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ESPRIT

ESPRIT HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)
(Stock Code: 00330)

UNAUDITED FY14/15 THIRD QUARTER UPDATE FOR THE NINE MONTHS ENDED 31 MARCH 2015

THIRD QUARTER UPDATE

The board of directors (the “Board”) of Esprit Holdings Limited (the “Company”) presents the unaudited FY14/15 third quarter update of the Company and its subsidiaries (the “Group”) for the nine months ended 31 March 2015. This announcement is made pursuant to Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) and Rule 13.09 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Turnover by Product Division

Product Divisions	For the 9 months ended 31 March					
	2015		2014		Change in %	
	HK\$ million	% to Group Turnover	HK\$ million	% to Group Turnover	HK\$	Local currency
women	6,624	43.5%	8,060	42.8%	-17.8%	-11.1%
women casual ^	4,445	29.2%	5,575	29.6%	-20.3%	-13.9%
women collection	1,802	11.8%	2,188	11.6%	-17.6%	-10.7%
trend	377	2.5%	297	1.6%	26.9%	37.2%
men	2,211	14.5%	2,834	15.0%	-22.0%	-16.8%
men casual	1,780	11.7%	2,235	11.8%	-20.4%	-15.1%
men collection	431	2.8%	599	3.2%	-28.1%	-23.3%
others *	2,887	19.0%	3,618	19.1%	-20.2%	-13.4%
Esprit Total	11,722	77.0%	14,512	76.9%	-19.2%	-12.8%
edc	3,504	23.0%	4,350	23.1%	-19.5%	-13.0%
Group Total	15,226	100.0%	18,862	100.0%	-19.3%	-12.8%

^ Turnover of sports has been re-grouped from others to women casual since FY14/15. Comparative figures have been restated accordingly

* Others include shoes, accessories, bodywear, kids, licensing income and licensed products such as timewear, eyewear, jewellery, bed & bath, houseware, etc.

Turnover by Region and by Distribution Channel

	For the 9 months ended 31 March						Net change in net sales area [^]
	2015		2014		Turnover Change in %		
	HK\$ million	% to Group Turnover	HK\$ million	% to Group Turnover	HK\$	Local currency	
Germany	7,038	46.2%	8,773	46.5%	-19.8%	-12.2%	-4.4%
Retail #	4,289	28.1%	5,411	28.7%	-20.7%	-13.1%	-4.3%
Wholesale	2,738	18.0%	3,347	17.7%	-18.2%	-10.7%	-4.4%
Licensing and others	11	0.1%	15	0.1%	-29.1%	-22.1%	n.a.
Rest of Europe	5,630	37.0%	7,122	37.8%	-21.0%	-14.1%	-11.2%
Retail #	2,984	19.6%	3,670	19.5%	-18.7%	-11.7%	-2.1%
Wholesale *	2,638	17.3%	3,443	18.3%	-23.4%	-16.8%	-15.6%
Licensing and others	8	0.1%	9	0.0%	-12.7%	-2.1%	n.a.
Asia Pacific	2,461	16.2%	2,850	15.1%	-13.6%	-11.5%	-17.6%
Retail #	2,220	14.6%	2,417	12.8%	-8.2%	-6.0%	-2.6%
Wholesale	241	1.6%	431	2.3%	-44.0%	-42.2%	-40.2%
Others	-	-	2	0.0%	-100.0%	-100.0%	n.a.
North America **	97	0.6%	117	0.6%	-17.7%	-17.7%	n.a.
Total	15,226	100.0%	18,862	100.0%	-19.3%	-12.8%	-9.7%
Retail #	9,493	62.3%	11,498	61.0%	-17.4%	-11.1%	-3.1%
Wholesale	5,617	36.9%	7,221	38.3%	-22.2%	-15.5%	-14.1%
Licensing and others	116	0.8%	143	0.7%	-19.5%	-18.1%	n.a.

[^] Net change since 1 April 2014

Retail sales include sales from e-shops in countries where available

* For the nine months ended 31 March 2015, wholesale sales to Latin America and the Middle East have been re-grouped from Asia Pacific to Rest of Europe. Comparative figures have been restated accordingly

** Turnover from North America represents third party licensing income

n.a. Not applicable

Retail Distribution Channel by Region (Directly Managed Retail Stores)

	As at 31 March 2015					
	No. of stores	Net opened stores [^]	Net sales area (m ²)	Net change in net sales area [^]	No. of comp stores	Comp-store sales growth
Germany *	151	(16)	123,064	-4.3%	122	-10.0%
Rest of Europe	187	(4)	102,632	-2.1%	121	-9.4%
Asia Pacific *	550	(20)	101,243	-2.6%	288	1.0%
Total	888	(40)	326,939	-3.1%	531	-8.2%

[^] Net change since 1 April 2014

* All e-shops within Europe (i.e. Germany and Rest of Europe) and the e-shop in China are shown as 1 comparable store in Germany and 1 comparable store in Asia Pacific respectively

Wholesale Distribution Channel by Region (Controlled Space Only)

As at 31 March 2015				
	No. of stores	Net change in no. of stores ^	Net sales area (m ²)	Net change in net sales area ^
Germany	4,675	(228)	210,586	-4.4%
Franchise stores	275	(14)	70,377	-3.3%
Shop-in-stores	2,974	(107)	113,324	-5.0%
Identity corners	1,426	(107)	26,885	-4.7%
Rest of Europe *	2,790	(78)	182,911	-15.6%
Franchise stores	574	(104)	122,207	-21.5%
Shop-in-stores	1,019	(19)	31,810	-2.3%
Identity corners	1,197	45	28,894	1.6%
Asia Pacific	341	(188)	40,928	-40.2%
Franchise stores	341	(188)	40,928	-40.2%
Shop-in-stores	-	-	-	-
Identity corners	-	-	-	-
Total	7,806	(494)	434,425	-14.1%
Franchise stores	1,190	(306)	233,512	-21.4%
Shop-in-stores	3,993	(126)	145,134	-4.4%
Identity corners	2,623	(62)	55,779	-1.6%

^ Net change since 1 April 2014

* As at 31 March 2015, controlled wholesale points-of-sale and space in Latin America and the Middle East have been re-grouped from Asia Pacific to Rest of Europe. Comparative figures have been restated accordingly

Highlights for the three months ended 31 March 2015 (“3Q FY14/15”)

The table below sets forth a summary of sales performance by region and by channel for the 3Q FY14/15.

	For the 3 months ended 31 March				Turnover Change in %		Net change in net sales area [^]
	2015		2014		HK\$	Local currency	
	HK\$ million	% to Group Turnover	HK\$ million	% to Group Turnover			
Germany	2,013	44.7%	2,769	45.8%	-27.3%	-11.4%	-4.4%
Retail [#]	1,180	26.2%	1,594	26.3%	-25.9%	-9.7%	-4.3%
Wholesale	829	18.4%	1,170	19.4%	-29.2%	-13.7%	-4.4%
Licensing	4	0.1%	5	0.1%	-28.6%	-13.2%	n.a.
Rest of Europe	1,636	36.2%	2,389	39.4%	-31.5%	-17.8%	-11.2%
Retail [#]	826	18.3%	1,135	18.7%	-27.3%	-13.3%	-2.1%
Wholesale [*]	808	17.9%	1,251	20.7%	-35.4%	-22.0%	-15.6%
Licensing and others	2	0.0%	3	0.0%	-15.4%	5.9%	n.a.
Asia Pacific	831	18.4%	859	14.2%	-3.3%	1.1%	-17.6%
Retail [#]	767	17.0%	784	13.0%	-2.1%	2.0%	-2.6%
Wholesale	64	1.4%	75	1.2%	-15.2%	-8.8%	-40.2%
North America ^{**}	30	0.7%	35	0.6%	-14.3%	-14.2%	n.a.
Total	4,510	100.0%	6,052	100.0%	-25.5%	-12.2%	-9.7%
Retail [#]	2,773	61.5%	3,513	58.0%	-21.1%	-8.3%	-3.1%
Wholesale	1,701	37.7%	2,496	41.3%	-31.9%	-17.7%	-14.1%
Licensing and others	36	0.8%	43	0.7%	-15.9%	-12.8%	n.a.

[^] Net change since 1 April 2014

[#] Retail sales include sales from e-shops in countries where available

^{*} For the three months ended 31 March 2015, wholesale sales to Latin America and the Middle East have been re-grouped from Asia Pacific to Rest of Europe. Comparative figures have been restated accordingly

^{**} Turnover from North America represents third party licensing income

n.a. Not applicable

In the third quarter, the Transformation phase continued to make good progress.

Our leaner supply chain maintained its positive impact on our sourcing costs, enabling us to reinvest the savings to further improve the value-for-money of our products. Consequently, the new collections developed under the Vertical Model, which were available in stores since February 2015 have received a more positive response. While this favorable response is encouraging, it is too early to assess the full impact of the new products on our sales given their short time in the market. As customers have the opportunity to interact with our new products in our stores, and as the benefits of the new Vertical Model are optimized over time, we expect a progressively clearer impact on sales to be evident in subsequent periods. To drive sales development and support its sustainable growth, we will also be increasing our efforts in marketing as well as in implementing an ambitious omni-channel model that will enhance the customer experience across our multiple distribution channels.

The savings from a leaner supply chain are also driving a year-on-year improvement of our Gross Profit margin, which is key for the profitability of the Company.

We remain fully confident that our current strategies will enable us to turnaround Esprit and to establish a strong foundation for future long term growth.

Notwithstanding the positive progress mentioned above and our confidence for a sustained turnaround of our business, 3Q FY14/15 remained challenging for Esprit. Sales performance during the quarter was adversely affected by:

- i. The reduction in total controlled space of -9.7% year-on-year carried over from previous periods which results from our decision to close unprofitable retail stores and the decline of controlled wholesale space;
- ii. Very weak performance of the end of season sale of our Autumn/Winter merchandise during the month of January 2015;
- iii. Continued weakness and heavy discounting in the apparel market in Europe, and particularly in Germany (as reported by local industry publication TextilWirtschaft), our largest market;
- iv. Special discounts and returns granted to wholesale partners in Europe as support measure due to the weak performance in the first half of the financial year; and
- v. Significant unfavorable currency impact resulting from an approximately -17.7% year-on-year depreciation of the EUR/HKD exchange rate.

Due to the above factors, **Group turnover** declined -12.2% year-on-year in local currency in 3Q FY14/15 (-25.5% in Hong Kong dollar terms) to HK\$4,510 million.

Retail turnover amounted to HK\$2,773 million for 3Q FY14/15 (3Q FY13/14: HK\$3,513 million) representing a year-on-year decline of -8.3% in local currency (-21.1% in Hong Kong dollar terms), as compared to a -3.1% year-on-year reduction in net sales area. The higher decline in turnover than the corresponding reduction in net sales area was primarily due to aggressive discounting in the marketplace in January 2015 to clear inventories from the Autumn/Winter 2014 season which remained unsold due to the unusually warm European winter. Retail turnover in the month of January 2015 declined year-on-year by -17.1% in local currency.

On a positive note, we are encouraged by the improvement in selling productivity of the retail operations since the introduction of the new collections, which began to be available in stores from February 2015. Retail turnover for the months of February and March 2015 declined year-on-year by -2.9% in local currency, better than our square meters reduction.

Also worth mentioning is that retail turnover in Asia Pacific grew by +2.0% year-on-year for 3Q FY14/15 in local currency, notwithstanding a corresponding reduction of net sales area of -2.6%. The positive performance in Asia Pacific, where we did not face the same issues from Autumn/Winter 2014 season, was attributable to i) better availability of merchandise in stores as a result of improved logistics support; and ii) more successful tactical promotions in all of our Asian markets for the Chinese New Year holiday.

Wholesale turnover amounted to HK\$1,701 million for 3Q FY14/15 (3Q FY13/14: HK\$2,496 million) representing a year-on-year decline of -17.7% in local currency (-31.9% in Hong Kong dollar terms), as compared to a -14.1% year-on-year reduction in controlled wholesale space. We observed mixed sales performance across the regions.

In Europe, the wholesale operations in both Germany and Rest of Europe were negatively impacted by the year-on-year reduction of controlled wholesale space (Germany: -4.4%, Rest of Europe: -15.6%) carried over from the first half of the financial year FY14/15. Moreover, due to the weak sales performance in the first half of the financial year, and continued weakness in the business performance of the wholesale channel in the region in general, special discounts and returns were granted to wholesale partners as a support measure. As a consequence, the year-on-year decline in wholesale turnover for 3Q FY14/15 in Germany and Rest of Europe of -13.7% and -22.0% in local currency respectively, were higher than the corresponding reduction in controlled wholesale space of -4.4% and -15.6% respectively. Despite the challenges we see in the wholesale channel in Europe, we also see that the new products developed under the Vertical Model have been very well-received by our wholesale partners, as evidenced by their order intake, which has shown sequential improvement season by season, when comparing year-on-year development. This improvement is unfortunately not reflected in the wholesale sales performance due to the above mentioned reasons.

Wholesale turnover in Asia Pacific declined by -8.8% year-on-year in local currency for 3Q FY14/15 (first half of FY14/15: -49.3%), which was significantly less than the corresponding -40.2% year-on-year reduction in controlled wholesale space. This improvement was mainly attributable to the success of our special return agreements with wholesale partners in China which helped to clear their considerably aged inventories in the same period last year and which have resulted in better order intake for 3Q FY14/15.

As a last relevant note, it is important to clarify that the substantial depreciation of the Euro currency in 3Q FY14/15 had limited impact on the gross margin because the purchase of finished goods for 3Q FY14/15 was hedged last year at better rates than the prevailing market rate. The Company is actively working to also minimize a negative impact of the exchange rates in coming seasons.

By Order of the Board
Florence Ng Wai Yin
Company Secretary

Hong Kong, 4 May 2015

As at the date of this announcement, the Board comprises (i) Mr Jose Manuel Martínez Gutiérrez (Group Chief Executive Officer) and Mr Thomas Tang Wing Yung (Group Chief Financial Officer) as Executive Directors; (ii) Mr Jürgen Alfred Rudolf Friedrich as Non-executive Director; and (iii) Dr Raymond Or Ching Fai (Chairman), Mr Paul Cheng Ming Fun (Deputy Chairman), Dr José María Castellano Ríos, Mr Alexander Reid Hamilton, Mr Camelo Lee Ka Sze, and Mr Norbert Adolf Platt as Independent Non-executive Directors.