HIGHLIGHTS OF INTERIM RESULTS FY 00/01

- **Impressive operating and net profit growth of 30%**
- **EBITDA margin improved by about 2 percentage points to 16.4%**
- **Group turnover increased by approximately 10% against tough apparel market conditions and lower currency translation rates**
- **Profitable in all country operations worldwide**
- **European sales recorded stellar growth of 33% in euro terms**
- **Asia Pacific revenue registered modest growth**
- **Over 50% growth in sales for shoes and bodywear with steady growth for core product lines**
- **Cash on hand close to HK$800 million as at December 31, 2000 even after aggressive capital expenditure of approximately HK$200 million**
- **Interim dividend increased by 26% to HK4.80 cents per share**

MANAGEMENT DISCUSSION AND ANALYSIS

Esprit has managed to do in 30 years what many would consider highly challenging: develop a widely recognized global lifestyle brand. A management team committed to our visionary strategic initiatives built this business into the worldwide phenomenon it is today.

Our management has kept the Group growing despite the economic climate. Since listing in Hong Kong in 1993, Esprit has maintained continuous growth even though our two key regions, Asia-Pacific and Europe, were hit by economic downturn. This enviable record resulted from our strong brand equity, our good quality products and our highly integrated business expansion approach. These advantages will continue to allow us to strengthen our business and stay ahead of the competition.

With our focus on lifestyle products rather than simply fashion, we add value to our customers' everyday life. Esprit's global distribution network, covering over 40 countries on five continents, has generated healthy results.

impressive interim growth

For the six months ended December 31, 2000, the Group achieved a turnover of HK$3,994 million, up approximately 10% on the previous year. Operating profit after finance costs rose 30% to HK$559 million, while profit attributable to shareholders was HK$273 million. Earnings per share were HK24.4 cents, an increase of 28% compared to same period last year.

The Group's well-defined diversification strategy, which is applied to geographical distribution, product line expansion and business scope, proved to be very effective in further improving first-half results. Our strong European operations remained the major impetus for our growth. In addition, continual enhancements in operating efficiency have produced a notable margin improvement through economy of scale and effective cost control. Group operating expenses compared to same period last year, as a percentage of sales, reduced by approximately 4 percentage points, including significant reduction in building and staff costs. EBITDA margin, therefore, increased to 16.4%, representing an increase of roughly 2 percentage points over same period last year.

overall performance

All country operations worldwide contributed to the Group's operating profit. Wholesale, retail and licensing business all recorded increases in the first half of this financial year, with the wholesale operation remained the driving force registering 16% growth over the previous year. The strong growth was largely attributed to the success of our well-developed product lines which are complementary to the growth of our retail business.

Geographical Breakdown

Europe *(In euro terms)*	**Year-on-year Change**
Germany	+32%
Benelux	+32%
France	+52%
Scandinavia	+31%
Austria	+42%

Once again, Europe achieved phenomenal growth in the first half, with an overall 33% increase in turnover in euro terms despite tough apparel market conditions. In euro terms, wholesale business continued to demonstrate an outstanding performance with an increase of 36% while retail business also bucked the trend by showing an increase of 24% over previous year. One of the most encouraging developments in the first half was the impressive sales growth rates registered by some of our smaller European markets as shown above.

Sales performance of our European e-shop was particularly stunning, with an increase over 500% on the previous year. We believe this new channel offers a good alternative that helps connect us to our existing as well as potential customers in the cyberspace.

Asia Pacific *(In local currency terms)*	**Year-on-year Change**
Hong Kong	+15%
Australia	-10%
Taiwan	+9%
Singapore	+2%
Malaysia	+22%
Canada	+4%

The Asia-Pacific region recorded modest growth for the first half, amidst such setbacks as the weak economies in Taiwan and Australia. Hong Kong, our biggest market in this region, sustained its growth momentum with bigger stores and better locations. Canada is in the process of developing a strong retail network in the key cities.

Regionally, we have increased our retail space to over 800,000 sq.ft., representing an increase of 12% from end of June 2000. This will provide a good foundation in time for the rebound of the Asia Pacific region.

We continue to lead the charge into China where the market offers immense potential. As at the end of the half-year under review, our joint venture with China Resources Enterprise, Limited which had 82 directly managed points of sale and 300 franchise stores and outlets recorded sales growth of 44%. Our mega-store in Times Square, Shanghai was opened before the Chinese New Year of the Snake, and we plan to set up additional mega-stores in key cities such as Guangzhou and Beijing to tap the buoyant consumer market. We remain excited about prospects in this huge market.

Key Product Lines Performance

Product Lines *(In HKD terms)*	**Year-on-year Change**
Women's wear (including EDC)	+11%
Men's wear	+10%
Shoes	+57%
Bodywear	+56%

Women's wear continues to be our traditional strength which accounts for 54% of the Group's turnover and grew by about 11% in the first half of this year. Our other product lines are also growing which suggest that the consumers are becoming increasingly attracted to the unique lifestyle that we promote. Our success is partly attributed to our divisionalised approach, where an individual team oversees each product line, with integrated responsibility for product development, design and yield management.

strong financial backing

Our financial condition remains solid with cash on hand and working capital close to HK$800 million and HK$600 million respectively as at December 31, 2000, even after aggressive capital expenditure. We will continue our expansion in the distribution network to ensure successful global penetration. We have earmarked over HK$500 million as capital expenditure for the current financial year and we spent close to HK$200 million in the first half mainly in opening over 60 new stores worldwide.

The Group has trade finance, short-term loans and overdraft facilities from its banks totaling over HK$400 million. Outstanding long-term bank borrowings was around HK$300 million. The Group's net cash position (net of bank borrowings) stood at HK$488 million as at December 31, 2000.

Our bank borrowings to equity ratio was about 17%, current ratio was at a healthy level of 1.3 and interest cover was 32 times as at December 31, 2000.

During the period under review, the Group continued to enter into foreign exchange forward and options contracts to reduce exposure to foreign currency exchange risks. These contracts were entered into with large reputable financial institutions, thereby minimizing the risk of credit loss. We were able to reduce the euro exchange risk arising from Asian sourcing for our European sales by requiring Asian suppliers to quote prices in euro. As at December 31, 2000, outstanding contracts valued at contracted rates was HK$235 million.

outlook for the rest of the financial year

We are confident that our growth momentum will continue in the second half as evidenced by the wholesale orders already in hand.

On the retail front, we plan to initially enter the UK market with the mega-store concept to replicate our success in continental Europe. One mega-store is scheduled to open in a premium location on Regent Street, London before the end of June 2001, with a total area of approximately 22,000 sq.ft. This entry will mark the beginning of a major European market push outside the Euroland. Meanwhile, we will continue expanding our global retail distribution networks, with emphasis on our mega-store strategy. Our target to exceed 1.3 million directly managed retail sales footage worldwide at the year-end remains intact.

The launch of our new Active Sports line received overwhelmingly positive market response at its first show at the ISPO exhibition where more than 500 potential wholesale clients indicated their keen interests. Our objective is to become the leading active sportswear brand for women. The new line will be largely divided into four categories: Fitness-Wellness-Training; Sun-Fun-Beach; Winter-Snow-Artic, and Fashion Sports. First deliveries are scheduled for fall 2001. In addition to this

new line, we plan to launch other products through licensees covering a broad range including toys; scents and senses; cutlery and others.

The potential slowdown in the US economy should have minimal impact on our Group as our core markets' growth is relatively much less dependent on US economic performance. Any significant rebound of the euro beyond the current level would provide an extra earnings boost to the Group's full year result. We remain bullish, barring unforeseeable circumstances, in finishing the financial year 2000/2001 with healthy growth and record profits.