



ESPRIT

esprit holdings limited interim report 1999/2000

Executive Directors

Michael YING Lee Yuen *Chairman*

Surinder CHHIBBER

Heinz Jürgen KROGNER-KORNALIK

John POON Cho Ming

Connie WONG Chin Tzi

Non-Executive Directors

Jürgen Alfred Rudolf FRIEDRICH

Alexander Reid HAMILTON

Simon LAI Sau Cheong

Raymond OR Ching Fai

Company Secretary

Vivianne LAU

Authorized Representatives

Michael YING Lee Yuen

Surinder CHHIBBER

ESPRIT

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HIGHLIGHTS

- Net profit rose 27% to HK\$211.0 million (1998: HK\$166.4 million)
- Group turnover climbed 25% to HK\$3,648 million (1998: HK\$2,920 million) against backdrop of difficult apparel market
- Staff and building expenses, as a percentage of turnover, were further reduced by 1%
- European turnover up 40%, attributable to strong growth in all markets and across all product lines
- Asia Pacific revenue up 17%, indicating a major rebound for most markets
- Red Earth cosmetics has started to report profits

interim results

The Board of Directors of Esprit Holdings Limited (the "Company") is pleased to announce that the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended December 31, 1999 together with comparative figures for the corresponding period in 1998 are as follows:

	Six months ended December 31,	
	1999	1998
	HK\$'000	HK\$'000
Turnover	3,647,755	2,920,070
Operating Profit	429,222	290,129
Share of Results of an Associated Company	5,859	(307)
Profit before Taxation	435,081	289,822
Taxation (Note 1)	185,190	100,266
Profit after Taxation	249,891	189,556
Minority Interests	(38,916)	(23,143)
Profit Attributable to Shareholders	210,975	166,413
Less: Interim Dividend	42,292	41,517
Retained Profits Carried Forward	168,683	124,896
Earnings per Share (Note 2)		
– basic	19.0¢	15.2¢
– fully diluted	18.3¢	Not applicable

Notes:

1. Taxation

Hong Kong profits tax has been provided at the rate of 16% (1998/99: 16%) on the estimated assessable profits for the period. Taxes on overseas profits has been calculated on the estimated assessable profits for the period at the rates of taxation prevailing in the countries in which the Group operates. The taxation is made up as follows:

	Six months ended December 31,	
	1999	1998
	HK\$'000	HK\$'000
Company and its subsidiaries:		
Hong Kong Profits Tax	23,586	20,660
Overseas Taxation	161,255	79,606
	184,841	100,266
Associated Company – Overseas Taxation	349	–
	185,190	100,266

2. Earnings per Share

The calculation of the basic earnings per share is based on the unaudited profit attributable to shareholders of HK\$210,975,000 (1998/99: HK\$166,413,000) and the weighted average of ordinary shares in issue 1,111,716,760 (1998/99: 1,092,545,579 ordinary shares) during the period.

The calculation of fully diluted earnings per share is based on the profit attributable to shareholders of HK\$210,975,000 and on the weighted average number of shares in issue during the period of 1,111,716,760 plus the weighted average number of 39,029,304 shares deemed to be issued at no consideration on the assumption that all outstanding share options granted under the Company's Employees Share Option Scheme ("Options") has been exercised at July 1, 1999. No dilution was resulted on the earnings per share for the period ended December 31, 1998 after taking into account the potential dilutive effect of the Options.



interim dividend

The Directors have declared an interim dividend of 3.80 cents per share in cash in respect of the six months ended December 31, 1999 to be paid to those shareholders whose names appear on the Register of Members of the Company at close of business on March 31, 2000 ("Shareholders"), with a scrip alternative to offer the right to Shareholders 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 sent to Shareholders on or about April 3, 2000. 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 or around May 16, 2000.

closure of register of members

The Register of Members of the Company will be closed from March 27, 2000 to March 31, 2000, both days inclusive, during which period no transfer of shares will be registered.

In order to qualify for the interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar, Secretaries Limited, at 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong no later than 4:00 p.m. on March 24, 2000.





business review and outlook

In the first half of this financial year, we again achieved respectable growth in terms of turnover and net earnings. The Directors have declared an interim dividend of 3.80 cents per share.

Comparison of interim results

	99/00	98/99	Variance
Turnover (HK\$ mn)	3,648	2,920	+ 25%
Profit Attributable to Shareholders (HK\$ mn)	211.0	166.4	+ 27%
Earnings per Share (HK¢)	19.0	15.2	+ 25%
Return on Shareholders Equity (%)	13.0%	12.6%	+ 3%

Both staff and building expenses, as a percentage of turnover, were reduced by over 1% when compared to last fiscal year.

On the strength of our balance sheet, in comparison to the first six months ended last fiscal year:

		12/99
Cash (HK\$ mn)	↑31.3%	621
Loans Outstanding (HK\$ mn)	↓29.6%	453
Current Ratio (x)	↑7.7%	1.4
Bank Borrowings to Equity Ratio (%)	↓38.0%	30.8%

Globally, we have continued our investment in prime retail space:

		12/99
Retail Footage (sq ft)	(vs. 6/99) ↑14%	986,714
Capital Expenditure for Retail Expansion (HK\$ mn) for the 6-month Period Ended	↑16%	130

Our overall achievement in this six-month period has only been slightly impacted by the weak Euro. This is because the Company has been hedging its merchandising requirements six to nine months ahead, meaning that, for Asia sourced goods now being shipped to Europe, costs were hedged at rates much better than the existing market rates.

In **Europe**, we ended the century with record high growth in local currency terms and on a year-on-year basis:

Overall Turnover	+40%
Wholesale Sales	+50%
Retail Sales	+16%

The apparel market as a whole in Europe had a difficult year. But Esprit Europe is now reaping the benefit of its streamlined organization, focused management efforts and synergy savings following the restructuring exercise two years ago. Market penetration deepened and revenue from individual markets rose substantially:

Germany	+ 40%
Belgium & The Netherlands	+ 30%
Austria	+ 75%
France	+ 60%
Scandinavia	+ 45%

As for franchise markets in Eastern Europe and Greece, we are also building rapidly from a small base and the prospect is promising.

In terms of product lines, the growth in Euro terms was equally impressive:

Women (including EDC)	+37%
Shoes and Accessories	+20%
Kids	+37%
Men	+77%
Bodywear	new product launched in early 1999

Our performance is mainly the result of the strength and appeal of the ESPRIT brand to the young people who set the trends in these countries. This brand appeal is in turn based on outstanding design, consistent quality and right pricing for younger purses.

In **Asia Pacific**, total turnover increased by 17% in HK\$ terms from the first six months of last fiscal year. More specifically, in local currency terms, the growth rates were:

Hong Kong	+45%
Australia	+8%
Taiwan	-7%
Singapore	+14%
Canada	-4%
Malaysia	+44%
China (joint venture with China Resources Enterprise)	+75%

Most product lines recorded encouraging growth in HK\$ terms:

Women (including EDC)	+11%
Shoes and Accessories	+21%
Kids	+36%
Men	+12%

The Red Earth chain of cosmetics stores has significantly increased its presence:

		12/99
Points of sale	(vs. 6/99) ↑20%	397

Red Earth has also started to make positive contribution to the bottom line with overall sales growth of 28%.

e-commerce strategy

We believe that e-commerce will be a big part of our business future. On the business-to-consumer front, we have opened an e*shop for the European consumers, to be extended to Hong Kong and Singapore within the next three months. Our e*shop is already attracting over 150,000 visitors a month (counting only those who visit at least twice in a month). This new channel offers great potential for Esprit in marketing existing and new products to a separate group of customers as well as promoting our image and enticing visitors to come to our shops.

On the other hand, we started our business-to-business effort years ago. For example, back in 1996/97, we set up an intranet system, which enabled our wholesale customers and licensees worldwide to place orders via a secure website managed from Hong Kong. We will work diligently to further enhance the efficiency of our supply chain and consolidate our partnerships with wholesale customers through internet networks. We expect, through the combination of improved logistics and appropriate outsourcing, our operating margins will be further enhanced.

looking ahead

The second half of the year looks bright. European wholesale orders are already booked through July, with a year-on-year increase of more than 30%. With strong retail sales momentum, particularly in Asia where the economy has bottomed out, we can, barring unforeseen circumstances, optimistically anticipate another profitable year.

Looking further ahead, our charter for global expansion is on course with our growth plans proceeding well in both Europe and Asia Pacific. With our ever-stronger cash position, we will continue our organic expansion by opening more Esprit stores in both Europe and Asia Pacific. At the same time, we will also be bringing smaller cities into our network with smaller stores operated by our franchise partners.

In terms of markets within Europe, we will continue to build our existing country markets and product divisions in order to achieve a well-balanced growth.

One of our major focus will be on building Canada. We need to excel in this market which is our gateway into North America. We will be opening more stores and we remain optimistic on moving into profit in the next fiscal year.

Yield management is also in the forefront of our minds, that is to ensure operating cost will continue to decline as a percentage of sales while margins are further enhanced as volume continues to grow; consequently further improvement to our economy of scale is expected.

We are confident that our Company will continue to grow at a well managed pace. The Group is well positioned to capitalize any strategic opportunities that fit our objective of becoming a global apparel leader.

directors' interests

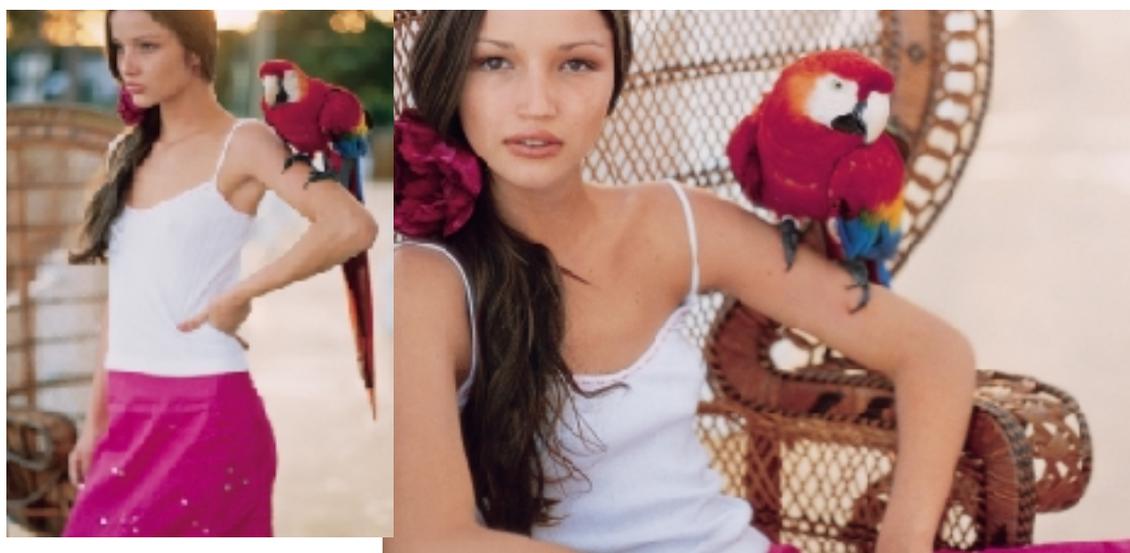
As at December 31, 1999, the interests of the Directors, chief executives and their associates in the securities of the Company as recorded in the register kept by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "Ordinance") were as follows:

Name of Director	Ordinary Shares of the Company				Share Options
	Personal Interests	Family Interests	Corporate Interests	Other Interests	Held as at Dec 31, 1999
Michael YING Lee Yuen	–	–	649,531,579*	–	15,000,000
Jürgen Alfred Rudolf FRIEDRICH	1,324,000	–	649,531,579*	–	–
Surlinder CHHIBBER	4,000,000	–	–	–	7,000,000
Heinz Jürgen KROGNER-KORNALIK	–	–	–	–	8,000,000
John POON Cho Ming	–	–	–	–	8,000,000
Connie WONG Chin Tzi	1,741,013	–	–	–	3,000,000

* The beneficial owner of the 649,531,579 shares is Worldwide Thousand Limited in which Mr. Michael YING Lee Yuen and Mr. Jürgen Alfred Rudolf FRIEDRICH hold an interest of 77.4% and 22.6%, respectively.

Save as disclosed above, none of the Directors, chief executives or their associates had any interests in the securities of the Company or any of its associated corporations as defined in the Ordinance.

During the period, none of the Directors or chief executives of the Company or their spouses or children under 18 years of age were granted or had exercised any rights to subscribe for any equity or debt securities of the Company.



substantial shareholders

As at December 31, 1999, the following information was recorded in the register kept by the Company under Section 16 of the Ordinance:

Name of Holder of Shares	Worldwide Thousand Limited
Number of Shares	649,531,579

Save as disclosed above, the Directors of the Company are not aware of any other person having an interest in shares representing 10% or more of the issued share capital of the Company.

purchase, sale or redemption of own shares

During the period under review, there was no purchase, sale or redemption by the Company or any of its subsidiaries of the Company's shares.

corporate governance

In the six-month ended December 31, 1999, the Company was in compliance with the Code of Best Practice as set out in the Listing Rules of The Stock Exchange of Hong Kong Limited.

year 2000 compliance

The Year 2000 issue is primarily the result of computer programs using a two-digit format, as opposed to four digits, to indicate the year. Such computer systems will be unable to interpret dates beyond the year 1999, causing system failures or other computer errors, and leading to a disruption in the operation of such systems.

In 1996, the Company established an in-house taskforce to address the Year 2000 issue. A comprehensive compliance program has been put in place and all work relating to critical systems had been tested and completed by September 1999. The Company's business was not affected in any way before, during and after the first critical date, which was the changeover from 1999 to the year 2000. The Company does not anticipate its business being affected adversely or significantly from the Year 2000 issue.

additional financial information

The Directors also have the pleasure in presenting the following unaudited consolidated balance sheet of the Group as at December 31, 1999 together with the audited figures as at June 30, 1999 and the unaudited consolidated cash flow statement of the Group for the six months ended December 31, 1999.

consolidated balance sheet

	Unaudited As at December 31 1999 <i>HK\$'000</i>	Audited As at June 30 1999 <i>HK\$'000</i>
Trademarks	752,622	762,792
Fixed Assets	548,426	484,457
Other Investments	33,802	33,789
Associated Companies	63,851	52,714
Net Current Assets (Note 1)	544,175	486,916
	1,942,876	1,820,668
Financed by:		
Share Capital	111,269	110,862
Reserves	1,516,538	1,324,650
Shareholders' Funds	1,627,807	1,435,512
Minority Interests	14,566	1,045
Obligations under Finance Leases	1,765	2,388
Long Term Bank Loan	297,974	380,201
Deferred Taxation	764	1,522
	1,942,876	1,820,668

consolidated cash flow statement

for the six months ended December 31, 1999

	Unaudited 1999 HK\$'000	Unaudited 1998 HK\$'000
Net Cash Inflow from Operating Activities (Note 2)	549,318	387,028
Returns on Investments and Servicing of Finance		
Interest received	12,095	8,672
Interest paid	(18,008)	(27,523)
Finance charges on finance leases	(137)	(1,847)
Income from long term listed investment	–	409
Dividends paid	(110,406)	–
Distribution to a non-affiliated partner of a limited partnership	(25,559)	(22,009)
Net Cash Outflow from Returns on Investments and Servicing of Finance	(142,015)	(42,298)
Taxation		
Hong Kong profits tax paid	(29,939)	(19,911)
Overseas tax paid	(55,750)	(58,130)
Tax Paid	(85,689)	(78,041)
Investing Activities		
Purchase of additional interest in a subsidiary	(5,329)	–
Loan to an associated company	(7,840)	–
Purchase of other investments	–	(5,442)
Purchase of fixed assets	(158,912)	(130,485)
Proceeds from disposal of fixed assets	3,730	6,257
Net Cash Outflow from Investing Activities	(168,351)	(129,670)
Net Cash Inflow before Financing	153,263	137,019
Financing		
Net proceeds on issue of shares for cash	8,038	–
Loan from a minority shareholder of a subsidiary	–	3,808
Repayment of obligations under finance leases	(1,931)	(3,046)
Repayment of bank loan	(75,709)	(60,054)
Net Cash Outflow from Financing (Note 3)	(69,602)	(59,292)
Increase in Cash and Cash Equivalents	83,661	77,727
Cash and Cash Equivalents at July 1	542,932	382,337
Effect of Change in Exchange Rates	(5,538)	12,757
Cash and Cash Equivalents at December 31 (Note 4)	621,055	472,821

Notes:

1. Net Current Assets

	December 31	June 30
	1999	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current Assets		
Stocks and work in progress	765,578	657,095
Debtors, deposits and prepayments	604,686	524,978
Amounts due from associated companies	2,208	23,982
Short-term bank deposits	125,690	285,285
Bank balances and cash	543,678	287,680
	2,041,840	1,779,020
Current Liabilities		
Creditors and accrued charges	786,071	611,673
Obligations under finance leases – due within one year	1,271	2,647
Long term bank loan – due within one year	155,440	153,244
Secured short-term bank loan	24,000	11,710
Unsecured short-term bank loans	10,110	6,024
Bank overdrafts	14,203	12,299
Taxation	464,278	375,574
Proposed dividend	42,292	118,933
	1,497,665	1,292,104
	544,175	486,916

2. Reconciliation of profit before taxation to net cash inflow from operating activities

	1999	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit before taxation	435,081	289,822
Interest income	(12,782)	(8,390)
Interest expense	20,395	19,649
Finance charges on obligations under finance leases	137	1,847
Amortisation of trademarks	10,170	10,170
Depreciation	84,525	70,181
Loss on disposal of fixed assets	3,763	3,522
Loss on deemed disposal of an associated company	2,140	–
Income from long term listed investments	–	(409)
Share of results of an associated company	(5,860)	307
Increase in stocks and work in progress	(109,041)	(239,377)
(Increase)/decrease in debtors, deposits and prepayments	(78,462)	82,130
Decrease in amounts due from associated companies	21,774	7,811
Increase in creditors and accrued charges	172,010	88,112
Effect of foreign exchange rate changes	5,468	61,653
	549,318	387,028

3. Analysis of changes in financing during the period

	Share Capital (including Share Premium) <i>HK\$'000</i>	Minority Interests <i>HK\$'000</i>	Long Term Bank Loan <i>HK\$'000</i>	Obligations under Finance Leases <i>HK\$'000</i>
Balance at July 1, 1999	1,092,599	1,045	533,445	5,035
Cash inflow/(outflow) from financing	8,038	–	(75,709)	(1,931)
Issue of scrip dividend shares	8,527	–	–	–
Increase in interest in a subsidiary	–	9,417	–	–
Loan waived by a minority shareholder	–	(9,215)	–	–
Goodwill on purchase of business by subsidiaries	–	(278)	–	–
Share of profit attributable to minority shareholders	–	38,916	–	–
Share of exchange reserve	–	219	–	–
Distribution to a non-affiliated partner of a limited partnership	–	(25,559)	–	–
Effect of foreign exchange rate changes	–	21	(4,322)	(68)
Balance at December 31, 1999	1,109,164	14,566	453,414	3,036

4. Analysis of the balance of cash and cash equivalents

	December 31 1999 <i>HK\$'000</i>	December 31 1998 <i>HK\$'000</i>
Short-term bank deposits	125,690	91,718
Bank balances and cash	543,678	401,915
Short-term bank loans	(34,110)	(14,200)
Bank overdrafts	(14,203)	(6,612)
	621,055	472,821

By Order of the Board

John Poon Cho Ming

Executive Director

Hong Kong, February 29, 2000