For Immediate Release

25 February 2015, Hong Kong

ESPRIT HOLDINGS LIMITED ANNOUNCES INTERIM RESULTS FOR THE 6 MONTHS ENDED 31 DECEMBER 2014

Sales performance impacted by a challenging operating environment, notwithstanding good progress made on all aspects of Transformation phase

- Turnover of HK$10,716 million, a year-on-year decline of -13.2% in local currency (-16.3% in HK dollar terms); turnover decline in the second quarter narrowed to -9.9% in local currency, which was in line with the corresponding reduction of total controlled space of -10.0% year-on-year
- Sales performance in Europe, the Group's largest market, was adversely impacted by the prolonged unusually warm weather conditions, which affected sales of Autumn/Winter products
- Continued good progress made on Transformation and encouraging initial wholesale response on the Spring/Summer 2015 collections, the first entirely developed under the new vertical model
- OPEX reduction of -8.9% year-on-year in local currency (-11.9% in HK dollar terms), representing substantial savings of HK$724 million
- Net profit of HK$47 million thanks to continued improvement of our cost base
- Healthy net cash position of HK$5,230 million (HK$5,181 million as of 31st December 2013)
- Interim dividend of HK 1.5 cents per share with scrip alternative

ESPRIT HOLDINGS LIMITED ("Esprit", "the Company" or the "Group"; stock code 00330) today announces its interim financial results for the six months ended 31 December 2014.

Sales performance impacted by a challenging operating environment

The first six months of FY14/15 was a challenging time for Esprit, with a number of internal and external factors having considerable impact on the Group's sales performance:

- The reduction in total controlled space, retail and wholesale combined, resulting from our strategic decision to close unprofitable retail stores and rationalize our wholesale customer base led to a more streamlined distribution at the start of the financial year FY14/15, which consequently impacted turnover;
- Prolonged unusually warm weather conditions in most parts of Europe for the majority of the first half had a very significant impact on expected sales of the Group's Autumn/Winter 2014 products and resulted in a highly promotional and discount-driven market environment during the entire Autumn/Winter 2014 season;
- Special return agreements implemented last year in China to address aged inventory in the country's wholesale channel impacted top line performance in the first quarter; and
- Currency headwinds in the form of the depreciating Euro had a significant impact on financial performance given that this currency represents approximately 78% of our total revenue.

On a positive note, the Group recorded improvement in top line performance in the second quarter of FY14/15 versus the first quarter, as the weather in Europe gradually normalized, and there was no longer a drag from the special return agreements in China. Leveraging on the colder weather and subsequent upswing in sales during the second quarter, the Group undertook more tactical promotions and markdowns to drive store traffic and further activate top-line sales. Although the favourable impact from these measures was partially offset by aggressive industry-wide discounting, the Group narrowed the rate of turnover decline in 2Q FY14/15 to -9.9% in local currency (1Q FY14/15: -16.3%), which was in line with both the corresponding reduction of controlled space of -10.0% as well as with the overall performance of the Group in the last financial year.

Notwithstanding the Group's weak overall top-line performance, the Trend Division, established to develop fast reaction products in Esprit under a purely vertical business model, reported turnover growth of 68.4% in local currency in the first half.

The Group continued to remain vigilant in controlling costs and improving working capital management, achieving substantial savings in operating expenses even despite an increase in marketing and advertising expenses to drive customer traffic and sales performance over the longer term.

Operating expenses, declined at a lower rate (-11.9% in HK dollar terms) than the decline in turnover due to the substantial savings already achieved in the previous year. Consequently, the Group has recorded a decline in overall profitability although it has remained profitable, as well as maintained a healthy net cash position, for the first half of FY14/15.

Good progress made on all aspects of Transformation phase

During the first six months of FY14/15, the Group continued to make good progress in all aspects of the Transformation phase, and particularly in the following areas:

- **Product and "Vertical Model"**: Our maximum efforts continue to be devoted to significantly improving our products, which we see as the most important aspect of our transformation, by implementing faster and more cost-efficient product development and supply chain management processes. In this respect, our operations have been running under a new Vertical Model since the beginning of the financial year FY14/15, in July 2014, and we are on track to launch the Spring/Summer 2015 collections in February 2015, the first ones that have been entirely developed under the new model. We consider that the products developed under the Vertical Model have improved considerably in terms of design, quality and value-for-money. They have thus far been very well-received by our wholesale partners as evidenced by their order intake, which has shown sequential improvement season by season, when comparing year on year development.

While we welcome this positive reaction to our first "vertical collections", we are also conscious that the development of the Vertical Model is still, to a great extent, work in progress. The last six months have been highly demanding for most teams in Esprit as almost every area in the Company has been introducing significant changes to their daily operations. Visible and positive progress has been made in all eight fundamental projects to implement our Vertical Model. Nonetheless, we expect the next six months to be equally intense so that, by July 2015, the most critical elements of the model are engrained in the organization.

Accompanying product improvement, our leaner supply chain is beginning to have a positive impact on our sourcing costs. This has enabled a slight increase in gross profit margin notwithstanding the tactical promotions and markdowns implemented as part of our efforts to improve inventory management and activate turnover in what has been a heavily promotional marketplace, with considerable discounting from the competition.

- **Omni-channel Model**: In parallel with the aforementioned initiatives, we have been stepping up our efforts to develop an omni-channel model that shall enhance the customer experience across our multiple distribution channels. We will leverage on our sizable loyal customer base ("Esprit Friends" program) and our well established e-commerce platform in order to enable consumers to better interact with our brand across all its sales channels (retail and wholesale, off-line and on-line). We have evidence that this integrated approach is the most effective model for Esprit to maximize the potential of our channels and to drive consumer satisfaction, loyalty, and ultimately value.

We see our Vertical Model (for improved products) and our Omni-channel Model (for improved distribution) as perfectly complementary projects, which together shall be the basis for Esprit's competitiveness in the near future.

Commenting on the results, Mr. Jose Manuel Martínez Gutiérrez ("Mr. Martínez"), the Group Chief Executive Officer of Esprit, said, "… we continued to make rapid progress in the first half in all aspects related to our Transformation, especially in terms of improving our products by implementing a vertical business model which will significantly enhance our speed and efficiency. However, this is a challenging process and the development of the vertical model is still ongoing work in progress as we continue to introduce significant changes across our operations. Once the most critical elements of the model are fully engrained within Esprit will we begin to start seeing a visible and substantial impact on sales performance, and in turn, on our overall profitability. End consumer response must still be fully tested and there is no doubt that continuous fine tuning will be required all throughout the process. The full potential of the Transformation project will be unlocked and optimized over time."

Reported Earnings

Group turnover amounted to HK$10,716 million (1H FY13/14: HK$12,810 million), representing a year-on-year decline of -13.2% in local currency, or -16.3% in Hong Kong Dollar terms.

Gross profit margin was slightly higher year-on-year at 50.5% (1H FY13/14: 49.6%) as a result of savings achieved from a leaner supply chain which offset the impact of a discount-driven market environment.

Operating expenses ("OPEX") amounted to HK$5,370 million (1H FY13/14: HK$6,094 million) representing a significant reduction of HK$724 million or -8.9% year-on-year in local currency (-11.9% in Hong Kong dollar terms).

The Group remained profitable, recording a positive EBIT of HK$37 million (1H FY13/14: HK$254 million) and a net profit of HK$47 million (1H FY13/14: HK$95 million).

The Group maintained a healthy net cash position of HK$5.23 billion (HK$5.18 billion as of 31 December 2013).

The Group's Board of Directors has declared an interim dividend for the six months ended 31 December 2014 of 1.5 HK cents per share (1H FY13/14: 3.0 HK cents). This represents an interim dividend payment ratio of 61.5% of basic earnings per share.

Commenting on the Group's reported earnings, Mr. Thomas Tang, the Group Chief Financial Officer of Esprit, said, "…despite what has been a challenging first six months of the 14/15 financial year, the Group remained profitable. We continued our efforts to reduce operating expenses and our leaner supply chain had a positive impact on our sourcing costs. We will continue to keep a close eye on our cost reduction initiatives, but intend to step up our marketing investment to support both the store rollout of our new products and our omni-channel strategy as an integrated approach to drive consumer satisfaction, loyalty, and ultimately, value."

Outlook

Looking ahead to the second half of the financial year, the Group's performance remains uncertain as: (i) top line volatility is expected due to the first execution of the new Vertical Model in Spring/Summer 2015; (ii) the operating environment continues to be very challenging in most markets; (iii) possible further depreciation of the Euro, which if persists could have a significant impact on the Group's results in Hong Kong dollar terms; and (iv) due to seasonality, the business in the second half is normally not as profitable as it is in the first half.

Whilst the Group will remain focused on finalizing the implementation of the various elements of the Vertical Model, for the 2H FY14/15 we expect the controlled space development in our retail channel to decline by a low single digit percentage, as we continue to close loss making stores. In terms of space productivity (sales per sqm), we expect to see recovery as compared to 1H FY14/15 in both the retail and wholesale channels. As a consequence, we anticipate a decline in the Group's top line in 2H FY14/15 in local currency that is in line with the decline in controlled space. Nonetheless, as mentioned, volatility is still expected due to the first ever execution of the new Vertical Model.

Gross profit margin is expected to see continued improvement in local currency terms driven by improvements in supply chain management although the EUR/HK Dollar exchange rate development may negatively impact the gross profit margin in Hong Kong Dollar terms.

As for OPEX, the Group will remain vigilant in cost control and will continue to look for every opportunity to further reduce OPEX. Overall, we expect OPEX to be under control although this year we will not benefit from the same one-off special effects as we did in the last financial year.

With respect to CAPEX, we will deploy moderately with investment for store refurbishments and store openings as previously announced.

Mr. Raymond Or, Chairman of Esprit, commented: "…the Board is pleased to see the good progress made thus far in our Transformation initiatives, particularly in light of the challenging operating environment the Group faced in the first half. While we expect to encounter further challenges and uncertainties, we are confident that the improvements we have made and are continuing to make, will, in time, be evident in our product performance, and subsequently in the Group's financial results, securing the long term growth of our business."

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ESPRIT

ESPRIT HOLDINGS LIMITED UNAUDITED CONSOLIDATED FINANCIAL DATA

(In HK$ Million)

	For the 6 months ended 31 December 2014	For the 6 months ended 31 December 2013
Turnover	10,716	12,810
Gross Profit	5,407	6,348
Operating Profit (EBIT)	37	254
Net Profit	47	95
Net Cash Balance	5,230	5,181
Earnings Per Share (HK cents)	2	5
Interim Dividend Per Share (HK cents)	1.5	3.0

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About Esprit

Founded in 1968, Esprit is an international fashion brand that pays homage to its roots and expresses a relaxed, sunny Californian attitude towards life. Esprit creates inspiring collections for women, men and kids made from high-quality materials paying great attention to detail. All of Esprit’s products demonstrate the Group’s commitment to quality design and execution.

Esprit’s collections are available in over 40 countries worldwide, in over 900 self-operated retail stores and through over 7,800 wholesale points of sales including franchise partners, and sales space in department stores. The Group markets its products under two brands, namely the Esprit brand and the edc brand. Listed on the Hong Kong Stock Exchange since 1993, Esprit has headquarters in Germany and Hong Kong.