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ESPRIT

ESPRIT HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)
STOCK CODE: 00330

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 31 DECEMBER 2019

INTERIM RESULTS

The board of directors (the “Board”) of Esprit Holdings Limited (the “Company”) announces the unaudited condensed consolidated interim financial information, along with selected explanatory notes, of the Company and its subsidiaries (the “Group” or “Esprit”) for the six months ended 31 December 2019 as follows:

Condensed consolidated income statement

		Unaudited for the 6 months ended 31 December	
	Notes	2019 HK\$ million	2018 HK\$ million
Revenue	2	5,763	6,766
Cost of goods sold		(2,930)	(3,295)
Gross profit		2,833	3,471
Staff costs		(971)	(1,692)
Depreciation of right-of-use assets		(525)	-
Occupancy costs		(238)	(1,093)
Logistics expenses		(292)	(485)
Marketing and advertising expenses		(293)	(350)
Depreciation of property, plant and equipment		(203)	(238)
Provision for China restructuring	17	(104)	-
Provision for store closures and leases, net		(21)	(924)
Impairment of property, plant and equipment		(2)	(116)
Loss on disposal of investment properties	18	(6)	-
Other operating costs		(506)	(323)
Operating loss (LBIT)	3	(328)	(1,750)
Interest income	4	45	31
Finance costs	5	(51)	(18)
Loss before taxation		(334)	(1,737)
Taxation credit/(charge)	6	3	(36)
Loss attributable to shareholders of the Company		(331)	(1,773)
Loss per share			
- Basic and diluted	8	HK\$(0.18)	HK\$(0.94)

Condensed consolidated statement of comprehensive income

	Unaudited for the 6 months ended 31 December	
	2019 HK\$ million	2018 HK\$ million
Loss attributable to shareholders of the Company	(331)	(1,773)
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Fair value loss on cash flow hedge, net of tax	(9)	(19)
Exchange translation	(35)	(100)
	(44)	(119)
Total comprehensive income for the period attributable to shareholders of the Company, net of tax	(375)	(1,892)

Condensed consolidated statement of financial position

		Unaudited 31 December 2019 HK\$ million	Audited 30 June 2019 HK\$ million
	Notes		
Non-current assets			
Right-of-use assets	9	3,882	-
Intangible assets		2,039	2,050
Property, plant and equipment	10	929	1,128
Investment properties		-	27
Financial assets at fair value through profit or loss		9	12
Debtors, deposits and prepayments	11	116	120
Deferred tax assets		541	559
		<u>7,516</u>	<u>3,896</u>
Current assets			
Inventories		2,103	1,845
Debtors, deposits and prepayments	11	1,412	1,499
Tax receivable		78	80
Cash, bank balances and deposits	12	2,740	3,282
		<u>6,333</u>	<u>6,706</u>
Current liabilities			
Creditors and accrued charges	13	2,531	2,504
Lease liabilities	14	1,168	-
Provision for store closures and leases	15	-	940
Tax payable		156	161
		<u>3,855</u>	<u>3,605</u>
Net current assets		<u>2,478</u>	<u>3,101</u>
Total assets less current liabilities		<u>9,994</u>	<u>6,997</u>
Equity			
Share capital	16	189	189
Reserves		6,151	6,524
Total equity		<u>6,340</u>	<u>6,713</u>
Non-current liabilities			
Lease liabilities	14	3,357	-
Deferred tax liabilities		266	253
Retirement benefit obligations		31	31
		<u>3,654</u>	<u>284</u>
		<u>9,994</u>	<u>6,997</u>

Notes to the condensed consolidated interim financial information

1. Basis of preparation

This unaudited condensed consolidated interim financial information (“interim financial information”) on pages 2 to 26 for the six months ended 31 December 2019 has been prepared in accordance with the International Accounting Standard (“IAS”) 34 “Interim Financial Reporting” issued by the International Accounting Standards Board and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

This interim financial information should be read in conjunction with the annual financial statements for the year ended 30 June 2019. The accounting policies and methods of computation used in the preparation of this interim financial information are consistent with those used in the annual financial statements for the year ended 30 June 2019.

In the current period, the Group has adopted the following IAS and International Financial Reporting Standards (“IFRS”) effective for the Group’s financial year beginning 1 July 2019:

IAS 19 (Amendments)	Plan Amendment, Curtailment or Settlement
IAS 28 (Amendments)	Long-term Interests in Associates and Joint Ventures
IFRS 23	Uncertainty over Income Tax Treatments
IFRS 9 (Amendments)	Prepayment Features with Negative Compensation
IFRS 16	Leases
IFRSs (Amendments)	Annual Improvements to IFRSs 2015-2017 Cycle

Apart from IFRS 16, the adoption of the other newly effective standard and the amendments to an existing standard did not result in substantial changes to the Group’s accounting policies or financial results. The following describes the key changes arising from the adoption of the IFRS 16 that impact the consolidated financial statements of the Group.

1. Basis of preparation (continued)

IFRS 16 “Leases”

The Group leases retail stores, offices, warehouse and logistic facilities, motor vehicles and office equipment for its operations. The Group has applied IFRS 16 “Leases” from 1 July 2019. It elected to apply the modified retrospective approach as permitted under the transitional provision of the IFRS 16 and not to restate the comparatives for prior years. The reclassifications and the adjustments are therefore not reflected in the condensed consolidated statement of financial position as at 30 June 2019, but are recognized in the opening condensed consolidated statement of financial position on 1 July 2019.

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosures of leases. The new standard introduces significant changes to the lessee accounting by removing the distinction between operating and finance leases. It requires the recognition of a right-of-use asset (the right to use the leased item) and a financial liability to pay rentals for accounting of leases as a lessee. The only exemptions are for short-term and low-value leases.

After initial recognition of the right-of-use asset and lease liability, the lessee recognizes the depreciation of the right-of-use assets on a straight-line basis over the shorter of the estimated useful life or the lease term and interest expense accrued on the outstanding balance of the lease liability upon the passage of time. The accounting for lessors has not significantly changed. For sublease as an intermediate lessor, the classification of operating and finance lease is determined based on the right-of-use asset arising from the head lease, not with reference to the underlying asset.

Fixed lease expenses in the consolidated income statement are replaced by depreciation and interest expenses. Adoption of IFRS 16 has effects to the financial performance of the Group by increasing EBITDA and EBIT, while, when comparing to IAS 17, higher expenses will be incurred in the early years of lease terms, diminishing over the lease terms and will result lower expenses in the later part of the least terms. But nonetheless, adopting IFRS 16 has no impact on the Group’s cash flows except to present part of the cash outflows as financing instead of operating.

Initial adoption of IFRS 16

For the adoption of IFRS 16, management have reviewed and identified all contracts which contain leases. The Group has applied the changed lease accounting for all leases with no exemptions for short-term and low value leases.

Upon initial adoption, lease liabilities were measured and recognized at the present value of the remaining lease payments, discounted using the lessees’ incremental borrowing rates as of 1 July 2019 less prepaid rents. Right-of-use assets were measured and recognized at the initial measurement of the lease liabilities less impairment together with the restoration costs. The Group has applied the transitional provisions of IFRS 16 to:

- exclude the initial direct costs for the initial measurement of the right-of-use asset at the date of initial application
- use a single discount rate to a portfolio of leases with reasonably similar characteristics
- rely on previous assessments on whether leases are onerous

1. Basis of preparation (continued)

For sublease classified as a finance lease, finance lease receivable was measured and recognized at the present value of the remaining lease receivables.

Lease liabilities and finance lease receivables are classified as non-current liabilities and assets unless payments are within 12 months from the date of the consolidated statement of financial position.

Effect on adoption of IFRS 16

The table below shows the adjustments recognized in the opening balances of each individual financial statement line item affected.

Condensed consolidated statement of financial position (extract)

	30 June 2019 HK\$ million (as previously reported)	Impact on initial adoption of IFRS 16 HK\$ million	1 July 2019 HK\$ million (restated)
Non-current assets			
Right-of-use assets	-	4,304	4,304
Property, plant and equipment	1,128	(8)	1,120
Debtors, deposits and prepayments	120	27	147
Current assets			
Debtors, deposits and prepayments	1,499	18	1,517
Current liabilities			
Creditors and accrued charges	2,504	177	2,681
Provision for store closures and leases	940	(940)	-
Lease liabilities	-	1,249	1,249
Non-current liabilities			
Lease liabilities	-	3,854	3,854
Equity			
Reserves	6,524	-	6,524

1. Basis of preparation (continued)

Reconciliation from lease commitments to lease liabilities

Set out below is a reconciliation of the operating lease commitments disclosed at 30 June 2019 to lease liabilities recognized on 1 July 2019:

	At 1 July 2019 HK\$ million
Opening lease commitments disclosed at 30 June 2019	5,578
Discounted using the Group's weighted average incremental borrowing rate of 2.1%	5,233
Add: Lease components of service contracts not included in operating lease commitments	8
Less: Non-lease components included under operating lease commitments	(129)
Prepaid rent and others	(9)
Lease liabilities recognized at 1 July 2019	5,103
Comprising	
Current lease liabilities	1,249
Non-current lease liabilities	3,854
	5,103

1. Basis of preparation (continued)

The Group has applied IFRS 16 without restating comparative information. The table below shows the effect of adoption of IFRS 16 on the results of the six months ended 31 December 2019 as compared to IAS 17.

Condensed consolidated income statement

	Before adoption of IFRS 16 HK\$ million	Effect of adoption of IFRS 16 HK\$ million	As reported HK\$ million
Revenue	5,763	-	5,763
Cost of goods sold	(2,930)	-	(2,930)
Gross profit	2,833	-	2,833
Staff costs	(971)	-	(971)
Depreciation of right-of-use assets	-	(525)	(525)
Occupancy costs	(898)	660	(238)
Logistics expenses	(324)	32	(292)
Marketing and advertising expenses	(293)	-	(293)
Depreciation of property, plant and equipment	(204)	1	(203)
Provision for China restructuring	(104)	-	(104)
Provision for store closures and leases, net	(21)	-	(21)
Impairment of property, plant and equipment	(2)	-	(2)
Loss on disposal of investment properties	(6)	-	(6)
Other operating costs	(367)	(139)	(506)
Operating loss (LBIT)	(357)	29	(328)
Interest income	44	1	45
Finance costs	(2)	(49)	(51)
Loss before taxation	(315)	(19)	(334)
Taxation credit	3	-	3
Loss attributable to shareholders of the Company	(312)	(19)	(331)
Loss per share			
- Basic and diluted	HK\$(0.17)	HK\$(0.01)	HK\$(0.18)

1. Basis of preparation (continued)

The Group has not early adopted the following IASs and IFRSs that have been issued but are not yet effective.

		Effective for accounting periods beginning on or after
IAS 1 and IAS 8 (Amendments)	Definition of Material	1 January 2020
IFRS 3 (Amendments)	Definition of a Business	1 January 2020
IFRS 10 and IAS 28 (Amendments)	Sales or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined
IFRS 17	Insurance Contracts	1 January 2021

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 and via eshop platforms.

	Unaudited for the 6 months ended 31 December	
	2019	2018
	HK\$ million	HK\$ million
Revenue from external customers		
Germany	2,050	2,332
Rest of Europe	1,696	1,899
Asia	356	627
eshop	1,606	1,851
Licensing and others	55	57
	5,763	6,766

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 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 are aggregated into one reporting segment under global eshop.

Inter-segment transactions are entered into under the normal commercial terms and conditions that would also be available to unrelated third parties.

* The Rest of Europe region includes our business in America.

2. Revenue and segment information (continued)

Unaudited for the 6 months ended 31 December 2019						
	Germany HK\$ million	Rest of Europe HK\$ million	Asia HK\$ million	eshop HK\$ million	Corporate services, sourcing, licensing and others HK\$ million	Group HK\$ million
Total revenue						
Retail	990	850	321	1,606	-	3,767
Wholesale	1,060	846	35	-	-	1,941
Licensing and others	-	-	-	-	2,999	2,999
	<u>2,050</u>	<u>1,696</u>	<u>356</u>	<u>1,606</u>	<u>2,999</u>	<u>8,707</u>
Inter-segment revenue	-	-	-	-	(2,944)	(2,944)
Revenue from external customers						
Retail	990	850	321	1,606	-	3,767
Wholesale	1,060	846	35	-	-	1,941
Licensing and others	-	-	-	-	55	55
	<u>2,050</u>	<u>1,696</u>	<u>356</u>	<u>1,606</u>	<u>55</u>	<u>5,763</u>
Segment results						
Retail	(47)	(10)	(118)	260	(3)	82
Wholesale	195	49	(1)	-	9	252
Licensing and others	-	-	-	-	(662)	(662)
	<u>148</u>	<u>39</u>	<u>(119)</u>	<u>260</u>	<u>(656)</u>	<u>(328)</u>
EBIT/(LBIT) of the Group						
Interest income						45
Finance costs						(51)
Loss before taxation						<u>(334)</u>
Provision for China restructuring						
Retail	-	-	(34)	(3)	-	(37)
Wholesale	-	-	(1)	-	-	(1)
Licensing and others	-	-	-	-	(66)	(66)
	<u>-</u>	<u>-</u>	<u>(35)</u>	<u>(3)</u>	<u>(66)</u>	<u>(104)</u>
Provision for store closures and leases, net						
Retail	(21)	-	-	-	-	(21)

2. Revenue and segment information (continued)

Unaudited for the 6 months ended 31 December 2019						
	Germany	Rest of Europe	Asia	eshop	Corporate services, sourcing, licensing and others	Group
	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million
One-off costs in relation to staff reduction plans						
Retail	(2)	-	-	-	(1)	(3)
Wholesale	1	(1)	-	-	-	-
Licensing and others	-	-	-	-	(2)	(2)
Total	<u>(1)</u>	<u>(1)</u>	<u>-</u>	<u>-</u>	<u>(3)</u>	<u>(5)</u>
Impairment of property, plant and equipment						
Licensing and others	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2)</u>	<u>(2)</u>
Loss on disposal of investment properties						
Licensing and others	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(6)</u>	<u>(6)</u>
Depreciation						
Retail	(15)	(23)	(8)	(7)	-	(53)
Wholesale	(2)	(4)	-	-	(1)	(7)
Licensing and others	-	-	-	-	(143)	(143)
Total	<u>(17)</u>	<u>(27)</u>	<u>(8)</u>	<u>(7)</u>	<u>(144)</u>	<u>(203)</u>
Capital expenditure						
Retail	7	17	3	1	-	28
Wholesale	1	2	-	-	-	3
Licensing and others	-	-	7	-	25	32
Total	<u>8</u>	<u>19</u>	<u>10</u>	<u>1</u>	<u>25</u>	<u>63</u>

2. Revenue and segment information (continued)

	Unaudited for the 6 months ended 31 December 2018					
	Germany	Rest of Europe	Asia	eshop	Corporate services, sourcing, licensing and others	Group
	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million
Total revenue						
Retail	1,218	956	567	1,851	-	4,592
Wholesale	1,114	943	60	-	-	2,117
Licensing and others	-	-	-	-	3,128	3,128
	<u>2,332</u>	<u>1,899</u>	<u>627</u>	<u>1,851</u>	<u>3,128</u>	<u>9,837</u>
Inter-segment revenue	-	-	-	-	(3,071)	(3,071)
Revenue from external customers						
Retail	1,218	956	567	1,851	-	4,592
Wholesale	1,114	943	60	-	-	2,117
Licensing and others	-	-	-	-	57	57
	<u>2,332</u>	<u>1,899</u>	<u>627</u>	<u>1,851</u>	<u>57</u>	<u>6,766</u>
Segment results						
Retail	(860)	(381)	(54)	261	12	(1,022)
Wholesale	245	74	9	-	8	336
Licensing and others	-	-	-	-	(1,064)	(1,064)
	<u>(615)</u>	<u>(307)</u>	<u>(45)</u>	<u>261</u>	<u>(1,044)</u>	<u>(1,750)</u>
(LBIT)/EBIT of the Group						
Interest income						31
Finance costs						(18)
						<u>(1,737)</u>
Provision for store closures and leases, net						
Retail	(667)	(221)	(36)	-	-	(924)
	<u>(667)</u>	<u>(221)</u>	<u>(36)</u>	<u>-</u>	<u>-</u>	<u>(924)</u>
One-off costs in relation to staff reduction plans						
Retail	(7)	(37)	(1)	(6)	-	(51)
Wholesale	(1)	(4)	(1)	-	-	(6)
Licensing and others	-	-	-	-	(344)	(344)
	<u>(8)</u>	<u>(41)</u>	<u>(2)</u>	<u>(6)</u>	<u>(344)</u>	<u>(401)</u>

2. Revenue and segment information (continued)

Unaudited for the 6 months ended 31 December 2018						
	Germany HK\$ million	Rest of Europe HK\$ million	Asia HK\$ million	eshop HK\$ million	Corporate services, sourcing, licensing and others HK\$ million	Group HK\$ million
Impairment of property, plant and equipment						
Retail	(69)	(41)	(6)	-	-	(116)
Write back of one-off costs in relation to closure of ANZ operations						
Retail	-	-	21	-	-	21
Licensing and others	-	-	-	-	2	2
Total	-	-	21	-	2	23
Depreciation						
Retail	(20)	(29)	(12)	-	(15)	(76)
Wholesale	(5)	(5)	(1)	-	-	(11)
Licensing and others	-	-	-	-	(151)	(151)
Total	(25)	(34)	(13)	-	(166)	(238)
Capital expenditure						
Retail	9	16	8	8	5	46
Wholesale	5	1	1	-	1	8
Licensing and others	-	-	-	-	23	23
Total	14	17	9	8	29	77

3. Operating loss (LBIT)

**Unaudited for the 6 months
ended 31 December**
2019 **2018**
HK\$ million **HK\$ million**

LBIT is arrived at after charging and (crediting) the following:

Staff costs (Note)	971	1,692
Depreciation of right-of-use assets	525	-
Occupancy costs		
- fixed rents	-	785
- variable rents	42	62
- other occupancy costs	196	246
Depreciation of property, plant and equipment	203	238
Provision for China restructuring (Note 17)	104	-
Provision for store closures and leases, net (Note)	21	924
Impairment of property, plant and equipment (Note)	2	116
Loss on disposal of plant and equipment	4	2
Loss on disposal of investment properties	6	-
Net exchange losses	29	10
Write-back of provision for obsolete inventories, net	(50)	(13)
Additional provision for/(write-back of) impairment of trade debtors, net	12	(3)
	=====	=====

Note: During the six months ended 31 December 2019, the Group recognized one-off costs in relation to staff reduction plans of **HK\$5 million** which was grouped under staff costs, impairment of property, plant and equipment of **HK\$2 million** and store staff reduction and closures costs of **HK\$21 million** in connection with the restructuring plan initiated in the financial year 2018/19. The restructuring plan was i) to reduce complexity and improve accountability in the Group by becoming a leaner organization and ii) eliminate loss-making parts of the business to build a stronger foundation for the future. During the six months ended 31 December 2018, the Group recognized one-off costs in relation to staff reduction plans of HK\$401 million, a net additional provision for store closures and onerous leases of HK\$924 million and an impairment of property, plant and equipment of HK\$116 million. Upon initial adoption of IFRS 16, lease components of the provision for store closures and leases was considered as the impairment of the right-of-use assets.

4. Interest income

**Unaudited for the 6 months
ended 31 December**
2019 **2018**
HK\$ million **HK\$ million**

Interest in connection with overseas taxation refunds	33	-
Interest from bank deposits	11	28
Imputed interest on finance lease receivables	1	-
Others	-	3
	=====	=====
	45	31

5. Finance costs

	Unaudited for the 6 months ended 31 December	
	2019 HK\$ million	2018 HK\$ million
Interest on lease liabilities	49	-
Imputed interest on financial assets and financial liabilities	2	18
	<u>51</u>	<u>18</u>

6. Taxation

	Unaudited for the 6 months ended 31 December	
	2019 HK\$ million	2018 HK\$ million
Current tax		
Hong Kong profits tax		
Provision for current period	-	1
Overseas taxation		
Provision for current period	23	24
Over-provision for prior years	(52)	-
	<u>(29)</u>	<u>25</u>
Deferred tax		
Current period net charge	26	11
	<u>(3)</u>	<u>36</u>

Hong Kong profits tax is calculated at **16.5%** (2018: 16.5%) on the estimated assessable profit for the period, net of tax losses carried forward, if applicable.

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

In June 2014, a subsidiary of the Group in Germany received a letter from the tax authority in relation to a dispute on a value-added-tax ("VAT") matter involving payment of interests totaling approximately HK\$780 million, to which the subsidiary had lodged objection. Based on the advice from the Group's tax advisor, the Board of Directors considers that the payment of interests is unlikely, and therefore no additional provision has been made.

As a result of a change in tax regulation in Germany, the German tax authority re-assessed one of the Group's German subsidiaries' tax position and refunded corporate income tax of approximately **HK\$52 million** paid in prior years.

7. Interim dividend

The Board of Directors has resolved not to declare an interim dividend for the six months ended 31 December 2019 (2018: Nil).

8. Loss per share

Basic

Basic loss per share is calculated by dividing the loss attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the period less shares held for Share Award Scheme.

	Unaudited for the 6 months ended 31 December	
	2019	2018
Loss attributable to shareholders of the Company (HK\$ million)	(331)	(1,773)
Number of ordinary shares in issue at 1 July (million)	1,887	1,887
Adjustment for shares held for Share Award Scheme (million)	(8)	(8)
Weighted average number of ordinary shares in issue less shares held for Share Award Scheme (million)	1,879	1,879
Basic loss per share (HK\$ per share)	(0.18)	(0.94)

8. Loss per share (continued)

Diluted

Diluted loss per share is calculated based on dividing the loss attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the period (less shares held for Share Award Scheme) adjusted by the dilutive effect of share options and awarded shares.

	Unaudited for the 6 months ended 31 December	
	2019	2018
Loss attributable to shareholders of the Company (HK\$ million)	<u>(331)</u>	<u>(1,773)</u>
Weighted average number of ordinary shares in issue less shares held for Share Award Scheme (million)	1,879	1,879
Adjustments for share options and awarded shares (million)	<u>-</u>	<u>-</u>
Weighted average number of ordinary shares for diluted earnings per share (million)	<u>1,879</u>	<u>1,879</u>
Diluted loss per share (HK\$ per share)	<u>(0.18)</u>	<u>(0.94)</u>

Diluted loss per share for the six months ended 31 December 2019 was the same as the basic loss per share since the share options and awarded shares had anti-dilutive effect.

9. Right-of-use assets

	Unaudited for the 6 months ended 31 December 2019 HK\$ million
Initial adoption of IFRS 16 on 1 July	4,304
Exchange translation	(68)
Additions	294
Disposals	(106)
Depreciation (Note 3)	(525)
Impairment charge	(17)
At 31 December	<u>3,882</u>

Upon initial adoption of IFRS 16, right-of-use assets were measured and recognized as the initial lease liabilities less impairment together with the restoration costs.

10. Property, plant and equipment

	Unaudited for the 6 months ended 31 December	
	2019	2018
	HK\$ million	HK\$ million
At 1 July	1,128	1,571
Change in accounting policy	(8)	-
Restated at 1 July	1,120	1,571
Exchange translation	(19)	(20)
Additions	63	77
Disposals	(7)	(4)
Depreciation (Note 3)	(203)	(238)
Impairment charge	(25)	(116)
At 31 December	929	1,270

11. Debtors, deposits and prepayments

	Unaudited 31 December 2019	Audited 30 June 2019
	HK\$ million	HK\$ million
Trade debtors	1,193	1,205
Less: provision for impairment of trade debtors	(174)	(179)
	1,019	1,026
Deposits	72	92
Prepayments	187	164
Finance lease receivables	79	-
Right of return assets	78	88
Other debtors and receivables	93	249
	1,528	1,619
Non-current portion of deposits	(58)	(68)
Non-current portion of finance lease receivables	(47)	-
Non-current portion of other debtors and receivables	(9)	(14)
Non-current portion of prepayments	(2)	(38)
Current portion	1,412	1,499

11. Debtors, deposits and prepayments (continued)

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

	Unaudited 31 December 2019 HK\$ million	Audited 30 June 2019 HK\$ million
0-30 days	657	725
31-60 days	165	113
61-90 days	74	74
Over 90 days	123	114
	<u>1,019</u>	<u>1,026</u>

As of 31 December 2019, trade debtors net of provision for impairment of **HK\$307 million** (30 June 2019: HK\$232 million) were past due but not impaired. The aging analysis of these trade debtors is as follows:

	Unaudited 31 December 2019 HK\$ million	Audited 30 June 2019 HK\$ million
1-30 days	217	167
31-60 days	41	16
61-90 days	3	4
Over 90 days	46	45
Amount past due but not impaired	<u>307</u>	<u>232</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.

12. Cash, bank balances and deposits

	Unaudited 31 December 2019 HK\$ million	Audited 30 June 2019 HK\$ million
Bank balances and cash	1,971	2,438
Bank deposits with maturities within three months	680	733
Bank deposits with maturities of more than three months	89	111
	<u>2,740</u>	<u>3,282</u>

13. Creditors and accrued charges

	Unaudited 31 December 2019 HK\$ million	Audited 30 June 2019 HK\$ million
Trade creditors	566	425
Accruals	1,306	1,267
Return liabilities	177	202
Other creditors and payables	482	610
	<u>2,531</u>	<u>2,504</u>

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

	Unaudited 31 December 2019 HK\$ million	Audited 30 June 2019 HK\$ million
0-30 days	344	335
31-60 days	158	54
61-90 days	36	27
Over 90 days	28	9
	<u>566</u>	<u>425</u>

14. Lease liabilities

	Unaudited for the 6 months ended 31 December 2019 HK\$ million
Initial adoption of IFRS on 1 July	5,103
Exchange translation	(56)
Additions	239
Interest arising from the passage of time	49
Repayments	(730)
De-recognition	(80)
At 31 December	4,525
Current liabilities	1,168
Non-current liabilities	3,357
	4,525

Upon initial adoption of IFRS 16, lease liabilities were measured and recognized as the present value of the minimum lease payments less prepaid rents.

15. Provision for store closures and leases

Upon initial adoption of IFRS 16, lease components of the provision for store closures and leases was considered as impairment of the right-of-use assets and non-lease components was grouped under accrued charges as at 1 July 2019.

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

	Unaudited for the 6 months ended 31 December 2019 HK\$ million	2018 HK\$ million
At 1 July	-	397
Provision for store closures and leases, net	-	924
Amounts used during the period	-	(96)
Exchange translation	-	6
At 31 December	-	1,231

During the six months ended 31 December 2018, the Group recognized unwinding of discount totaling HK\$17 million which was recognized under amounts used during the period.

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

16. Share capital

	Number of shares of HK\$0.10 each million	Unaudited HK\$ million
Authorized:		
At 1 July 2019 and 31 December 2019	3,000	300
	Number of shares of HK\$0.10 each million	Unaudited Nominal value HK\$ million
Issued and fully paid:		
At 1 July 2019 and 31 December 2019	1,887	189
At 1 July 2018 and 31 December 2018	1,887	189

Notes:

(a) Share options

The Company adopted a share option scheme on 10 December 2009 (the “2009 Share Option Scheme”). The 2009 Share Option Scheme was terminated on 5 December 2018, notwithstanding that the share options which have been granted and remained outstanding shall continue to be valid and exercisable subject to and in accordance with the terms on which the share options were granted, the provisions of the 2009 Share Option Scheme and the Listing Rules.

The Company adopted a new share option scheme on 5 December 2018 (the “2018 Share Option Scheme”).

16. Share capital (continued)

(b) Awarded shares

The Board of Directors has adopted the Employees' Share Award Scheme (the "Share Award Scheme") on 17 March 2016. The purpose of the Share Award Scheme is to incentivize and retain selected senior management of the Group.

Pursuant to the rules relating to the Share Award Scheme (the "Scheme Rules"), the Board of Directors shall select any employees of the Group, including Executive Directors of the Company (the "Selected Employees") for participation in the Share Award Scheme and determine the awarded sums or the number of awarded shares. The Company has appointed an independent trustee for the administration of the Share Award Scheme. The trustee shall purchase the relevant number of shares from the market out of the Company's funds paid or to be paid to the trustee. The trustee shall hold such shares on trust for the relevant Selected Employees until they are vested and delivered in accordance with the Scheme Rules and the conditions of the award of such awarded shares (if any).

Details of the awarded shares movement during the period and outstanding awarded shares as at 31 December 2019 under the Share Award Scheme are as follows:

	Number of awarded shares	
	2019	2018
At 1 July	2,868,100	9,004,458
Vested during the period (Note (i))	(95,270)	(1,090,599)
Lapsed during the period	(677,560)	(4,181,594)
At 31 December	2,095,270	3,732,265

Notes:

- (i) During the six months ended 31 December 2019, a total of **95,270 shares** (2018: 1,090,599 shares) of the Company were transferred to relevant Selected Employees upon vesting. The total cost of the vested shares was **HK\$1 million** (including expenses) (2018: HK\$7 million). During the period, **HK\$0.2 million** (2018: HK\$0.1 million) was debited to retain earnings in respect of vesting of shares whose fair values were lower than the costs.

During the six months ended 31 December 2019, the trustee has not purchased any shares (2018: Nil shares) of the Company on the Stock Exchange. No payment has been made to the trustee to purchase any shares (2018: HK\$Nil).

17. China Joint Venture

On 5 December 2019, the Group entered into a joint venture agreement with Mulsanne Group Holdings Limited (“MGH”) to establish a joint venture company in the People’s Republic of China for the purpose of engaging in operating apparel, apparel accessory and such other business as the joint venture parties may agree for the Esprit brand in China. MGH and the Group will contribute RMB60 million and RMB40 million to the registered capital of the joint venture company, and will hold 60% and 40% of the equity interest in the joint venture company, respectively. Subject to the terms of the joint venture agreement, the Group will enter into a trademark license and transfer agreement to transfer certain trademarks to the joint venture company for the joint venture company’s business development. As at 31 December 2019, the joint venture company was not yet formed.

The Group is in the process of restructuring the organization and operations of the current China business. The Group has recognized costs of restructuring totaling **HK\$104 million** for the six months ended 31 December 2019, comprising staff reduction costs of **HK\$55 million**, impairment of plant and equipment of **HK\$23 million**, impairment of right-of-use assets of **HK\$17 million**, inventory provision of **HK\$6 million** and others of **HK\$3 million**.

18. Disposal of investment properties

During the six months ended 31 December 2019, the Group sold all its investment properties in China to several independent third parties at a total consideration of **HK\$21 million**. The loss on disposal of the investment properties, after deducting related expenses incurred for disposal, amounted to **HK\$6 million** and was recognized in the consolidated income statement for the period ended 31 December 2019. Total consideration amount of **HK\$21 million** were received in cash during the six months ended 31 December 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

As discussed in the last year's annual report (the "FY2018/19 Annual Report"), the Group is engaging in the execution of a strategic plan (the "Strategic Plan") to realize the following objectives: sharpen Esprit's brand identity; enhance the customer experience; improve the product offering; be best-in-class in serving the Group's wholesale partners; restructure its cost base; build a leaner and more efficient organization; and uphold sustainability as part of the Group's core values. As the initiatives have been presented to the market in the FY2018/19 Annual Report, we will not repeat the details here but rather highlight that execution of the Strategic Plan has continued to progress well and is on track.

Overall, the management is pleased with the performance of the Group for the six months ended 31 December 2019 ("1H FY19/20" or "Period under Review") as we have delivered financial results in line with management expectation despite the challenging market conditions.

Throughout this review, a pro forma 1H FY19/20 before adoption of IFRS 16 ("Pro forma") has been included to aid comparability of performance against same period last year.

Key Take Away

Building on the positive progress made in the last financial year, the Group has continued to deliver on what it set out to achieve in 1H FY19/20. The management is gratified to see that ongoing progress is contributing to improvements in the Group's operational metrics which has yielded clear and tangible financial results for 1H FY19/20.

- 1) **Europe Retail (excl. eshop & excl. outlet)**, representing over 85% of Group Retail (ex-outlet) revenue, recorded the following successes:
 - a) **More full price sales** – The Group's new approach to better managing markdowns and reducing promotions has had a positive effect in full-price sales growth within both the retail and ecommerce channels.
 - b) **Higher comparable gross profit margin** – The Group is continuing to deliver in line with the strategy to reduce promotional pressure, act more like a brand, and find new ways to encourage full-price shopping trips.
 - c) **Comparable store sales grew in three out of the six months during 1H FY19/20** (July 2019: -11.2%, August 2019: +1.3%, September 2019: +1.8%, October 2019: -1.4%, November: +0.1%, December 2019: -8.4%)
- 2) **Europe Eshop**, representing 96.4% of Group Eshop revenue, recorded **higher comparable gross profit margin** for reasons similar to those for the increase in Europe Retail (ex-outlet).
- 3) **Germany Wholesale (excl. eshop)**, representing 54.6% of Wholesale (excl. eshop) revenue of the Group, has **stabilized** and reported broadly flat revenue development of -0.9% year-on-year ("yoy") in local currency terms ("LCY") after

eleven consecutive years of decline. This is an encouraging development thanks to ongoing efforts to rebuilding trust and confidence amongst wholesale partners.

- 4) **New partnership in China** – China is and has always been an important pillar of the Group's Strategic Plan. The recently announced partnership with Mulsanne Group Holding Limited (“JV Partner”) in China will allow the Group to leverage the JV Partner's local knowledge and expertise to create a strong base for the Esprit brand to improve relevance and accelerate growth.
- 5) **Significant reduction of costs** – Pro forma¹ operating costs of underlying operations (“OPEX of underlying operations”) was reduced by HK\$717 million or -20.1% yoy. As a result of its ongoing effort to reduce headcount, closure/resizing of unprofitable stores, and persistent discipline on cost control and efficiency measures, the Group was able to significantly reduce operating expenses across all the major cost lines.
- 6) **Profitability Improvement** – Pro forma¹ LBITDA of underlying operations almost breakeven and came in at HK\$(15) million, substantially better than the HK\$(94) million for the same period last year. Pro forma¹ LBIT of underlying operations was at HK\$(219) million, also substantially better than the HK\$(332) million in the same period last year.

These positive developments demonstrated the effectiveness of the Strategic Plan and management's ability in execution of the plan.

The Group has indeed come far and has accomplished a lot in a short period of time. Today the Group's business is in a much better state than 12 months ago. It is leaner, quicker, fitter, more agile, and is well along the way to creating a new culture which is all about empowering and having fun while delivering results.

Management is encouraged by the progress made in the 1H FY19/20 and is confident that the Group is on the right track to recovery. Looking ahead to the second half of the financial year, there is still much to complete in many areas of the business. The goal for the rest of FY19/20 is to continue its transformation journey, implementing the Strategy Plan more rapidly and with the following priorities:

- Act and behave like a brand,
- Reduce discounting,
- Focus on profitability rather than topline growth, and
- Meticulous attention to sustainability.

¹ Pro forma figures for 1H FY19/20 are estimation before adoption of IFRS 16 to aid comparability to 1H FY18/19. Details of this pro forma is set out on page 29.

Results of Operations

The financial performance of the Group has continued to advance positively in line with management expectations.

In the Period under Review, the Group has adopted the new accounting standard IFRS 16, recognizing operating leases as right-of-use assets and lease liabilities on the balance sheet. The impact of this changes is set out on page 7 and page 9. Throughout this review, to aid comparability of performance against same period last year, a pro forma 1H FY19/20 before adoption of IFRS 16 has been included.

The following table summarizes the results of the Group for 1H FY19/20 and 1H FY18/19.

For the 6 months ended 31 December					
	Before adoption of IFRS 16			Reported under IFRS 16	
	2019 Pro forma ¹	2018	Change in %	2019	Change in %
	HK\$ million	HK\$ million	HK\$	HK\$ million	HK\$
Revenue	5,763	6,766	-14.8%	5,763	-14.8%
Cost of goods sold	(2,930)	(3,295)	-11.0%	(2,930)	-11.0%
Gross profit	2,833	3,471	-18.4%	2,833	-18.4%
Gross profit margin	49.2%	51.3%	-2.1 pts	49.2%	-2.1 pts
OPEX of underlying operations ²					
Staff costs	(966)	(1,291)	-25.2%	(966)	-25.2%
Marketing and advertising expenses	(293)	(350)	-16.3%	(293)	-16.3%
Logistics expenses	(324)	(485)	-33.2%	(292)	-39.8%
Occupancy costs	(898)	(1,093)	-17.8%	(238)	-78.2%
Other operating costs	(367)	(346)	6.1%	(506)	46.2%
Subtotal	(2,848)	(3,565)	-20.1%	(2,295)	-35.6%
LBITDA of underlying operations ³	(15)	(94)	83.4%	538	678.0%
Depreciation and amortisation					
Depreciation of Right-of-Use Assets	-	-		(525)	
Depreciation of Fixed Assets	(204)	(238)		(203)	
Subtotal	(204)	(238)		(728)	
LBIT of underlying operations ³	(219)	(332)		(190)	
Exceptional items ⁴					
i) Provision for China restructuring	(104)	-		(104)	
ii) Provision for store closures and leases, net	(21)	(924)		(21)	
iii) One-off costs in relation to staff reduction plans	(5)	(401)		(5)	
iv) Loss on disposal of investment properties	(6)	-		(6)	
v) Impairment of property, plant and equipment	(2)	(116)		(2)	
vi) Write-back of one-off costs in relation to closure of ANZ operations	-	23		-	
Subtotal	(138)	(1,418)		(138)	
Reported LBIT	(357)	(1,750)		(328)	
Interest income	44	31		45	
Finance costs	(2)	(18)		(51)	
Loss before taxation	(315)	(1,737)		(334)	
Taxation credit(charge)	3	(36)		3	
Net Loss	(312)	(1,773)		(331)	

Notes:

1. **Pro forma** figures for 1H FY19/20 are estimations before adoption of IFRS 16 to aid comparability to 1H FY18/19.
2. **OPEX of underlying operations** comprises recurring expenses of the underlying operation except depreciation and amortization.
3. **LBITDA of underlying operations** and **LBIT of underlying operations** are the LBITDA and LBIT of the Group before exceptional items.
4. **Exceptional Items** are one-off and non-operating gains and expenses arising from non-regular operational activities of the Group.

Revenue Analysis

Group revenue for 1H FY19/20 amounted to HK\$5,763 million, representing a yoy decline of -11.8% in LCY. The decline in revenue was the result of a combination of the impact of:

- (i) the Group's strategic rationalization of its distribution footprint leading to reduction in total controlled space of -14.8% yoy, and
- (ii) reduction of discount driven promotions which is very much in line with our strategy to behave like a brand.

The decline in Hong Kong dollar terms was moderately higher (-14.8% yoy) due to the relative weakness of the Euro against the Hong Kong Dollar during the Period under Review (average rate decreases of -3.8% compared with last year).

The following table summarizes the breakdown of revenue by region and by distribution channel, as well as the changes in the net sales area from the comparable period last year.

For the 6 months ended 31 December							
	2019		2018		Revenue Change in %		Net change in net sales area ^
	HK\$ million	% to Group Revenue	HK\$ million	% to Group Revenue	HK\$	Local currency	
Germany	3,007	52.2%	3,467	51.3%	-13.3%	-9.8%	-14.1%
Retail (excluding eshop)	990	17.2%	1,218	18.0%	-18.8%	-15.6%	-20.2%
Wholesale (excluding eshop)	1,060	18.4%	1,114	16.5%	-4.8%	-0.9%	-9.7%
eshop	938	16.3%	1,121	16.6%	-16.3%	-13.0%	n.a.
Licensing	19	0.3%	14	0.2%	29.3%	33.8%	n.a.
Rest of Europe	2,342	40.6%	2,601	38.3%	-9.9%	-6.8%	-7.6%
Retail (excluding eshop)	850	14.7%	956	14.1%	-11.1%	-8.6%	-7.4%
Wholesale (excluding eshop)	846	14.7%	943	13.9%	-10.3%	-6.6%	-11.4%
eshop	610	10.6%	659	9.7%	-7.4%	-3.8%	n.a.
Licensing and others	36	0.6%	43	0.6%	-15.2%	-14.8%	n.a.
Asia	414	7.2%	698	10.4%	-40.6%	-40.0%	-33.0%
Retail (excluding eshop)	321	5.6%	567	8.4%	-43.3%	-42.8%	-36.1%
Wholesale (excluding eshop)	35	0.6%	60	0.9%	-41.5%	-41.4%	-17.8%
eshop	58	1.0%	71	1.1%	-18.1%	-16.8%	n.a.
Total	5,763	100.0%	6,766	100.0%	-14.8%	-11.8%	-14.8%
Retail (excluding eshop)	2,161	37.5%	2,741	40.5%	-21.2%	-18.8%	-19.5%
Wholesale (excluding eshop)	1,941	33.7%	2,117	31.3%	-8.3%	-4.6%	-10.7%
eshop	1,606	27.9%	1,851	27.4%	-13.2%	-9.9%	n.a.
Licensing and others	55	0.9%	57	0.8%	-4.0%	-2.5%	n.a.

^ Net change since 1 January 2019

n.a. Not applicable

Germany, the largest geographic market of the Group, recorded revenue of HK\$3,007 million in 1H FY19/20, accounting for 52.2% of total revenue, representing a yoy decline of -9.8% in LCY. In terms of distribution channels, Retail (excluding eshop), Wholesale (excluding eshop), and eshop contributed 32.9%, 35.3%, and 31.2% of revenue respectively within Germany.

- **Germany Retail (excluding eshop)** recorded revenue of HK\$990 million, representing a decline of -15.6% yoy in LCY, comparing favourably against reduction in net sales area of -20.2% yoy. The reduction in net sales area is in line with the Group's efforts in accelerating the closure of unprofitable retail stores. On a like-for-like basis, comparable store sales recorded a decline of -3.0% yoy, a significant improvement from -10.7% yoy in the same period last year, reflecting ongoing improvement in the brand momentum, product offering as well as customer experience. Such comparable store sales performance is encouraging as it is broadly in line with the general market trend e.g. the German apparel market recorded an average decline of -2.2% in 1H FY19/20 according to TextilWirtschaft (a publication that offers in-depth coverage of the textile and clothing industry in Germany and provides relevant industry information).
- **Germany Wholesale (excluding eshop)** recorded revenue of HK\$1,060 million, almost flat yoy (-0.9% in LCY) after eleven consecutive years of decline. This is an encouraging development thanks to ongoing efforts to rebuilding trust and confidence amongst the Group's wholesale partners.

Rest of Europe comprises countries in Europe except Germany and includes the Americas, accounting for 40.6% of the Group's total revenue. The region recorded revenue of HK\$2,342 million in 1H FY19/20, representing a yoy decline of -6.8% in LCY. In terms of distribution channels, Retail (excl. eshop), Wholesale (excl. eshop), and eshop businesses contributed 36.3%, 36.1%, and 26.0% respectively, of the region's revenue.

- **Rest of Europe Retail (excluding eshop)** recorded revenue of HK\$850 million, representing a yoy decline of -8.6% in LCY. Similar to Germany, while comparable store sales recorded a decline, the rate of decline has narrowed significantly from -9.1% yoy in 1H FY18/19 to -2.7% yoy in 1H FY19/20.
- **Rest of Europe Wholesale (excluding eshop)** recorded revenue of HK\$846 million, representing a yoy decline of -6.6% in LCY. The revenue decline was mainly attributable to Benelux and France, where the Group recorded a reduction in controlled space of -24.7% and -9.3%, which in turn led to a corresponding revenue decline of -27.8% and -9.5% yoy in LCY, respectively.

Asia comprising mainly China, Singapore, Malaysia, Taiwan, Hong Kong, Macau, Thailand and the Philippines, accounted for 7.2% of the Group's total revenue. The region recorded revenue of HK\$414 million, representing a yoy decline of -40.0% in LCY. In terms of distribution channels, Retail (excluding eshop), Wholesale (excluding eshop), and eshop businesses contributed 77.5%, 8.5%, and 14.0% respectively of the region's revenue.

- **Asia Retail (excluding eshop)** recorded revenue of HK\$321 million, accounting for 5.6% of total Group revenue. This represent a yoy decline of -42.8% yoy in LCY, mainly due to the -36.1% decrease in trading area. In addition, consumer traffic remains one of the biggest problems for retail in the region which recorded a decline in comparable consumer traffic of

approximately -23% yoy. Correspondingly, comparable store sales for the region declined by -16.9% yoy in LCY.

- **Asia Wholesale (excluding eshop)** recorded revenue of HK\$35 million, accounting for only 0.6% of the Group's total revenue, representing a decline of -41.4% yoy in LCY. This is mainly attributable to the transfer of India business to Europe and a lower order intake from wholesale partners in China in anticipation of store closures.

Eshop, accounting for 27.9% of total Group revenue, comprises the Group's directly-managed ecommerce business in European and Asia countries including sales to third party online distributors in Asia. In the Period under Review, this channel generated HK\$1,606 million in revenue, representing a decline of -9.9% yoy in LCY. Europe (Germany and Rest of Europe combined) accounted for 96.4% of the Group's eshop revenue and recorded a decline of -9.6% yoy in LCY. The negative development was due to a deliberate decision to reduce discount-driven promotions in line with the brand strategy. The Group has decided to de-emphasize promotional aspects in communication as well as in products offered on esprit.com and other ecommerce portals, which became especially noticeable over Black Friday and Cyber Monday, as well as during mid-season sales, flash sales where we had fewer promotion days in 1H FY19/20 verse 1H FY18/19. In contrast, the market in general and competitors specifically increased promotional activities quite heavily, hence further leading to a decline in the Group's eshop sales. It is also worth noting that, while sales of Europe eshop was negatively impacted, we have delivered a slight uplift in the corresponding gross profit margin.

Profitability Analysis

Pro forma **LBITDA of underlying operations**, which management uses as the key performance indicator to assess the underlying performance of the Group, almost achieved breakeven and came in at HK\$(15) million, substantially better than the HK\$(94) million for the same period last year. The improvement was driven by enhanced key operational metrics including: improved sales productivity of controlled space, stabilization of wholesale business, more full-price sales, and significant cost reduction.

This result represents a continuation of the positive development seen in the last financial year. Pressure from topline decline was more than offset by significant cost savings which led to an improvement in the Group's profitability. On the one hand, revenue has declined due to bold decisions (the "Strategic Measures") to rationalize the Group's distribution footprint and reduce discount- driven promotions very much in line with the strategy to behave like a brand. On the other hand, these Strategic Measures together with other cost reduction initiatives facilitated a significant reduction of operating expenses and drove efficiencies thereby improving our operating results.

For the 6 months ended 31 December					
	Before adoption of IFRS 16			Reported under IFRS 16	
	2019	2018	Change in %	2019	Change in %
Pro forma ¹					
	HK\$ million	HK\$ million	HK\$	HK\$ million	HK\$
Revenue	5,763	6,766	-14.8%	5,763	-14.8%
Cost of goods sold	(2,930)	(3,295)	-11.0%	(2,930)	-11.0%
Gross profit	2,833	3,471	-18.4%	2,833	-18.4%
<i>Gross profit margin</i>	49.2%	51.3%	-2.1 pts	49.2%	-2.1 pts
OPEX of underlying operations ²	(2,848)	(3,565)	-20.1%	(2,295)	-35.6%
LBITDA of undelying operations ³	(15)	(94)		538	
Depreciation and amortisation	(204)	(238)		(728)	
LBIT of undelying operations ³	(219)	(332)		(190)	
Exceptional items ⁴	(138)	(1,418)		(138)	
Reported LBIT	(357)	(1,750)		(328)	
Interest income	44	31		45	
Finance costs	(2)	(18)		(51)	
Taxation credit/(charge)	3	(36)		3	
Net Loss	(312)	(1,773)		(331)	

Notes:

1. **Pro forma** figures for 1H FY19/20 are estimations before adoption of IFRS 16 to aid comparability to 1H FY18/19.
2. **OPEX of underlying operations** comprises recurring expenses of the underlying operation except depreciation and amortization.
3. **LBITDA of underlying operations** and **LBIT of underlying operations** are the LBITDA and LBIT of the Group before exceptional items
4. **Exceptional Items** are one-off and non-operating gains and expenses arising from non-regular operational activities of the Group.

Gross Profit for the Period under Review declined by -18.4% yoy (-15.6% in LCY) mainly due to the decline in revenue of -14.8% yoy (-11.8% in LCY) and **Gross Profit Margin** (49.2%) lower than last year by -2.1% points.

On the positive side, the Group delivered slight increase in gross profit margin for Retail (ex-outlet) and eshop in Europe thanks to reduction of discount-driven promotions, very much in line with the brand strategy. However, this benefit was outweighed by margin pressure from (i) a shift in channel mix, i.e., a higher proportion of Wholesale and eshop which generate lower margins than Retail; (ii) investment in wholesale support measures; (iii) aggressive clearance of old inventories in Asia; and (iv) continued investments in product quality which is not yet adequately reflected in sales price increases.

Pro forma **OPEX of underlying operations** decreased by HK\$717 million or -20.1%, reflecting significant savings attributable to the Group's restructuring measures to reduce headcount and close/resize unprofitable stores ("Restructuring Measures"), as well as management's continuous focus on cost awareness and financial discipline. Savings were achieved across all key costs' lines. The two biggest costs items, namely staff costs and occupancy costs, were reduced by -25.2% and -17.8% yoy on pro forma basis, respectively.

There were **Exceptional Items** totalling HK\$(138) million in the Period under Review, primarily relating to the Restructuring Measures, comprising (i) Provision for China restructuring of HK\$(104) million, (ii) Provision for store closure and onerous leases of HK\$(21) million, (iii) One-off costs in relation to staff reduction plans of HK\$(5) million, (iv) Loss on disposal of investment properties of HK\$(6) million, and (v) Impairment of property, plant and equipment of HK\$(2) million.

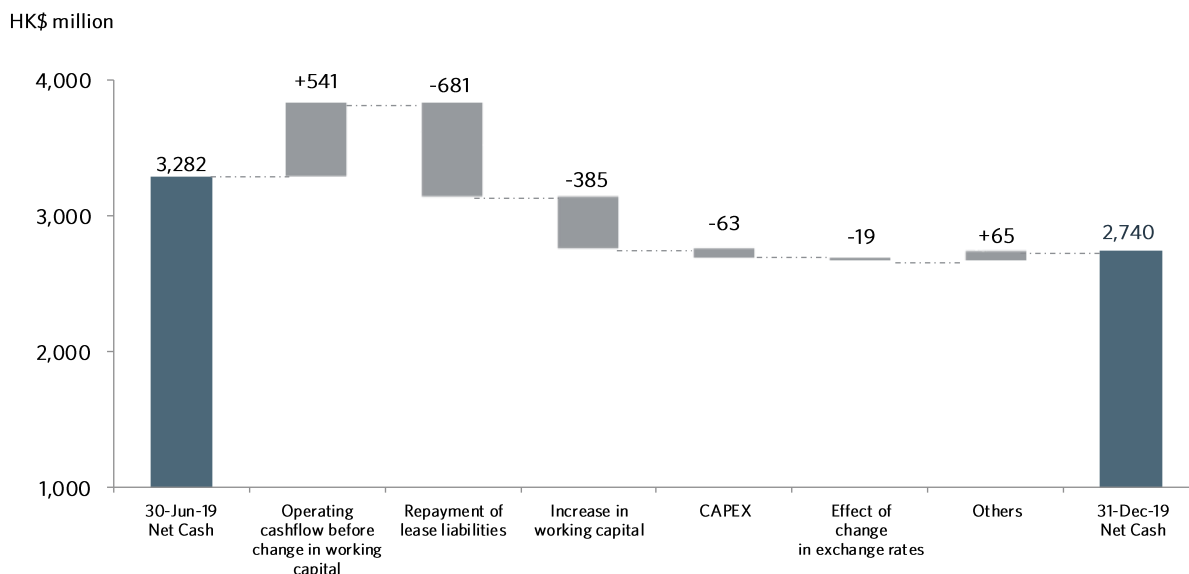
Pro forma **Net interest income** was HK\$42 million (1H FY18/19: Net interest income was HK\$ 13 million), comprising i) interest income of HK\$44 million, offset by (ii) non-cash finance costs primarily related to time value of provision for store closure and onerous leases of HK\$(2) million. After including the interest on lease liabilities and imputed interest on finance lease receivables under new IFRS 16 of HK\$(49) million and HK\$1 million, respectively, the reported net interest expenses was HK\$(6) million.

Taking into account the net **Taxation** credit of HK\$3 million in 1H FY19/20, (1H FY18/19: Taxation charge of HK\$(36) million), pro forma **Net Loss** of the Group was HK\$(312) million (with application of IFRS 16: HK\$(331) million), a significant improvement from the net loss of HK\$(1,773) million in the same period last year.

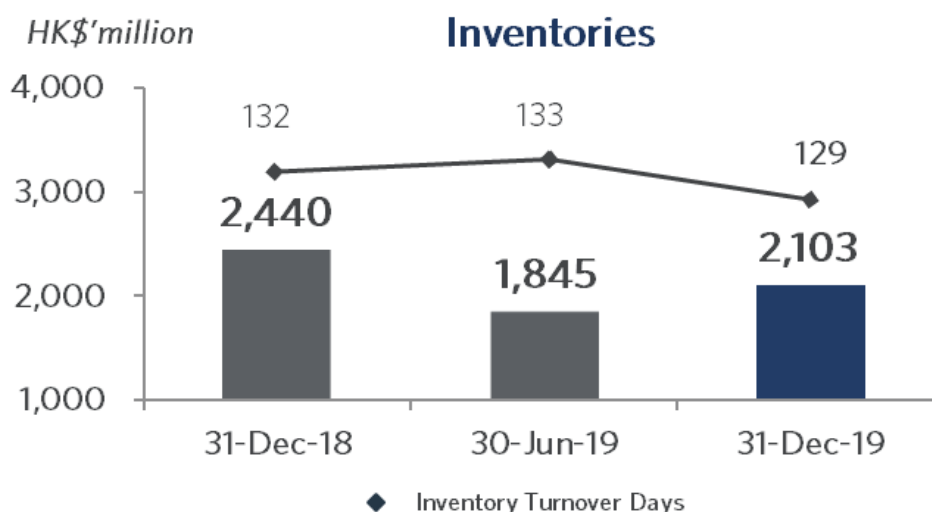
Liquidity and Financial Resources Analysis

Net Cash: As at 31 December 2019, the Group remained debt free with cash, bank balances and deposits totalling HK\$2,740 million (30 June 2019: HK\$3,282 million), representing a net cash utilization of HK\$(542) million in 1H FY19/20, as compared with HK\$(886) million in 1H FY18/19. The outflow primarily reflects operating loss in 1H FY19/20 as well as

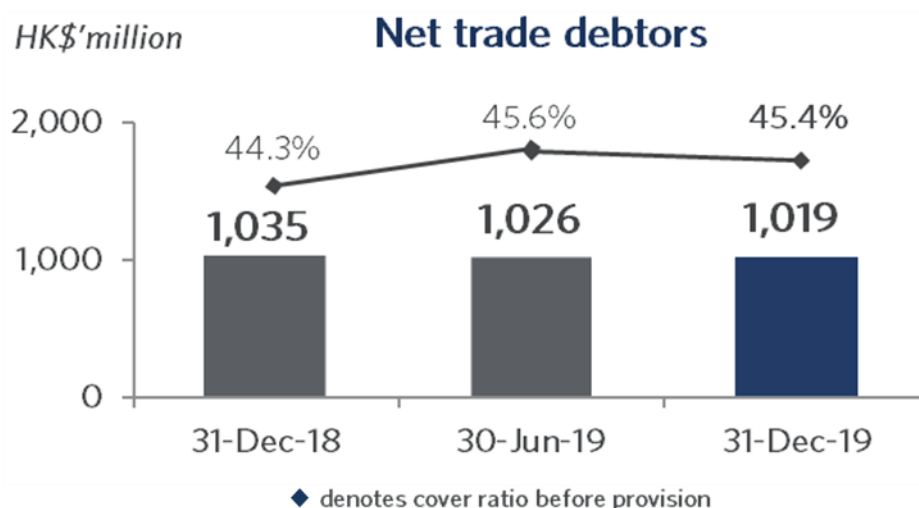
- A HK\$258 million increase in inventories predominantly due to seasonality of the Group's business (winter garments at higher costs)
- Capital expenditure of HK\$(63) million as the Group invests in relevant technology to facilitate a simple, fast and digitalized operating process



Inventories: The inventory balance amounted to HK\$2,103 million (31 December 2018: HK\$2,440 million), representing a yoy decrease of -13.8%. In terms of units, the total inventory at the end of December 2019 was 29.9 million pieces, a yoy decrease of -8.3% as compared to the 32.6 million pieces at the end of December 2018. Inventory turnover days were 129 days, an improvement of three days as compared with a year ago (31 December 2018: 132 days), mainly driven by the Group's new tools and processes to support business as well as tighter inventory control.



Net Trade Debtors was HK\$1,019 million (31 December 2018: HK\$1,035 million), roughly flat as compared to the same period last year (-1.5% yoy). 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 45.4% (31 December 2018: 44.3%).



Capital Expenditure (CAPEX): The Group invested HK\$63 million in CAPEX in 1H FY19/20 (1H FY18/19: HK\$77 million), representing a decrease of -18.2% yoy.

HK\$ million	For the 6 months ended 31 December	
	2019	2018
New stores	1	4
Refurbishment	26	17
IT projects	10	9
Office & others	26	47
Purchase of property, plant and equipment	63	77

Total Interest Bearing External Borrowings: As at 31 December 2019, the Group had no external borrowings (31 December 2018: Nil).

Seasonality of Business

The Group's business is affected by seasonal trends primarily attributable to seasonal shipments to wholesale customers and key holiday sales periods, as well as the pricing of seasonal products. Due to the fact that sales and operating income may fluctuate in any reporting period, half year financials may not be indicative of the future trend of the business and should not be extrapolated to provide a reliable forecast.

Foreign Exchange Risk Management

The Group faces foreign exchange risks arising from exposure to various currencies, primarily with respect to the Euro.

While most of the Group's revenue is denominated in Euros, it reports financial results in Hong Kong Dollars. As a result, fluctuations in the value of the Euro against the Hong Kong Dollar which has its value pegged at a fixed rate to the U.S. Dollar could affect its revenue as reported in Hong Kong Dollars. In addition, the purchases of finished goods in Euros account for only a small portion of its total purchases of finished goods while its revenue is generated primarily in Euros. Although the Group currently uses foreign currency forward contracts to hedge exposure to the foreign exchange risk related to its purchases, fluctuations in the value of the Euro against other currencies, most notably against the US Dollar, could affect its margins and profitability.

In view of this potential risk, the Group has taken measures to proactively manage its Euro exposure, specifically early hedging of virtually all purchases of finished goods for the rest of FY19/20 at an average Euro:U.S. Dollar exchange rate slightly better than the prevailing market rates. The Group will continuously monitor and review purchases of finished goods as well as potential price adjustment, depending on the movements of relevant exchange rates.

Second Half Outlook for FY19/20

While mindful of the geopolitical and trade tensions alongside intrinsic industry challenges, the Group is pleased with its progress made at this halfway point in its financial year.

The management is pleased with the trajectory of the Group's financial performance and believe the Group is on track to deliver what the Strategic Plan set out to achieve. The positive developments have so far demonstrated the Strategic Plan has set the right direction for the Company and most importantly management's ability in execution. Looking ahead to the second half of FY19/20, the Group's goal is to stay on course and remain focused on rapidly executing the Strategic Plan. With the outbreak of coronavirus, the retail market is going to be challenging, however the management firmly believes that this plan is vital to creating long-term value for all stakeholders.

APPENDIX

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

	For the 6 months ended 31 December										
	No. of stores				Net sales area (m ²)						
								Net change [^]		No. of comp-stores	Comp-store sales growth
	As at 31 December 2019	Open	Close	Net change [^]	As at 31 December 2019	Open	Close	(m ²)	(%)		
Germany	114	3	(26)	(23)	86,307	1,489	(23,300)	108,118	-20.2%	100	-3.0%
Rest of Europe	126	5	(11)	(6)	69,546	1,905	(7,429)	75,070	-7.4%	113	-2.7%
Asia	149	1	(78)	(77)	32,329	177	(18,478)	50,630	-36.1%	98	-16.9%
Total	389	9	(115)	(106)	188,182	3,571	(49,207)	233,818	-19.5%	311	-4.4%

[^] Net change since 1 January 2019

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

	For the 6 months ended 31 December									
	No. of stores				Net sales area (m ²)					
								Net change [^]		
	As at 31 December 2019	Open	Close	Net change [^]	As at 31 December 2019	Open	Close	(m ²)	(%)	
Germany	2,998	(108)	(158)	(266)	132,902	(5,430)	(8,769)	(14,199)	-9.7%	
Franchise stores	192	(9)	(14)	(23)	41,618	(2,909)	(3,111)	(6,020)	-12.6%	
Shop-in-stores	1,877	(10)	(111)	(121)	71,189	(1,617)	(4,283)	(5,900)	-7.7%	
Identity corners	929	(89)	(33)	(122)	20,095	(904)	(1,375)	(2,279)	-10.2%	
Rest of Europe	1,704	(65)	(127)	(192)	103,722	(4,302)	(9,032)	(13,334)	-11.4%	
Franchise stores	370	(15)	(28)	(43)	67,841	(3,159)	(6,193)	(9,352)	-12.1%	
Shop-in-stores	697	(30)	(24)	(54)	21,451	(607)	(821)	(1,428)	-6.2%	
Identity corners	637	(20)	(75)	(95)	14,430	(536)	(2,018)	(2,554)	-15.0%	
Asia	91	(4)	(9)	(13)	8,544	(223)	(1,633)	(1,856)	-17.8%	
Franchise stores	91	(4)	(9)	(13)	8,544	(223)	(1,633)	(1,856)	-17.8%	
Total	4,793	(177)	(294)	(471)	245,168	(9,955)	(19,434)	(29,389)	-10.7%	
Franchise stores	653	(28)	(51)	(79)	118,003	(6,291)	(10,937)	(17,228)	-12.7%	
Shop-in-stores	2,574	(40)	(135)	(175)	92,640	(2,224)	(5,104)	(7,328)	-7.3%	
Identity corners	1,566	(109)	(108)	(217)	34,525	(1,440)	(3,393)	(4,833)	-12.3%	

[^] Net change since 1 January 2019

Revenue Development by Quarter

	Revenue change in % (yoy in LCY)		
	First Quarter	Second Quarter	1H FY19/20
By Distribution Channel			
Retail (excluding eshop)	-19.8%	-17.9%	-18.8%
Wholesale (excluding eshop)	-2.9%	-7.0%	-4.6%
eshop	-9.4%	-10.3%	-9.9%
Licensing and others	-11.6%	5.5%	-2.5%
Total	-10.8%	-12.7%	-11.8%
By Region ^			
Germany	-9.0%	-10.6%	-9.8%
Rest of Europe	-5.5%	-8.1%	-6.8%
Asia	-43.4%	-37.2%	-40.0%
Total	-10.8%	-12.7%	-11.8%

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

Revenue by Product

Product division	For the 6 months ended 31 December					
	2019		2018		Change in %	
	HK\$ million	% to Group Revenue	HK\$ million	% to Group Revenue	HK\$	Local currency
Women (Esprit & edc)	3,925	68.1%	4,570	67.5%	-14.1%	-11.0%
women casual	2,103	36.5%	2,360	34.9%	-10.9%	-7.7%
women edc	940	16.3%	1,274	18.8%	-26.2%	-23.4%
women collection	882	15.3%	936	13.8%	-5.8%	-2.4%
Men (Esprit & edc)	955	16.6%	1,167	17.3%	-18.1%	-15.3%
men casual	656	11.4%	690	10.2%	-4.9%	-1.6%
men edc	260	4.5%	367	5.4%	-29.1%	-26.7%
men collection	39	0.7%	110	1.7%	-64.5%	-63.2%
Lifestyle and others *	883	15.3%	1,029	15.2%	-14.2%	-11.1%
Total	5,763	100.0%	6,766	100.0%	-14.8%	-11.8%

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

Revenue by Country

For the 6 months ended 31 December							
Country ^{^^}	2019		2018		Revenue change in %		Net change in net sales area [^]
	HK\$ million	% to Group Revenue	HK\$ million	% to Group Revenue	HK\$	Local currency	
Germany [#]	3,007	52.2%	3,467	51.3%	-13.3%	-9.8%	-14.1%
Rest of Europe	2,342	40.6%	2,601	38.3%	-9.9%	-6.8%	-9.8%
Benelux [#]	719	12.5%	845	12.5%	-14.8%	-11.5%	-17.3%
Switzerland	373	6.5%	392	5.7%	-4.7%	-3.8%	-6.9%
France	344	6.0%	392	5.8%	-12.5%	-8.9%	-10.3%
Austria	317	5.5%	349	5.2%	-9.0%	-5.4%	-1.7%
Finland	104	1.8%	108	1.6%	-3.7%	0.3%	-6.2%
Spain	104	1.8%	103	1.5%	0.9%	5.2%	-4.2%
Sweden	86	1.5%	98	1.5%	-12.5%	-6.8%	-12.8%
Italy	58	1.0%	55	0.8%	4.6%	9.0%	-0.7%
United Kingdom	41	0.7%	52	0.8%	-21.3%	-18.4%	-1.4%
Poland	40	0.7%	45	0.6%	-11.2%	-7.7%	-8.3%
Denmark	34	0.6%	34	0.4%	0.1%	4.2%	5.4%
Ireland	3	0.1%	3	0.0%	-7.1%	-3.2%	-
Norway	1	0.0%	1	0.0%	-7.4%	0.0%	-
Portugal	1	0.0%	1	0.0%	-13.0%	-9.6%	n.a.
Others ^{##}	117	2.0%	123	1.9%	-4.6%	-1.9%	-7.9%
Asia	414	7.2%	698	10.4%	-40.6%	-40.0%	-33.0%
China	165	2.9%	264	3.9%	-37.4%	-35.9%	-37.8%
Singapore	83	1.4%	111	1.6%	-24.5%	-24.6%	-17.2%
Malaysia	53	0.9%	78	1.1%	-32.4%	-31.9%	-44.3%
Taiwan	44	0.8%	65	1.0%	-32.1%	-32.1%	-26.9%
Hong Kong	21	0.4%	66	1.0%	-67.4%	-67.4%	-52.1%
Macau	16	0.3%	33	0.5%	-52.6%	-52.6%	-64.6%
Australia and New Zealand	-	0.0%	35	0.6%	-100.0%	-100.0%	n.a.
Others [@]	32	0.6%	46	0.7%	-31.1%	-31.1%	6.3%
Total	5,763	100.0%	6,766	100.0%	-14.8%	-11.8%	-14.8%

[^] Net change since 1 January 2019

^{^^} 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 and Canada, as well as iii) third party licensing income that comes from Asia, Europe other than Germany and America

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

n.a. not applicable

Retail (excl. eshop) revenue by country

For the 6 months ended 31 December							
Country	2019		2018		Revenue change in %		Net change in net sales area [^]
	HK\$ million	% to Total Revenue	HK\$ million	% to Total Revenue	HK\$	Local currency	
Germany	990	45.8%	1,218	44.4%	-18.8%	-15.6%	-20.2%
Rest of Europe	850	39.3%	956	34.9%	-11.1%	-8.6%	-7.4%
Benelux	335	15.5%	384	14.0%	-12.9%	-9.6%	-11.2%
Switzerland	226	10.4%	246	9.0%	-7.9%	-8.0%	-7.5%
Austria	157	7.3%	168	6.1%	-6.7%	-3.1%	3.3%
France	60	2.8%	72	2.6%	-17.3%	-14.1%	-15.9%
Sweden	27	1.2%	32	1.2%	-17.5%	-11.9%	-
Poland	26	1.2%	29	1.1%	-9.3%	-5.8%	-8.3%
Finland	19	0.9%	23	0.8%	-15.5%	-12.1%	-
Denmark	-	0.0%	2	0.1%	-100.4%	-100.4%	n.a.
Asia	321	14.9%	567	20.7%	-43.3%	-42.8%	-36.1%
China	118	5.5%	196	7.2%	-39.7%	-38.2%	-34.2%
Singapore	73	3.4%	98	3.6%	-25.7%	-25.9%	-17.2%
Malaysia	51	2.4%	77	2.8%	-33.7%	-33.2%	-44.3%
Taiwan	43	2.0%	63	2.3%	-31.5%	-31.5%	-26.9%
Hong Kong	20	0.9%	65	2.3%	-68.8%	-68.8%	-52.1%
Macau	16	0.7%	33	1.2%	-52.6%	-52.6%	-64.6%
Australia and New Zealand	-	0.0%	35	1.3%	-100.0%	-100.0%	n.a.
Total	2,161	100.0%	2,741	100.0%	-21.2%	-18.8%	-19.5%

[^] Net change since 1 January 2019

n.a. Not applicable

Directly managed retail stores by country – movement since 1 January 2019

As at 31 December 2019						
Country	No. of stores	Net opened stores [^]	Net sales area (m ²)	Net change in net sales area [^]	No. of comp stores (excluding eshop)	Comp-store sales growth (excluding eshop)
Germany	114	(23)	86,307	-20.2%	100	-3.0%
Rest of Europe	126	(6)	69,546	-7.4%	113	-2.7%
Switzerland	34	(2)	15,134	-7.5%	29	-5.0%
Netherlands	22	(2)	12,750	-14.6%	19	-0.2%
Belgium	20	(2)	13,893	-10.8%	18	-1.2%
Austria	19	1	14,248	3.3%	18	-1.6%
France	10	(1)	4,490	-15.9%	10	-0.8%
Poland	10	(1)	2,965	-8.3%	9	-4.9%
Sweden	5	-	2,376	-	5	-1.4%
Luxembourg	4	1	2,109	12.8%	3	-9.8%
Finland	2	-	1,581	-	2	-12.2%
Denmark	-	-	-	n.a.	-	n.a.
Asia	149	(77)	32,329	-36.1%	98	-16.9%
China	82	(41)	15,795	-34.2%	55	-18.4%
Taiwan	30	(17)	3,506	-26.9%	17	-17.8%
Malaysia	17	(11)	6,415	-44.3%	12	-9.2%
Singapore	14	(3)	4,464	-17.2%	9	-19.1%
Hong Kong	4	(3)	1,569	-52.1%	3	-18.9%
Macau	2	(2)	580	-64.6%	2	-13.7%
Total	389	(106)	188,182	-19.5%	311	-4.4%

[^] Net change since 1 January 2019

n.a. Not applicable

Directly managed retail stores by store type – movement since 1 January 2019

Store type	No. of stores					Net sales area (m ²)				
	As at 31 December 2019	vs 1 January 2019		As at 1 January 2019	Net change	As at 31 December 2019	vs 1 January 2019		As at 1 January 2019	Net change
		Opened	Closed				Opened	Closed		
Stores	269	6	(62)	325	(56)	152,830	2,169	(39,563)	190,224	-19.7%
- Germany	97	1	(24)	120	(23)	71,885	674	(22,603)	93,814	-23.4%
- Rest of Europe	117	4	(10)	123	(6)	64,352	1,375	(6,429)	69,406	-7.3%
- Asia	55	1	(28)	82	(27)	16,593	120	(10,531)	27,004	-38.6%
Concession counters	79	-	(37)	116	(37)	11,139	57	(3,563)	14,645	-23.9%
- Germany	4	-	(1)	5	(1)	1,829	-	(228)	2,057	-11.1%
- Asia	75	-	(36)	111	(36)	9,310	57	(3,335)	12,588	-26.0%
Outlets	41	3	(16)	54	(13)	24,213	1,345	(6,081)	28,949	-16.4%
- Germany	13	2	(1)	12	1	12,593	815	(469)	12,247	2.8%
- Rest of Europe	9	1	(1)	9	-	5,194	530	(1,000)	5,664	-8.3%
- Asia	19	-	(14)	33	(14)	6,426	-	(4,612)	11,038	-41.8%
Total	389	9	(115)	495	(106)	188,182	3,571	(49,207)	233,818	-19.5%

Wholesale (excl. eshop) revenue by country

Country	For the 6 months ended 31 December							
	2019		2018		Revenue change in %		Net change	
	HK\$ million	% to Total Revenue	HK\$ million	% to Total Revenue	HK\$	Local currency	in net sales area [^]	
Germany	1,060	54.6%	1,114	52.7%	-4.8%	-0.9%	-9.7%	
Rest of Europe	846	43.6%	943	44.5%	-10.3%	-6.6%	-11.4%	
France	193	9.9%	222	10.5%	-13.2%	-9.5%	-9.3%	
Benelux	146	7.5%	211	10.0%	-30.7%	-27.8%	-24.7%	
Spain	95	4.9%	93	4.4%	2.2%	6.6%	-4.2%	
Austria	75	3.9%	82	3.9%	-8.7%	-4.9%	-7.8%	
Finland	75	3.9%	72	3.4%	3.3%	7.6%	-7.2%	
Switzerland	58	3.0%	54	2.5%	6.9%	7.0%	-4.8%	
Sweden	46	2.4%	52	2.4%	-10.2%	-3.9%	-20.9%	
Italy	53	2.7%	51	2.4%	4.7%	9.2%	-0.7%	
United Kingdom	22	1.1%	29	1.4%	-23.0%	-20.4%	-1.4%	
Denmark	17	0.9%	16	0.8%	5.1%	9.7%	5.4%	
Ireland	2	0.1%	2	0.1%	0.9%	5.4%	-	
Norway	1	0.0%	1	0.0%	-7.4%	0.0%	-	
Others [#]	63	3.2%	58	2.7%	-10.3%	-13.5%	-7.9%	
Asia	35	1.8%	60	2.8%	-41.5%	-41.4%	-17.8%	
China	3	0.2%	14	0.6%	-75.7%	-75.0%	-61.0%	
Others [@]	32	1.6%	46	2.2%	-31.1%	-31.1%	6.3%	
Total	1,941	100.0%	2,117	100.0%	-8.3%	-4.6%	-10.7%	

[^] Net change since 1 January 2019

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

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

Wholesale distribution channel by country (controlled space only) – movement since 1 January 2019

As at 31 December 2019																
Country	Franchise stores				Shop-in-stores				Identity corners				Total			
	No. of stores	Net sales area (m²)	Net opened stores^	Net change in net sales area^	No. of stores	Net sales area (m²)	Net opened stores^	Net change in net sales area^	No. of stores	Net sales area (m²)	Net opened stores^	Net change in net sales area^	No. of stores	Net sales area (m²)	Net opened stores^	Net change in net sales area^
Germany	192	41,618	(23)	-12.6%	1,877	71,189	(121)	-7.7%	929	20,095	(122)	-10.2%	2,998	132,902	(266)	-9.7%
Rest of Europe	370	67,841	(43)	-12.1%	697	21,451	(54)	-6.2%	637	14,430	(95)	-15.0%	1,704	103,722	(192)	-11.4%
Benelux	59	17,197	(18)	-21.6%	34	1,770	(5)	-12.1%	50	1,437	(65)	-54.1%	143	20,404	(88)	-24.7%
France	108	18,488	(10)	-9.5%	237	5,236	(19)	-7.3%	113	3,329	(22)	-11.5%	458	27,053	(51)	-9.3%
Austria	41	6,370	(6)	-11.3%	98	3,543	(1)	-1.6%	19	505	(1)	-3.3%	158	10,418	(8)	-7.8%
Sweden	5	2,098	(3)	-27.5%	5	290	-	-	23	588	1	1.4%	33	2,976	(2)	-20.9%
Finland	21	4,799	(1)	-5.0%	45	1,785	(2)	-9.8%	92	2,598	(10)	-9.1%	158	9,182	(13)	-7.2%
Switzerland	20	2,955	(1)	-3.7%	39	1,682	(3)	-6.0%	10	226	(1)	-10.0%	69	4,863	(5)	-4.8%
Italy	11	2,007	(1)	-2.3%	29	721	(2)	-6.7%	237	3,479	11	1.6%	277	6,207	8	-0.7%
Spain	26	3,170	-	0.7%	141	4,700	(15)	-5.0%	45	1,178	(5)	-12.4%	212	9,048	(20)	-4.2%
Denmark	6	1,493	1	7.0%	2	28	-	-	8	262	(2)	-2.6%	16	1,783	(1)	5.4%
Norway	1	242	-	n.a.	-	-	-	-	1	15	-	-	2	257	-	-
United Kingdom	2	152	-	-	9	328	-	-	36	785	(1)	-2.2%	47	1,265	(1)	-1.4%
Ireland	-	-	-	-	1	78	-	-	3	28	-	-	4	106	-	-
Others *	70	8,870	(4)	-7.9%	57	1,290	(7)	-8.3%	-	-	-	-	127	10,160	(11)	-7.9%
Asia	91	8,544	(13)	-17.8%	-	-	-	-	-	-	-	-	91	8,544	(13)	-17.8%
China	9	1,457	(16)	-61.0%	-	-	-	-	-	-	-	-	9	1,457	(16)	-61.0%
Thailand	59	4,521	3	20.6%	-	-	-	-	-	-	-	-	59	4,521	3	20.6%
Philippines	16	1,570	1	-9.8%	-	-	-	-	-	-	-	-	16	1,570	1	-9.8%
Others	7	996	(1)	-15.3%	-	-	-	-	-	-	-	-	7	996	(1)	-15.3%
Total	653	118,003	(79)	-12.7%	2,574	92,640	(175)	-7.3%	1,566	34,525	(217)	-12.3%	4,793	245,168	(471)	-10.7%

[^] Net change since 1 January 2019

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

INTERIM DIVIDEND

The Board maintains the dividend payout ratio of 60% of basic earnings per share. As the Group recorded a loss for the six months ended 31 December 2019, the Board has resolved not to declare an interim dividend for the six months ended 31 December 2019 (1H FY18/19: Nil).

AUDIT COMMITTEE

The Audit Committee currently comprises four Non-executive Directors (three of whom are Independent). The Audit Committee has reviewed the accounting principles and practices adopted by the Group and has also discussed auditing, internal controls and financial reporting matters including the review of the quarterly updates, interim results and annual results of the Group. The unaudited interim results of the Group for the six months ended 31 December 2019 have been reviewed by the Audit Committee with the management.

HUMAN RESOURCES

As at 31 December 2019, the Group employed over 4,400 full-time equivalent staff (31 December 2018: over 5,700) 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 global intranet.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

Neither the Company nor any of its subsidiaries have purchased, sold or redeemed any of the Company's shares during the period under review.

CORPORATE GOVERNANCE

The Company has applied the principles of, and complied with the Corporate Governance Code and Corporate Governance Report (the "Code") as set out in Appendix 14 of the Listing Rules for the six months ended 31 December 2019, except that:

- (a) 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.
- (b) The Company had failed to meet the following requirements for the period from 5 December 2019 to 14 January 2020 resulting from the retirement of Mr Alexander Reid HAMILTON and Mr Norbert Adolf PLATT, being the then Independent Non-executive Directors, on 5 December 2019:

- the board of directors of the Company must include at least three independent non-executive directors under Rule 3.10(1) of the Listing Rules;
- at least one of the independent non-executive directors must have appropriate professional qualifications or accounting or related financial management expertise under Rule 3.10(2) of the Listing Rules;
- the composition of the Audit Committee under Rule 3.21 of the Listing Rules;
- the composition of the Remuneration Committee under Rule 3.25 of the Listing Rules; and
- the Nomination Committee shall comprise a majority of Independent Non-executive Directors (code provision A.5.1 of the Code).

Following the appointment of Mr Joseph LO Kin Ching as an Independent Non-executive Director of the Company, chairman of the Audit Committee and a member of the Nomination Committee, and Dr Martin WECKWERTH as an Independent Non-executive Director of the Company, chairman of the Remuneration Committee and a member of the Audit Committee, all with effect from 15 January 2020, the Board comprises eight Directors including three Executive Directors, one Non-executive Director and four Independent Non-executive Directors, one of whom has appropriate professional qualifications or accounting or related financial management expertise. As a result, the Company has complied with the requirements under (i) Rule 3.10 of the Listing Rules in relation to the composition of the Board; (ii) Rule 3.21 of the Listing Rules regarding to the composition of the Audit Committee; (iii) Rule 3.25 of the Listing Rules regarding to the composition of the Remuneration Committee; and (iv) code provision A.5.1 of the Code regarding the majority of the Nomination Committee after the appointment of Mr LO and Dr WECKWERTH come into effect.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as contained in Appendix 10 of the Listing Rules.

The Company has made specific enquiry with all Directors and all of them confirmed that they have complied with the required standard set out in the Model Code for the six months ended 31 December 2019.

BOARD OF DIRECTORS

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

Executive Directors:	Dr Raymond OR Ching Fai (<i>Executive Chairman</i>) Mr Anders Christian KRISTIANSEN (<i>Group Chief Executive Officer</i>) Mr Johannes Georg SCHMIDT-SCHULTES (<i>Group Chief Financial Officer</i>)
Non-executive Director:	Mr Jürgen Alfred Rudolf FRIEDRICH
Independent Non-executive Directors:	Mr Carmelo LEE Ka Sze Ms Sandrine Suzanne Eleonore Agar ZERBIB Mr Joseph LO Kin Ching Dr Martin WECKWERTH

By Order of the Board
Ophelia LO Tik Man
Company Secretary

Hong Kong, 26 February 2020

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.