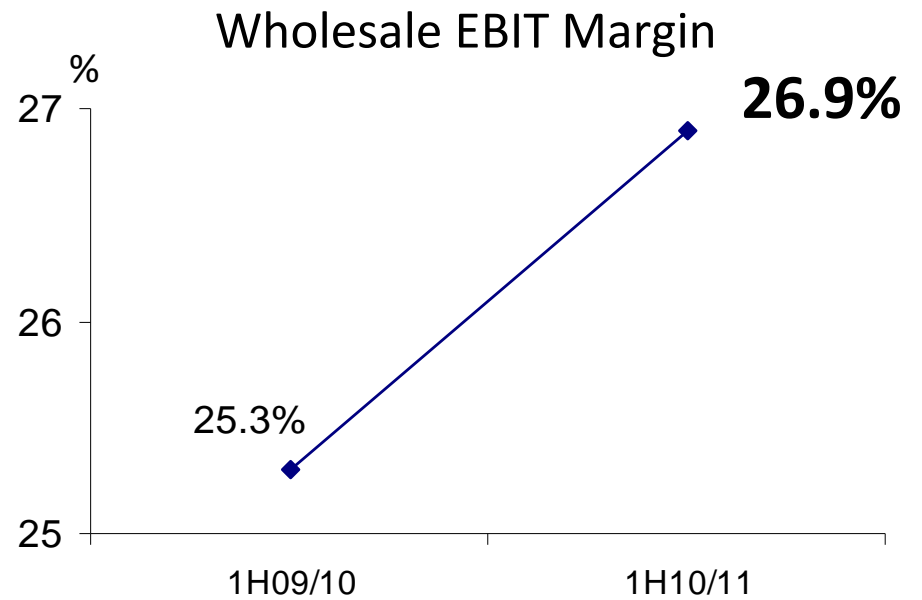
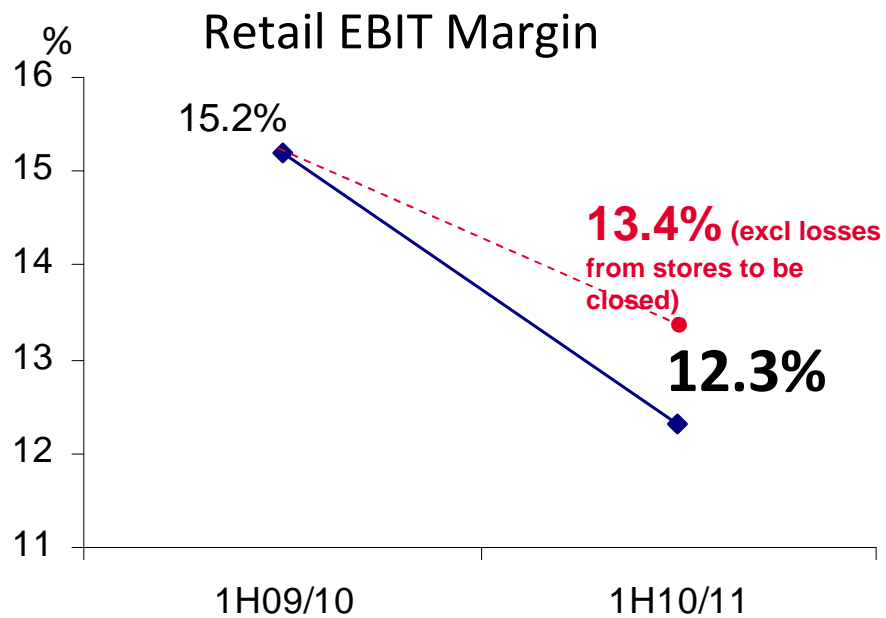
Turnover split (%) Retail : Wholesale

31 December 2010    31 December 2009

**56 : 43**

52 : 47

# Segment EBIT margins





## Continued strong balance sheet

### Cash position of HK\$7.3 billion



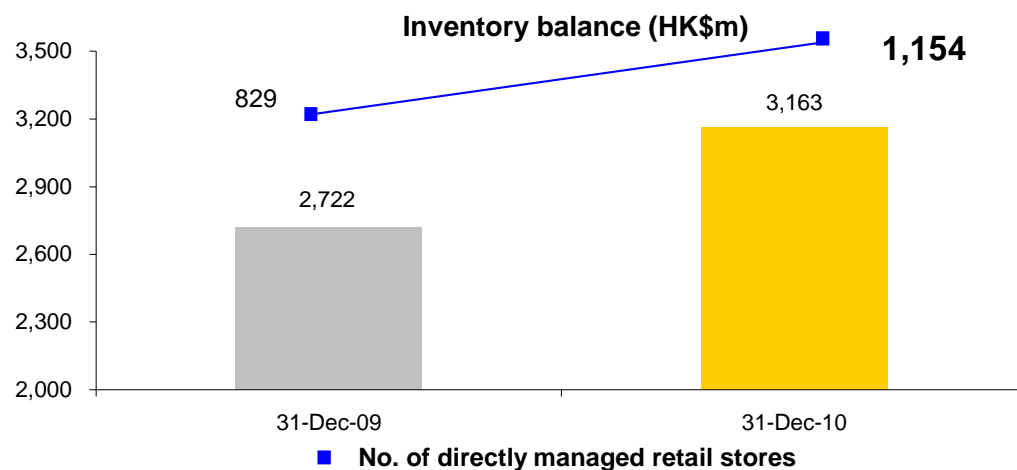
(HK\$m)	For the six months ended 31 Dec	
	2010	2009
Beginning balance (1 Jul)	6,748	4,840
Net cash flows from operating activities	1,854	3,768
Net cash flows used in investing activities <sup>#</sup>	(715)	(858)
Net cash flows (used in)/ from financing activities <sup>##</sup>	(830)	61
Net cash inflow	309	2,971
Effect of change in exchange rates	245	52
Ending balance (31 Dec)	<u>7,302</u>	<u>7,863</u>
Less:		
Bank loans	2,600	-
Net cash balance	<u>4,702</u>	<u>7,863</u>

<sup>#</sup> Dec 2010 figure included HK\$150m of payment for acquisition of the remaining interest in China JV; Dec 2009 figure included HK\$388m deposit paid for acquisition of remaining interest in the associated companies and HK\$245m of dividend received from former China JV

<sup>##</sup> Includes final dividend payment of HK\$826m in December 2010

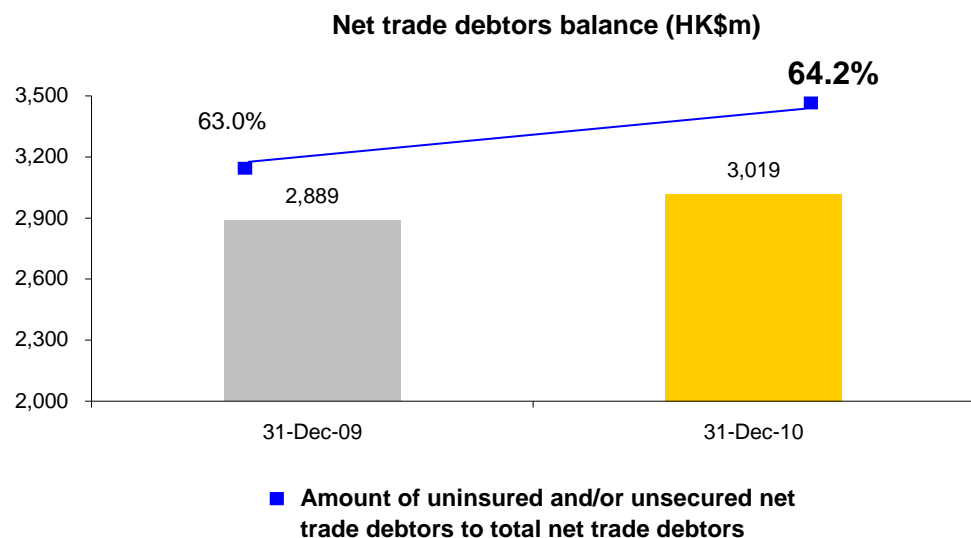
# Continued strong balance sheet

## Inventory and trade debtors improve yoy



**Inventory balance increased mainly due to :**

- Consolidation of China's inventory
- Increase in retail store number



**Net trade debtors increased mainly due to :**

- Higher wholesale turnover in 2Q 10/11

### Net trade debtors ageing by overdue (%)

As at	31 Dec 10	31 Dec 09
Current	74.2%	70.9%
1 - 30 days	10.2%	10.3%
31 - 60 days	5.0%	6.8%
61 - 90 days	2.2%	3.0%
Over 90 days	8.4%	9.0%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

### 3. UPDATE ON SIX STRATEGIC INITIATIVES

# Six Strategic Initiatives

## Strengthening our platform for growth



- 1 Global brand** ..... Strengthening brand equity and improving shopping experience to drive traffic and customer loyalty
- 2 Products** ..... Improving product differentiation and newness to grow sales per sqm
- 3 Channel and country** ..... Ensuring better execution of the multichannel strategy to fuel growth and profitability
- 4 Cost of goods sold** ..... Achieving savings in sourcing across divisions
- 5 Support functions** ..... Establishing best-in-class backbone for growth
- 6 Organisation and structure** ..... Ensuring better alignment and global execution across product divisions, regions, and channels

# Strengthening the ESPRIT brand and shopping experience

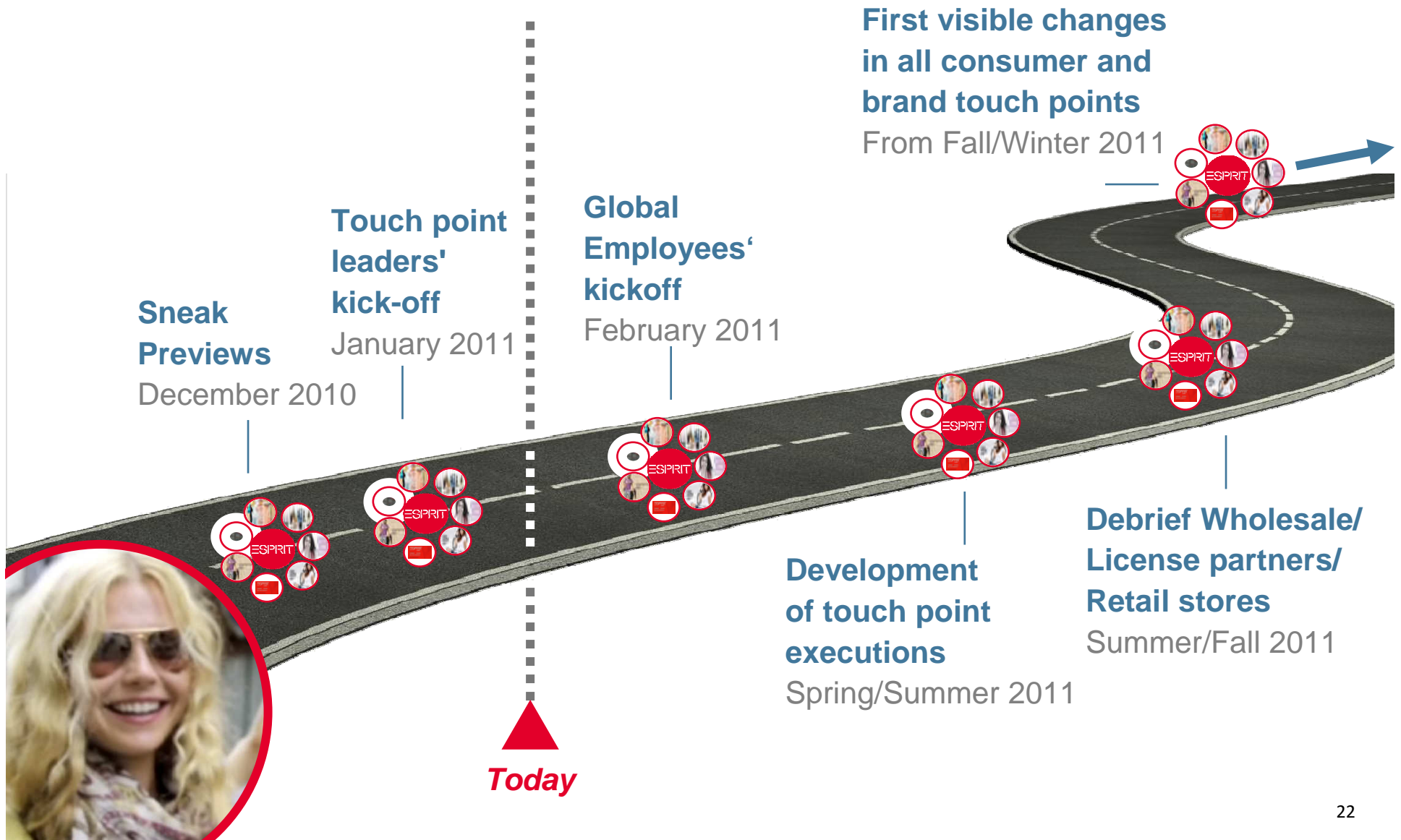


Consumer research showed the Esprit brand enjoys high level of **consumer trust globally** based on **quality**, yet there are opportunities to differentiate the brand further based on a **clearer handwriting** in product, store and communication



**Brand Director,  
Jörgen Andersson and  
Creative Director,  
Jan Nord  
on board since Oct. 2010**

# Roadmap for implementation of the enhanced ESPRIT brand direction



# Implementation of Global Product Line concept Higher brand consistency and sourcing efficiency



- Kicked off implementation in Women Casual division
- Target: to increase global overlap from <5% to 30%; latest results: 44%
- Well received by wholesale customers
- Roll-out to other divisions

## Global Product Line concept

### Global Product Line: 30% of styles

Mandatory, global overlap

- Marketing/window styles
- Key looks
- Essentials

### Continental product Line: 30% of styles

Select styles based on regional needs

- Complementary styles to key looks ("build the wardrobe")

### Local Product Line: 40% of styles

Select specifics per country from total monthly collection

# Progress of exceptional store closure program



**8 out of the 33 stores in closure program have been closed**

**Store closure status**

**Number of stores to be closed**

	Planned closures	As at 31 Dec 2010
Europe	19	14
North America	7	7
Asia Pacific	7	4
<b>Total</b>	<b>33</b>	<b>25</b>





# New, medium-term sourcing strategy well on track

## Sourcing footprint: less suppliers, different countries

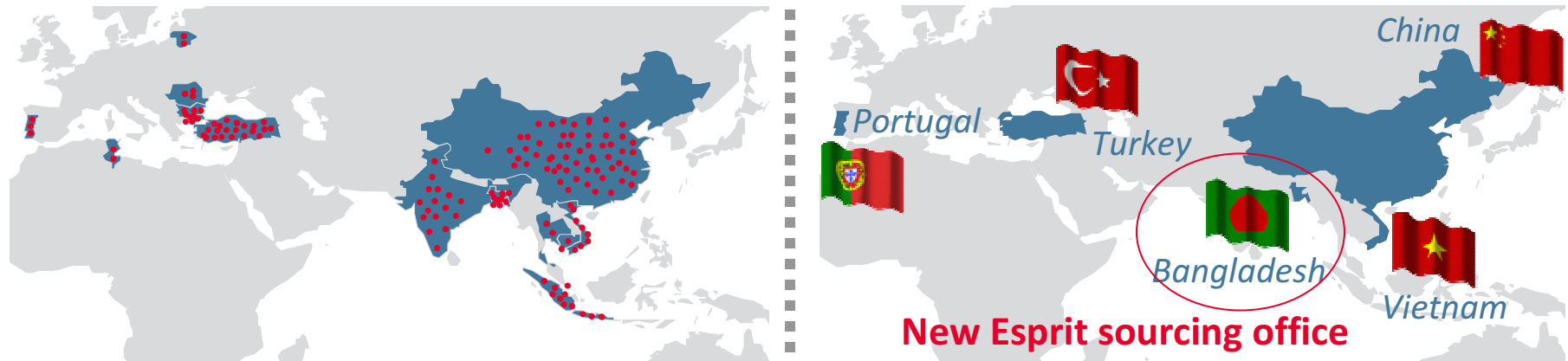


### Portfolio consolidation:

- ✓ Successful **Preferred Supplier Program** for T-Shirts rolled out to 'sweaters' (from 48→13 suppliers) and 'outerwear' (from 117 →11 suppliers)
- ✓ Roll out to other product categories in progress
- ✓ Direct sourcing and blocking of fabric and yarn: achieve savings and ensure on time deliveries

### Best-cost-country-sourcing

- ✓ Accelerated shift from southern China. Share of Bangladesh has tripled in last 6 months.
- ✓ FOB advantage over (southern) China ca. 20%.
- ✓ New Esprit sourcing office opened in Bangladesh.



## Implementing best-in-class HR and IT functions to support future growth



- New Head of Global HR on board since December 2010
- Talent Management program launched to develop internal leadership skills
- New performance linked incentive system implemented

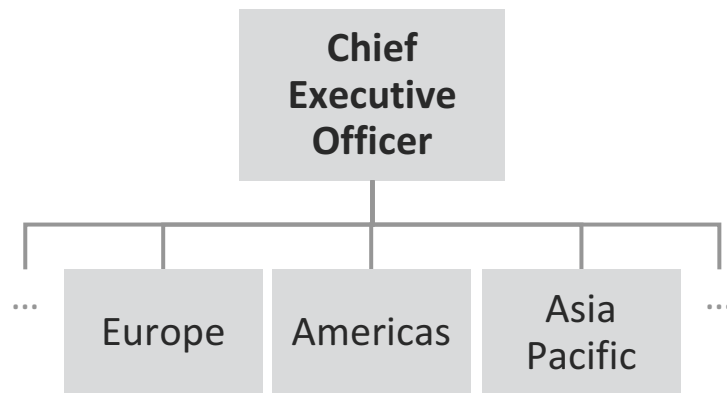
## EPS AT ESPRIT FIT FOR OUR FUTURE

- Important milestone: Edc Women division went successfully live with deliveries
- Edc Men division will be next

# New channel-based sales organisation Effective as at 1 November 2010



From ...



Regional organisation leads to inconsistent brand experience across channels and regions

To ...



Channel-based sales organisation is proven model within ESPRIT

# New channel-based sales organisation

## Effective as at 1 November 2010



To ...



### Retail capabilities strengthened

*Chief Retail Officer*

*Global Retail COO*

*Global Head of Expansion*

### New Global Head of Wholesale hired. Start 1 May

*Chief Wholesale Officer*

## 4. UPDATES ON CHINA GROWTH PLAN

# China growth and profitability starting to accelerate in line with 5-year plan



	Six months ended 31 Dec 2010		yoy growth	Six months ended 31 Dec 2009	
	Turnover (HK\$ million)	% of total		Turnover (HK\$ million)	% of total
Retail	847	59.8%	2.0%	830	61.8%
Wholesale	570	40.2%	11.0%	513	38.2%
<b>Total*</b>	<b>1,417</b>	<b>100.0%</b>	<b>5.4%</b>	<b>1,343</b>	<b>100.0%</b>

\* Excludes salon

	Six months ended		
	31 Dec 2010	30 Jun 2010	31 Dec 2009
Comp store sales growth	+0.5%	-4.2%	-8.5%

- Integration phase completed
- Comp store sales growth successfully turned around after acquisition
- Strong wholesale turnover development

# Expansion on track with 5-year plan

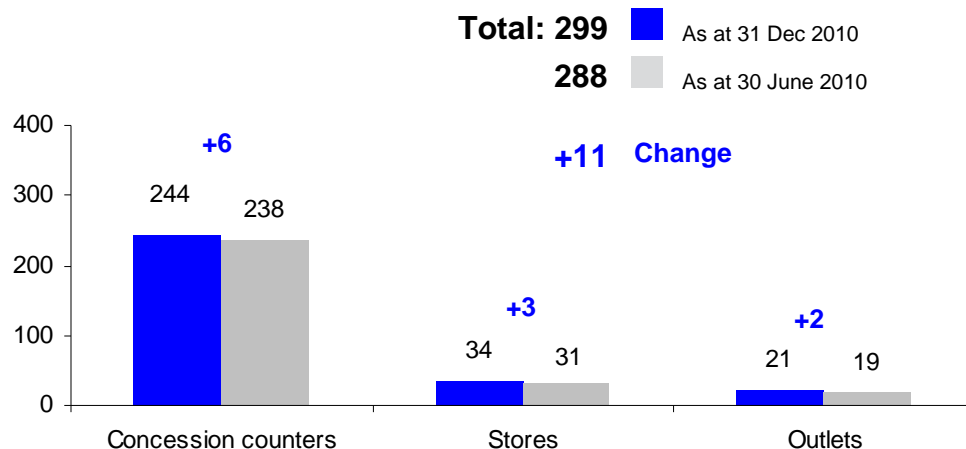
## No. of POS +7.6% in first half year



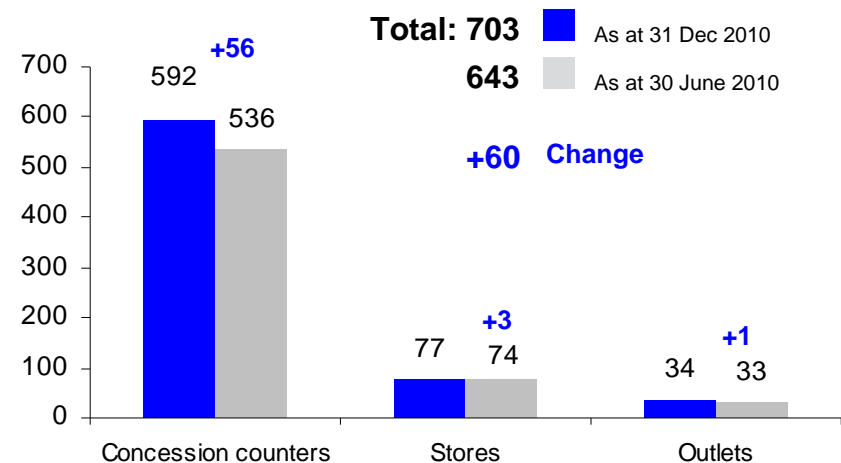
	Retail	Wholesale	Total
<b>No. of cities</b>			
As of 31 December 2010	6	177	<b>183</b>
As of 30 June 2010	6	163	<b>169</b>
No. of new cities	-	14	<b>14</b>
<b>No. of POS</b>			
As of 31 December 2010	299	703	<b>1,002</b>
As of 30 June 2010	288	643	<b>931</b>
No. of new POS	11	60	<b>71</b>

- Added net 11 POS in existing 6 retail cities to 299 retail POS
- Added 14 new cities via franchise and net 60 POS to 703 POS in 177 cities
- Expanding our footprint from 169 cities to 183 cities

### No. of Retail POS



### No. of wholesale POS



## 5. SECOND HALF OUTLOOK



- **Retail**
  - 5-10% full year yoy space growth
  
- **Wholesale**
  - Signs of improvement, but wholesale customers remain cautious with pre-orders. Specials and Injections offer opportunity
  - Continuous improvement of order book
  - Order intake for Jan – May 2011 shows only low single digit % decline
  
- **Capital expenditure**
  - ~HK\$1.3 billion including HK\$0.6 billion for stores; HK\$0.3 billion on IT projects; HK\$0.3 billion on the Europe Distribution Centre
  
- **Sourcing**
  - Sourcing market poses challenges on COGS. Measures taken to offset at least part of the cost increases short-term

## 6. CORPORATE SOCIAL RESPONSIBILITIES

# Corporate social responsibilities Opening SOS Children's Village in India

ESPRIT



Oscar nominated actress, Maggie Gyllenhaal and her husband Peter Sarsgaard act as global ambassadors

Two years ago, Esprit decided to build and support a SOS Children's Village in India. The official opening took place in October 2010.

The village provides new homes with essential livelihood support for children in need.



In November 2010, the BIG BANG campaign was launched to raise awareness for the children in the village in India.

Customers around the world participated in stores and online to make their bang count.

## Corporate Calendar



Last day of trading on a “cum” basis	2 March 2011
Ex-dividend date	3 March 2011
Fixing of Dividend Reinvestment Price	28 February 2011 – 4 March 2011 (both days inclusive)
Book close	7 March 2011 – 8 March 2011 (both days inclusive)
Despatch of Election Form	11 March 2011
Election Period	11 March 2011 – 25 March 2011 (both days inclusive)
Dividend payment	12 April 2011

7. Q&A

# Interim results 2010/11

## Q&A

# ESPRIT

