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ESPRIT

ESPRIT HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

STOCK CODE: 00330

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 30 JUNE 2018

ANNUAL RESULTS

The board of directors (the “Board”) of Esprit Holdings Limited (the “Company”) announces the audited consolidated results of the Company and its subsidiaries (the “Group” or “Esprit”) for the year ended 30 June 2018 together with comparative figures for the year ended 30 June 2017. The following financial information, including the comparative figures, has been prepared in accordance with International Financial Reporting Standards (“IFRS”).

Consolidated income statement

	Notes	For the year ended 30 June	
		2018	2017
		HK\$ million	HK\$ million
Revenue	2	15,455	15,942
Cost of goods sold		(7,534)	(7,712)
		<hr/>	<hr/>
Gross profit		7,921	8,230
Staff costs		(3,087)	(2,896)
Occupancy costs		(2,526)	(2,496)
Logistics expenses		(1,029)	(957)
Marketing and advertising expenses		(900)	(814)
Depreciation		(528)	(518)
Impairment of goodwill	3	(664)	-
Impairment of customer relationships	3	(130)	-
Provision for store closures and leases, net (Impairment of)/reversal of impairment of property, plant and equipment	10	(152)	(12)
		(90)	8
Provision for closure costs of operations in Australia and New Zealand	11	(129)	-
Gain on disposal of a property	12	16	100
Gain on disposal of a subsidiary	13	-	33
Other operating costs		(955)	(780)
		<hr/>	<hr/>
Operating loss (LBIT)	3	(2,253)	(102)
Interest income		58	44
Finance costs	4	(31)	(48)
		<hr/>	<hr/>
Loss before taxation		(2,226)	(106)
Taxation (charge)/credit	5	(328)	173
		<hr/>	<hr/>
(Loss)/profit attributable to shareholders of the Company		(2,554)	67
		<hr/> <hr/>	<hr/> <hr/>
(Loss)/earnings per share			
- Basic and diluted	7	HK\$(1.35)	HK\$0.03
		<hr/> <hr/>	<hr/> <hr/>

Consolidated statement of comprehensive income

	For the year ended 30 June	
	2018	2017
	HK\$ million	HK\$ million
(Loss)/profit attributable to shareholders of the Company	(2,554)	67
Other comprehensive income		
Item that will not be reclassified to profit or loss:		
Remeasurements of retirement defined benefit obligations	(4)	-
Items that may be reclassified subsequently to profit or loss:		
Fair value gain/(loss) on cash flow hedge, net of tax	152	(77)
Exchange translation	114	138
	262	61
Total comprehensive income for the year attributable to shareholders of the Company, net of tax	(2,292)	128

Consolidated statement of financial position

		As at 30 June	
	Notes	2018 HK\$ million	2017 HK\$ million
Non-current assets			
Intangible assets		2,063	2,851
Property, plant and equipment		1,571	1,900
Investment properties		24	23
Other investments		7	7
Debtors, deposits and prepayments		140	174
Deferred tax assets		524	822
		<u>4,329</u>	<u>5,777</u>
Current assets			
Inventories		2,296	2,540
Debtors, deposits and prepayments	8	1,418	1,438
Tax receivable		143	359
Cash, bank balances and deposits		4,521	5,221
		<u>8,378</u>	<u>9,558</u>
Current liabilities			
Creditors and accrued charges	9	2,919	3,046
Provision for store closures and leases	10	397	393
Tax payable		57	28
		<u>3,373</u>	<u>3,467</u>
Net current assets		<u>5,005</u>	<u>6,091</u>
Total assets less current liabilities		<u>9,334</u>	<u>11,868</u>
Equity			
Share capital		189	194
Reserves		8,837	11,349
Total equity		<u>9,026</u>	<u>11,543</u>
Non-current liabilities			
Retirement defined benefit obligations		26	-
Deferred tax liabilities		282	325
		<u>308</u>	<u>325</u>
		<u>9,334</u>	<u>11,868</u>

Notes to the consolidated financial statements

1. Basis of preparation

These consolidated financial statements of the Group have been prepared in accordance with IFRS and the disclosure requirements of the Hong Kong Companies Ordinance.

In the current year, the Group has adopted the following International Accounting Standards (“IAS”) and IFRS effective for the Group’s financial year beginning 1 July 2017:

IAS 7 (Amendments)	Disclosure Initiative
IAS 12 (Amendments)	Recognition of Deferred Tax Assets for Unrealised Losses
IFRS 12 (Amendments)	Disclosure of Interests in Other Entities

The adoption of these new standards and amendments to standards has not had any significant impact on the Group’s consolidated financial statements.

1. Basis of preparation (continued)

The Group has not early adopted the following IAS, International Financial Reporting Interpretations Committee (“IFRIC”) Interpretations and IFRS that have been issued but are not yet effective.

		Effective for accounting periods beginning on or after
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
IAS 40 (Amendments)	Transfers of Investment Property	1 January 2018
IFRIC 22	Foreign Currency Transactions and Advance Consideration	1 January 2018
IFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019
IFRS 2 (Amendments)	Classification and Measurement of Share-based Payment Transactions	1 January 2018
IFRS 4 (Amendments)	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	1 January 2018
IFRS 9	Financial Instruments	1 January 2018
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 15	Revenue from Contracts with Customers	1 January 2018
IFRS 15 (Amendments)	Clarification of IFRS 15	1 January 2018
IFRS 16	Leases	1 January 2019
IFRS 17	Insurance Contracts	1 January 2021
IFRSs (Amendments)	Annual Improvements to IFRSs 2014-2016 Cycle	1 January 2018
IFRSs (Amendments)	Annual Improvements to IFRSs 2015-2017 Cycle	1 January 2019

The Group will apply these new and revised standards and amendments in the period of initial application. The Group is currently assessing the impact of the adoption of the above new and revised standards and amendments and is not yet in a position to state whether they would have a significant impact on the Group’s results of operations and financial position. Amongst these new and revised standards and amendments, IFRS 9, IFRS 15 and IFRS 16 are of higher relevancy to the Group’s operations. The following describes the key changes that may impact the consolidated financial statements of the Group.

1. Basis of preparation (continued)

IFRS 9 “Financial Instruments”

The new standard addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

The new hedge accounting rules will align the accounting for hedging instruments more closely with the Group’s established risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, given the standard introduces a more principle-based approach.

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. While the Group has not yet undertaken a detailed assessment of how its impairment provisions would be affected by the new model, management expects it might result in an earlier recognition of credit losses.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group’s disclosures about its financial instruments particularly in the year of adoption of the new standard.

The Group intends to adopt the standard of IFRS 9 from 1 July 2018 without restatement of prior periods with any effects of implementation recognized as an adjustment to opening retained earnings. Management has assessed the impact of the new standard on the Group’s financial statements and has not identified any material impact to the Group.

IFRS 15 “Revenue from Contracts with Customers”

IFRS 15 will replace IAS 18 “Revenue” and IAS 11 “Construction contracts” and related interpretations. The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer. The new standard permits either a full retrospective or a modified retrospective approach for the adoption.

The Group intends to adopt the standard using the modified retrospective approach by adjusting opening retained earnings when it adopts IFRS 15 effective 1 July 2018 without restatement of prior periods. Management has assessed the impact of the new standard on the Group’s financial statements and has not identified any material impact to the Group.

1. Basis of preparation (continued)

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.

As at 30 June 2018, the Group had operating lease commitments of **HK\$6,188 million**. Upon adoption of IFRS 16 the majority of operating lease commitments will be recognized in the consolidated balance sheet as lease liabilities and right-of-use assets. The lease liabilities would subsequently be measured at amortized cost and the right-of-use asset will be depreciated on a straight-line basis during the lease term.

The Group does not intend to adopt the standard before its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

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 platforms.

	2018	2017
	HK\$ million	HK\$ million
Revenue from external customers		
Germany	5,281	5,522
Rest of Europe	4,199	4,337
Asia Pacific	1,674	1,923
eshop	4,169	4,032
Licensing and others	132	128
	15,455	15,942

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 and the Middle East.

2. Revenue and segment information (continued)

	For the year ended 30 June 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	2,660	2,031	1,560	4,169	-	10,420
Wholesale	2,621	2,168	114	-	-	4,903
Licensing and others	-	-	-	-	7,144	7,144
Total	<u>5,281</u>	<u>4,199</u>	<u>1,674</u>	<u>4,169</u>	<u>7,144</u>	<u>22,467</u>
Inter-segment revenue	-	-	-	-	(7,012)	(7,012)
Revenue from external customers						
Retail	2,660	2,031	1,560	4,169	-	10,420
Wholesale	2,621	2,168	114	-	-	4,903
Licensing and others	-	-	-	-	132	132
Total	<u>5,281</u>	<u>4,199</u>	<u>1,674</u>	<u>4,169</u>	<u>132</u>	<u>15,455</u>
Segment results						
Retail	(569)	(204)	(420)	660	-	(533)
Wholesale	624	202	15	-	(1)	840
Licensing and others	-	-	-	-	(1,766)	(1,766)
	<u>55</u>	<u>(2)</u>	<u>(405)</u>	<u>660</u>	<u>(1,767)</u>	<u>(1,459)</u>
Impairment of goodwill (Note)						
Retail	-	-	(37)	(511)	-	(548)
Wholesale	-	-	(116)	-	-	(116)
Total	<u>-</u>	<u>-</u>	<u>(153)</u>	<u>(511)</u>	<u>-</u>	<u>(664)</u>
Impairment of customer relationships (Note)						
Wholesale	-	-	(130)	-	-	(130)
EBIT/(LBIT)	<u>55</u>	<u>(2)</u>	<u>(688)</u>	<u>149</u>	<u>(1,767)</u>	<u>(2,253)</u>
Interest income						58
Finance costs						(31)
Loss before taxation						<u>(2,226)</u>

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 year ended 30 June 2018 (Note 3).

2. Revenue and segment information (continued)

	For the year ended 30 June 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	32	69	31	21	10	163
Wholesale	7	6	1	-	1	15
Licensing and others	-	1	8	-	118	127
Total	<u>39</u>	<u>76</u>	<u>40</u>	<u>21</u>	<u>129</u>	<u>305</u>
Depreciation						
Retail	72	67	47	8	13	207
Wholesale	12	13	2	-	1	28
Licensing and others	-	-	-	-	293	293
Total	<u>84</u>	<u>80</u>	<u>49</u>	<u>8</u>	<u>307</u>	<u>528</u>
Impairment of property, plant and equipment						
Retail	50	17	8	-	-	75
Licensing and others	-	-	-	-	15	15
Total	<u>50</u>	<u>17</u>	<u>8</u>	<u>-</u>	<u>15</u>	<u>90</u>
Additional/(write-back of) provision for store closures and leases, net						
Retail	124	(1)	29	-	-	152
Total	<u>124</u>	<u>(1)</u>	<u>29</u>	<u>-</u>	<u>-</u>	<u>152</u>
Gain on disposal of a property						
Retail	-	-	(16)	-	-	(16)
Total	<u>-</u>	<u>-</u>	<u>(16)</u>	<u>-</u>	<u>-</u>	<u>(16)</u>
Provision for store closure costs of operations in Australia and New Zealand						
Retail	-	-	122	2	-	124
Licensing and others	-	-	-	-	5	5
Total	<u>-</u>	<u>-</u>	<u>122</u>	<u>2</u>	<u>5</u>	<u>129</u>

2. Revenue and segment information (continued)

	For the year ended 30 June 2017					
	Germany	Rest of	Asia	eshop	Corporate	Group
	HK\$	Europe	Pacific	HK\$	services,	HK\$
	million	HK\$	HK\$	million	sourcing,	million
		million	million		licensing	
					and others	
					HK\$	
					million	million
Total revenue						
Retail	2,781	2,133	1,804	4,025	-	10,743
Wholesale	2,741	2,204	119	7	-	5,071
Licensing and others	-	-	-	-	8,801	8,801
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total	5,522	4,337	1,923	4,032	8,801	24,615
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Inter-segment revenue	-	-	-	-	(8,673)	(8,673)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Revenue from external customers						
Retail	2,781	2,133	1,804	4,025	-	10,743
Wholesale	2,741	2,204	119	7	-	5,071
Licensing and others	-	-	-	-	128	128
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total	5,522	4,337	1,923	4,032	128	15,942
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Segment results						
Retail	(438)	(31)	(77)	913	1	368
Wholesale	646	202	(5)	2	4	849
Licensing and others	-	-	-	-	(1,319)	(1,319)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
EBIT/(LBIT)	208	171	(82)	915	(1,314)	(102)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Interest income						44
Finance costs						(48)
						<hr/>
Loss before taxation						(106)
						<hr/>

2. Revenue and segment information (continued)

	For the year ended 30 June 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	20	31	51	1	5	108
Wholesale	2	8	1	-	1	12
Licensing and others	-	-	5	10	122	137
Total	<u>22</u>	<u>39</u>	<u>57</u>	<u>11</u>	<u>128</u>	<u>257</u>
Depreciation						
Retail	81	66	50	2	15	214
Wholesale	12	13	4	-	3	32
Licensing and others	-	-	-	-	272	272
Total	<u>93</u>	<u>79</u>	<u>54</u>	<u>2</u>	<u>290</u>	<u>518</u>
(Reversal of impairment of) /impairment of property, plant and equipment						
Retail	(2)	(7)	1	-	-	(8)
Total	<u>(2)</u>	<u>(7)</u>	<u>1</u>	<u>-</u>	<u>-</u>	<u>(8)</u>
Additional/(write-back of) provision for store closures and leases, net						
Retail	13	7	(8)	-	-	12
Total	<u>13</u>	<u>7</u>	<u>(8)</u>	<u>-</u>	<u>-</u>	<u>12</u>
Gain on disposal of a subsidiary						
Others	-	-	-	-	(33)	(33)
Total	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(33)</u>	<u>(33)</u>
Gain on disposal of a property						
Retail	-	-	(100)	-	-	(100)
Total	<u>-</u>	<u>-</u>	<u>(100)</u>	<u>-</u>	<u>-</u>	<u>(100)</u>

2. Revenue and segment information (continued)

Revenue from external customers is attributed to the following countries based on the location in which the sales originated:

	2018 HK\$ million	2017 HK\$ million
Germany (Note 1)	5,281	5,522
Rest of Europe		
Benelux	1,332	1,335
France	675	753
Switzerland	634	699
Austria	535	536
Spain	211	201
Finland	196	182
Sweden	183	193
Italy	121	108
Poland	65	58
United Kingdom	63	48
Denmark	52	53
Others (Note 2)	132	171
	<u>4,199</u>	<u>4,337</u>
Asia Pacific		
China	585	691
Australia and New Zealand	241	272
Singapore	222	216
Hong Kong	173	264
Malaysia	155	167
Taiwan	151	163
Macau	73	86
Others (Note 3)	74	64
	<u>1,674</u>	<u>1,923</u>
eshop		
Germany	2,479	2,385
Benelux	562	550
France	231	224
Austria	207	199
Switzerland	204	227
China	175	180
United Kingdom	49	46
Denmark	38	36
Sweden	36	32
Finland	28	27
Australia and New Zealand	21	25
Spain	18	15
Others	121	86
	<u>4,169</u>	<u>4,032</u>

2. Revenue and segment information (continued)

	2018 HK\$ million	2017 HK\$ million
Licensing and others		
Rest of Europe (Note 4)	101	103
Germany	31	25
	<u>132</u>	<u>128</u>
	<u>15,455</u>	<u>15,942</u>

Note 1: Germany revenue includes wholesale revenue from other European countries mainly from Bosnia-Herzegovina, Slovenia and Russia.

Note 2: Others under Rest of Europe include revenue from other countries mainly Chile, Colombia and Canada.

Note 3: Others under Asia Pacific include wholesale revenue from other countries mainly Thailand, India and the Philippines.

Note 4: Revenue from Rest of Europe represents licensing income that comes from Asia Pacific, Europe other than Germany, America and the Middle East.

3. Operating loss (LBIT)

	2018 HK\$ million	2017 HK\$ million
LBIT is arrived at after charging and (crediting) the following:		
Staff costs	3,087	2,896
Auditor's remuneration	16	15
Depreciation	528	518
Amortization of customer relationships	30	59
Impairment of goodwill (Note)	664	-
Impairment of customer relationships (Note)	130	-
Loss on disposal of plant and equipment	11	12
Impairment of/(reversal of impairment of) property, plant and equipment	90	(8)
Provision for store closures and leases, net (Note 10)	152	12
Provision for closure costs of operations in Australia and New Zealand (Note 11)	129	-
Gain on disposal of a property (Note 12)	(16)	(100)
Gain on disposal of a subsidiary (Note 13)	-	(33)
Occupancy costs		
- operating lease charge (including variable rental of HK\$177 million (2017: HK\$184 million))	1,986	1,968
- other occupancy costs	540	528
Fair value hedges:		
- exchange loss on hedged items	-	1
Other net exchange gains	(31)	(37)
Additional/(write-back of) provision for obsolete inventories, net	96	(49)
Provision for impairment of trade debtors, net	54	73
	<u> </u>	<u> </u>

Note: The operating environment in China continues to be very challenging. The China operations have experienced significant decline in recent years. Management has 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, amounted to **HK\$664 million** and **HK\$130 million** respectively.

4. Finance costs

	2018 HK\$ million	2017 HK\$ million
Imputed interest on financial assets and financial liabilities	31	48
	<u> </u>	<u> </u>

5. Taxation

	2018 HK\$ million	2017 HK\$ million
Current tax		
Hong Kong profits tax		
Provision for current year	-	2
Overseas taxation		
Provision for current year	84	24
Under/(over)-provision for prior years	49	(10)
	<u>133</u>	<u>16</u>
Deferred tax		
Current year net charge/(credit)	195	(198)
Effect of changes in tax rates	-	9
	<u>328</u>	<u>(173)</u>
Taxation charge/(credit)	<u>328</u>	<u>(173)</u>

Hong Kong profits tax is calculated at **16.5%** (2017: 16.5%) on the estimated assessable profit for the year, net of tax losses carried forward, if applicable.

Overseas (outside of Hong Kong) taxation has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group companies operate, net of tax losses carried forward, if applicable.

6. Dividends

The Board did not declare and recommend the distribution of any dividend for the year ended 30 June 2018 (2017: nil).

7. (Loss)/earnings 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 year less shares held for Share Award Scheme.

	2018	2017
(Loss)/profit attributable to shareholders of the Company (HK\$ million)	<u>(2,554)</u>	<u>67</u>
Number of ordinary shares in issue at 1 July (million)	1,944	1,944
Adjustment for shares repurchased (million)	(38)	-
Adjustment for shares held for Share Award Scheme (million)	<u>(8)</u>	<u>(6)</u>
Weighted average number of ordinary shares in issue less shares held for Share Award Scheme (million)	<u>1,898</u>	<u>1,938</u>
Basic (loss)/earnings per share (HK\$ per share)	<u>(1.35)</u>	<u>0.03</u>

Diluted

Diluted loss or earnings 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 year (less shares held for Share Award Scheme) adjusted by the dilutive effect of share options and awarded shares.

	2018	2017
(Loss)/profit attributable to shareholders of the Company (HK\$ million)	<u>(2,554)</u>	<u>67</u>
Weighted average number of ordinary shares in issue less shares held for Share Award Scheme (million)	1,898	1,938
Adjustments for share options and awarded shares (million)	-	3
Weighted average number of ordinary shares for diluted earnings per share (million)	<u>1,898</u>	<u>1,941</u>
Diluted (loss)/earnings per share (HK\$ per share)	<u>(1.35)</u>	<u>0.03</u>

Diluted loss per share of the year ended 30 June 2018 was the same as the basic loss per share since the share options and awarded shares had anti-dilutive effect.

8. Debtors, deposits and prepayments

	2018 HK\$ million	2017 HK\$ million
Trade debtors	1,178	1,426
Less: provision for impairment of trade debtors	(204)	(239)
	<u>974</u>	<u>1,187</u>
Deposits	123	144
Prepayments	126	159
Other debtors and receivables	335	122
	<u>1,558</u>	<u>1,612</u>
Non-current portion of deposits	(82)	(100)
Non-current portion of prepayments	(46)	(48)
Non-current portion of other debtors and receivables	(12)	(26)
	<u>1,418</u>	<u>1,438</u>

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

	2018 HK\$ million	2017 HK\$ million
0-30 days	628	790
31-60 days	126	196
61-90 days	79	54
Over 90 days	141	147
	<u>974</u>	<u>1,187</u>

As of 30 June 2018, trade debtors net of provision for impairment of **HK\$169 million** (30 June 2017: HK\$268 million) were past due but not impaired. The aging analysis of these trade debtors is as follows:

	2018 HK\$ million	2017 HK\$ million
1-30 days	95	173
31-60 days	8	6
61-90 days	15	14
Over 90 days	51	75
	<u>169</u>	<u>268</u>

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.

9. Creditors and accrued charges

	2018 HK\$ million	2017 HK\$ million
Trade creditors	722	735
Accruals	1,436	1,547
Other creditors and payables	761	764
	<u>2,919</u>	<u>3,046</u>

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

	2018 HK\$ million	2017 HK\$ million
0-30 days	460	583
31-60 days	194	100
61-90 days	39	39
Over 90 days	29	13
	<u>722</u>	<u>735</u>

As at 30 June 2018, the outstanding provision for closure costs of operations in Australia and New Zealand amounted to **HK\$87 million**.

10. Provision for store closures and leases

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

	2018 HK\$ million	2017 HK\$ million
At 1 July	393	604
Provision for store closures and leases, net	152	12
Amounts used during the year	(152)	(227)
Exchange translation	4	4
At 30 June	<u>397</u>	<u>393</u>

During the year, the Group recognized a net provision of **HK\$152 million** (2017: HK\$12 million) for store closures and onerous leases in relation to loss-making stores in Europe and Asia.

During the year, the Group recognized unwinding of discount totaling **HK\$27 million** (2017: HK\$43 million) which was recognized under amounts used during the year.

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

10. Provision for store closures and leases (continued)

As at 30 June 2018, the provision expected to be settled within twelve months after the date of the statement of financial position is **HK\$57 million** (2017: HK\$95 million) and the provision expected to be settled more than twelve months after the date of the statement of financial position is **HK\$340 million** (2017: HK\$298 million).

11. Provision for closure costs of operations in Australia and New Zealand

In order to allow management to concentrate efforts and resources in developing other markets in Asia with profitable growth opportunities for the future, and avoid incurring further losses from the non-performing operations in Australia and New Zealand, management has decided to divest the operations in Australia and New Zealand. In this connection, the Group has recognized total closure costs of **HK\$129 million** which includes impairment of property, plant and equipment of **HK\$18 million**, inventory write down of **HK\$23 million**, and provision for lease obligations, staff severance and retention, legal and professional fees totalling **HK\$88 million**.

12. 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 for the year ended 30 June 2018. Total consideration amount of **HK\$34 million** were received in cash during the year.

On 28 June 2017, the Group sold a property in Hong Kong to an independent third party at a consideration of HK\$123 million. The gain on disposal of the property, after deducting related expenses incurred for disposal, amounted to HK\$100 million and was recognized in the consolidated income statement for the year ended 30 June 2017. Total consideration amount of HK\$122 million were received in cash during the year ended 30 June 2017.

13. Disposal of a subsidiary

On 24 May 2017, the Group completed the disposal of a wholly-owned subsidiary, which owned the Shenzhen property of the Group to an independent third party.

	2017 HK\$ million
The net assets as at the date of disposal were as follows:	
Property, plant and equipment	2
Net assets disposed of	<u>2</u>
Cash consideration received	39
Net assets disposed of	(2)
Expenses incurred for disposal	(4)
Gain on disposal of a subsidiary	<u>33</u>
Analysis of net cash inflow arising on disposal:	
Cash consideration received	39
Expenses incurred for disposal	(4)
	<u>35</u>

LETTER FROM CHAIRMAN

Dear Shareholders,

This year is my first time to address you as Executive Chairman of the Group. Having served on the Board of Directors of Esprit for some years, I have accompanied Esprit through its ups and downs, and witnessed firsthand the development of the Group against the backdrop of a rapidly changing apparel industry. From the outset, I have been impressed with the resilience of the Esprit brand and the steadfast dedication of our employees, and I am honored to have been selected by the Board to assume this position to play a more active role in the next phase of the Group's strategy. As a shareholder myself, I share your frustration with the longer-than-expected turnaround of the Group. Thus, my primary mission as Executive Chairman is to assist in determining the necessary realignment of our strategic direction and priorities, and to ensure that we have the right talent onboard to drive a timely and efficient execution and deliver positive results. I am absolutely determined to see the Group succeed and I look forward to collaborating closely with the executive management team to steer the Group past these difficult times.

Review of FY17/18

During the financial year FY17/18, Esprit continued to be affected by the rapidly-evolving retail industry, fueled by i) the continuous growth of ecommerce leading to changes in consumer consumption patterns, and ii) the intensification of price competition driven by both pure digital players and fully vertical retailers. As a result, operating conditions remain difficult, especially for brick & mortar stores. Esprit is no exception to this dynamic and our sales performance has been adversely impacted. The corresponding pressure was further aggravated by the decrease in customers' traffic into our retail stores, both online and offline, which lead to a worse than expected revenue for the Group in FY17/18. These negative developments, together with a number of non-recurring provisions and impairments totaling HK\$1,344 million (the "Exceptional Items"), majority of which are non-cash items, have resulted in a disappointing result for the year. Although the Group's regular OPEX was reduced by -3.3% year-on-year in local currency, such savings were not sufficient to outweigh the negative impact from the higher-than-expected decline in revenue. Thus, the Group reported revenue of HK\$15,455 million, representing a -11.1% year-on-year decline in local currency, with a net loss of HK\$(2,554) million. Because a net loss was recorded for the financial year, the Board has not recommended the payment of a dividend.

Notwithstanding the net operating loss for the year, the financial position of the Group remains healthy with no debt and a net cash balance of HK\$4.5 billion as of 30 June 2018 (30 June 2017: HK\$5.2 billion). As a regular exercise, the Board frequently reviews the best options to utilize our cash reserve to create long-term value for our shareholders. While our top priority continues to be reserving necessary funds to support the turnaround process and investing in sales growth initiatives, the Board has deemed it appropriate to repurchase some shares during the year under review to enhance shareholders' value. In this regard, the Company deployed HK\$237 million to repurchase shares during the year, representing approximately 2.9% of the issued share capital of the Company.

Moving Forward

We recognize the results of FY17/18 are far from satisfactory and the situation has challenged both the Board of Directors and the executive management team. We believe the fundamentals of the strategic initiatives as presented in our last annual report (namely Brand Rejuvenation, Product Elevation, Channels Next Generation, Markets Rightsizing and Expansion, and Cost Reduction) remain sound and are necessary to recharge the potential of the Group. However, we concede that the progress to date has yet to reignite sales momentum or translate into a positive financial performance. The Group is currently in the midst of undergoing a thorough assessment to address this situation and develop corrective measures to ensure a successful turnaround.

Since our new Group CEO, Anders Kristiansen, joined Esprit on 1 June 2018, we have immediately commenced efforts to establish ambitious medium to long-term goals. To this end, he and his team are already working vigorously on an updated strategic plan (the "Plan") which is expected to be finalized this Fall 2018. In our drive to support growth, we must sharpen the brand identity, create an inspiring omnichannel shopping experience for our customers, and launch stylish and geographically adapted collections to improve sales per square meter productivity. We will continue to leverage on the newly installed dual product engines organization, whereby the main line focuses on catering to existing customers in our core markets, and the fast-to-market line aims to introduce trendier products for the online and Asia markets, particularly China. These efforts will work in tandem with data generated from extensive consumer research to ensure that our brand, products and channels properly resonate with Esprit's target customers. We will bring our customers and what Esprit stands for as a brand to the center of everything we do in order to become more relevant to our customers again and provide them with a strong brand experience. The Board is fully aligned with the direction to push top line performance in the coming years, and I look forward to working with Anders and the executive management team to achieve that goal.

While we see the journey to reinvigorate the Esprit brand to be long and challenging, we believe that ultimately it will be rewarding. In the meantime, I request your support to sail with us through these difficult times as we power ahead and strive to reap harvest in the medium term.

Looking ahead, the operating environment will likely remain challenging in the upcoming financial year with the fallout from the trade war and rising interest rates, which may weigh on consumer sentiment and spending. Nevertheless, we now have the leadership in place and the funds to deliver on our objectives as we make a concerted effort to recapture market share and, ultimately, return the Group to growth. As Executive Chairman of the Group, I can assure you that vigorous efforts will be continued to ensure we produce improved results at a faster pace.

Sustainability

Esprit is proud to carry on its heritage of being a responsible corporate citizen by contributing to the global community. We highlighted in last year's Annual Report that sustainability, to us, means doing what is right for the people and the planet. The incorporation of the UN Sustainable Development Goals into our strategy last year was an important step towards this goal. This year, we have taken our sustainability initiatives one step further by introducing the concept of Circular Fashion. The Circular Fashion concept encourages us to step back from a linear model, which ends with the disposal of old garments, and to start incorporating recycling into every aspect of our business. With a circular approach, we strive to find environmentally friendly solutions which cover all areas of our business, from product development and production, to operations, and also end of life cycle management for our products. As a first step, we have defined a 3-year plan including ambitious targets for each area of the company.

Closing

Last but not least, as the Year 2018 marks the 50th anniversary of Esprit and its 25th anniversary as a listed company on The Stock Exchange of Hong Kong Limited, I would like to take this opportunity to thank all our shareholders, customers, business partners, and everyone else who has participated on this journey to build such a remarkable brand. I also want to acknowledge the hard work, dedication and commitment of employees across the Esprit business, ranging from stores staff to those working in our offices around the world. Their continued contributions are key to our future success.

Finally, I want you to know that I am mindful that time is of the essence in our efforts to revive the Esprit brand. While we certainly have a lot of work in front of us, I am convinced that by aligning the execution of our Plan, the better days of Esprit are ahead of us.

Dr Raymond OR Ching Fai
Executive Chairman
18 September 2018

LETTER FROM GROUP CEO

Dear Shareholders,

On 1 June 2018, I had the great privilege of being appointed the CEO of Esprit Group. Since then, I have spent a lot of time listening and learning. Not only have I had conversations with employees in our offices and our stores both in Europe and Asia, but I have also met and visited our wholesale partners and other important business stakeholders. One thing that has encouraged me is that the more I learn about this company, the more I am convinced that we have a fantastic opportunity to realize Esprit's true potential.

Here are some of my first thoughts and impressions:

- Our **BRAND** and our unique heritage is one of our greatest assets, and we must do more to sharpen and rejuvenate our identity. We must clearly identify both who our customers are today and who our customers will be in the future. Then we must orientate ourselves around those customers and put them at the center of everything we do to become a truly customer-centric organization. The good news is that we already have a unique and extensive Esprit Friend data base. This coupled with the deep surveys and analysis that we are currently engaged in, are helping us to build a very clear picture of who we are working for.
- Once we have properly identified our brand direction and target customers, we can develop the right **PRODUCTS**. We must consider style and design, fashion level, quality and price, and how this position fits in the competitive landscape. This will be accompanied by a critical examination of our product development process aimed at bringing the best products to our customers in the most efficient way possible.
- Our profitable **WHOLESALE** business will play a central role in the new direction of the Group. We want to become “best-in-class” in what we offer to our Wholesale partners in terms of products, marketing and other support. We also see a huge opportunity in maximizing our strategic partnerships with third party wholesale ecommerce partners to capture the growth offered by online channels.
- A key strength of Esprit is our online shop, known as our “**ESHOP**”. Our ESHOP has a leading position in the industry, as testified by the best digital fashion store award in Germany¹ we have recently received. To maintain this competitive advantage, we must strive to stay ahead of the rapidly evolving world of ecommerce and keep abreast of the changing ways that our customers discover and shop for products.
- I am excited about the broad **INTERNATIONAL FOOTPRINT** of Esprit. Esprit is well-positioned to exploit the vast potential of the fast-growing Asia region – particularly China. Our efforts in customer definition will form the basis of our success. A dedicated product team is already working on specific products targeted at this important market.

¹ By the IFH Köln and ECC Köln in April 2018

- I am most of all impressed by the quality, commitment and passion of our **EMPLOYEES**. What I am seeking to do is to define their roles more clearly, to empower them to take greater responsibility, and to enable them to make the decisions they feel are best for the business. Similarly, we need to enhance the agility of our organization to maneuver the Group through today's rapidly-changing retail environment. It is crucial to be more nimble about the way we do business and simplify the complicated structures and processes within the organization.

I am now in the process of formulating a strategic plan (the "Plan") to restore Esprit back to sustainable profitability. To help me in this exercise, I have appointed a Chief Transformation Officer who is heading a special task force comprising selected members from within the organization. They have been working closely with me since June this year to gather consumer insights, establish the relevant strategic initiatives, and map out the execution plans. We are achieving good progress on all fronts and I hope to present the Plan to the market later this year at our Investor Day.

As for operations, we continue to realize reduction in operating expenses (excluding Exceptional Items) across all key cost lines, mainly attributable to savings from store closures as well as implementation of restructuring measures to further streamline operations as the existing cost level of the Group is still too high relative to the size of our business; hence cost reduction will remain an integral part of our strategy. Although details of the Plan are yet to be finalized, we have already identified areas where we can further optimize efficiency to reduce overhead costs and achieve additional cost savings.

In closing, I would like to thank all of Esprit's employees and business partners around the world for their continued dedication, commitment and hard work. I am convinced that by working together, we will achieve our common goal of restoring Esprit to sustainable profitability and delivering long-term shareholder value. While the road to recovery is still full of challenges, I am confident that we will advance the Esprit brand forward and become even more relevant to modern customers around the world. I am genuinely excited about the next phase of the turnaround and remain very confident about Esprit's future.

I would like to thank the Board of Directors for their trust in me and for appointing me to this important role. I am truly looking forward to fulfilling my mission, and to bringing Esprit back to success.

Anders Christian KRISTIANSEN
Executive Director and Group CEO
18 September 2018

MANAGEMENT DISCUSSION AND ANALYSIS

REVENUE ANALYSIS

For the financial year ended 30 June 2018 (“FY17/18” or “Period Under Review”), the Group recorded revenue of HK\$15,455 million (2017: HK\$15,942 million), representing a decline of -11.1% year-on-year (“yoy”) in local currency terms (“LCY”). The decline in Hong Kong dollar terms was less (-3.1% yoy) due to the strengthening of the EUR against HKD (average rate increase of +10.3%) during the year. This decline in revenue was the result of a combination of the impact from (i) our strategic rationalization of distribution footprint (total controlled space -9.3% yoy) to improve bottom line, and (ii) weaker than expected retail sales performance due to decreased customers’ traffic.

(i) Strategic Reduction in total controlled space

Rationalizing our distribution footprint by closing down unprofitable retail stores and non-performing wholesale spaces continues to be a paramount strategy to create a healthier platform for future growth. During FY17/18, the Group reduced total controlled space (retail and wholesale combined) by 55,288 sqm, representing a yoy reduction of -9.3%.

In terms of **Retail (excl. eshop)**, the Group executed a net closure of 21,289 sqm in FY17/18, representing a yoy reduction of -7.8%.

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

As at 30 June 2018					
	No. of stores	Net change in no. of stores ^	Net sales area (m ²)	Net change in net sales area ^ (m ²)	Net change in net sales area ^ (%)
Germany	140	(6)	109,515	(6,790)	-5.8%
Rest of Europe	137	1	78,616	(3,541)	-4.3%
Asia Pacific	309	(75)	63,076	(10,958)	-14.8%
Total	586	(80)	251,207	(21,289)	-7.8%

^ Net change since 1 July 2017

In terms of **Wholesale (excl. eshop)**, the channel continues to face structural pressure and we continue to see elimination of non-performing locations by our partners. As a result, wholesale controlled space was reduced by 33,999 sqm in FY17/18, representing a yoy reduction of -10.6%.

Wholesale (excl. eshop) distribution channel by region (controlled space only)
As at 30 June 2018

	No. of stores	Net change in no. of stores ^	Net sales area (m ²)	Net change in net sales area since 1 July 2017 (m ²)	Net change in net sales area since 1 July 2017 (%)
Germany	3,356	(387)	152,498	(18,726)	-10.9%
Franchise stores	227	(20)	50,733	(6,059)	-10.7%
Shop-in-stores	2,048	(266)	79,830	(11,500)	-12.6%
Identity corners	1,081	(101)	21,935	(1,167)	-5.1%
Rest of Europe	2,016	(139)	122,666	(11,098)	-8.3%
Franchise stores	421	(30)	79,006	(8,302)	-9.5%
Shop-in-stores	778	(52)	24,637	(889)	-3.5%
Identity corners	817	(57)	19,023	(1,907)	-9.1%
Asia Pacific	110	(29)	11,273	(4,175)	-27.0%
Franchise stores	110	(29)	11,273	(4,175)	-27.0%
Total	5,482	(555)	286,437	(33,999)	-10.6%
Franchise stores	758	(79)	141,012	(18,536)	-11.6%
Shop-in-stores	2,826	(318)	104,467	(12,389)	-10.6%
Identity corners	1,898	(158)	40,958	(3,074)	-7.0%

^ Net change since 1 July 2017

(ii) Weaker than expected retail sales performance

During the Period under Review, the Group reported worse than expected retail sales performance, with a decline in comparable retail store (excl. eshop) sales of -9.6% yoy in LCY and a decline in eshop revenue of -6.1% yoy in LCY. Such negative development was largely due to decreased customers' traffic to our retail channels, both online and offline.

	Revenue change in % (yoy in LCY)		
	First Half FY17/18	Second Half FY17/18	FY17/18
By Distribution Channel			
Retail (excl. eshop)	-13.5%	-14.2%	-13.8%
Wholesale (excl. eshop)	-9.6%	-13.9%	-11.6%
eshop	-2.5%	-9.5%	-6.1%
Licensing and others	-8.7%	8.2%	-0.9%
Total	-9.6%	-12.7%	-11.1%
By Region ^			
Germany	-8.2%	-13.9%	-10.9%
Rest of Europe	-8.7%	-10.9%	-9.8%
Asia Pacific	-17.0%	-13.2%	-15.2%
Total	-9.6%	-12.7%	-11.1%

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

Revenue by product

The Group markets its products under two brands, namely “Esprit” and “edc”, both of which offer apparel and lifestyle products for women, men and kids. As explained in our last annual report, with the goal to improve our products performance, we have merged the Esprit Women and edc Women apparel lines under one single head and team, and similarly for Men, the Esprit Men and Men edc apparel lines are now managed under one single head and team. This will facilitate more coordinated commercial strategies (e.g. reduced overlaps in the assortment) and more efficient product development processes and teams (e.g. operational synergies between both divisions). For the purpose of this management discussion and analysis, products are categorized into three major groups: Women (Esprit & edc) (66.1% of Group revenue), Men (Esprit & edc) (16.3% of Group revenue), and Lifestyle and others (17.6% of Group revenue).

Revenue by product

For the year ended 30 June							
Product division	2018			2017		Change in %	
	HK\$ million	% to Group Revenue	HK\$ million	% to Group Revenue	HK\$	Local currency	
Women (Esprit & edc)	10,220	66.1%	10,387	65.2%	-1.6%	-9.7%	
women casual	5,117	33.1%	5,141	32.2%	-0.5%	-8.5%	
women edc	2,865	18.5%	2,859	18.0%	0.2%	-8.2%	
women collection	2,008	13.0%	2,072	13.0%	-3.1%	-11.1%	
trend [#]	230	1.5%	315	2.0%	-27.1%	-33.4%	
Men (Esprit & edc)	2,525	16.3%	2,733	17.1%	-7.6%	-15.0%	
men casual	1,471	9.5%	1,582	9.9%	-7.0%	-14.3%	
men edc	769	5.0%	803	5.0%	-4.2%	-12.1%	
men collection	285	1.8%	348	2.2%	-18.3%	-25.0%	
Lifestyle and others *	2,710	17.6%	2,822	17.7%	-3.9%	-12.2%	
Total	15,455	100.0%	15,942	100.0%	-3.1%	-11.1%	

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

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

Women (Esprit and edc)

Women (Esprit and edc), represented 66.1% of the Group’s revenue for FY17/18, recorded yoy decline in revenue of -9.7% in LCY. This performance is far from satisfactory and is the consequence of the two major factors described in the beginning of this “Revenue Analysis” section. It is our top priority to improve our products in order to increase the appeal to our target customer groups. In that respect, the most important accomplishment this year in terms of product was the establishment of a new product organization along two separate tracks – a main line and a fast-to-market line, whereby the main line focuses on catering to existing customers in our core markets, and the fast-to-market line aims to introduce trendier products for the online and APAC markets, particularly China. These two product engines will work in tandem with the results of consumer analytics to ensure Esprit product offerings meet the taste and preferences of our distinct target customer groups in different regions. The improvements we are making to our products will be centered on three main objectives: (i) further strengthen our design identity, (ii) elevate the intrinsic quality of the products through incorporating better lining, trimmings, finishing and yarn, and (iii) increase the share of sustainable

products. The team is working hard to have the first collection of new products reach stores for the Fall-Winter 2018 season (“FW2018”).

Men (Esprit & edc)

Men (Esprit & edc), represented 16.3% of the Group’s revenue for FY17/18, recorded yoy decline in revenue of -15.0% in LCY. In addition to the factors described in the beginning of this “Revenue Analysis” section, the decline was aggravated by reduced space allocation to men’s products in our retail stores (-9.9% yoy) due to its continued weak performance.

Lifestyle and others

Lifestyle and others, representing 17.6% of the Group’s revenue, recorded yoy decline in revenue of -12.2% in LCY. This product group comprises mainly bodywear, accessories, shoes, and the sales and royalty income from licensed products such as kidswear, timewear, eyewear, jewelry, bed & bath, and housewear. Excluding the Kids division (-75.2% yoy in LCY) which has been licensed to Kidiliz Group (formerly Groupe Zannier), the Lifestyle and others revenue decline was -8.7% yoy in LCY.

While we acknowledge that the performance in FY17/18 is below our expectation for all product divisions, we are confident that the directions introduced in the Letter from Group CEO will positively contribute to our product performance in the coming future.

Revenue by region and distribution channel

Geographically, the majority of the Group's business is generated in Europe and Asia Pacific. In our analysis, the countries in which we operate are grouped along three major regions: "Germany", "Rest of Europe" (including America and the Middle East) and "Asia Pacific" ("APAC").

The business in these markets is mainly generated through three distribution channels: "Retail (excl. eshop)", "Wholesale (excl. eshop)" and "Eshop".

Before analyzing the detailed revenue performance by region and by distribution channel, Retail (excl. eshop) and Wholesale (excl. eshop) deserve some comments on their overall development. Eshop is addressed separately later in this section.

Retail (excl. eshop) was adversely impacted by intense competition and strategic store closures as described in the beginning of this "Revenue Analysis" section. The revenue decline of -13.8% yoy in LCY in FY17/18, was the results of a combination of i) -9.6% yoy decline in comparable store sales in LCY due to decrease in customers' traffic to our stores; and ii) -7.8% yoy reduction in net sales areas due to rightsizing of our stores network including closure of the most unprofitable retail stores. It is worth noting that gross profit margin of the retail (excl. eshop) channel has improved and OPEX of the channel was reduced year-on-year, both as planned. Unfortunately, these improvements were outweighed by negative impact from the worse than expected decline in revenue, which led to deleverage effect and deepened operating loss of the business.

Wholesale (excl. eshop) performance was generally in line with management expectation. The revenue decline of -11.6% yoy in LCY is broadly in line with the corresponding yoy reduction in wholesale controlled space of -10.6%. Moreover, gross profit margin of the channel has improved and OPEX of the channel was reduced over last year, both as planned. However, similar to Retail (excl. eshop), improvements in gross profit margin and OPEX were outweighed by deleverage effect as a consequence of revenue decline, and led to a decrease in profitability of the business. Nevertheless, the business remains profitable with a double digit percentage EBIT margin.

The following table sets forth the breakdown of revenue across the three regions and the different distribution channels.

Revenue by region and by distribution channel

For the year ended 30 June							
	2018		2017		Revenue Change in %		Net change in net sales area [^]
	HK\$ million	% to Group Revenue	HK\$ million	% to Group Revenue	HK\$	Local currency	
Germany	7,791	50.4%	7,932	49.8%	-1.8%	-10.9%	-8.9%
Retail (excl. eshop)	2,660	17.2%	2,781	17.4%	-4.4%	-13.1%	-5.8%
Wholesale (excl. eshop)	2,621	17.0%	2,741	17.2%	-4.4%	-13.3%	-10.9%
eshop	2,479	16.0%	2,385	15.0%	3.9%	-5.8%	n.a.
Licensing	31	0.2%	25	0.2%	23.8%	12.2%	n.a.
Rest of Europe	5,769	37.3%	5,866	36.8%	-1.7%	-9.8%	-6.8%
Retail (excl. eshop)	2,031	13.1%	2,133	13.4%	-4.8%	-12.0%	-4.3%
Wholesale (excl. eshop)	2,168	14.0%	2,204	13.9%	-1.6%	-9.8%	-8.3%
eshop	1,469	9.5%	1,426	8.9%	3.0%	-6.7%	n.a.
Licensing and others	101	0.7%	103	0.6%	-2.0%	-4.0%	n.a.
Asia Pacific	1,895	12.3%	2,144	13.4%	-11.6%	-15.2%	-16.9%
Retail (excl. eshop)	1,560	10.1%	1,804	11.3%	-13.5%	-17.1%	-14.8%
Wholesale (excl. eshop)	114	0.7%	119	0.7%	-4.5%	-5.9%	-27.0%
eshop	221	1.5%	221	1.4%	0.1%	-5.3%	n.a.
Total	15,455	100.0%	15,942	100.0%	-3.1%	-11.1%	-9.3%
Retail (excl. eshop)	6,251	40.4%	6,718	42.1%	-6.9%	-13.8%	-7.8%
Wholesale (excl. eshop)	4,903	31.7%	5,064	31.8%	-3.2%	-11.6%	-10.6%
eshop	4,169	27.0%	4,032	25.3%	3.4%	-6.1%	n.a.
Licensing and others	132	0.9%	128	0.8%	3.0%	-0.9%	n.a.

[^] Net change since 1 July 2017

n.a. Not applicable

Germany

Germany, the largest market of the Group, accounted for approximately half (50.4%) of total Group revenue in FY17/18. The country recorded revenue of HK\$7,791 million in FY17/18, representing a yoy decline of -10.9% in LCY, as compared to corresponding reduction in total controlled space of -8.9% yoy. In terms of distribution channels, Retail (excl. eshop), Wholesale (excl. eshop), Eshop and the Licensing business contributed to 34.1%, 33.7%, 31.8% and 0.4% of its revenue, respectively.

Germany Retail (excl. eshop) recorded revenue of HK\$2,660 million, representing a yoy decline of -13.1% in LCY. The revenue decline was primarily attributable to the comparable store sales decline of -10.6% yoy in LCY, as a result of the factors as discussed at the beginning of this “Revenue Analysis” session. As for progress on rightsizing our store network in Germany, there was a visible reduction in net sales areas of -5.8% yoy despite the characteristic of longer lease terms in this market.

Germany Wholesale (excl. eshop) recorded revenue of HK\$2,621 million, representing a yoy decline of -13.3% in LCY, against a decline in corresponding controlled space of -10.9% yoy. We continue to observe decline in order intakes from traditional offline partners, as they continue to suffer from structural pressure in the channel.

Rest of Europe

Rest of Europe comprises countries in Europe (except Germany), in America and in the Middle East (representing 37.3% of total Group revenue). The region recorded revenue of HK\$5,769 million in FY17/18, representing a yoy decline of -9.8% in LCY. In terms of distribution channels, Retail (excl. eshop), Wholesale (excl. eshop), Eshop and Licensing businesses contributed to 35.2%, 37.6%, 25.5% and 1.7% of the region's revenue, respectively.

Rest of Europe Retail (excl. eshop) recorded revenue of HK\$2,031 million, representing a yoy decline of -12.0% in LCY. Similar to Germany, the revenue decline was primarily attributable to decline in comparable store sales of -9.6% yoy in LCY as a result of the factors as discussed at the beginning of this "Revenue Analysis" session. As for progress on rightsizing our store network in the region, there was a reduction in net sales area of -4.3% yoy during FY17/18 (FY16/17: -5.0%).

Rest of Europe Wholesale (excl. eshop) recorded revenue of HK\$2,168 million, representing a yoy decline of -9.8% in LCY, broadly in line with the corresponding reduction in controlled space of -8.3% yoy.

Asia Pacific

Asia Pacific ("APAC") comprises mainly China, Australia and New Zealand ("ANZ"), Singapore, Hong Kong, Malaysia, Taiwan and Macau (representing 12.3% of total Group revenue). The region recorded revenue of HK\$1,895 million in FY17/18, representing a yoy decline of -15.2% in LCY which was less than the corresponding reduction in total controlled space of -16.9% yoy. In terms of distribution channels, Retail (excl. eshop), wholesale (excl. eshop), and Eshop contributed to 82.3%, 6.0%, and 11.7% of the region's revenue, respectively.

Asia Pacific Retail (excl. eshop), representing 10.1% of total Group revenue, recorded a revenue decline of -17.1% yoy in LCY. This revenue development was primarily due to reduction in net sales area of -14.8% yoy which meets our plan to accelerate the restructuring of the store network in the region, particularly in China, Taiwan, ANZ, and Hong Kong, where the respective net sales areas were reduced by -14.5%, -24.4%, -29.3% and -23.9%. The -29.3% space decline for ANZ reflects the commencement of our work to exit the region whilst the -23.9% space decline for Hong Kong reflects the closure of our flagship store in Tsim Sha Tsui. Other than store closures, the revenue decline of APAC was also attributable to measures aiming to lower the level of discounting in the region in order to restore our brand equity and to ultimately enhance profitability, as well as the underperformance of concession counters in the department stores in China (comparable store sales decline of -11.1% yoy in LCY).

Asia Pacific Wholesale (excl. eshop), representing 0.7% of total Group revenue, recorded a revenue decline of -5.9% yoy in LCY. This revenue development compares favorably against the corresponding reduction in controlled space of -27.0% yoy, thanks to new order intakes from our new APAC wholesale partners in India and Myanmar, as well as improved order intakes from our existing wholesale partner in the Philippines.

Eshop

Eshop accounted for 27.0% of total Group revenue (FY16/17: 25.3%) and comprises our directly managed ecommerce business in European and APAC countries, and the sales to third-party online platforms in APAC. During the Period Under Review, this channel generated HK\$4,169 million in revenue, representing a decline of -6.1% yoy in LCY.

Eshop Germany and Rest of Europe, representing 59.5% and 35.2% of the Group's total Eshop revenue in FY17/18, recorded revenue decline of -5.8% and -6.7% in LCY, respectively. Similar to our brick and mortar retail, the negative development was mainly attributable to decrease in customers' traffic aggravated by increased competition from pure play online retailers. Given Eshop's strategic importance, we have created a new fast-to-market line tailored to the specific needs of our online customers in order to drive sales growth. The team is working hard to have the first collection of these new products reach our eshop for FW2018 season.

Eshop APAC, representing 5.3% of the Group's total Eshop revenue in FY17/18, recorded revenue decline of -5.3% yoy in LCY. This revenue decline is the result of management's decisive actions to focus on higher-profitability model by reducing the level of promotional activities and discounts to increase gross profit margin. That being said, the ecommerce market in APAC, particularly China, is characterized by promotional activities and discounts. As such, tactical promotions were implemented from time to time to help protect market share and drive sales. For instance, during a seasonal sale event in the fourth quarter of FY17/18, the team increased the intensity of promotional activities and discounts decisively to help clear aged inventories, and saw significant growth in revenue for the particular quarter.

PROFITABILITY ANALYSIS

The table below presents the results of the Group for FY17/18 and FY16/17, 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 relating to the net provisions for store closures and onerous leases, impairment of fixed assets, as well as relevant expenses/gains that are expected to be non-recurring (e.g. one-off costs in relation to staff reduction plans etc.).

	For the year ended 30 June			
	2018	2017	Change in %	
	HK\$ million	HK\$ million	HK\$	Local currency
Revenue	15,455	15,942	-3.1%	-11.1%
Cost of goods sold	(7,534)	(7,712)	-2.3%	-10.5%
Gross profit	7,921	8,230	-3.8%	-11.6%
<i>Gross profit margin</i>	51.3%	51.6%	-0.4%pt	-0.3%pt
Regular OPEX				
Staff costs	(2,968)	(2,851)	4.1%	-3.7%
Occupancy costs	(2,526)	(2,496)	1.2%	-6.2%
Logistics expenses	(1,029)	(957)	7.6%	-1.9%
Marketing and advertising expenses	(900)	(814)	10.5%	0.9%
Depreciation	(528)	(518)	2.1%	-6.5%
Other operating costs	(879)	(780)	12.6%	3.0%
Subtotal	(8,830)	(8,416)	4.9%	-3.3%
(LBIT) of Underlying Operations	(909)	(186)		
Exceptional items				
i) Impairment of China goodwill and customer relationships	(794)	-		
ii) Net provision for store closures and onerous leases	(152)	(12)		
iii) One-off costs in relation to closure of ANZ operations	(129)	-		
iv) One-off costs in relation to staff reduction plans	(119)	(45)		
v) Inventory provision	(76)	-		
vi) (Impairment of) / write back of property, plant and equipment	(50)	8		
vii) Provision for SAP applications	(26)	-		
viii) Fixed assets impairment for small loss-making stores	(14)	-		
ix) Net gain on disposal of properties	16	133		
Subtotal	(1,344)	84		
(LBIT) of the Group	(2,253)	(102)		
Net interest income / (expense)	27	(4)		
(Loss) before taxation	(2,226)	(106)		
Net (taxation) / taxation credit	(328)	173		
Net (loss) / profit	(2,554)	67		

For FY17/18, the Group recorded a **Gross Profit** of HK\$7,921 million, which resulted in a gross profit margin of 51.3%, more or less the same as compared to last year. The slight decrease of -0.3% point in LCY was mainly due to lower proportion of Retail (excl. eshop) revenue which represents 40.4% of Group revenue this year as compared to 42.1% last year.

Regular OPEX (excluding Exceptional Items) amounted to HK\$(8,830) million in FY17/18, representing a yoy decline of -3.3% in LCY. We continue to see reduction in operating expenses, with savings achieved across all the major cost lines, except for a slight increase in marketing and advertising expenses (+0.9% yoy in LCY) to strengthen our customer relationship management (“CRM”) program.

In terms of profitability, the improvement in operating expenses was not sufficient to outweigh the negative impact from higher than expected decline in revenue. As a result, **LBIT of underlying operations** (i.e. excluding the Exceptional Items) for FY17/18 was a loss of HK\$(909) million (FY16/17: HK\$(186) million).

Exceptional Items refers to exceptional gains and expenses arising from non-operational activities of the Group. As detailed in the table at the beginning of this section, there was a net exceptional expense of HK\$(1,344) million in FY17/18, majority of which are non-cash items, primarily related to non-recurring provisions, impairments (the “Non-recurring Provisions and Impairments”) and one-off expenses. The largest Exceptional Items being the full impairment of the remaining balance of the goodwill and customer relationships in association with the China operations of HK\$(794) million; additional provisions and impairments for store closure and onerous leases due to weaker than expected sales performance of directly managed retail stores of HK\$(152) million; the one-off costs related to the divesture of operations in ANZ of HK\$(129) million; one-off costs in relation to staff reduction plans of HK\$(119) million; additional provision for inventory of HK\$(76) million arising from a change in the estimation methodology to reflect more appropriately the net realizable value of aged inventories; and impairment of HK\$(26) million in association with obsolete SAP applications that have been capitalized but are no longer in use due to change in internal processes.

After including all the Exceptional Items, **LBIT** of the Group was HK\$(2,253) million in FY17/18 as compared to LBIT of HK\$(102) million in the same period last year.

Interest was a net income of HK\$27 million (FY16/17: Net Interest expense of HK\$(4) million), as a result of a combination of i) interest earned on cash, bank balances and deposits of HK\$58 million, representing an effective interest rate of 1.2% per annum (FY16/17: 0.8%), offset by ii) non-cash interest expenses primarily related to time value of provision for store closure and onerous leases.

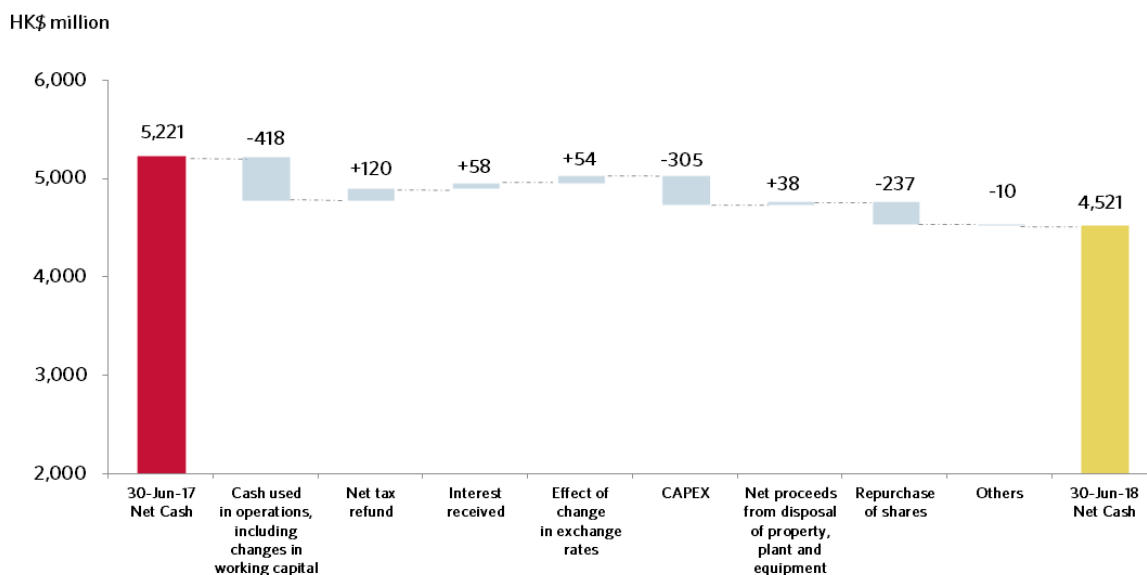
Taxation was a net taxation expense of HK\$(328) million (FY16/17: net taxation credit of HK\$173 million), mainly comprised of a write down of deferred taxation assets of HK\$(193) million in association with the German operations, which is a non-cash item, due to continued decline of the business in recent years.

Net Loss of the Group was HK\$(2,554) million, as compared to a net profit of HK\$67 million for FY16/17.

LIQUIDITY AND FINANCIAL RESOURCES ANALYSIS

The Group continues to be prudent about maintaining a sound financial position that enables the execution of our key strategic initiatives over the coming years.

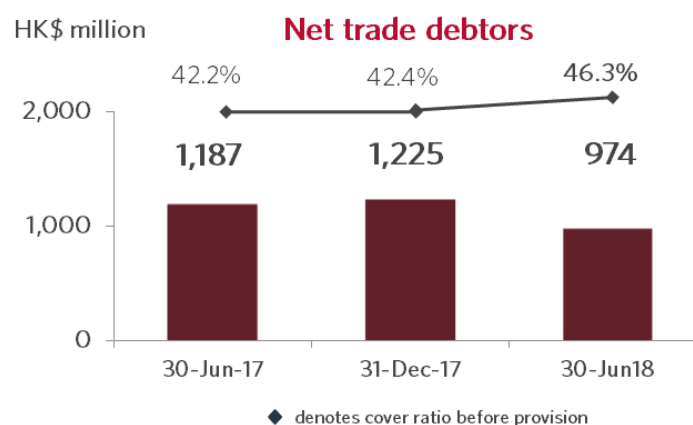
Net Cash: We are seeing some pressure on our cash balance due to the worse than expected decline in revenue. As at 30 June 2018, the Group remained debt free with net cash of HK\$4,521 million (30 June 2017: HK\$5,221 million), representing a net cash utilization of HK\$(700) million for FY17/18, as compared to HK\$(120) million for the last financial year. The increase in cash utilization is mainly due to (i) a negative operating cash flow (including changes in working capital) for FY17/18 of HK\$(418) million (FY16/17: HK\$(81) million) ; and (ii) cash used in the repurchase of shares of HK\$(237) million.



Inventories: Our inventory balance amounted to HK\$2,296 million (30 June 2017: HK\$2,540 million), representing a yoy reduction of -9.6%, despite the +1.7% yoy appreciation in EUR/HKD closing rate. In terms of unit, the total number of inventory at the end of June 2018 was 32.9 million pieces, a yoy decrease of -4.8% as compared to 34.6 million pieces a year ago. Inventory turnover days was 128 days, an increase of 5 days as compared to a year ago (30 June 2017: 123 days) mainly due to the weaker than expected sales performance of the retail (excl. eshop) and Eshop businesses.



Net trade debtors was HK\$974 million (30 June 2017: HK\$1,187 million), representing a yoy decrease of -18.0% in LCY, which compares favorably against the Group revenue decline of -11.1% and wholesale (excl. eshop) revenue decline of -11.6% in LCY. 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 46.3% (30 June 2017: 42.2%).



Capital expenditure (CAPEX): We remain cautious in CAPEX investments as we stay vigilant in cash flow management and cost control. The Group invested HK\$305 million in CAPEX in FY17/18 (FY16/17: HK\$257 million), representing an increase of 18.7% yoy largely due to the investment in the extension of the distribution center in Mönchengladbach, and the rollout of our Omnichannel services in the stores, e.g. installation of instore WiFi.

HK\$ million	For the year ended 30 June	
	2018	2017
New stores	30	50
Refurbishment	76	48
IT projects	45	48
Office & others	154	111
Purchase of property, plant and equipment	305	257

Total interest bearing external borrowings: As at 30 June 2018, the Group had no interest bearing external borrowings (30 June 2017: nil).

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 Euro, we report our financial results in Hong Kong Dollars. As a result, fluctuations in the value of the Euro against the Hong Kong Dollar could affect our revenue which is reported in Hong Kong Dollar. In addition, the purchases of finished goods in Euro account for only a small portion of our total purchases of finished goods while our revenue are generated primarily in Euro. Although we currently use foreign currency forward contracts to hedge exposure to the foreign exchange risk related to our purchases, fluctuations in the value of the Euro against other currencies, mostly against the US Dollar, could affect our 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 FY17/18. Owing to the strengthening of the Euro against US Dollar in the past 12 months, average EUR:USD rate hedged for FY18/19 is 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.

OUTLOOK FOR FY18/19

FY17/18 has been a difficult year, as we have observed decreased customers' traffic to our brick-and-mortar retail stores and increased competition in the ecommerce channel; accordingly we are conscious that the operating environment will continue to be challenging.

Looking ahead, corrective measures are in place to reignite sales momentum to address this situation. An internal taskforce had conducted an in-depth analysis of the situation and diagnosed the problems we are facing. We now have a clear plan (the "Plan") on how we can return Esprit to sustainable growth and profitability. The main initiatives of the plan include: 1) sharpen our brand identity and put the customer at the center of everything we do; 2) improve product offerings and how it relates to our consumer and brand position; 3) reduce complexity and improve accountability in the organization; and 4) become a leaner organization and eliminate loss-making parts of the business to build a stronger foundation for the future. The directions are clear, but the details are still being worked out and are subject to local laws, regulations and negotiation with workers councils. The Plan will be presented to the market later this year at an investor day.

With respect to FY18/19, **Revenue** is expected to decline by low double-digit percentage yoy mainly attributable to two factors: i) continue rationalization of distribution footprint will lead to mid to high single-digit percentage yoy decline in total **controlled space**; and ii) customers' traffic is likely to see decline although at a slightly lower rate than last year amidst implementation of measures to revive store traffic.

Regarding **gross profit margin**, we aim to maintain it at a stable level. While we will continue our decisive measures to reduce markdowns and promotions, the benefit is expected to be offset by a lower proportion of Retail (excl. eshop) revenue which typically enjoys a higher gross margin.

As for **OPEX**, we see opportunities to significantly reduce our operating expenses by restructuring and simplifying the organization, and continuing the closure of loss making stores. Although details of the Plan are yet to be finalized, we have already identified areas where we can further optimize efficiency to reduce overhead and other operating costs. That being said, some upfront costs ("One-off costs") will be incurred in FY18/19 in order to implement the cost reduction measures, and the savings are expected to be fully realized over the next 2 to 3 years. All-in-all, a mid-single digit percentage reduction in OPEX (excluding One-off costs) is expected for FY18/19.

With respect to **CAPEX**, we expect to see a level slightly less than previous year.

APPENDIX

Revenue by Country

For the year ended 30 June							
Country ^{^^}	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 [#]	7,791	50.4%	7,932	49.8%	-1.8%	-10.9%	-8.9%
Rest of Europe	5,769	37.3%	5,866	36.8%	-1.7%	-9.8%	-6.8%
Benelux [#]	1,910	12.4%	1,895	11.9%	0.8%	-8.6%	-5.4%
France	906	5.9%	977	6.1%	-7.2%	-15.8%	-14.0%
Switzerland	838	5.4%	926	5.8%	-9.5%	-13.7%	-3.4%
Austria	742	4.8%	735	4.6%	0.9%	-8.6%	-5.0%
Spain	229	1.5%	216	1.4%	6.5%	-3.8%	2.2%
Finland	224	1.5%	209	1.3%	6.9%	-2.8%	-1.8%
Sweden	219	1.4%	225	1.4%	-2.6%	-9.7%	-13.1%
Italy	130	0.8%	116	0.7%	12.0%	1.4%	1.1%
United Kingdom	112	0.7%	94	0.6%	19.0%	9.6%	-16.0%
Poland	93	0.6%	75	0.5%	24.3%	11.3%	-0.3%
Denmark	90	0.6%	89	0.6%	1.6%	-7.8%	-6.8%
Ireland	7	0.0%	7	0.0%	2.1%	-7.7%	-
Norway	3	0.0%	3	0.0%	-4.6%	-10.5%	6.2%
Portugal	1	0.0%	1	0.0%	33.2%	20.2%	-100.0%
Others ^{##}	265	1.7%	298	1.9%	-11.4%	-13.7%	-12.1%
Asia Pacific	1,895	12.3%	2,144	13.4%	-11.6%	-15.2%	-16.9%
China	760	4.9%	871	5.4%	-12.8%	-17.4%	-18.3%
Australia and New Zealand	262	1.7%	297	1.9%	-11.7%	-14.4%	-29.3%
Singapore	240	1.6%	227	1.4%	5.8%	0.8%	-7.8%
Hong Kong	174	1.1%	265	1.7%	-34.2%	-34.2%	-23.9%
Malaysia	158	1.0%	169	1.1%	-6.7%	-12.6%	-5.6%
Taiwan	154	1.0%	165	1.0%	-6.8%	-11.7%	-24.4%
Macau	73	0.5%	86	0.5%	-14.9%	-14.9%	19.8%
Others [@]	74	0.5%	64	0.4%	15.9%	15.9%	-20.0%
Total	15,455	100.0%	15,942	100.0%	-3.1%	-11.1%	-9.3%

[^] Net change since 1 July 2017

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

[#] Includes licensing

^{##} Others under Rest of Europe include i) retail (incl. eshop) revenue from Czech Republic, Hungary, Slovakia, Latvia, Slovenia, Estonia, Malta, Romania, Greece, Croatia and Bulgaria; ii) wholesale (excl. eshop) revenue from other countries mainly Chile, Colombia, Canada and the Middle East, 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 (excl. eshop) revenue from other countries mainly Thailand, India and the Philippines

Retail (excl. eshop) revenue by country

For the year ended 30 June							
Country	2018		2017		Revenue change in %		Net change in net sales area [^]
	HK\$ million	% to Total Revenue	HK\$ million	% to Total Revenue	HK\$	Local currency	
Germany	2,660	42.5%	2,781	41.4%	-4.4%	-13.1%	-5.8%
Rest of Europe	2,031	32.5%	2,133	31.7%	-4.8%	-12.0%	-4.3%
Benelux	792	12.7%	769	11.4%	3.0%	-6.6%	3.2%
Switzerland	516	8.3%	579	8.6%	-10.9%	-13.3%	-5.6%
Austria	346	5.5%	351	5.2%	-1.6%	-10.6%	-0.7%
France	188	3.0%	260	3.9%	-28.0%	-34.7%	-45.0%
Poland	65	1.0%	58	0.9%	12.7%	0.5%	-0.3%
Sweden	61	1.0%	54	0.8%	12.9%	6.0%	40.4%
Finland	49	0.8%	47	0.7%	4.3%	-4.8%	-9.4%
Denmark	14	0.2%	15	0.2%	-1.6%	-10.3%	-
Asia Pacific	1,560	25.0%	1,804	26.9%	-13.5%	-17.1%	-14.8%
China	545	8.7%	636	9.6%	-14.3%	-18.9%	-14.5%
Australia and New Zealand	241	3.8%	272	4.0%	-11.4%	-14.0%	-29.3%
Singapore	222	3.6%	216	3.2%	2.7%	-2.1%	-7.8%
Hong Kong	173	2.8%	264	3.9%	-34.4%	-34.4%	-23.9%
Malaysia	155	2.5%	167	2.5%	-7.1%	-13.0%	-5.6%
Taiwan	151	2.4%	163	2.4%	-7.2%	-12.1%	-24.4%
Macau	73	1.2%	86	1.3%	-14.9%	-14.9%	19.8%
Total	6,251	100.0%	6,718	100.0%	-6.9%	-13.8%	-7.8%

[^] Net change since 1 July 2017

Directly managed retail stores by country – movement since 1 July 2017

As at 30 June 2018							
Country	No. of stores	Net opened stores [^]	Net sales area (m ²)	Net change in net sales area [^]	No. of comp stores (excl. eshop)	Comp-store sales growth (excl. eshop)	
Germany	140	(6)	109,515	-5.8%	129	-10.6%	
Rest of Europe	137	1	78,616	-4.3%	107	-9.6%	
Switzerland	36	(2)	16,230	-5.6%	31	-12.2%	
Netherlands	24	4	15,505	9.2%	19	-11.1%	
Belgium	23	1	15,924	-1.6%	18	-9.6%	
Austria	19	-	14,735	-0.7%	17	-10.3%	
France	11	(5)	5,342	-45.0%	9	-3.6%	
Poland	11	-	3,235	-0.3%	5	11.2%	
Sweden	7	3	3,570	40.4%	4	-1.8%	
Luxembourg	3	-	1,869	-	3	-2.1%	
Finland	2	-	1,581	-9.4%	-	n.a.	
Denmark	1	-	625	-	1	-10.4%	
Asia Pacific	309	(75)	63,076	-14.8%	151	-6.2%	
China	145	(33)	27,345	-14.5%	67	-7.2%	
Taiwan	52	(16)	4,985	-24.4%	29	-3.9%	
Australia	45	(18)	5,381	-26.3%	20	-1.6%	
Malaysia	29	(3)	11,827	-5.6%	18	-12.3%	
Singapore	19	(2)	6,103	-7.8%	5	-4.0%	
Hong Kong	9	(1)	4,105	-23.9%	5	-7.4%	
Macau	5	1	2,440	19.8%	3	-6.8%	
New Zealand	5	(3)	890	-43.1%	4	-0.2%	
Total	586	(80)	251,207	-7.8%	387	-9.6%	

[^] Net change since 1 July 2017

n.a. Not applicable

Directly managed retail stores by store type – movement since 1 July 2017

Store type	No. of stores					Net sales area (m ²)				
	As at	vs 1 July 2017		As at	Net	As at	vs 1 July 2017		As at	Net
	30 June 2018	Opened	Closed	1 July 2017	change	30 June 2018	Opened	Closed	1 July 2017	change
Stores	353	22	(39)	370	(17)	200,510	6,659	(18,475)	212,326	-5.6%
- Germany	123	3	(10)	130	(7)	95,211	829	(7,496)	101,878	-6.5%
- Rest of Europe	128	12	(9)	125	3	72,952	4,096	(4,992)	73,848	-1.2%
- Asia Pacific	102	7	(20)	115	(13)	32,347	1,734	(5,987)	36,600	-11.6%
Concession counters	164	3	(55)	216	(52)	17,571	1,041	(4,961)	21,491	-18.2%
- Germany	5	1	(1)	5	-	2,057	797	(521)	1,781	15.5%
- Asia Pacific	159	2	(54)	211	(52)	15,514	244	(4,440)	19,710	-21.3%
Outlets	69	2	(13)	80	(11)	33,126	854	(6,407)	38,679	-14.4%
- Germany	12	1	-	11	1	12,247	312	(711)	12,646	-3.2%
- Rest of Europe	9	1	(3)	11	(2)	5,664	390	(3,035)	8,309	-31.8%
- Asia Pacific	48	-	(10)	58	(10)	15,215	152	(2,661)	17,724	-14.2%
Total	586	27	(107)	666	(80)	251,207	8,554	(29,843)	272,496	-7.8%

Wholesale (excl. eshop) revenue by country

Country	For the year ended 30 June						
	2018		2017		Revenue change in %		Net change in net sales area [^]
	HK\$ million	% to Total Revenue	HK\$ million	% to Total Revenue	HK\$	Local currency	
Germany	2,621	53.5%	2,741	54.1%	-4.4%	-13.3%	-10.9%
Rest of Europe	2,168	44.2%	2,204	43.5%	-1.6%	-9.8%	-8.3%
Benelux	540	11.0%	566	11.2%	-4.6%	-13.6%	-13.7%
France	487	9.9%	493	9.7%	-1.2%	-10.2%	-4.4%
Spain	211	4.3%	201	4.0%	4.8%	-5.3%	2.2%
Austria	189	3.8%	185	3.6%	2.1%	-7.6%	-9.9%
Finland	147	3.0%	135	2.7%	8.7%	-1.3%	-0.4%
Sweden	122	2.5%	139	2.7%	-12.3%	-18.6%	-35.1%
Italy	121	2.5%	108	2.1%	11.8%	1.1%	1.1%
Switzerland	118	2.4%	120	2.4%	-2.0%	-4.9%	3.0%
United Kingdom	63	1.3%	48	1.0%	30.6%	22.0%	-16.0%
Denmark	38	0.8%	38	0.7%	1.0%	-8.2%	-8.9%
Ireland	3	0.1%	4	0.1%	-8.1%	-16.8%	-
Norway	3	0.0%	3	0.1%	-4.6%	-10.5%	6.2%
Others [#]	126	2.6%	164	3.2%	-23.0%	-23.6%	-12.1%
Asia Pacific	114	2.3%	119	2.4%	-4.5%	-5.9%	-27.0%
China	40	0.8%	55	1.1%	-28.1%	-31.1%	-35.6%
Others [@]	74	1.5%	64	1.3%	15.9%	15.9%	-20.0%
Total	4,903	100.0%	5,064	100.0%	-3.2%	-11.6%	-10.6%

[^] Net change since 1 July 2017

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

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

Wholesale distribution channel by country (controlled space only) – movement since 1 July 2017

As at 30 June 2018																
Country	Franchise stores				Shop-in-stores				Identity corners				Total			
	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	227	50,733	(20)	-10.7%	2,048	79,830	(266)	-12.6%	1,081	21,935	(101)	-5.1%	3,356	152,498	(387)	-10.9%
Rest of Europe	421	79,006	(30)	-9.5%	778	24,637	(52)	-3.5%	817	19,023	(57)	-9.1%	2,016	122,666	(139)	-8.3%
Benelux	80	22,718	(10)	-13.2%	48	2,472	(21)	-21.2%	149	4,130	(24)	-11.2%	277	29,320	(55)	-13.7%
France	118	20,308	(8)	-5.2%	259	5,815	-	-	145	3,967	(11)	-6.9%	522	30,090	(19)	-4.4%
Austria	49	7,721	(6)	-13.2%	95	3,508	-	4.3%	25	631	(13)	-29.6%	169	11,860	(19)	-9.9%
Sweden	9	3,016	(10)	-44.9%	2	98	2	n.a.	37	907	10	25.4%	48	4,021	2	-35.1%
Finland	21	4,843	1	1.1%	57	2,322	1	-0.4%	93	2,636	(1)	-3.1%	171	9,801	1	-0.4%
Switzerland	21	3,308	1	3.1%	45	2,298	-	7.0%	15	317	(3)	-19.7%	81	5,923	(2)	3.0%
Italy	14	2,537	2	9.7%	34	1,025	(1)	-2.0%	236	3,569	7	-3.5%	284	7,131	8	1.1%
Spain	26	2,985	5	23.4%	163	5,253	(9)	-2.0%	53	1,522	(8)	-14.0%	242	9,760	(12)	2.2%
Denmark	6	1,547	-	1.0%	2	28	-	-	14	324	(5)	-38.2%	22	1,899	(5)	-8.9%
Norway	1	242	-	-	-	-	-	-	1	15	1	-	2	257	1	6.2%
United Kingdom	2	150	-	-1.3%	8	330	(1)	-5.4%	44	955	(8)	-20.9%	54	1,435	(9)	-16.0%
Portugal	-	-	-	-	-	-	-	-	-	-	(2)	-100.0%	-	-	(2)	-100.0%
Ireland	-	-	-	-	1	82	-	-	5	50	-	-	6	132	-	-
Others *	74	9,631	(5)	-9.9%	64	1,406	(23)	-24.7%	-	-	-	-	138	11,037	(28)	-12.1%
Asia Pacific	110	11,273	(29)	-27.0%	-	-	-	-	-	-	-	-	110	11,273	(29)	-27.0%
China	32	4,483	(20)	-35.6%	-	-	-	-	-	-	-	-	32	4,483	(20)	-35.6%
Thailand	56	3,968	(9)	-24.0%	-	-	-	-	-	-	-	-	56	3,968	(9)	-24.0%
Philippines	15	1,764	(1)	-18.0%	-	-	-	-	-	-	-	-	15	1,764	(1)	-18.0%
Others	7	1,058	1	-5.2%	-	-	-	-	-	-	-	-	7	1,058	1	-5.2%
Total	758	141,012	(79)	-11.6%	2,826	104,467	(318)	-10.6%	1,898	40,958	(158)	-7.0%	5,482	286,437	(555)	-10.6%

[^] Net change since 1 July 2017

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

HUMAN RESOURCES

As at 30 June 2018, the Group employed over 6,400 full-time equivalent staff (30 June 2017: over 7,300) 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.

DIVIDEND

The Board maintains the dividend payout ratio of 60% of basic earnings per share. As the Group recorded a loss for the year ended 30 June 2018, the Board has not recommended the distribution of a final dividend for the year ended 30 June 2018 (FY16/17: nil).

CLOSURE OF REGISTERS OF MEMBERS

For determining the eligibility of shareholders to attend and vote at the forthcoming annual general meeting of the Company

Latest time to lodge transfer documents for registration At 4:30 pm on Thursday, 29 November 2018

Closure of Registers of Members Friday, 30 November 2018 to Wednesday, 5 December 2018 (both dates inclusive)

Record date Wednesday, 5 December 2018

During the above closure period, no transfer of shares of the Company will be effected. To be eligible to attend and vote at the forthcoming annual general meeting, all transfer forms, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than the aforementioned latest time.

AUDIT COMMITTEE

The Audit Committee currently comprises three Independent Non-executive Directors. 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 consolidated results of the Group for the year ended 30 June 2018 have been reviewed by the Audit Committee and audited by the independent auditor of the Company, PricewaterhouseCoopers.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

During the year under review, the Company repurchased a total of 56,963,000 shares of the Company on The Stock Exchange of Hong Kong Limited at an aggregate consideration (excluding expenses) of approximately HK\$234 million. All the repurchased shares were subsequently cancelled.

Particulars of the repurchases are as follows:

	Number of shares repurchased	Purchase price per share	
		Highest (HK\$)	Lowest (HK\$)
2017			
August	13,351,400	4.47	4.06
September	11,563,800	4.80	4.35
October	7,182,200	4.30	4.15
November	6,421,200	4.30	3.97
December	4,019,100	4.23	3.97
2018			
January	14,425,300	4.23	3.39

Save as disclosed above and announced with regard to the purchase of existing share(s) by the trustee appointed for the administration of the Employees' Share Award Scheme of the Company, Computershare Hong Kong Trustees Limited, in accordance with such share award scheme, neither the Company nor any of its subsidiaries have purchased, sold or redeemed any of the Company's shares during the year 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") for the year ended 30 June 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 year ended 30 June 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 Paul CHENG Ming Fun (*Deputy Chairman*)
Dr José María CASTELLANO RIOS
Mr Alexander Reid HAMILTON
Mr Carmelo LEE Ka Sze
Mr Norbert Adolf PLATT

By Order of the Board
Florence NG Wai Yin
Company Secretary

Hong Kong, 18 September 2018

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.