Final results for the year ended June 30 1999

FINAL RESULTS

The Board of Directors of Esprit Holdings Limited, ("the Company") is pleased to announce that the audited consolidated results of the Company and its subsidiaries ("the Group") for the year ended June 30, 1999 together with comparative figures for the previous year are as follows:

	1999	1998
	HK$million	HK$million
Turnover	5,993.8	5,087.2
Operating Profit	624.6	489.6
Exceptional Item (Note 1)	77.7	(125.3)
Share of Results of Associated Companies	1.1	(17.6)
Profit before Taxation	703.4	346.7
Taxation (Note 2)	(228.4)	(153.9)
Profit before Minority Interests	475.0	192.8
Minority Interests	(45.0)	(37.7)
Profit Attributable to Shareholders	430.0	155.1
Dividends (Note 3)	(160.8)	(41.5)
Retained Profit for the Year	269.2	113.6
Earnings per Share (Note 4)		
- Basic	39.15?	14.20?
- Diluted	38.90?	14.04?

Notes:
Exceptional Item
The amount represents the profit on disposal of listed investment held for long term. In 1998, the amount represents the provision for diminution in value of listed investment held for long term.
Taxation
Hong Kong profits tax has been provided at the rate of 16% (1998: 16%) on the estimated assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the countries in which the Group operates. The taxation is made up as follows:

	1999	1998
	HK$million	HK$million
The Company and its subsidiaries:		
Hong Kong profits tax	33.8	25.1
Overseas taxation net of over provision for prior years of HK$14,813,000 (1998: HK$55,619,000)	244.0	131.1
Deferred taxation	(49.4)	(2.3)
	228.4	153.9

Dividends

	1999	1998
	HK$million	HK$million
Interim dividend paid of 3.8? (1998: 3.8?) per share	41.9	41.5
Proposed final dividend of 10.7? (1998: Nil) per share	118.9	0.0
	160.8	41.5

The amount provided for the 1999 proposed final dividend is based on 1,111,521,567 shares in issue as at September 27, 1999.

Earnings per Share

The calculation of basic earnings per share is based on the profit attributable to shareholders of HK$430,027,000 (1998: HK$155,099,000) and on the weighted average number of shares in issue of 1,098,272,077 during the year (1998:1,092,379,912).

The calculation of fully diluted earnings per share is based on the profit attributable to shareholders of HK$430,027,000 (1998: HK$155,099,000), and on the weighted average number of shares in issue during the year of 1,098,272,077 (1998: 1,092,379,912) plus the weighted average number of 7,092,995 shares (1998: 12,159,236 shares) deemed to be issued at no consideration on the assumption that all outstanding share options granted under the Share Option Scheme had been exercised on July 1, 1998.

PROPOSED FINAL DIVIDEND

The Directors have resolved to recommend the payment of a final dividend of HK10.7 cents per share in cash in respect of the year ended June 30, 1999 to be paid to those shareholders whose names appear on the Register of Members of the Company at the close of business on November 25, 1999 ("Shareholders"), with a scrip alternative to offer the right to Shareholders to elect to receive such final 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 sent to Shareholders on or about November 29, 1999. 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 the Shareholders on December 28, 1999.

BUSINESS REVIEW AND OUTLOOK

Group Results

For the year ended June 30, 1999, the Group achieved a turnover of HK$5,993.8 million, up 18% on the previous year. Operating profit rose 28% to HK$624.6 million, while profit attributable to shareholders was HK$430 million. The net profit figure included an exceptional gain of HK$77.7 million from the disposal of listed investments purchased in FY96/97. The basic earnings per share were HK39.15 cents. This year, the Board of Directors has recommended a final dividend of HK10.7 cents per share. Together with an interim dividend of HK3.8 cents per share, full year dividend per share totalled HK14.5 cents.

Esprit' s seventh straight year of growth

Esprit had a very good year in FY98/99, our seventh consecutive year of growth in turnover and operating profit. How did we do it? Our numbers quantify the strong forward movement of the Group, but what really underpins the results is the depth and breadth of Esprit' s performance, which saw significant growth in virtually every part of the Group' s business ? wholesale and retail, every product line and in every significant market.

There were four strategic elements that secured Esprit' s success: trimmer and fitter operations, improved products, aggressive store expansion and a sustained commitment to building market share.

Trimmer and fitter: Globally, from Europe to Asia, we moved to reduce our unit cost of goods sold by 7%, and lowered our operating cost as a percentage of net sales. The Company is now much trimmer and fitter.

Expanded product lines: Esprit is also now well positioned to capture a significant share of wholesale and retail market segments such as men' s wear and kids' wear. In just one example, our men's and kids' wear saw sales growth of 17% and 30%, respectively.

Aggressive store expansion: Esprit took full advantage of lower rental costs in core markets, adding 153,000 sq. ft to expand the Group' s retail sales area by 21%. Sales footage in Europe increased 11% to 300,600 sq. ft and Asia Pacific 28% to 566,700 sq. ft. In some cases, we were able to lower leasing costs per square foot and renew leases at rentals as much as 30% below pre Asian crisis levels.

Building market share: In both Europe and Asia, our market share continued to grow. We also increased our brand presence: an independent survey in Germany and the Benelux region revealed that Esprit is one of three brands in top-of-mind recall. We met the test of adversity in Asia by building market share when consumer sentiment was depressed.

Europe - A year of solid growth

Esprit Europe again grew in double-digit terms, to achieve a 15% increase in local currency terms to roughly DM850 million in FY98/99, in a year when the European Union achieved average year-on-year GDP growth of just 2%. Germany accounted for 70% of European turnover, while 19% came from Benelux, and 11% from developing markets, such as France, Scandinavia and Austria.

The Group stayed ahead of the Euro currency curve by creating uniformity in pricing across our various European markets. We sustained growth by further penetrating our existing markets, building market share, adding store space and extending product lines. We have maintained a 70-30 split between wholesale and retail sales and this wholesale emphasis enables us to grow sales and contribution rapidly, while building our brands and minimizing our investment in bricks and mortar.

In Germany, despite the difficulty of cracking the restrictive retail environment, we were able to grow sales 17% to DM595 million. Esprit' s German strategy has been two-fold: to create a small but highly visible retail presence, and simultaneously build a large parallel wholesale effort. In the Benelux countries, net sales grew by 20%.

France, Scandinavia and Austria, after three years of modest sales growth, all took off in FY98/99, with sales jumping from DM 73 million to DM 93 million. In these markets we increased sales footage, from 33,000 to 52,000 sq. ft. Our strategy of larger stores and better locations has paid off handsomely, as have our efforts to create a uniform positioning and pricing.

Our turnover goal is to reach a billion Deutsche Mark level next year. We anticipate that the sources of our future growth will be currently under-developed markets, such as France, under-exploited product lines and more efficient use of our distribution channels.

Asia Pacific - Beyond toughing it out

The Asian economic crisis was not as widespread as many feared, although the consumer recession cut very deeply for a time, particularly in Hong Kong. However, by early 1999 it was clear that the crisis was not without its silver lining: the Group was able to reduce its unit production cost by 10% in Asia, where over 70% of our goods are produced, while lowering our rental costs per square foot.

Full year sales of HK$2.2 billion were up 17% on the prior year. The average value of most Asian currencies, with the exception of the HK dollar, devalued during the year. Because our Asian results are translated into Hong Kong dollars, which remain tied to the US dollar, the currency factor masks some even more dramatic sales increases in local currency terms.

Difficult strategic decisions had to be made in Japan, where we effectively pulled out of the market, and in Korea, where we scaled back from 32 stores to a single store. We intend to re-build our presence in these markets though probably in a different mode of operation.

In Hong Kong, against the city's 16% drop in aggregate retail sales, we managed to increase sales by 5% to HK$752 million. Sales margins held up for Esprit branded merchandise, while Red Earth's sales soared by 56%.

Australia was the star, growing 72% in local currency terms or 59% in Hong Kong dollar terms to HK$624 million. Esprit sales alone grew by 40% in local currency terms or 30% in Hong Kong dollar terms, to HK$ 493 million. We opened 17 new Esprit stores in Australia, increasing total sales area by 30,000 sq. ft, to 146,000 sq. ft. Australia's contribution to operating profit was affected by negative performance of Red Earth due to one-time provision associated with the brand's new image launch, such as the write-off of obsolete Red Earth packaging products and fixtures.

Net sales in Taiwan increased by 34% in local currency terms or 23% in HK dollar terms, to HK$418 million. We took advantage of cheaper real estate to expand aggressively, increasing our sales area by 68%. Esprit Kids', which was under our strong push last year, saw over 450% turnover growth to NT$200 million.

This year we were able to fully consolidate the activities of Esprit Canada, which is 75% owned by the Company. Canada is our window on North America. We have focused a great deal on reorganising wholesale operations, improving efficiency and shifting the focus to west coast where the brand is better known. Net sales were up 5% in Canadian dollar terms.

Brand Extension

Last year we stressed brand extension - the growth of new and developing product lines, such as Esprit Kids, EDC and bodywear, that carry the Esprit style into new garment categories. Speed, smarts and style are the key to this kind of performance, especially in replenishing inventories of best-selling items before they run out.

While developing new product lines, women's wear continued to be our largest revenue contributor. Sales was boosted by the new "Collection" line of contemporary work wear for women and EDC, a fast response, short production cycle line.

Men's wear and kids' wear were among our fastest-growing apparel lines last year. These now account for 9% and 11% respectively of Esprit's total sales, and we expect these figures to increase.

Our bodywear line, manufactured by market leader Triumph, was launched in December 1998 and has already achieved sales of HK$29 million. It too offers attractive segmentation possibilities.

One of the most exciting developments for us in FY98/99 was the continued rapid growth of Red Earth's color cosmetics business. Sales grew more than two times to HK$310 million or 5% of overall turnover (versus 1% last year); new market rollouts in Singapore, Taiwan and Canada were highly successful; and total floor space is 45,800 square feet. Finally, Red Earth's original and still largest operations, in Australia and New Zealand, were acquired in June 1998 and are currently under image revamp.

Red Earth's success has been particularly gratifying in that it provides the Group with a fully established second brand with which to launch new products to existing and new Esprit customers in our existing markets.

Esprit International - Licensing

Licensing remained a strategically important part of the Group's business last year and provided a royalty income of HK$68 million. Our four core licensing groups are eyewear, timewear, jewelry, and bed & bath. Housewares (porcelain and table linen) and fragrances and cosmetics licenses were granted last year. A license to manufacture and distribute glassware was signed in August 1999 with German glassware manufacturer Schott Zwiesel.

Year 2000 Compliance

The use of only two digits to represent the year in certain computer databases to save storage space has created the Year 2000 issue in computers. Computer systems that are not Year 2000 compliant may generate incorrect results for processing or retrieving time-related information when the date turns January 1, 2000.

In 1996, the Company established an in-house taskforce to address the Year 2000 issue. The compliance program of the Group covers all of the Group's domestic and foreign branches as well as subsidiaries; it incorporates all hardware and software needs ? including IT, industrial and communication equipment. To date, all work relating to critical systems has already been completed and tested. For systems provided by third parties, the Group has confirmed the Year 2000 compliance of these systems with the vendors. The Group has made enquiries regarding Year 2000 compliance of systems of its major business partners, including suppliers and customers.

Based on the assessment to date, the Company does not expect that the Year 2000 issue will have any material adverse effect on the Group's financial condition or its operations. The Company has identified that a significant disruption in the product supply chain represents the most reasonably likely worst case Year 2000 scenario. Potential sources of risk include (a) the inability of principal suppliers or logistics providers to be Year 2000-ready, which could result in delays in product deliveries from such suppliers or logistics providers and (b) disruption of the distribution channel, including ports, transportation vendors and the Company's own distribution centres as a result of general failure of systems and necessary infrastructure such as electricity supply. The Company is preparing plans to flow inventory around an assumed period of disruption to the supply chain, which could include accelerating selected critical products to reduce the impact of significant failure. As 95% of the Year 2000 compliance project is through the use of in-house programming resources and replacement of hardware and software which is part of the Group's ongoing upgrading program, there is no significant financial impact arising from Year 2000 compliance.

Outlook

We intend to stay with our winning strategy. And we intend to keep the growth coming by aggressively developing and introducing new product lines, further expanding our successful European wholesale channels and riding the rebound in Asian retail.

We will sell significantly more merchandise ? and more lines ? as our brand continues to thrive and our products are more competitively priced. Esprit will continue to exploit opportunities provided by our existing lines and to identify additional lines that offer growth potential.

We will have more wholesale channels in Europe, more floor space in Asia. Esprit's wholesale strategy in Europe has been a real winner, delivering rapid returns with relatively modest investment and risk. We will continue to add sales footage in existing markets in Europe at a constant, but somewhat lower rate when compared with Asia. Our megastore concept will play an important part in our strategy in both Europe and Asia. We will build satellite stores in second-tier population centres. And we will build our franchise business in small cities. We will also continue to expand in Asia in terms of retail floor space.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Monday, November 22, 1999 to Thursday, November 25, 1999, both days inclusive, during which period no transfer of share will be effected.

In order to qualify for the proposed final dividend mentioned above, all transfers accompanied by the relevant share certificates must be lodged with the Company' s registrars, Secretaries Limited, at 5th Floor, Wing On Centre, 111 Connaught Road, Central, Hong Kong not later than 4:00 p.m. on Friday, November 19, 1999.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the year, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company' s listed securities.

By Order of the Board
Surinder Chhibber
Executive Director
Hong Kong, September 27, 1999