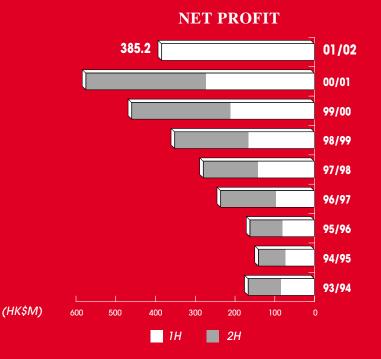
# HIGHLIGHTS OF INTERIM RESULTS FY 01/02

- Group turnover rose 16.4% to HK\$4,647.8 million
- EBITDA increased to over HK\$800 million for the six months period
- Net profit grew 41.0% to HK\$385.2 million, and net margin enhanced by 1.5% points to 8.3% of net sales
- Net cash more than doubled since June 30, 2001 to approximately HK\$800 million, with no term loans
- Interim dividend increased 25.0% year-on-year to HK6.0 cents per share

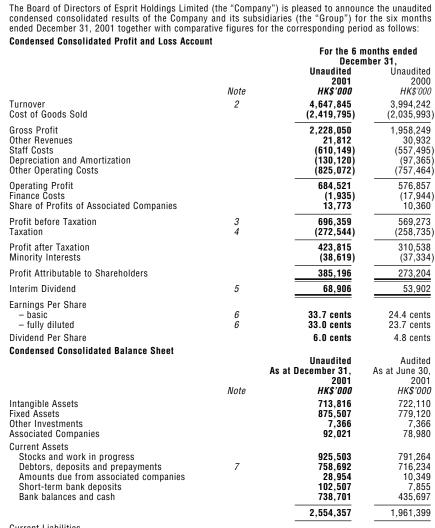




## ESPRIT HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

#### INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED DECEMBER 31, 2001



Current Liabilities Creditors and accrued charges 542.148 Taxation 714.795 Obligations under finance leases - due within one year 1.303 55,604 Bank overdrafts 47,202 1,728,261 1,345,978 Net Current Assets 826,096 615,421 Total Assets Less Current Liabilities 2,514,806 2,202,997 Financed by: 114,577 114,251 Share Capital Reserves Retained Profit 872,733 1,115,031 1,431,321 Interim Dividend 137,101 Final Dividend Shareholders' Funds 2,487,377 2,181,465 18,204 941 Minority Interests 21,546 Obligations under Finance Leases Deferred Taxation 5,375 2.387 2,202,997 2,514,806 Notes to the Financial Statements Accounting policies

INTERIM RESULTS

These unaudited condensed consolidated interim accounts ("interim accounts") are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") No. 25, "Interim Financial Reporting", issued by the Hong Kong Society of Accountants, and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The accounting policies and methods of computation used in the preparation of these interim accounts are consistent with those used in the annual accounts for the year ended June 30, 2001 except that the Group has changed certain of its accounting policies following its adoption of the following SSAPs issued by the Hong Kong Society of Accountants which are effective for accounting periods commencing on or after January 1, 2001;

SSAP 9 (revised) Events after the balance sheet date Intangible assets
Business combinations
Impairment of assets

The changes to the Group's accounting policies and the effect of adopting these new policies are set out below. SSAP 9 (revised): Events after the balance sheet date

In accordance with the revised SSAP 9, the Group no longer recognizes dividends proposed or declared after the balance sheet date as a liability at the balance sheet date. This change in accounting policy has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

Opening retained profit at July 1, 2000 have increased by HK\$125,474,000 which is the reversal of the provision for the 1999/2000 proposed final dividend previously recorded as a liability as at June 30, 2000 although not declared until after the balance sheet date. Opening retained profit at July 1, 2001 have increased by HKS137,101,000 which is the reversal of the provision for the 200/2001 proposed final dividend previously recorded as a liability as at June 30, 2001 although not declared until after the balance

SSAP 29: Intangible Assets Trademarks

In prior years, trademarks were amortized by equal annual installments over their estimated economic life of forty years. In accordance with SSAP 29 expenditure on acquired trademarks are amortized using the straight-line method over their useful lives with a rebuttable presumption that the useful life of an intangible asset will not exceed twenty years from the date when the asset is available for use. Consequently, the Group's amortization charge for the current period has been increased by HK\$13,124,000. However, the Company is still reviewing such rebuttable presumption and may make appropriate adjustments in the

SSAP 30: Business Combinations

Goodwill and reserves arising on acquisition

Goodwill/reserves arising on acquisition represents the excess/shortfall of purchase consideration over the fair values ascribed to the net assets of subsidiaries acquired. Goodwill/reserves arising on acquisitions occurring on or after July 1, 2001 are included in intangible assets/reserves and are amortized using the straight-line method over their estimated useful lives. Goodwill/reserves arising on acquisitions that occurred prior to July 1, 2001 were taken directly to reserves in the year of acquisition. The Group has taken advantage of the transitional provisions in SSAP 30 and such goodwill/reserves on acquisition have not been retroactively capitalized and amortized. However any impairment arising on such goodwill is accounted for in accordance with SSAP 31 "Impairment of Assets"

Turnover

The Group is principally engaged in the design, licensing, sourcing, wholesale and retail distribution of high quality fashion products under the internationally known SIRIT brand name in Europe, Asia Pacific and Canada, together with Red Earth cosmetics, skin and general body care products.

	Turnover For the 6 months ended December 31.		Contribution to operating profit after finance costs For the 6 months ended December 31.	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Analysis by principal activities:				
Wholesale	2,575,718	2,151,793	552,309	387,338
Retail	2,035,636	1,800,332	119,020	147,388
Others	36,491	42,117	11,257	24,187
	4,647,845	3,994,242	682,586	558,913
Analysis by principal geographical markets:				
Germany	2,241,099	1,916,713	468,323	325,459
Belgium and the Netherlands	649,507	458,866	130,958	66,399
Hong Kong	578,876	560,054	6,088	49,074
Other Asia Pacific countries	666,325	676,092	38,498	67,818
Other European countries	480,622	343,134	27,462	25,976
Others	31,416	39,383	11,257	24,187
	4.647.845	3.994.242	682,586	558.913

	For the 6 months ended December 31,	
	2001 <i>HK\$'000</i>	2000 HK\$'000
Profit before taxation is arrived at after crediting and charging the following:		
Crediting: Provision for doubtful debts written back Provision for obsolete stock written back Exchange gain	6,213 15,138 3,830	- - -
Charging: Depreciation and amortization  Owned assets  Assets held under finance leases  Trademarks Exchange loss Interest on short-term bank loans, overdrafts, and other loans wholly repayable within five years Interest element of finance leases Loss on disposal of fixed assets	106,293 533 23,294 - 1,855 80 5,690	86,329 866 10,170 6,379 17,811 133 2,822
Provision for doubtful debts Provision for obsolete stock	<del>-</del> -	9,932 12,139
Taxation		12,100

Hong Kong profits tax has been provided at the rate of 16% (2000/2001: 16%) on the estimated assessable profit for the period. Overseas taxation has been calculated at the rates of taxation prevailing in the countries in

For the 6 months ended

	December 31,	
	2001	2000
	HK\$'000	HK\$'000
Company and its subsidiaries:		
Hong Kong profits tax	31.942	27.040
Overseas taxation	239,870	230,285
	271,812	257,325
Associated companies – overseas taxation	732	1,410
	272,544	258,735
Interim Dividend	<del></del>	
	For the 6 months ended	
	December 31,	
	2001	2000
	HK¢'nnn	HK¢'nnn

Alignment of 2000/2001 final dividend on 1,332,000 (1999/2000: 248,000) new shares issued Interim dividend declared of 6.0 Hong Kong cents 28 53,874 68,746 (2000/2001: 4.8 Hong Kong cents) per share 68,906 The amount for the 2001/2002 interim dividend is based on 1,145,772,831 shares (2000/2001: 1,122,368,345

shares) in issue as at January 31, 2002. Earnings per share The calculation of basic earnings per share is based on the unaudited profit attributable to shareholders of HK\$385,196,000 (2000/2001: HK\$273,204,000) and the weighted average number of shares in issue during the

Profit before taxation

period of 1,143,169,751 (2000/2001: 1,120,443,088). The calculation of fully diluted earnings per share is based on the unaudited profit attributable to shareholders of HK\$385,196,000 (2000/2001: HK\$273,204,000), and the weighted average number of shares in issue during the period of 1,167,511,920 (2000/2001: 1,153,341,315) after adjusting for the number of dilutive ordinary shares deemed to be issued at no consideration based on the assumption that all outsiding share options granted under the Company's Employee Share Option Scheme had been exercised at July 1, 2001.

Debtors, deposits and prepayments Debtors, deposits and prepayments included trade debtors and their ageing analysis is as follows

	As at December 31, 2001	As at June 30, 2001
0-30 days 31-60 days	HK\$'000 318,480 42.035	HK\$'000 359,565 40.977
61-90 days Over 90 days	21,868 27,591	17,777 20,808
	409,974	439,127

The Group's retail sales to customers are mainly on a cash basis. The Group also grants credit to certain wholesale and franchise customers which is usually 30 days

Creditors and accrued charnes 8.

Creditors and accrued charges included trade creditors and their ageing analysis is as follows:

	AS AT December 31, 2001 <i>HK\$</i> *000	AS at June 30, 2001 <i>HK\$'000</i>
0-30 days 31-60 days	369,344 58,927	316,147 23,838
61-90 days Over 90 days	18,316 17,234	4,173 5,907
	463,821	350,065
Share capital	As at December 31,	As at June 30,
	2001 HK\$'000	2001 HK\$'000
Authorized: 2,000,000,000 shares of HK\$0.10 each	200,000	200,000
	Number of Shares of HK\$0.10 each '000	Nominal value HK\$'000
Issued and fully paid: At July 1, 2000	1,116,559	111,656
Issues of scrip dividend shares Exercise of share options	780 25,166	78 2,517
At June 30, 2001	1,142,505	114,251
At July 1, 2001 Issues of scrip dividend shares Exercise of share options	1,142,505 1,936 1,332	114,251 193 133
At December 31, 2001	1,145,773	114,577

INTERIM DIVIDEND

The directors have declared an interim dividend for the six months ended December 31, 2001 of HK6.0 cents per share (2000/2001: HK4.8 cents), payable on or about Friday, April 26, 2002 to the shareholders whose names appear on the Register of Members of the Company at close of business on Monday, March 11, 2002 ("Shareholders") with a scrip alternative to offer Shareholders the right to elect to receive such interim dividend wholly or partly by allotment of new shares credited as fully paid in lieu of cash (the "Scrip Dividend Scheme").

A circular containing details of the Scrip Dividend Scheme together with the relevant election form will be dispatched to Shareholders on or about Wednesday, March 13, 2002. The Scrip Dividend Scheme is conditional upon the granting by the Listing Committee of The Stock Exchange of Hong Kong Limited of the listing of and permission to deal in the new shares to be issued pursuant thereto. The relevant dividend warrants and certificates for the new shares to be issued pursuant to the Scrip Dividend Scheme will be dispatched to Shareholders on or about Friday, April 26, 2002.

### MANAGEMENT DISCUSSION AND ANALYSIS

### **Review of Operations**

Group Turnover

Group sales increased by 16.4% in the first half of financial year 2001/2002 to HK\$4,647.8 million, leading us into our ninth consecutive year of turnover growth in spite of the poor economic conditions globally. The impact of currency translation throughout the period was marginal, unlike the last fiscal year; net of exchange impact, the rise in sales would have been 16.6%.

All countries of operation, except for Taiwan, achieved turnover growth in local currency terms consolidating into a 22.7% and 3.8% year-on-year sales growth for Europe and Asia Pacific respectively. Germany remained our largest market, contributing approximately 48.2% of total turnover while attaining a 15.7% growth year-on-year. A German independent market survey showed that the brand awareness of SSPRIT was the highest among women's wear, reaching 84% of those surveyed (a 7% points increase from the 1997 survey). Benelux (i.e. Belgium and the Netherlands), recording a 40.2% growth year-on-year, became our second largest market. This growth was a direct result of our focused effort to expand in markets outside of Germany, as well as the introduction of uniform Euro pricing, which benefited Benelux consumers after inclusion of their higher value-added-tax. Amidst the highly competitive Hong Kong operating environment, Hong Kong achieved a 3.4% growth year-on-year. More frequent promotions had helped to preserve our market share in Asia Pacific during these tough economic times. In addition to registering convincing growth in our existing markets, the Group had planted seeds for future growth in three markets, U.K., Korea and New Zealand, by opening 2, 4 and 7 stores respectively. Operation mix of Group turnover

	For the 6 months ended December 31,	
	2001	2000
wholesale - europe	50%	50%
wholesale – asia pacific	5%	4%
retail – europe	22%	18%
retail – asia pacific	22%	27%
others <sup>1</sup>	1%	1%
1 Include third party royalty and commission income.		

The growth in turnover was fueled by both wholesale and retail operations, which accounted for 55% and 44% of the Group turnover respectively. Our wholesale activities registered a 19.7% growth year-on-year. The ≡SPR∏ brand continued to be one of the best performing brands within German department stores, thus leading to an increase in the number of wholesale customers and controlled store space. Retail sales were up 13.1% year-on-year, attributable to both the success of the injection program, which led to higher comparable store sales, and the increase in retail sales footage Global retail network

arosar rotan notificin	Directly Managed Stores		No. of
	Sales Footage (sq. ft.)	No. of Stores	Franchised Shops
europe	612.637	115	1.273
asia pacific <sup>2</sup>	892.315	382	285
china	163,766	102	408
<sup>2</sup> Exclude China joint venture.	•		

Earnings Position

Gross profit for the half-year amounted to HK\$2,228.1 million, corresponding to 47.9% of turnover (2001: 49.0%). In comparison with the first half of financial year 2000/2001, gross profit margin was reduced by the following factors: widening of the gap between wholesale and retail proportion in our operation mix by 2% points and global pricing pressures. The magnitude of the reduction was partly offset by lowered cost of goods sold resulted from our strong sourcing capabilities. The decrease in gross profit margin was completely absorbed by a combination of our greater economies

of scale, effective cost controls and improved efficiencies. As a percentage of sales, staff costs and buildings expenses, which together accounted for 68.7% of total operating expenses, dropped by 0.9% point and 0.1% point respectively. After deducting operating expenses, EBITDA for the six months grew to HK\$805.7 million (2001: HK\$655.3 million), and EBITDA margin increased 0.9% point to 17.3%

Net profit for the six months aggregated to HK\$385.2 million, an increase of 41.0% year-on-year over the same period last year. The net profit margin gained 1.5% points to 8.3% with the benefits of the German corporate tax cut started to show its effects in the first six months. While the Group is reviewing the rebuttable presumption of useful life under the new trademarks amortization rule in the Hong Kong Statement of Standard Accounting Practice, the Group had consequently recorded an additional HK\$13 million in trademarks amortization for the first six months.

Other Developments Although its accounts were not consolidated into ours, a highly positive note for the Group was our China operation. Targeted to reach HK\$1 billion in turnover by 2003, our China operation registered over 32.1% in annual turnover growth in 2001, and its contribution to the Group's net profit during this reporting period increased 45.7% year-on-year. To capture the anticipated increase in consumer spending after China's official entrance into the World Trade Organization, we have plans to open 28 directly

managed stores in China in 2002. The launch of our **ESPRIT** Basic lines, which provided consumers with more choices of products at lower price points, had been well-received by the markets. After settling the litigation and obtaining the remaining 39% ownership of Red Earth International Holdings Limited during this reporting period for HK\$15 million, we plan to promote the brand more aggressively by leveraging on the global SSPRIT distribution network. To gauge market interest in Europe, a few Red Earth counters were recently launched in Germany (4 counters) and U.K. (2 counters).

In November 2001, one of the Group's subsidiaries, Esprit International, (with the intention to protect the global SSPRT image) issued an objection to Esprit de Corp's ("EDC") recent move to distribute SSPRT products through mass retailers. In response, EDC initiated a demand for arbitration and court proceedings in December 2001, which primarily alleged mismanagement of Esprit International, of which EDC is a 37% limited partner. The Group, after taking appropriate legal advice, believes that EDC's claims are entirely without merit and have filed counterclaims against EDC Liquidity and Financial Resources

During the past six months, the Group generated a positive operating cash flow of HK\$871.7 million (2001: HK\$614.8 million). In sum, our net cash increased by HK\$406.1 million over the balance at the end of our last fiscal year to HK\$794.0 million. Our debt to equity ratio, expressed as a percentage of interest bearing borrowings over shareholders' funds of HK\$2,487.4 million, was 2.0% (2001: 16.5%). The Group has assets of HK\$59.2 million pledged as security for overdraft and short-term facility. During the reporting period, the Group entered into foreign exchange forward contracts with large reputable financial institutions to reduce exposure to foreign currency exchange risk; outstanding contracts reputable financial institutions to reduce exposure to foreign currency exchange risk; outstanding contracts valued at contracted rates amounted to HK\$224.7 million, from HK\$170.4 million as of June 30, 2001.

expenditure totalled HK\$196.1 million (2001: HK\$196.4 million) in the six months to December 31, 2001. The majority of this expenditure was used for expansion of our directly managed sales footage. For the rest of the fiscal year, the Group expects to spend approximately HK\$200 million for upgrade and expansion of our global distribution network. The Group anticipates funding such capital expenditure with cash flows from operations.

Employment, Training and Development

As at December 31, 2001, the Group had a total of 6,140 employees, an increase of 186 over June 30, 2001, in line with our expansion plans. Total staff costs for the half year amounted to HK\$610.1 million (2001: HK\$557.5 million). We remunerate our employees based on their performance, experience and the prevailing industry practices, with compensation policies and packages being reviewed on a regular basis. Bonuses are linked to both the performance of the Group and to individual performance as recognition of value creation. Aligning individual interests with the Group, share options are granted to senior management. To comply with the latest amendment to the Listing Rules, in November 2001 Annual General Meeting, the shareholders approved the adoption of a new share option scheme.

Looking ahead to the rest of this financial year, we expect the continuation of a tough operating environment worldwide and poor consumer sentiments across Asia Pacific, as well as increased competition. However, we remain confident in achieving double-digit turnover and net profit growth for the full financial year 2001/2002 and continue to grow on all major fronts. Even though we are not directly affected by U.S. economic performance and have not seen any significant impact from the tragic events of September 11, an early U.S. economic recovery would certainly help the apparel industry and

accelerate our global growth. Our European wholesale orders booked till April/May 2002 continue to show double-digit growth yearon-year. In January 2002, the Group started a new discretionary limit program, in which a few of our major European wholesale customers entrust us to inject merchandise for them at our discretion. The goal of this initiative is to share our merchandising expertise with our wholesale customers and strengthen our wholesale business. Consequently, the entire European wholesale operation should become more

efficient, and sales performance should improve further. On the retail front, we believe that double-digit sales growth is maintainable. Benefits of the injection program will be fully exploited throughout the Group, leading to more full price and higher comparable

store sales. The expansion plan for our retail business will proceed as intended, as we will add approximately 110,000 square feet to our directly managed retail space during the next six months. To capture the benefits of the low rental rates available, we will continue to expand and upgrade the quality of our retail space by adding new stores in prime locations worldwide. With Euro quotation from our suppliers and less volatile Euro exchange movement seen in the first half

of the financial year, we anticipate that the currency translation factor would not hamper our financial performance as much as the last fiscal year, if any. The Group will continue to look for ways of controlling costs and enhancing operating efficiencies. Furthermore, we are determined to maximize the Group's tax efficiency through various planning and initiatives. All of the above would lead to further expansion of the Group's net margin.

We remain committed to offering clothing and lifestyle products with a distinguished image at affordable prices. With our strong financial position and our dedicated staff, we foresee a continuation of our growth momentum and finishing the financial year as our ninth consecutive year of turnover and profit

### CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Wednesday, March 6, 2002 to Monday, March 11, 2002, both days inclusive, during which period no transfer of shares will be effected.

In order to qualify for the interim dividend mentioned above, all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar in Hong Kong, Secretaries Limited, at 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong not later than 4:00 p.m. on

#### Tuesday, March 5, 2002. PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the period under review, there was no purchase, sale or redemption by the Company, or any of its

subsidiaries, of the Company's listed securities. AUDIT COMMITTEE The Audit Committee, comprising three Non-executive Directors, 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 unaudited interim results for the six months ended December 31 2001 with management In addition, the Group's external auditors, PricewaterhouseCoopers, has performed an independent review

of the interim financial report for the six months ended December 31, 2001 in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Society of Accountants. On the basis of their review which does not constitute an audit PricewaterhouseCoopers confirmed in writing that they are not aware of any material modifications that should be made to the interim financial report. CORPORATE GOVERNANCE

During the period under review, the Company was in compliance with the Code of Best Practice as set

## out in Appendix 14 of the Listing Rules

DISCLOSURE OF INFORMATION ON THE STOCK EXCHANGE'S WEBSITE Information that is required by paragraphs 46(1) to 46(6) of Appendix 16 of the Listing Rules will be published on the website of The Stock Exchange of Hong Kong Limited (http://www.hkex.com.hk) in due course.

> John Poon Cho Ming
> Executive Director & Group CFO **Esprit Holdings Limited**

Hong Kong, February 7, 2002

This announcement can also be accessed through our internet site at www.espritholdings.com.