ESPRIT HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

STOCK CODE: 00330

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2023

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 30 June 2023 (the "Period") as follows:

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

Condensed Consolidated Statement of Profit or Loss

	Notes	**Unaudited for the six months ended 30 June 2023** ***HK$ million***	Unaudited for the six months ended 30 June 2022 *HK$ million*
Revenue	*2*	**3,025**	3,626
Cost of purchases		**(1,673)**	(1,967)
Gross profit		**1,352**	1,659
Staff costs		**(632)**	(603)
Occupancy costs		**(158)**	(132)
Logistics expenses		**(241)**	(246)
Marketing and advertising expenses		**(242)**	(233)
Depreciation of property, plant and equipment		**(58)**	(53)
Depreciation of right-of-use assets		**(277)**	(268)
Impairment loss on property, plant and equipment		**–**	(2)
(Provision)/write-back of provision for inventories, net		**(37)**	289
(Provision)/write-back of provision for impairment of trade debtors, net	*9*	**(10)**	33
Impairment loss on right-of-use assets		**(5)**	–
Net foreign exchange translation gains/(losses)		**9**	(99)
Other operating costs		**(404)**	(337)
Operating (loss)/profit	*3*	**(703)**	8
Share of losses from joint venture		**(1)**	–
Interest income	*4*	**9**	1
Finance costs	*5*	**(23)**	(21)
Loss before taxation		**(718)**	(12)
Taxation	*6*	**4**	25
(Loss)/profit attributable to shareholders of the Company		**(714)**	13
(Loss)/profit per share			
– Basic and diluted	*8*	**HK$(0.252)**	HK$0.004

Condensed Consolidated Statement of Comprehensive Income

	Unaudited for the six months ended 30 June 2023 ***HK$ million***	Unaudited for the six months ended 30 June 2022 *HK$ million*
(Loss)/profit attributable to shareholders of the Company	**(714)**	13
Other comprehensive income		
Item that may be reclassified subsequently to profit or loss:		
Foreign exchange translation gains/(losses)	**81**	(199)
Total comprehensive loss for the period attributable to shareholders of the Company, net of tax	**(633)**	(186)

Condensed Consolidated Balance Sheet

	Notes	Unaudited As at 30 June 2023 *HK$ million*	Audited As at 31 December 2022 *HK$ million*
Non-current assets			
Intangible assets		**1,690**	1,595
Property, plant and equipment		**255**	317
Right-of-use assets		**1,645**	1,630
Financial assets at fair value through profit or loss		**2**	3
Interest in joint venture		**46**	2
Debtors, deposits and prepayments		**364**	365
Deferred tax assets		**63**	62
		4,065	3,974
Current assets			
Inventories		**1,522**	1,777
Debtors, deposits and prepayments	*9*	**881**	884
Tax receivable		**17**	18
Cash, bank balances and deposits		**1,314**	2,012
		3,734	4,691
TOTAL ASSETS		**7,799**	8,665
Current liabilities			
Creditors and accrued charges	*10*	**1,398**	1,612
Lease liabilities		**465**	474
Provisions		**150**	145
Tax payable		**232**	229
		2,245	2,460
Net current assets		**1,489**	2,231
Total assets less current liabilities		**5,554**	6,205
Equity			
Share capital	*11*	**283**	283
Reserves		**3,319**	3,952
		3,602	4,235
Non-current liabilities			
Lease liabilities		**1,560**	1,578
Retirement defined benefit obligations		**5**	5
Deferred tax liabilities		**387**	387
		1,952	1,970
TOTAL LIABILITIES		**4,197**	4,430
TOTAL EQUITY AND LIABILITIES		**7,799**	8,665

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 16 for the six months ended 30 June 2023 have 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").

The interim financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2022.

1.1 Use of judgement and estimates

While preparing the interim financial information, the management has made judgements and estimates that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense.

The significant judgements made by the management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those described in the last annual financial statements.

1.2 Going concern

During the six months ended 30 June 2023, the Group recorded a net loss attributable to shareholders of HK$714 million and a net cash decrease of HK$698 million. The Group has net current assets of HK$1,489 million and no external borrowings as at 30 June 2023.

The Group is closely monitoring the cash flow position and continuing to optimize its cost base and improve its product offering in order to generate sufficient cash from its operations. The Board has reviewed the cash flow forecast prepared by management covering a period of twelve months from 30 June 2023. The Directors are of the opinion that, after taking into consideration of the above measures and the available cash and bank balances, the Group will have sufficient working capital to meet its financial obligations as and when they fall due within the next twelve months from 30 June 2023. Accordingly, the interim financial information has been prepared on a going concern basis.

1.3 Measurement of fair values

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). Only market observable parameter.
Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

1. BASIS OF PREPARATION (CONTINUED)

1.4 New and amended standards and interpretations adopted by the Group

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 January 2023:

Adopted	Effective date	New standards or amendments
IAS 1 (Amendments)	1 January 2023	Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)
IFRS 17 and IFRS 17 (Amendments)	1 January 2023	IFRS 17 Insurance Contracts and Amendments to IFRS 17 Insurance Contracts
IAS 8 (Amendments)	1 January 2023	Definition of Accounting Estimates
IAS 12 (Amendments)	1 January 2023	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
IAS 12 (Amendments)	1 January 2023	International Tax Reform – Pillar Two Model Rules

Adoption of the amendments listed above did not have material impact on the Group's financial performance for the six months ended 30 June 2023 and its financial position as at 30 June 2023.

1.5 New standards and interpretations not yet adopted

Not early adopted	Effective for accounting periods beginning on or after	New standards or amendments
IFRS 10, IAS 28 (Amendments)	A date to be determined by IASB	Sales or Contributions of Assets between an Investor and its Associate/Joint Venture
IFRS 16	1 January 2024	Lease Liability in a Sale and Leaseback
IAS 1 (Amendments)	1 January 2024	Non-Current Liabilities with Covenants
IAS 1 (Amendments)	1 January 2024	Classification of Liabilities as Current or Non-current
IAS 7 and IFRS 7 (Amendments)	1 January 2024	Supplier Finance Arrangements

The accounting standards and interpretations above have been published but are not mandatory for the six months ended 30 June 2023 and have not been early adopted by the Group. These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

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 Europe, Asia, America and via E-shop platforms.

	Unaudited for the six months ended 30 June 2023 ***HK$ million***	Unaudited for the six months ended 30 June 2022 *HK$ million*
Retail and Wholesale		
Europe	**1,865**	2,200
Asia	**3**	–
E-shop	**1,095**	1,366
Licensing and others	**62**	60
Revenue from external customers, total	**3,025**	3,626

2. REVENUE AND SEGMENT INFORMATION (CONTINUED)

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 Company. Operating segment for Europe has included America. The regions have been separated into retail and wholesale channel.

	Unaudited for the six months ended 30 June 2023				
	Europe *HK$ million*	**Asia** *HK$ million*	**E-shop** *HK$ million*	**Corporate services, sourcing, licensing and others** *HK$ million*	**Group** *HK$ million*
Total revenue					
Retail	**756**	**1**	**–**	**–**	**757**
Wholesale	**1,109**	**2**	**–**	**–**	**1,111**
E-shop	**–**	**–**	**1,095**	**–**	**1,095**
Licensing and others	**–**	**–**	**–**	**1,584**	**1,584**
Total	**1,865**	**3**	**1,095**	**1,584**	**4,547**
Inter-segment revenue	**–**	**–**	**–**	**(1,522)**	**(1,522)**
Revenue from external customers					
Retail	**756**	**1**	**–**	**–**	**757**
Wholesale	**1,109**	**2**	**–**	**–**	**1,111**
E-shop	**–**	**–**	**1,095**	**–**	**1,095**
Licensing and others	**–**	**–**	**–**	**62**	**62**
Total	**1,865**	**3**	**1,095**	**62**	**3,025**
Operating (loss)/profit					
Retail	**(303)**	**(20)**	**–**	**–**	**(323)**
Wholesale	**18**	**–**	**–**	**–**	**18**
E-shop	**–**	**–**	**(46)**	**–**	**(46)**
Licensing and others	**–**	**–**	**–**	**(352)**	**(352)**
Total	**(285)**	**(20)**	**(46)**	**(352)**	**(703)**
Share of losses from joint venture					**(1)**
Interest income					**9**
Finance costs					**(23)**
Loss before taxation					**(718)**

Note: Figures for North America have not been separated out due to the region's limited financial contribution to the Group as the market is in the early stage of development.

2. REVENUE AND SEGMENT INFORMATION (CONTINUED)

	Unaudited for the six months ended 30 June 2023				
	Europe *HK$ million*	**Asia** *HK$ million*	**E-shop** *HK$ million*	**Corporate services, sourcing, licensing and others** *HK$ million*	**Group** *HK$ million*
Depreciation[1]					
Retail	**(186)**	**(9)**	**–**	**–**	**(195)**
Wholesale	**(15)**	**–**	**–**	**–**	**(15)**
E-shop	**–**	**–**	**(27)**	**–**	**(27)**
Licensing and others	**–**	**–**	**–**	**(98)**	**(98)**
Total	**(201)**	**(9)**	**(27)**	**(98)**	**(335)**
Impairment loss[2]					
Retail	**(5)**	**–**	**–**	**–**	**(5)**
Total	**(5)**	**–**	**–**	**–**	**(5)**
Capital expenditure[3]					
Retail	**(5)**	**(4)**	**–**	**–**	**(9)**
Wholesale	**(3)**	**(20)**	**–**	**–**	**(23)**
E-shop	**–**	**–**	**(12)**	**–**	**(12)**
Licensing and others	**–**	**–**	**–**	**(26)**	**(26)**
Total	**(8)**	**(24)**	**(12)**	**(26)**	**(70)**

1 Depreciation includes depreciation of property, plant and equipment and right-of-use assets.

2 Impairment loss includes impairment loss on right-of-use assets.

3 Capital expenditure includes property, plant and equipment, intangible assets and investment in the joint venture.

2. REVENUE AND SEGMENT INFORMATION (CONTINUED)

	Unaudited for the six months ended 30 June 2022				
	Europe *HK$ million*	Asia *HK$ million*	E-shop *HK$ million*	Corporate services, sourcing, licensing and others *HK$ million*	Group *HK$ million*
Total revenue					
Retail	854	–	–	–	854
Wholesale	1,346	–	–	–	1,346
E-shop	–	–	1,366	–	1,366
Licensing and others	–	–	–	1,675	1,675
Total	2,200	–	1,366	1,675	5,241
Inter-segment revenue	–	–	–	(1,615)	(1,615)
Revenue from external customers					
Retail	854	–	–	–	854
Wholesale	1,346	–	–	–	1,346
E-shop	–	–	1,366	–	1,366
Licensing and others	–	–	–	60	60
Total	2,200	–	1,366	60	3,626
Operating (loss)/profit					
Retail	(155)	(3)	–	–	(158)
Wholesale	155	–	–	–	155
E-shop	–	–	85	–	85
Licensing and others	–	–	–	(74)	(74)
Total	–	(3)	85	(74)	8
Interest income					1
Finance costs					(21)
Loss before taxation					(12)

2. REVENUE AND SEGMENT INFORMATION (CONTINUED)

	Unaudited for the six months ended 30 June 2022				
	Europe *HK$ million*	Asia *HK$ million*	E-shop *HK$ million*	Corporate services, sourcing, licensing and others *HK$ million*	Group *HK$ million*
Depreciation[1]					
Retail	(194)	(1)	–	–	(195)
Wholesale	(15)	–	–	–	(15)
E-shop	–	–	(25)	–	(25)
Licensing and others	–	–	–	(86)	(86)
Total	(209)	(1)	(25)	(86)	(321)
Impairment loss[2]					
Retail	(2)	–	–	–	(2)
Total	(2)	–	–	–	(2)
Capital expenditure[3]					
Retail	(4)	(1)	–	–	(5)
Wholesale	(4)	–	–	–	(4)
Licensing and others	–	–	–	(11)	(11)
Total	(8)	(1)	–	(11)	(20)

1 Depreciation includes depreciation of property, plant and equipment and right-of-use assets.
2 Impairment loss includes impairment loss on property, plant and equipment.
3 Capital expenditure includes property, plant and equipment and investment in the joint venture.

3. OPERATING (LOSS)/PROFIT

	Unaudited for the six months ended 30 June 2023	Unaudited for the six months ended 30 June 2022
	HK$ million	*HK$ million*
This is stated after charging and (crediting) the following:		
Staff costs	**632**	603
Occupancy costs	**158**	132
Logistics expenses	**241**	246
Marketing and advertising expenses	**242**	233
Depreciation of property, plant and equipment	**58**	53
Depreciation of right-of-use assets	**277**	268
Impairment loss on property, plant and equipment	**–**	2
Provision/(write-back of provision) for inventories, net (Note)	**37**	(289)
Provision/(write-back of provision) for impairment of trade debtors, net (Note 9)	**10**	(33)
Impairment loss on right-of-use assets	**5**	–
Net foreign exchange translation (gains)/losses	**(9)**	99
Government grants	**(1)**	(32)
Write-back of provision for restructuring, net	**(1)**	(5)
Information technology expenses	**159**	156
Legal and professional fees	**29**	23
Samples	**26**	21
Packaging, postage and distribution	**15**	20
Amortization of intangible assets	**22**	22
Repair and maintenance	**11**	13
Insurance	**11**	12
Travelling expenses	**29**	12
Loss on disposal of property, plant and equipment	**–**	4

Note: The management has reassessed the estimate of the net realizable value of inventories as at 30 June 2023, which were based on the current market condition and the historical experience of selling products of similar nature. Therefore, the Group has recognized a net addition of provision for inventories of HK$37 million for the six months ended 30 June 2023 (2022: net write-back of HK$289 million).

4. INTEREST INCOME

	Unaudited for the six months ended 30 June 2023	Unaudited for the six months ended 30 June 2022
	HK$ million	*HK$ million*
Interest from bank deposits	**9**	1
Total interest income	**9**	1

5. FINANCE COSTS

	Unaudited for the six months ended 30 June 2023 *HK$ million*	Unaudited for the six months ended 30 June 2022 *HK$ million*
Interest on lease liabilities	**22**	17
Others	**1**	4
Total finance costs	**23**	21

6. TAXATION

	Unaudited for the six months ended 30 June 2023 *HK$ million*	Unaudited for the six months ended 30 June 2022 *HK$ million*
Current tax		
Overseas taxation		
Provision for current period	**2**	16
Deferred tax		
Other origination and temporary differences	**(6)**	(41)
Total taxation credit	**(4)**	(25)

Hong Kong profits tax is calculated at 16.5% (2022: 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.

7. INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the six months ended 30 June 2023 (2022: Nil).

8. (LOSS)/PROFIT PER SHARE

Basic

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

	Unaudited for the six months ended 30 June 2023	Unaudited for the six months ended 30 June 2022
(Loss)/profit attributable to shareholders of the Company (HK$ million)	**(714)**	13
Number of ordinary shares in issue at 1 January (million)	**2,831**	2,831
Weighted average number of ordinary shares in issue less shares held for Share Award Scheme (million)	**2,831**	2,831
Basic (loss)/profit per share (HK$ per share)	**(0.252)**	0.004

Diluted

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

	Unaudited for the six months ended 30 June 2023	Unaudited for the six months ended 30 June 2022
(Loss)/profit attributable to shareholders of the Company (HK$ million)	**(714)**	13
Weighted average number of ordinary shares in issue less shares held for Share Award Scheme (million)	**2,831**	2,831
Weighted average number of ordinary shares for diluted earnings per share (million)	**2,831**	2,831
Diluted (loss)/profit per share (HK$ per share)	**(0.252)**	0.004

Diluted loss per share for the six months ended 30 June 2023 was the same as the basic loss per share since the share options and awarded shares had anti-dilutive effect.

9. CURRENT DEBTORS, DEPOSITS AND PREPAYMENTS

Current debtors, deposits and prepayments consist of the following financial and non-financial positions:

	Unaudited As at 30 June 2023 ***HK$ million***	Audited As at 31 December 2022 *HK$ million*
Trade debtors	**602**	552
less: provision for impairment of trade debtors	**(76)**	(80)
Net trade debtors	**526**	472
Deposits	**35**	27
Prepayments	**107**	114
Right-of-return assets	**85**	112
Other debtors and receivables	**128**	159
Total	**881**	884

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

	Unaudited As at 30 June 2023 ***HK$ million***	Audited As at 31 December 2022 *HK$ million*
0-30 days	**319**	308
31-60 days	**92**	90
61-90 days	**41**	31
Over 90 days	**74**	43
Total	**526**	472

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.

Movements in provision for impairment of trade debtors are as follows:

	Unaudited for the six months ended 30 June 2023 ***HK$ million***	Unaudited for the six months ended 30 June 2022 *HK$ million*
Balance at beginning of the period	**80**	194
Utilization	**(15)**	(38)
Provision/(write-back of provision) for impairment of trade debtors, net	**10**	(33)
Exchange translation	**1**	(11)
Balance at end of the period	**76**	112

10. CREDITORS AND ACCRUED CHARGES

	Unaudited As at 30 June 2023 ***HK$ million***	Audited As at 31 December 2022 *HK$ million*
Trade creditors	**319**	497
Accruals	**526**	522
Return liabilities	**225**	236
Other creditors and payables	**328**	357
Total	**1,398**	1,612

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

	Unaudited As at 30 June 2023 ***HK$ million***	Audited As at 31 December 2022 *HK$ million*
0-30 days	**278**	346
31-60 days	**33**	137
61-90 days	**5**	7
Over 90 days	**3**	7
Total	**319**	497

The carrying amounts of creditors and accrued charges approximate their fair values.

11. SHARE CAPITAL

	Number of shares of HK$0.10 each million	**Unaudited HK$ million**
Authorized:		
At 1 January 2023 and 30 June 2023	**30,000**	**3,000**
At 1 January 2022 and 30 June 2022	30,000	3,000

	Number of shares of HK$0.10 each million	**Unaudited Nominal value HK$ million**
Issued and fully paid:		
At 1 January 2023 and 30 June 2023	**2,831**	**283**
At 1 January 2022 and 30 June 2022	2,831	283

11. SHARE CAPITAL (CONTINUED)

(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”). The option mandate limit of the 2018 Share Option Scheme has been refreshed upon the shareholder’s approval at the special general meeting of the Company held on 6 July 2021, the details of which were disclosed in the circular of the Company dated 15 June 2021. No share options were granted during the six months ended 30 June 2023 as the management believed that it was not the right timing to grant share options in 2023.

(b) Awarded shares

The Company adopted a share award scheme on 6 July 2021 (the “Share Award Scheme”). The purpose of the Share Award Scheme is to recognize the contributions by certain eligible participants (including any employee, consultant, executive or officer, director and senior management of any member of the Group), and to provide them incentives; and to attract suitable personnel with relevant experience in the Group’s business. The details of the Share Award Scheme were disclosed in the circular of the Company dated 15 June 2021.

During the six months ended 30 June 2023, there was no movement for the Share Award Scheme (30 June 2022: nil). No awarded shares were granted during the six months ended 30 June 2023 as the management believed that it was not the right timing to grant awarded shares in 2023.

12. RELATED PARTIES

As disclosed in the announcement of the Company dated 18 January 2023, two previous tenancy agreements dated 25 January 2021 entered into between Filen Limited (“Filen Limited”) and CUCNP Holdings Limited (“CUCNP Holdings”), as the landlords, and Esprit Regional Distribution Limited (“ERDL”), an indirectly wholly-owned subsidiary of the Company, as the tenant, both expired on 31 January 2023.

On 18 January 2023, ERDL entered into two tenancy agreements, as tenant, namely (i) the tenancy agreement with Filen Limited, as landlord, in respect of the renewal of tenancy of the whole floor of 13th Floor of China United Centre, No. 28 Marble Road, North Point, Hong Kong for a term of two years commencing from 1 February 2023 and expiring on 31 January 2025 (both days inclusive) at a monthly rental of HK$296,001; and (ii) the tenancy agreement with CUCNP Holdings, as landlord, in respect of the renewal of tenancy of the whole floor of 27th Floor of China United Centre, No. 28 Marble Road, North Point, Hong Kong for a term of two years commencing from 1 February 2023 and expiring on 31 January 2025 (both days inclusive) at a monthly rental of HK$302,049.

As at the date of this announcement, Ms. LO Ki Yan Karen (“Ms. LO”) indirectly holds 82.19% equity interests in both Filen Limited and CUCNP Holdings. Ms. LO is a substantial shareholder of the Company, hence a connected person of the Company. Therefore, both Filen Limited and CUCNP Holdings are associates of Ms. LO and connected persons of the Company. Details of the above connected transactions were disclosed in the Company’s announcement dated 18 January 2023.

MANAGEMENT DISCUSSION AND ANALYSIS

The Company operated under adverse conditions during the first half of 2023, resulting in a net loss of HK$714 million for the Period. The Group implemented a series of progressive initiatives to reinvigorate its growth over the past half year, and the management team (the "Management") estimates that these initiatives will come to fruition in the second half of 2023, as the Group has already observed noticeable positive developments from the June results. The Group also believes that its dynamic corporate structure, current management team, and dedicated staff at ESPRIT will enable the Company to navigate and overcome the tough environment and return to profitability in the foreseeable future.

Management continues to strive in adapting timely and adequate responses to combat worsening pressures and uncertainties upon the Company's business and operations, including but not limited to factors such as adjustments stemming from elevating ESPRIT's brand positioning within the fashion industry, international supply chain disruptions, deteriorating global macro-economic conditions, increasing raw material prices, declining consumer confidence, lower discretionary spending and escalating geopolitical tensions.

European consumer confidence and spending appetite remained depressed for the first half of 2023 due to reasons including the on-going Ukraine conflict and the effects caused by high inflation and high interest rates. The Company is actively monitoring the aforementioned issues and prudently assessing their effects on the Company's operations. Necessary measures will be instigated to counter any detrimental impacts thereto.

To offset and overcome the challenging conditions cited above, the Company implemented a series of progressive initiatives to reinvigorate its growth and the Management is of the view that the outlook is generally optimistic in nature. The Company would like to share some of the latest initiatives being implemented that will be beneficial to the Company's prospects going forward, such as:

1) continuing to streamline operations and implement stringent cost controls and cost cutting measures through corporate re-structuring and related initiatives;

2) closing unprofitable stores, outlets, and reducing store size to enhance efficiency and per square metre economic return by renegotiating rental leases to ensure that the retail channel will re-emerge as a profitable and key segment for the Company;

3) terminating product lines that have low gross profit margin and replacing them with collections and capsules with substantially higher margins. The timely readjustment of sourcing strategies will keep obsolete inventories to a minimum level;

4) significant investment in rebuilding ESPRIT's brand equity, re-establishing and improving ESPRIT's brand image, retaining and regaining loyalty from long-term customers, and attracting new customers, specifically the younger generation. To coordinate the above efforts, the Group has established New York as its global marketing and branding headquarters;

5) in conjunction with points (3) and (4) above, investments are made into product sourcing, and as a result of the aforementioned initiatives, the Group will be offering elevated products with superior value for money to its clients and consumers;

6) revamping the Company's sales channels to incorporate full omnichannel structure with enhanced focus on offering an attractive and user-friendly E-commerce experience. The Group chose Amsterdam to establish its global IT and tech innovation headquarters. Amsterdam also houses the Group's denim design and innovation centre. The Group's new product launches will be spearheaded by the new denim line in August 2023;

7) continuing to improve inventory management as well as logistics scheduling and efficiency to substantially reduce the Group's inventory working capital requirements and logistics related expenses;

8) demonstrating the Company's well-known and longstanding commitment to be a responsible corporate citizen in areas such as environmental and social sustainability; and

9) rapidly building and expanding into the North America, which is the Group's key market focus. The Group is confident that this market will significantly contribute to the Group's revenue and profit in the near future.

The financial results of the Company which are discussed in greater detail below, are unsatisfactory as a result of the detrimental factors identified earlier. However, the Management has begun instigating bold corrective actions. This, combined with staff dedication and agility in the workplace, the Group is confident that it will return to profitability and move towards a brighter and more exciting future.

BUSINESS OVERVIEW

During the Period, the Group recorded an unaudited loss attributable to the shareholders of the Company of HK$714 million, as compared with the unaudited profit attributable to the shareholders of the Company of HK$13 million for the six months ended 30 June 2022 (the "Corresponding Period").

The decrease in profit in the Period in comparison to the Corresponding Period is mainly attributable to:

1) the decrease in revenue by 17% in the Period as compared to the Corresponding Period due to negative consumer appetite in Germany and across the rest of Europe;

2) the lowered gross profit margin by 1.1% points as a result of deeper sales discount offered under the sluggish market environment; and

3) the net write-backs in the Corresponding Period of two provisions related to the Pandemic for inventories amounting to HK$289 million and impairment of trade debtors amounting to HK$33 million that were not present in the Period.

The aforementioned will be discussed in detail in this announcement.

REVENUE ANALYSIS

The Group is principally engaged in retail (including E-shop), wholesale distribution and licensing of fashion and non-apparel products designed under its own internationally renowned ESPRIT brand name. The Group operates in Europe, Asia and America through 4 main channels:

1) Wholesale

2) E-commerce

3) Owned Retail Stores

4) Licensing

Each channel accounted for the Group's revenue in the ratio of approximately 37:36:25:2 respectively during the Period.

The Group has recorded total revenue of HK$3,025 million for the Period, as compared to the total revenue of HK$3,626 million for the Corresponding Period, representing a decrease of 17%.

The decrease in revenue was primarily due to negative consumer sentiment in Germany and across the rest of Europe resulting from the poor economic environment and on-going conflict in Ukraine. The Group's overall performance was also affected by the short-term adjustments stemming from brand elevation and repositioning in the fashion industry. The Group has launched a series of progressive initiatives during the past six months aimed at revitalizing its growth. Management anticipates that these initiatives will come to fruition in the second half of this year as the Group has already observed noticeable positive development from the June results.

Under the challenging business landscape, the Group observed a decline in performance across its channels. Wholesale experienced a drop of 17%, while E-commerce recorded a decrease of 20%. Owned Retail Stores recorded a decline at a lesser extent of 11%. The relatively low drop in Owned Retail Stores is primarily attributed to the launch of progressive initiatives as aforementioned.

The Company is also committed to continue improvement on its overall E-commerce and omnichannel capabilities to provide a seamless shopping experience with unprecedented connectivity between all the customer engagement points. Customers will be able to enjoy a shopping journey across different platforms such as browsing the E-shop on their desktops or on their mobile phones, or visiting a physical Esprit retail store. The E-shop is undergoing a redesign to enhance customer shopping experience, which aims to boost conversion rates, increase items per transaction and average price of transactions. This includes a complete overhaul of the entire shopping journey on the E-shop to provide smoother browsing, checkout experience, and provision of more personalized content by using cutting edge data technology to entice customers to make additional purchases.

GROSS PROFIT MARGIN

During the Period, gross profit margin was 44.7%, lowered by 1.1% points when compared to the margin of 45.8% for the Corresponding Period.

The slight movement in gross profit margin was mainly due to deeper sales discounts offered under the sluggish market at the beginning of the Period. The Group is dedicated to consistently improve the gross margins of its products by focusing on using higher quality materials with greater intrinsic value, optimizing sourcing efficiencies and brand elevation.

OPERATING EXPENSES

Operating expenses for the Period were HK$2,055 million, 24% higher than HK$1,651 million in the Corresponding Period. In the Corresponding Period, the Company experienced net write-backs of two provisions related to the Pandemic including (i) reversal of inventories write-back amounting to HK$289 million and (ii) write-back impairment of trade debtors amounting to HK$33 million, which provided a one-time benefit and positively impacted operating expenses. In the Period, the absence of these write-back of provisions resulted in higher operating expenses when compared with the operating expenses of the Corresponding Period. The other key factor is occupancy costs that increased by 20%, as the concessions on rent from landlords that were provided during the Corresponding Period due to the Pandemic did not recur in the Period.

Furthermore, the Group's brand elevation and repositioning in the fashion industry led to a ramp up in marketing and advertising expenses.

WORKING CAPITAL MANAGEMENT

Inventories

The inventory balance as at 30 June 2023 amounted to HK$1,522 million (31 December 2022: HK$1,777 million). On a year-on-year basis (as compared to the corresponding figure of HK$1,594 million as at 30 June 2022), the value of inventories decreased by 5%.

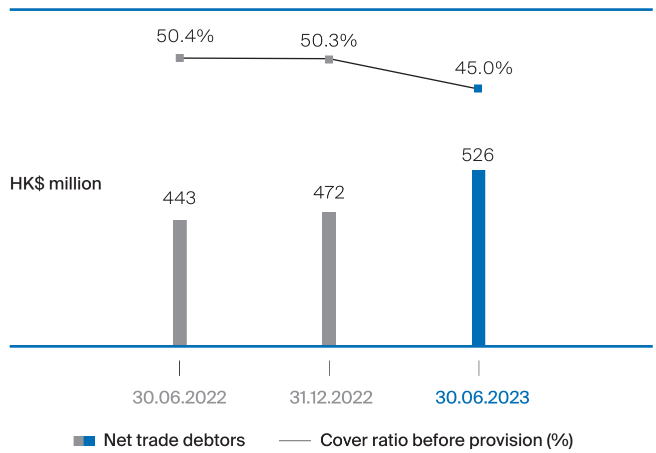
The absence of write-back of provision of HK$289 million as compared to the Corresponding Period, and the Group's continuous efforts to reduce aged inventories have enabled the Group to achieve a decrease in inventory level as at 30 June 2023.

Cross functional teams namely Sourcing, Product and Logistics have been collaborating to ensure that working capital needed for inventory are minimised. The Sourcing team are involved at an earlier stage of product design to understand the materials needed for production, giving them the ability to book materials in advance at a lower price and optimal quantity. This allows the Logistics team ample time to arrange for delivery under a just-in-time system to ensure minimal holding time and costs for inventory and materials. As a result, inventory levels are kept at an optimal level.

Net Trade Debtors

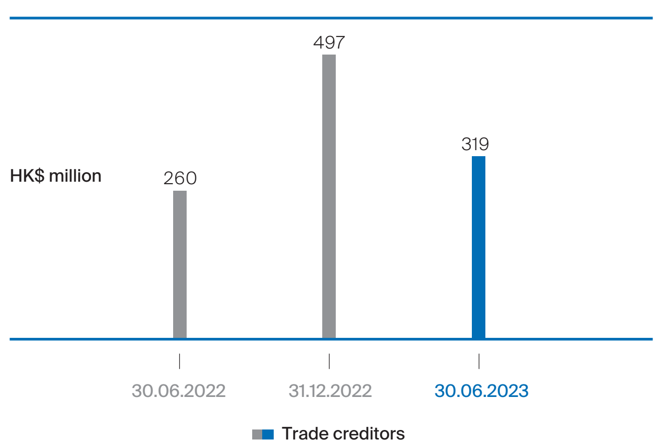
As at 30 June 2023, net trade debtors amounted to HK$526 million (31 December 2022: HK$472 million) which is an increase of 11%.

This movement was mainly due to a sales promotion in the E-commerce channel that stimulated revenue in the last week of June, offset by the absence of write-back of provision for impairment of trade debtors amounting to HK$33 million reflected in the Corresponding Period. The cover ratio of insured and guaranteed trade debtors (over gross trade debtors) as at 30 June 2023 decreased to 45.0% (31 December 2022: 50.3%).



Trade Creditors

As at 30 June 2023, trade creditors amounted to HK$319 million (31 December 2022: HK$497 million), which is a decrease of 36%. This is partly due to seasonal factors of the Company's business and better cash management.



LIQUIDITY AND FINANCIAL RESOURCES ANALYSIS

Net Cash

As at 30 June 2023, the Group remained essentially debt free and recorded cash, bank balances and deposits of HK$1,314 million in total (31 December 2022: HK$2,012 million), representing a net cash decrease of HK$698 million. The cash position was mainly affected by following items:

1) operating performance of the business resulted in a net cash outflow of HK$263 million excluding payment of interest on lease liabilities and tax;

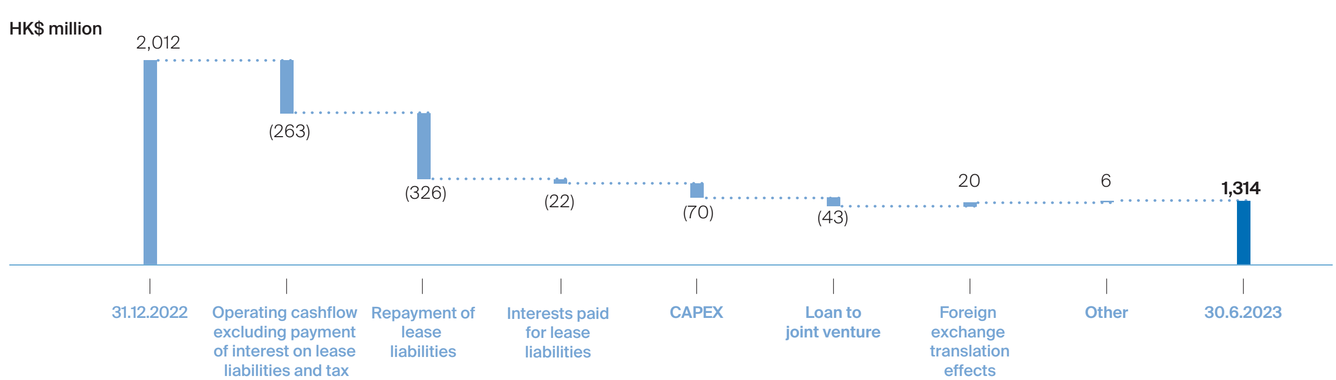
2) repayment of lease liabilities of HK$326 million and interest paid for lease liabilities of HK$22 million resulted in total cash outflow of HK$348 million;

3) further decrease in cash position occurred through capital expenditures (the "CAPEX") of HK$70 million;

4) loan to joint venture amounted to HK$43 million; and

5) foreign exchange translation effects resulted in a cash inflow of HK$20 million.

Cash Flow Bridge for the Six Months Ended 30 June 2023



Total Interest-Bearing External Borrowings and Gearing Ratio

As at 30 June 2023, the Group had no interest-bearing external borrowings (31 December 2022: nil). Therefore, the Group's gearing ratio as at 30 June 2023, as defined by a percentage of total interest-bearing external borrowings to total assets, was zero (31 December 2022: zero).

Significant Investment and Material Acquisitions and Disposals

Save for those disclosed in this announcement, there were no other significant investments held, nor were there material acquisitions or disposals of subsidiaries during the Period (for the year ended 31 December 2022: nil).

Charges on Group Assets and Contingent Liabilities

As at 30 June 2023, save for those disclosed in this announcement, the Company has not charged its assets and the Company did not have significant contingent liabilities (31 December 2022: nil).

Foreign Exchange Risk

The Group operates internationally and is exposed to foreign exchange ("FX") risk arising from various currency exposures, primarily with respect to the Euro and US dollar. FX risk dominantly arises from future commercial transactions and to a lesser extent from recognized monetary assets and liabilities that are denominated in currencies that are not the functional currencies of the Group's entities.

To minimize the Group's FX exposure on costs for merchandise produced for Europe in Asia, majority of the suppliers in Asia were asked to quote and settle in US dollar. In addition, to manage the FX risk arising from future commercial transactions, the Group in the past entered into forward FX contracts with reputable financial institutions to hedge the FX risk. Since no forward FX contracts have been entered into for the Period, currency fluctuations may affect the Group's margins and profitability. The Group has been continuously preparing for the resumption of hedging activities. Due to high volatility and therefore heavy movements in the foreign exchange markets caused by geopolitical events, the decision was made not to enter into hedging programs for the time being.

Treasury Policy

Core task of the treasury team of the Group is to ensure the Group's solvency by managing its liquidity and banking relationships. Excess liquidity is managed by placing short term deposits at banks. Other than adopting an in-house banking concept to fund the Group, there are no further funding initiatives with banks. Nevertheless, various options are being evaluated to cover future needs.

NUMBER OF EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2023, the Group employed approximately 2,250 full time equivalent staff ("FTE") (30 June 2022: approximately 2,200 FTE). Competitive remuneration packages that consider business performance, market practices and competitive market conditions are offered to employees in compensation for their contribution. All employees of the Group around the world are connected through the Group's global intranet.

INTERIM DIVIDEND

As the Group recorded a net loss for the Period, the Board has resolved not to declare an interim dividend for the Period. The Board will constantly monitor and review the situation in the coming future.

OUTLOOK

The Company remains committed to deliver sustainable and profitable growth globally. With an experienced management team and dedicated staff across the Group, ESPRIT has reestablished its presence globally with its expansion into North America and Asia Pacific.

ESPRIT will continue to lean on the Management's strategies to deliver high quality products and one-of-a-kind consumer experiences across its omnichannel platform to bridge offline and online seamlessly.

The Company's financial outlook is forward-looking in nature. As always, this is subject to potential external uncertainties identified by the Management which include but are not limited to: supply chain disruptions; inflationary pressures; foreign currency fluctuation; geopolitical tensions; and consumer confidence. The Company would like to share with its shareholders and investment community the developments of several notable on-going and up-coming initiatives:

1. Cost control: continuation of stringent cost control measures to free up resources for profitable expansion. This is achieved through corporate re-structuring and related measures, closing unprofitable stores, and enhancing economic efficiencies in remaining stores.

2. Digital: the Company is launching a simplified and innovative technology platform to provide a more dynamic and engaging purchase experience for online customers. This platform is currently live in South Korea. It will also launch in the US market by Q3 of 2023 and in Europe by middle of 2024.

   Expecting to launch in the middle of 2024, the digital team is developing a modern data stack to build a data driven ecosystem. The aim is to seamlessly connect customers and products, which will create the foundation for ESPRIT to lead through artificial intelligence and large language models to provide unparalleled customer engagement and satisfaction.

3. E-commerce: the Company's commitment to communicate and interact with consumers by sharing inspirations and storytelling, including theme specific campaigns to generate awareness and launch multiple revenue driving promotions such as Esprit Sports, Beachwear, Season-End Sales, Valentine's Day, VIP Days, International Women's Day, Midseason-Sales, Friends' Day, and Private Sales. Consumers' response to such outreach has been positive.

4. Omnichannel: the Company is dedicated to embrace new technology and best industry practices to enhance customer experience. The on-going projects aimed at developing new in-store omnichannel digital experience solutions for stores-of-the-future to provide digital and hyper-personalized service experiences for upcoming Flagship and Experium stores, ensuring customers to experience the best when interacting with ESPRIT.

5. Product: the ESPRIT denim collection will relaunch with improved fit, fabric, and wash. The newly developed fit will be more relevant, complemented by seasonal trend-relevant fits and all silhouettes are covered. New fabric technology is being used to provide higher elasticity and color retention. In terms of production, the brand is partnering with leading denim manufacturers to achieve more environmentally responsible production by incorporating wash techniques that dramatically reduce waste and the water used.

   ESPRIT is launching an in-house developed kid's apparel targeting ages two to twelve. Product range include tee shirts, hoodies, sweatshirts, sweaters, and sweat dresses.

6. Sourcing: product lines that have low gross profit margins are terminated and replaced with collections and capsules with substantially higher margins. These timely adjustments in the way the Company sources lowers the level of obsolete inventories. The Company's partnership with strong sourcing agents allows for opportunity to work with elevated factories within their network. This enables the Company to utilize factories that have more expertise, innovation, and better efficiency to develop stronger quality and value for money products for ESPRIT.

7. Stores: several retail store openings are underway for launch in the latter half of 2023 in North American key cities such as permanent stores in Los Angeles, New York and Vancouver, and pop-up stores in Chicago, Los Angeles and New York. In Europe, the retail team is developing shop-in-shops under a brand-new elevated concept within twenty of the ESPRIT's best European retail and franchise locations to create buzz and bring the brand elevating relaunch to live. The aim is to evoke the nostalgia of vintage ESPRIT for consumers in the European market.

8. Wholesale: to support the brand's wholesale business, a newly created showroom has been established at the Dusseldorf flagship location to enhance partnership experience. Wholesale partners will also revisit the North American market by participating in key US wholesale trade shows to promote and create brand awareness.

The Company specifically identified North America as its focus for future expansion to diversify the Group's business. It will also continue strengthening its presence in the Asian and European markets, with the aim to return ESPRIT to its original, elevated, and globally recognized brand position.

AUDIT COMMITTEE

The Audit Committee currently comprises four Independent Non-executive Directors, namely Mr. CHUNG Kwok Pan, Mr. GILES William Nicholas, Mr. HA Kee Choy Eugene and Mr. LO Kin Ching Joseph. The primary duties of the Audit Committee are to assist the Board in providing an independent view of the effectiveness of the financial reporting process and internal control system, to oversee the audit process and the Company's relations with the auditors, and to perform other duties as assigned by the Board.

During the Period, the Audit Committee has reviewed with the management of the Company the accounting policies and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters.

The condensed consolidated interim financial information of the Company for the Period had not been audited but had been reviewed by the Audit Committee and the Company's auditor, PricewaterhouseCoopers.

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.

CORPORATE GOVERNANCE

The Company has applied the principles of, and complied with the applicable code provisions of the Corporate Governance Code as set out in Appendix 14 of the Listing Rules for the Period.

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 Transaction by Directors of Listed Issuers (the "Model Code") as set out 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 Period.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This interim results announcement is published on the websites of the Company (https://www.esprit.com/en/company) and the Stock Exchange of Hong Kong Limited (https://www.hkexnews.hk). The 2023 interim report of the Company will be dispatched to the shareholders of the Company and published on the aforesaid websites in September 2023.

By order of the Board
Esprit Holdings Limited
CHIU Christin Su Yi
Chairperson

Hong Kong, 28 August 2023

Dates and times stated in this announcement refer to Hong Kong time unless otherwise specified.

As at the date of this announcement, the Board comprises the following directors:

Executive Directors:
Ms. CHIU Christin Su Yi
Mr. PAK William Eui Won
Mr. SCHLANGMANN Wolfgang Paul Josef
Mr. WRIGHT Bradley Stephen

Independent Non-executive Directors:
Mr. CHUNG Kwok Pan
Mr. GILES William Nicholas
Mr. HA Kee Choy Eugene
Ms. LIU Hang-so
Mr. LO Kin Ching Joseph