

INTERIM REPORT

Six months ended 31 December 2010

Hong Kong Stock Code 00330

ESPRIT





CORPORATE PROFILE

Esprit is an international youthful lifestyle brand offering smart and affordable luxury and bringing newness and style to the life of our customers. The Group operates with 12 established product lines offering women's wear, men's wear, kid's wear, edc youth as well as shoes and accessories in over 1,150 directly managed retail stores and over 12,000 controlled-space wholesale point-of-sales internationally. Esprit licenses its trademark to third party licensees that offer nonapparel products that abide by Esprit's quality standards and brand essence.

Esprit was listed on the Hong Kong Stock Exchange in 1993 and is a constituent stock of the Hang Seng Index, MSCI Hong Kong Index, FTSE All-World Index for Hong Kong, S&P/HKEx LargeCap Index and S&P Asia 50 Index.

CORPORATE INFORMATION

Chairman

- Heinz Jürgen KROGNER-KORNALIK
Non-executive Director
(Resigned with effect from
11 February 2011)

Deputy Chairman

- Paul CHENG Ming Fun
Independent Non-executive Director

Executive Directors

- Ronald VAN DER VIS
Group CEO
- CHEW Fook Aun
Group CFO

Non-executive Director

- Jürgen Alfred Rudolf FRIEDRICH

Independent Non-executive Directors

- Alexander Reid HAMILTON
- Dr Hans-Joachim KÖRBER
(Appointed as Independent
Non-executive Chairman with effect from
11 February 2011)
- Raymond OR Ching Fai
- Francesco TRAPANI

Company Secretary

- Bella CHHOA Peck Lim

Principal bankers

- The Hongkong and Shanghai
Banking Corporation Limited
- Deutsche Bank AG
- Citibank N.A.
- China Construction Bank Corporation
- Commerzbank AG

Auditor

- PricewaterhouseCoopers
Certified Public Accountants

Principal legal advisors

- Baker & McKenzie

Stock code

The shares of Esprit Holdings Limited are listed for trading on The Stock Exchange of Hong Kong Limited (stock code: 00330)

Principal share registrar

Butterfield Fund Services (Bermuda) Limited
11 Rosebank Centre
Bermudiana Road
Pembroke, Bermuda

Hong Kong branch share registrar

Tricor Secretaries Limited
26/F, Tesbury Centre
28 Queen's Road East
Wanchai, Hong Kong

Registered office

Clarendon House
Church Street
Hamilton HM 11
Bermuda

Hong Kong head office

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Global business headquarters

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ESPIRIT

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01
**FINANCIAL
HIGHLIGHTS**

01.1 FINANCIAL HIGHLIGHTS

- Turnover up 1.6% year-on-year in local currency, with significant improvements in 2Q
- Retail turnover up 8.7% year-on-year in local currency
- Strong growth in second quarter for wholesale business
- Efforts in differentiating product divisions bearing fruits
- Gross profit margin increased 0.9% point to 55.6%
- Effective tax rate down 2.5% points to 19.1%
- Strong cash position of HK\$7.3 billion
- China business starting to accelerate in line with 5-year plan
 - Points-of-sale increased by 7.6% to 1,002
 - Total number of cities increased from 169 to 183
 - China EBIT margin up 5.0% points to 19.7%
- Asia Pacific share in Group turnover increased from 12% to 17%

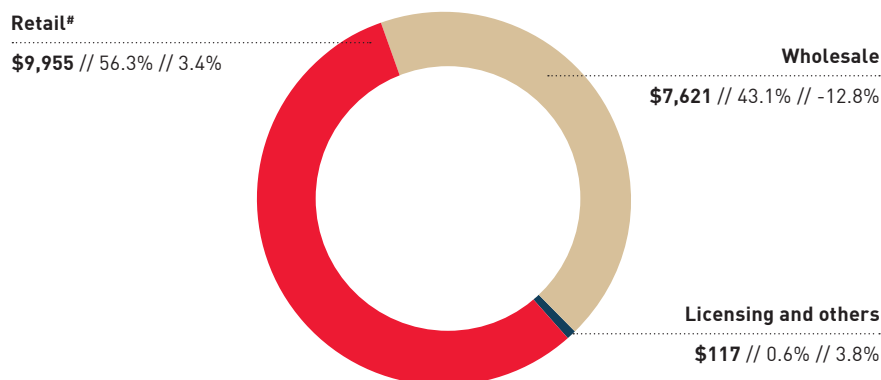
For the 6 months ended 31 December				
	2010		2009	
Turnover	HK\$17,693m		HK\$18,475m	
Operating profit	HK\$2,635m		HK\$3,367m	
Net profit	HK\$2,140m		HK\$2,705m	
EPS (Basic)	HK\$1.66		HK\$2.12	
GP margin	55.6%		54.7%	
Operating profit margin	14.9%		18.2%	
Net profit margin	12.1%		14.6%	
Average size of retail POS [^]	342sqm		401sqm	
Average size of wholesale POS [^]	60sqm		59sqm	
	HK\$	% of EPS*	HK\$	% of EPS*
Interim dividend per share	1.00	60%	0.74	35%

[^] Calculated by dividing Esprit net sales area by number of POS as at 31 December 2010 and 31 December 2009

* Calculated by dividing dividend per share by basic EPS

TURNOVER BY DISTRIBUTION CHANNELS

HK\$ million // % to Group turnover // % HK\$ growth



* Retail sales includes sales from e-shop in countries where available

TURNOVER BY COUNTRIES#

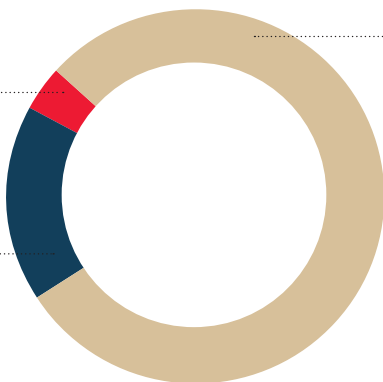
HK\$ million // % to Group turnover // % HK\$ growth

North America and others

United States*
\$334 // 1.9% // 18.2%
Canada
\$323 // 1.8% // 4.1%

Asia Pacific

China**
\$1,429 // 8.1% // n.a.
Australia and New Zealand
\$495 // 2.8% // 0.3%
Hong Kong**
\$304 // 1.7% // -16.2%
Macau###
\$299 // 1.7% // -66.1%
Singapore
\$216 // 1.2% // 8.4%
Taiwan
\$154 // 0.9% // 14.6%
Malaysia
\$125 // 0.7% // 17.6%



Europe

Germany**
\$7,496 // 42.4% // -9.9%
Benelux*
\$2,372 // 13.4% // -13.4%
France
\$1,347 // 7.6% // -16.5%
Scandinavia
\$784 // 4.4% // -1.6%
Switzerland
\$770 // 4.4% // -0.7%
Austria
\$739 // 4.2% // -11.2%
U.K.
\$208 // 1.2% // -17.3%
Spain
\$148 // 0.8% // -10.5%
Italy
\$118 // 0.7% // -32.3%
Ireland
\$18 // 0.1% // -2.8%
Portugal
\$7 // 0.0% // -52.8%
Others
\$7 // 0.0% // n.a.

n.a. Means not applicable

* Country as a whole includes retail stores, outlet stores, edc standalone stores and e-shop

** Germany sales includes wholesale sales to other European countries mainly Russia, Poland, Greece, Czech Republic and Slovenia

Macau sales for the six months ended 31 December 2010 includes wholesale sales to other countries mainly Middle East, Thailand and India; Macau sales for the six months ended 31 December 2009 also included wholesale sales to the former China Joint Venture

* Includes licensing

** Includes salon

TURNOVER BY PRODUCTS

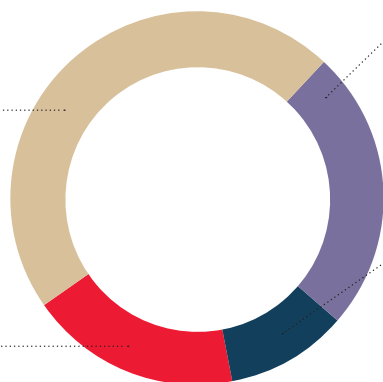
HK\$ million // % to Group turnover // % HK\$ growth

casual

women casual
\$5,943 // 33.6% // -8.8%
men casual
\$2,317 // 13.1% // -4.4%

collection

women collection
\$1,353 // 7.6% // 6.0%
men collection
\$523 // 3.0% // 19.2%



edc

edc women
\$3,137 // 17.7% // 0.2%
edc men
\$683 // 3.9% // -2.9%
edc others^
\$524 // 3.0% // -3.9%

others

accessories
\$881 // 5.0% // -4.2%
kids
\$497 // 2.8% // -16.5%
shoes
\$459 // 2.6% // -2.9%
bodywear
\$484 // 2.7% // 4.2%
sports
\$285 // 1.6% // -19.8%
de. corp
\$201 // 1.1% // 4.3%
red earth
\$35 // 0.2% // 368.0%
others*
\$371 // 2.1% // -14.9%

^ edc others include edc kids, edc shoes, edc accessories and edc bodywear

* Others include salon, licensing income & licensed products like timewear, eyewear, jewellery, bed & bath, houseware, etc.





02
AT A GLANCE

THE WORLD'S BIGGEST ESPRIT STORE HAS ARRIVED IN FRANKFURT

The doors to the "World of Esprit", the biggest Esprit store in the world, were officially opened in September 2010.

The Frankfurt Zeil store was fully renovated, resulting in a totally new store design and an enlarged sales area of over 3,600 m². Cologne-based architect Corneille Uedingslohmann covered the existing structure with a second, perforated metal facade with over 14,000 glass lenses, backlit with LED technology, which generate dynamic multimedia images, making it an unmistakable highlight of the popular shopping mile. The generous entrance, imposing four metre-high ceilings, breaks in the ceiling and vertical elements create a breathtaking overall impact for interior. Lounge areas are harmoniously integrated into sales areas, inviting customers to linger and be inspired.

Store openings		
Australia	Ryde	Top Ryde City Shopping Centre
	Sydney	Westfield Shopping Centre
	Adelaide, Belconnen, Booragoon, Hurstville, Maribyrnong, Modbury, Morley, Robina, Ryde, Wantirna, Wollongong	Myer
Austria	Vienna	Riverside
Canada	Calgary	Signal Hill Shopping Center
	Ottawa	College Square
	Wellington	Wellington
	Burlington	Burloak
China	Shanghai	Bailian, Jiari, Riyueguang, Van's
	Beijing	New World Department Store, Xinhua, Parkson, Shuang'an, Van's, Guotai, Wangfujing
	Guangzhou	Friendship Store, China Plaza, Grandview Mall
	Dalian	Maikaile, Olympic Square
	Chengdu	Hualian, Chicony Square, Longfor 3000 Shopping Mall
	Chongqing	New Century Department Store
Finland	Helsinki	Itäkeskus
Germany	Reutlingen	Reutlingen
	Braunschweig	Schloßarkaden
	Kassel	Kassel
Hong Kong	North Point	Metropole International Department Store
Malaysia	Miri	Bintang Megamall
	Kuala Lumpur	Suria KLCC, Cheras Leisure Mall
	Kota Kinabalu	Suria Sabah Shopping Mall
Netherlands	Oss, Hoofddorp, Zaandam	V&D
Singapore	Urban Central (Serangoon)	NEX
Spain	Palma de Mallorca	Sindicat
Taiwan	Taipei	Momo Department Store, Carrefour

Store openings		
United States	Las Vegas	Las Vegas Outlet Center
	Commerce	Citadel Outlets
	Milpitas	Great Mall
	Cypress	Houston Premium Outlets
	Cabazon	Desert Hills Premium Outlets
	Gilroy	Gilroy Premium Outlets
	Birch Run	Birch Run Premium Outlets
	San Marcos	San Marcos Premium Outlets
	Vacaville	Vacaville Premium Outlets
	Pleasant Prairie	Pleasant Prairie Premium Outlets



AWARDS AND RECOGNITION

Awards

Month	Recognition	Awarding Party
September 2010	Green/Environmentally Sound Annual Report Gold Awards Category: Retail Fashion	International ARC Awards
November 2010	2010 HKMA Best Annual Reports Awards (Honourable Mention)	Hong Kong Management Association
November 2010	Directors Of The Year Awards 2010 Category: Listed Companies (SEHK – Hang Seng Index Constituents) Boards	Hong Kong Institute of Directors
December 2010	Hong Kong Corporate Governance Excellence Awards 2010 Category: Main Board Companies – Hang Seng Index Constituent Companies	The Chamber of Hong Kong Listed Companies

Conferences and investor meetings

Month	Event	Organiser	Location
September 2010	FY09/10 Post Final Results Roadshow	CLSA BNP Paribas Citi	Hong Kong London New York
September 2010	CLSA 17th Investors' Forum	CLSA	Hong Kong
October 2010	FY09/10 Post Final Results Roadshow	UBS	Singapore
October 2010	FY09/10 Post Final Results Roadshow	Nomura	Tokyo
November 2010	Morgan Stanley 9th Asia Pacific Summit	Morgan Stanley	Singapore
November 2010	Daiwa Investment Conference	Daiwa	Hong Kong
November 2010	CLSA Consumer Access Day	CLSA	Hong Kong
December 2010	UBS Consumer Day	UBS	Shanghai



03
**MANAGEMENT
DISCUSSION
AND ANALYSIS**



The Group recorded turnover of HK\$17.7 billion (1H FY09/10: HK\$18.5 billion) representing 1.6% top line growth in local currency driven by strong turnover growth of 5.9% in local currency in the second quarter and the consolidation of the turnover contribution from the China subsidiaries. Gross profit margin increased by 0.9% point to 55.6% mainly due to the higher retail turnover contribution amounting to 56% of total group turnover. Total cash position remained strong at HK\$7.3 billion as at 31 December 2010. The Board of Directors has declared an interim dividend of HK\$1.00 per share (1H FY09/10: HK\$0.74 per share) which is calculated based on the regular dividend policy of 60% of basic EPS.

03.1 UPDATES ON STRATEGIC INITIATIVES

We are on an exciting journey to create a better and bigger ESPRIT. Our Six Strategic Initiatives are progressing well. New ideas have been developed and they are in the process of being implemented. This ranges from the sharpening of the brand position to create a clearer and consistent handwriting across our product collections, stores and communication, a new process of building our collections, a new sourcing strategy to achieve synergies and savings, as well as a new global, channel-based sales organisation to drive growth. Although not all the results of our hard work are visible yet, we have been strengthening our platform for growth and profitability. We are confident to see the full positive impact of our strategic agenda to materialise mid-term.

(1) Global brand: Drive traffic and customer loyalty Strengthening brand equity and improving shopping experience

Consumer research conducted worldwide showed that our brand enjoys a high level of consumer trust and excellent ratings in product quality, yet there is an opportunity to inject more value into the products to enhance the value for money attribute. In addition, we have identified opportunities to differentiate the Esprit brand further based on a clearer handwriting in products, stores and communication. We are in the process of sharpening the brand positioning of Esprit and building on the great heritage and soul of our brand. This will have a visible impact on all "touch points of the brand", from our products, to our stores and our communication with our customers. To fuel this process, two new positions were created: Brand Director, Jörgen Andersson and Creative Director, Jan Nord have been on board since October 2010 and are responsible for Esprit's global brand, creation and marketing communication strategy. The brand direction to rejuvenate and sharpen the profile of the brand is being finalised and we will cascade this down into the organisation to implement this in all brand touch points.

(2) Products: Grow sales per sqm Improving product differentiation and newness

Our continued efforts to differentiate our product divisions are increasingly successful. Both our Edc and Collection divisions achieved above average turnover growth at 6.1% and 15.4% in local currency respectively. A new collection building process has been introduced to create a global brand look in our stores as well as more sourcing synergies. Based on a quantitative half-yearly global line briefing, a third of the collections developed is being defined as the Global Product Line – a monthly range with respective key looks and collection themes made mandatory for all retail stores that act as a lever to create a globally aligned image of the brand. The mandatory collections will then be built further by the product divisions and continental merchandisers who will select specific country products and complementary styles to the key looks for their countries and regions.

This Global Product Line concept has been implemented first in our Women Casual division. Evolving from a local to a global merchandising organisation with one global merchandising process for all lines will also enable us to achieve higher effectiveness in sourcing and in marketing. Currently, the overlapping of the product style is less than 5% and we target to have 30% of products overlapping globally under the Global Product Line. The first results of our Women Casual division are very promising: the Global Product Line covered more than 40% of the total styles for the Women Casual and it was also well-received by our wholesale customers.

(3) Channel and country: Fuel growth and profitability Ensuring better execution of the multi-channel distribution strategy

After our comprehensive review of the existing store portfolio, we decided to close down 33 loss-making stores worldwide as announced at the previous year end. We made progress in the store closure program and a total of 8 stores, 5 in Europe and 3 in Asia, had been closed as at 31 December 2010.

China is at the core of Esprit's long-term strategy to become a truly global brand and a geographically diversified company. We are making good progress with our growth plan for China to extend our leading position in the largest and fastest growing apparel market in the world. After the successful acquisition and subsequent integration phase, we are now focusing on accelerating our business. For further details, please refer to the separate section on China.

(4) Cost of goods sold: Achieving savings in sourcing across divisions

We are very pleased with developments in our preferred supplier program for T-shirts and are extending the approach to all other product categories. We will consolidate sourcing for sweaters from 48 suppliers to 13 suppliers and for outerwear, we plan to reduce the number of suppliers from 117 to 11. In addition to this portfolio consolidation process, we are making excellent progress in our medium-term sourcing strategy, extending Esprit's sourcing footprint to get the best out of our sourcing markets. In the last six months our business in Bangladesh, where we have set up new sourcing office, has tripled. We also see a big advantage with the Generalised System of Preferences ("GSP") duty rules for textile imports into Europe from developing countries. Another new sourcing office for Central and Northern China will be opened in Spring 2011. We have also developed direct relationships with main fabric mills and accessory suppliers and are now negotiating directly with them. Although the sourcing market for the year ending 30 June 2011 poses challenges such as substantial increases in cost of raw materials, wage inflation, skilled labour shortage for retailers everywhere, we are confident that with all the measures taken, we have several levers to offset at least part of the cost increases and will be in a strong position to offer better value to our customers.

(5) Support functions: Establishing best-in-class backbone for growth

A new Head of Global Human Resources has been in place since December 2010 to strengthen the skills and capabilities of our global Human Resources organisation. As part of this initiative, a comprehensive Human Resources strategy and Talent Management program focusing on the top 100 internal leaders have been developed. A transparent and performance linked incentive system has also been implemented. The SAP/EPS project implementation is also on track and already gone live in our Edc Women division with deliveries. Edc Men will be the next division to be converted to the new SAP system and the preparation for this is already in full swing.

(6) Organisation and structure: Ensuring better alignment and global execution across product divisions, regions and channels

In light of our vision to become a truly global Company and brand, our sales organisation has been transformed from a regional, geographical set-up to a global, channel-based one since November 2010. The transformation will enhance the brand and ensure consistent execution of our proven multi-channel concept globally. Our global retail organisation has been strengthened with a new Chief Retail Officer, Global Retail COO and Global Head of Expansion. A new Chief Wholesale Officer will start in May 2011. During the last twelve months, the top management structure has been strengthened significantly with experienced and international management talents to capture the global growth opportunities which have been identified.

03.2 UPDATES ON CHINA GROWTH PLAN

Our growth plan for China is part of our strategic agenda, Initiative 3, but given the importance of China within the Esprit long-term strategy, we highlight the progress in this separate section.

Six months ended 31 Dec 2010			
	Turnover (HK\$ million)	% of total	Year-on-year growth
Retail	847	59.8%	2.0%
Wholesale	570	40.2%	11.0%
Total*	1,417	100.0%	5.4%

Six months ended 31 Dec 2009			
	Turnover (HK\$ million)	% of total	
Retail	830	61.8%	
Wholesale	513	38.2%	
Total*	1,343	100.0%	

* Excludes salon

With the acquisition of the remaining 51% equity interest in the former China Joint Venture, China is our new growth engine driving further expansion. After the successful integration phase, we improved the performance in terms of sales and profitability of our China business and are now moving into the growth phase and our detailed expansion plan is being executed. For the first six months of this fiscal year, we are in line with our 5-year plan as presented last year end.

China's turnover increased 3.2% year-on-year in local currency to HK\$1,429 million, which represented 8.1% of the Group's turnover for the six months ended 31 December 2010. Retail and wholesale turnover in China were HK\$847 million and HK\$570 million, respectively. Wholesale turnover showed 11% year-on-year growth and retail comparable store sales growth returned to positive 0.5% for the six months ended 31 December 2010 (2H FY09/10: -4.2% and 1H FY09/10: -8.5%). EBIT margin increased by 5.0% points to 19.7% for the six months period ended 31 December 2010. We expanded our existing base of 169 cities as at 30 June 2010 to 183 cities as at 31 December 2010 and the total number of POS increased from 931 as at 30 June 2010 to 1,002 as at 31 December 2010.

As at 31 December 2010, our retail distribution channel in China comprised 6 cities. The number of directly managed retail stores increased by 11 during the first half of the financial year to 299 as at 31 December 2010, of which 244 were concession stores.

We have also expanded our footprint to 14 new cities via franchise to cover 177 cities, mainly in tier 3 to tier 5 cities. The number of controlled space wholesale POS increased by 60 to 703 as of 31 December 2010, of which 77 were standalone stores. Controlled wholesale space in China grew by 6.3% for the six months ended 31 December 2010.

03.3 REVENUE ANALYSIS

Group turnover was HK\$17.7 billion (1H FY09/10: HK\$18.5 billion) representing 1.6% increase in local currency driven by strong turnover growth of 5.9% in the second quarter (1Q FY10/11: -2.6%) and consolidation of the turnover from China.

Turnover resumed growth in the second quarter mainly driven by improved wholesale turnover growth of 3.2% in local currency whilst retail turnover growth softened due to adverse weather conditions in Europe and North America in December 2010.

In line with our long-term strategy, turnover in Asia Pacific as percentage of Group turnover increased to 17% as a result of higher turnover growth and contribution from China. Turnover in North America also accounted for a slightly higher portion of Group turnover at about 4%. Consequently, turnover in Europe as percentage of Group turnover decreased to 79%.

Turnover by Countries

Countries#	For the 6 months ended 31 December					
	2010		2009		Change in %	
	HK\$ million	% to Group Turnover	HK\$ million	% to Group Turnover	HK\$	Local currency
Europe	14,014	79.2%	15,705	85.0%	-10.8%	-3.3%
Germany**	7,496	42.4%	8,317	45.0%	-9.9%	-1.5%
Benelux*	2,372	13.4%	2,741	14.8%	-13.4%	-5.3%
France	1,347	7.6%	1,613	8.7%	-16.5%	-8.7%
Scandinavia	784	4.4%	797	4.3%	-1.6%	2.5%
Switzerland	770	4.4%	775	4.2%	-0.7%	-3.2%
Austria	739	4.2%	833	4.5%	-11.2%	-2.9%
U.K.	208	1.2%	252	1.4%	-17.3%	-13.4%
Spain	148	0.8%	165	0.9%	-10.5%	-2.4%
Italy	118	0.7%	174	1.0%	-32.3%	-26.2%
Ireland	18	0.1%	19	0.1%	-2.8%	5.7%
Portugal	7	0.0%	16	0.1%	-52.8%	-48.1%
Others	7	0.0%	3	0.0%	n.a.	n.a.
Asia Pacific	3,022	17.1%	2,178	11.8%	38.8%	35.2%
China**	1,429	8.1%	-	-	n.a.	n.a.
Australia and New Zealand	495	2.8%	494	2.7%	0.3%	-7.7%
Hong Kong**	304	1.7%	362	1.9%	-16.2%	-16.2%
Macau###	299	1.7%	882	4.8%	-66.1%	-63.4%
Singapore	216	1.2%	200	1.1%	8.4%	1.4%
Taiwan	154	0.9%	134	0.7%	14.6%	9.0%
Malaysia	125	0.7%	106	0.6%	17.6%	6.3%
North America and others	657	3.7%	592	3.2%	10.8%	8.1%
United States*	334	1.9%	282	1.5%	18.2%	18.0%
Canada	323	1.8%	310	1.7%	4.1%	-0.8%
Total	17,693	100.0%	18,475	100.0%	-4.2%	1.6%

n.a. Means not applicable

Country as a whole includes retail stores, outlet stores, edc standalone stores and e-shop

** Germany sales includes wholesale sales to other European countries mainly Russia, Poland, Greece, Czech Republic and Slovenia

Macau sales for the six months ended 31 December 2010 includes wholesale sales to other countries mainly Middle East, Thailand and India; Macau sales for the six months ended 31 December 2009 also included wholesale sales to the former China Joint Venture

* Includes licensing

** Includes salon

Turnover by Products

Product Divisions	For the 6 months ended 31 December					
	2010		2009		Change in %	
	HK\$ million	% to Group Turnover	HK\$ million	% to Group Turnover	HK\$	Local currency
casual	8,260	46.7%	8,939	48.4%	-7.6%	-2.4%
women casual	5,943	33.6%	6,515	35.3%	-8.8%	-3.5%
men casual	2,317	13.1%	2,424	13.1%	-4.4%	0.8%
edc	4,344	24.6%	4,378	23.7%	-0.8%	6.1%
edc women	3,137	17.7%	3,129	17.0%	0.2%	6.8%
edc men	683	3.9%	704	3.8%	-2.9%	4.0%
edc others [^]	524	3.0%	545	2.9%	-3.9%	4.9%
collection	1,876	10.6%	1,716	9.3%	9.3%	15.4%
women collection	1,353	7.6%	1,277	6.9%	6.0%	12.0%
men collection	523	3.0%	439	2.4%	19.2%	25.2%
others	3,213	18.1%	3,442	18.6%	-6.7%	-0.5%
accessories	881	5.0%	919	5.0%	-4.2%	1.3%
kids	497	2.8%	595	3.2%	-16.5%	-11.4%
shoes	459	2.6%	473	2.6%	-2.9%	5.6%
bodywear	484	2.7%	464	2.5%	4.2%	12.3%
sports	285	1.6%	355	1.9%	-19.8%	-14.9%
de. corp	201	1.1%	193	1.0%	4.3%	12.2%
red earth	35	0.2%	7	0.0%	368.0%	359.0%
others*	371	2.1%	436	2.4%	-14.9%	-10.0%
Total	17,693	100.0%	18,475	100.0%	-4.2%	1.6%

[^] edc others include edc kids, edc shoes, edc accessories and edc bodywear

* Others include salon, licensing income & licensed products like timewear, eyewear, jewellery, bed & bath, houseware, etc.

Our efforts in differentiating product divisions are bearing fruits. Both Edc and Collection achieved above average turnover growth at 6.1% and 15.4% in local currency respectively. In addition, the Shoes division also generated healthy turnover growth of 5.6% in local currency.

Turnover by Distribution Channels

Distribution Channels	For the 6 months ended 31 December					
	2010		2009		Change in %	
	HK\$ million	% to Group Turnover	HK\$ million	% to Group Turnover	HK\$	Local currency
Retail[#]	9,955	56.3%	9,624	52.1%	3.4%	8.7%
Europe	7,315	41.3%	7,905	42.8%	-7.5%	0.3%
Asia Pacific	2,149	12.2%	1,287	7.0%	67.0%	60.2%
North America	491	2.8%	432	2.3%	13.5%	10.8%
Wholesale	7,621	43.1%	8,738	47.3%	-12.8%	-6.2%
Europe	6,684	37.8%	7,783	42.1%	-14.1%	-6.9%
Asia Pacific	849	4.8%	872	4.7%	-2.6%	-1.5%
North America and others	88	0.5%	83	0.5%	6.6%	1.8%
Licensing and others	117	0.6%	113	0.6%	3.8%	4.8%
Licensing	93	0.5%	92	0.5%	1.1%	2.6%
Salon	24	0.1%	18	0.1%	29.8%	28.5%
Others	0	0.0%	3	0.0%	-83.4%	-83.6%
Total	17,693	100.0%	18,475	100.0%	-4.2%	1.6%

[#] Retail sales includes sales from e-shop in countries where available

RETAIL

Retail turnover climbed to HK\$9,955 million (1H FY09/10: HK\$9,624 million) and accounted for an increased percentage of Group turnover amounting to 56.3% (1H FY09/10: 52.1%). The retail turnover growth was 8.7% in local currency. Comparable store sales declined by 1.5%. Retail selling space grew 2.3% to 394,676 m² from 30 June 2010. Excluding the exceptional store closures, retail space grew by 3.1%.

Retail sales growth was mainly driven by the retail turnover contribution from China, which accounted for 8.5% of retail turnover, as well as retail space expansion. Excluding China, retail turnover growth was largely flat in local currency and comparable store sales declined by 1.6%.

Excluding December 2010, comparable store sales growth was nearly flat year-on-year. The adverse weather conditions in December 2010 led to a decline in comparable store traffic, in particular in Europe and North America. Consequently, retail turnover growth in Europe softened in the second quarter to -1.6% in local currency. Despite the softness of the overall retail turnover growth momentum in Europe, retail turnover in France and Scandinavia posted above average retail turnover growth at 6.8% and 13.0% year-on-year in local currency for the six months ended 31 December 2010. In Asia Pacific (excluding China), retail turnover declined by 4.3% in local currency mainly caused by 28.3% year-on-year decline in retail selling space in Hong Kong and weak consumer confidence in Australia due to rising interest rates. In North America, retail turnover growth benefited from a 20.4% year-on-year increase in retail selling space.

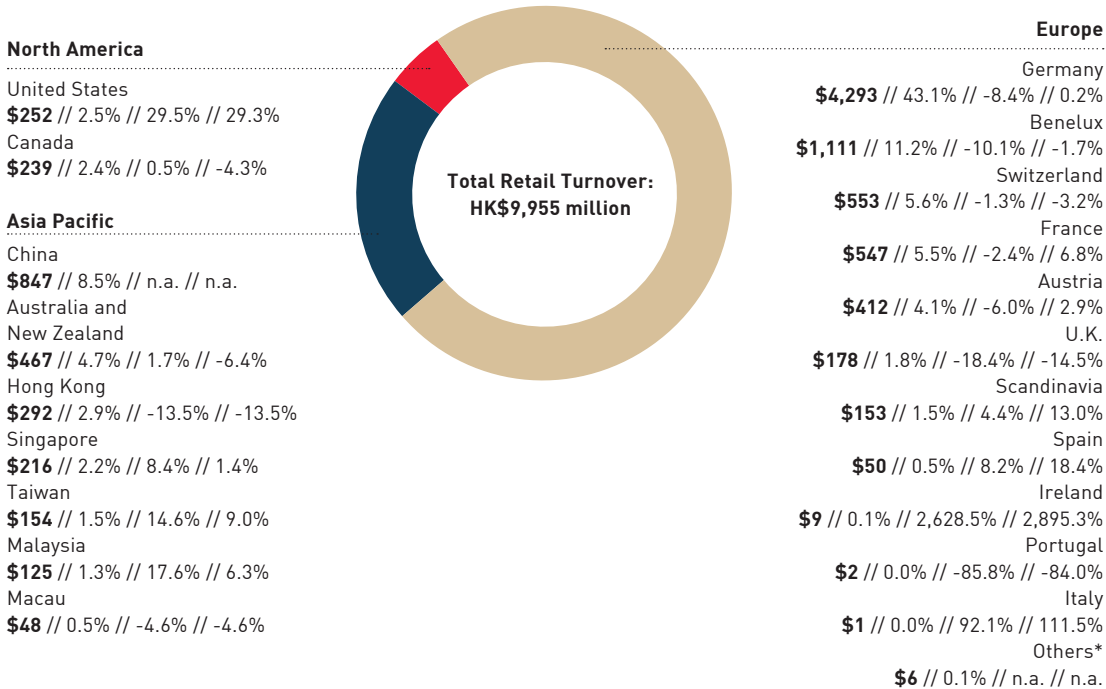
Retail Performance Scorecard

	For the 6 months ended 31 December		
	2010		2009
	Total	Excl. China	
Year-on-year local currency turnover growth	8.7%	0.1%	5.5%
Segment EBIT margin	12.3%	12.3%	15.2%
No. of Esprit POS	1,154	855	829
Esprit net sales area (m ²)	394,676	344,474	332,053
Year-on-year change in Esprit sales area	18.9%	3.7%	10.2%
Esprit average sales area per store* (m ²)	342	403	401
Comparable store sales growth	-1.5%	-1.6%	-1.2%

* Calculated by dividing Esprit net sales area by number of POS as at 31 December 2010 and 31 December 2009

RETAIL TURNOVER BY COUNTRIES

HK\$ million // % to retail turnover // % HK\$ growth // % local currency growth



* Others' retail turnover represented retail turnover from e-shop in Czech Republic, Poland, Slovakia, Hungary, Slovenia, Latvia and Greece
n.a. Means not applicable

During the six months ended 31 December 2010, our retail expansion was on track and the expansion focus remains on China and core markets in Europe. Whilst our retail expansion capabilities were strengthened, we put a stronger emphasis on quality than quantity. The Group had a net addition of 31 directly managed retail stores, which comprised of 73 openings, 35 normal closures and 7 exceptional closures resulting from the 33-store closure program. Among the 7 exceptional closures, 5 were in Europe and 2 were in Asia Pacific. Our focus to expand the outlet business in North America was evidenced by 14 new outlet openings. As at 31 December 2010, the total number of directly managed retail stores increased to 1,154 (30 June 2010: 1,123). Excluding the impact of the store closure program, the retail selling space has grown 3.1% from 30 June 2010. The new space added included the largest flagship store which re-opened in Frankfurt in mid September 2010 with 3,600 m² of selling space. In e-commerce, we introduced e-shop to Latvia and Slovenia during the first half of the financial year, increasing the total number of countries served by our e-shop to 26.

Directly Managed Retail Stores by Countries

Countries	As at 31 December 2010					
	No. of store	Net opened stores*	Net sales area m ²	Change in net sales area*	No. of comp stores	Comp-store sales growth
Europe	419	-	244,322	0.4%	291	-1.7%
Germany**	173	-	125,895	2.3%	132	-0.7%
Benelux	88	2	38,139	0.0%	58	-4.7%
France	49	-	23,989	0.0%	39	-1.7%
Switzerland	39	-	17,030	0.1%	30	-5.1%
U.K.	33	(1)	9,219	-11.4%	14	-4.6%
Austria	15	1	15,226	3.7%	11	-3.0%
Scandinavia	14	1	9,386	4.9%	6	12.7%
Spain	6	(1)	4,913	-1.3%	1	8.7%
Ireland	2	-	525	-6.6%	-	n.a.
Portugal	-	(2)	-	-100.0%	-	n.a.
Asia Pacific	640	18	115,532	3.3%	354	0.6%
China	299	11	50,202	3.7%	126	0.5%
Australia	168	11	24,423	6.9%	106	-10.6%
Taiwan	88	(2)	8,382	0.3%	65	10.2%
Malaysia	31	2	9,296	9.7%	23	4.7%
Singapore	21	(1)	9,195	2.2%	16	0.2%
Hong Kong	17	(3)	9,356	-7.3%	9	15.2%
New Zealand	13	-	3,004	0.0%	7	-5.9%
Macau	3	-	1,674	-1.6%	2	-1.7%
North America	95	13	34,822	14.0%	66	-4.9%
Canada	52	4	17,766	8.4%	39	-7.4%
United States**	43	9	17,056	20.6%	27	-2.2%
Total	1,154	31	394,676	2.3%	711	-1.5%

* Net change from 30 June 2010

** All e-shops within Europe are shown as 1 comparable store in Germany and the e-shop in U.S. is shown as 1 comparable store in U.S.

n.a. Means not applicable

WHOLESALE

Wholesale turnover was HK\$7,621 million (1H FY09/10: HK\$8,738 million) and contributed 43.1% of Group turnover (1H FY09/10: 47.3%). In local currency, wholesale turnover declined 6.2% year-on-year (1Q FY10/11: -12.8%) or 5.7% excluding China. Controlled wholesale space reached 722,118 m² as at 31 December 2010.

As compared with the first quarter, the decline in wholesale turnover narrowed, mainly driven by strong growth of short lead-time orders, such as Specials and Never-Out-of-Stock ("NOOS") in the second quarter. As a result, wholesale turnover in the second quarter grew 3.2% year-on-year in local currency. In Europe, wholesale turnover in local currency grew by 1.8% in the second quarter. This is the first time we have seen positive wholesale turnover growth since 30 June 2008. Wholesale sales development was strong in the second quarter, despite continued weak consumer spending in Europe.

Emerging markets in Europe and Asia Pacific reported above average wholesale turnover growth. Wholesale turnover from Russia, Poland, Columbia, Thailand, India and the Middle East increased by 20.6%, 13.2%, 175.2%, 70.2%, 40.8% and 12.5% year-on-year in local currency respectively. Thanks to the robust wholesale turnover growth of emerging markets, wholesale turnover in Asia Pacific (excluding China) climbed 29.8% year-on-year in local currency.

Wholesale Performance Scorecard

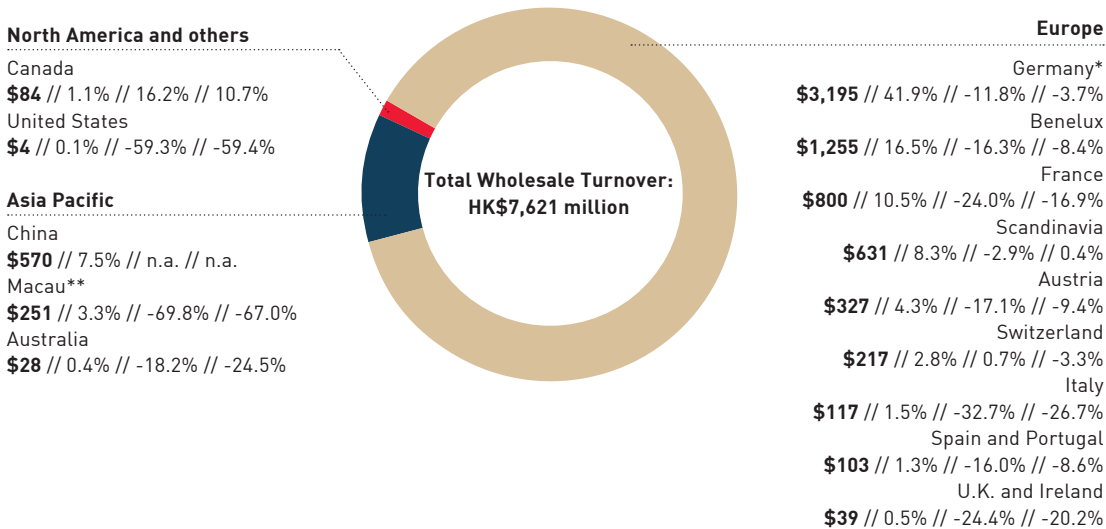
	For the 6 months ended 31 December		
	2010		2009
	Total	Excl. China	
Year-on-year local currency turnover growth	-6.2%	-5.7%	-15.4%
Segment EBIT margin	26.9%	25.4%	25.3%
No. of Esprit controlled space POS [^]	12,056	11,353	13,034
Esprit controlled space area (m ²) [^]	722,118	636,221	765,756
Year-on-year change in Esprit's controlled space area	-5.7%	-0.2%	1.4%
Esprit average sales area per controlled space POS* (m ²)	60	56	59

* Calculated by dividing Esprit controlled space area by number of Esprit controlled space POS as at 31 December 2010 and 31 December 2009

[^] With the roll out of the SAP program for the wholesale business, the Group has tightened the definitions of inactive accounts, resulting in the restatement of wholesale POS and controlled space

WHOLESALE TURNOVER BY COUNTRIES

HK\$ million // % to wholesale turnover // % HK\$ growth // % local currency growth



* Germany wholesale sales includes sales to other European countries mainly Russia, Poland, Greece, Czech Republic and Slovenia

** Macau wholesale sales includes sales to other countries mainly Middle East, Thailand and India. Macau sales for the six months ended 31 December 2009 also included wholesale sales to the former China Joint Venture

n.a. Means not applicable

We continued our strategy to strengthen our overall wholesale distribution channel by focusing on franchise and optimising our shop-in-store and identity corner point-of-sales. As at 31 December 2010, wholesale POS number fell to 12,056 including 672 openings and 902 closures. The decrease in wholesale POS number was mainly due to 217 net closures of identity corners in Europe. The number of franchise stores increased to 2,151 mainly due to a net addition of 60 franchise stores in China and the reclassification of 118 shop-in-stores to franchise stores in Thailand, India, Indonesia, Vietnam, the Middle East and Mongolia. With the acquisition of the remaining interest in the former China Joint Venture, concession spaces previously considered wholesale were reclassified as retail and franchise stores. As a result of this, the 118 shop-in-stores noted above were also reclassified as franchise stores during this period to be consistent with the rest of the Group. Total wholesale controlled space was largely flat from 30 June 2010 mainly due to a 4.1% increase in controlled wholesale space in Asia Pacific offset by a slight decline in controlled wholesale space in Europe as a consequence of net closures of identity corners.

Wholesale Distribution Channel by Countries (controlled space only)

As at 31 December 2010

Countries	Franchise stores**				Shop-in-stores**				Identity Corners**				Total**			
	No. of stores	Net sales area m ²	Net opened stores/Reclassification*	Net change in net sales area*	No. of stores	Net sales area m ²	Net opened stores/Reclassification*	Net change in net sales area*	No. of stores	Net sales area m ²	Net opened stores/Reclassification*	Net change in net sales area*	No. of stores	Net sales area m ²	Net opened stores/Reclassification*	Net change in net sales area*
Esprit Europe[†]	1,149	286,008	-	1.3%	4,943	196,365	[74]	-1.7%	4,827	109,311	(217)	-4.3%	10,919	591,684	(291)	-0.8%
Germany***	424	119,603	7	3.3%	3,785	157,393	[47]	-1.5%	2,700	53,357	[95]	-4.3%	6,909	330,353	[135]	-0.3%
Benelux	175	51,754	-	0.1%	164	6,906	[2]	-0.5%	660	16,977	[82]	-9.2%	999	75,637	[84]	-2.2%
France	222	37,352	(6)	-1.2%	403	10,541	[8]	-5.7%	381	10,646	[24]	-3.0%	1,006	58,539	[38]	-2.4%
Scandinavia	125	36,906	1	2.8%	101	4,796	5	4.0%	580	14,644	22	3.3%	806	56,346	28	3.0%
Austria	88	16,802	-	-1.8%	144	5,218	5	5.3%	186	4,399	[21]	-9.8%	418	26,419	[16]	-2.0%
Italy	44	9,120	[4]	-6.0%	34	1,617	3	6.7%	130	3,355	3	6.3%	208	14,092	2	-2.0%
Switzerland	46	8,699	[2]	-5.7%	50	2,836	2	2.1%	76	1,578	[10]	-17.9%	172	13,113	[10]	-5.9%
Spain	17	4,467	5	26.7%	216	5,395	[26]	-11.0%	11	193	[1]	-14.6%	244	10,055	[22]	2.5%
U.K. and Ireland	8	1,305	[1]	-16.6%	46	1,663	[6]	-12.9%	103	4,162	[9]	-4.8%	157	7,130	[16]	-9.1%
Esprit Asia Pacific	1,002	126,842	180	9.8%	135	3,592	[116]	-63.2%	-	-	[3]	-100.0%	1,137	130,434	61	4.1%
China	703	85,897	60	6.3%	-	-	-	-	-	-	-	-	703	85,897	60	6.3%
The Middle East	47	12,530	-	2.5%	-	-	[4]	-100.0%	-	-	-	-	47	12,530	[4]	-4.3%
India	53	7,870	33	48.1%	-	-	[27]	-100.0%	-	-	-	-	53	7,870	6	15.9%
Thailand	93	5,915	70	101.1%	-	-	[71]	-100.0%	-	-	-	-	93	5,915	[1]	3.4%
Philippines	16	2,389	-	0.5%	-	-	-	-	-	-	-	-	16	2,389	-	0.5%
Australia	-	-	-	-	55	1,938	[3]	-4.5%	-	-	-	-	55	1,938	[3]	-4.5%
Others	90	12,241	17	3.3%	80	1,654	[11]	-36.8%	-	-	[3]	-100.0%	170	13,895	3	-4.4%
Total[†]	2,151	412,850	180	3.8%	5,078	199,957	[190]	-4.5%	4,827	109,311	(220)	-4.3%	12,056	722,118	(230)	0.1%

* Net change from 30 June 2010

** Excludes Red Earth and salon

*** Germany controlled space wholesale POS include controlled space wholesale POS in countries outside Germany, mainly Russia, Poland, Greece, Czech Republic and Croatia

† The opening balances of the POS numbers of franchise stores, shop-in-stores and identity corners in Europe were restated to 1,149, 5,017 and 5,044 respectively and the opening balances of the wholesale controlled space of franchise stores, shop-in-stores and identity corners in Europe were restated to 282,297m², 199,722m² and 114,166m² respectively. Consequently, the opening balances of franchise stores, shop-in-stores and identity corners for the Group were restated to 1,971, 5,268 and 5,047 respectively and the opening balances of the wholesale controlled space of franchise stores, shop-in-stores and identity corners for the Group were restated to 397,787m², 209,487m² and 114,226m² respectively. With the roll out of the SAP program for the wholesale business, the Group has tightened the definitions of inactive accounts, resulting in the restatement of wholesale POS and controlled space

LICENSING

Licensing turnover (primarily license royalties) was HK\$93 million (1H FY09/10: HK\$92 million), increasing by 2.6% year-on-year in local currency.

During the first half of the financial year, we put in a lot of hard work to enhance the product offerings in the three licensed product worlds. In November 2010, Esprit home held an exclusive press preview of the 2011 collection with key styles from the five new living themes – Colour Splash, Bright Bazaar, Selected Nature, Modern Poetry and Sunny Blossom, as well as two new home product lines: the Esprit home kitchen and the carpet tiles. The five new Esprit home themes will be introduced to industry professionals at various international trade fairs in 2011.

Together with Alno, one of the largest international manufacturers of fitted kitchens, Esprit is launching a collection especially for the kitchen – Esprit home kitchen furniture. The Esprit home kitchen furniture celebrated its premiere at the “living kitchen” in Cologne, January 2011. The first Esprit home kitchen range will be available from kitchen retailers in Germany starting in March 2011.

In addition, through our partnership with Vorwerk Carpets, our new license partner characterised by a rich tradition and product innovations, Esprit home will launch a new line of freely scaled carpet tiles which has been registered a patent by Vorwerk. The carpets are in five colour combinations and three qualities and are available from January 2011.

In Accessories’ World, ongoing efforts were made in developing accessories that made a perfect match to our major product lines. To celebrate a return to the fun and carefree roots of the Esprit lifestyle, a new fragrance “Esprit Jeans Style” will be launched in Spring 2011 with a pre-launch to the market in February 2011 in more than 70 Esprit stores. The market introduction will be completed with in-store and online promotion activities as well as a TV spot. Moreover, the new watch and jewellery lines of Esprit, edc and collection for 2011 were showcased in the annual distributor conference of MYWA, our license partner for watches and jewellery in Dubai in October 2010.

In Babies’ and Kids’ World, its first lookbook was published showcasing the Esprit babies’ world for parents-to-be from baby clothing to furniture, wallpaper, rugs, home textiles, toys, prams and changing bags. Copies of the lookbook were distributed from August to December 2010 by midwives in antenatal courses and in Esprit retail stores with maternity areas. In addition, there were also new collections for Esprit home kids’ wallpaper collection, new bed linen collection, new “Route 68” series pram collection and new Esprit baby series “Classic Bear” and “Summer Love”.

Key Licensed Product Categories

As at 31 December 2010	Europe	Asia Pacific	North America	Latin America
Accessories’ World				
costume jewellery	■	■		
cosmetics	■			
eyewear	■	■	■	■
fragrance	■	■		■
jewellery	■	■	■	■
luggage	■			
outerwear			■	■
shoes				■
sleepwear/daywear			■	
socks + tights Esprit	■	■	■	■
stationery	■			
timewear	■	■	■	■
umbrellas	■	■	■	■
Home World				
bathroom	■	■		
bedding	■	■	■	■
carpets	■	■		
down	■	■		
flooring	■	■		
furniture	■	■		
glassware	■			■
home accessories	■	■		■
lighting	■	■		
towels	■	■	■	■
wallpaper	■	■		
Babies’ & kids’ World				
baby carriages	■	■		
baby furniture	■			
children furniture	■			
kids’ bedding	■			
kids’ shoes			■	
maternity	■			
school	■			
soft toys	■			

03.4 PROFITABILITY ANALYSIS

Gross profit was HK\$9,838 million (1H FY09/10: HK\$10,098 million). **Gross profit margin** increased to 55.6% (1H FY09/10: 54.7%) benefiting from higher retail turnover proportion and consolidation of China.

Operating expenses were HK\$7,203 million (1H FY09/10: HK\$6,731 million). The increase was mainly due to the consolidation of operating expenses in China. Excluding China, operating expenses were largely flat year-on-year.

Operating profit was HK\$2,635 million (1H FY09/10: HK\$3,367 million) and Group operating profit margin was 14.9% (1H FY09/10: 18.2%). The change of Group operating profit margin was mainly caused by continued shift in channel mix to retail, decline in retail EBIT margin partly offset by improved wholesale EBIT margin.

Wholesale EBIT margin was 26.9% (1H FY09/10: 25.3%). The increase in wholesale EBIT margin mainly benefited from the consolidation of China and was positively impacted by lower returns and lower bad debt provision.

Retail EBIT margin was 12.3% (1H FY09/10: 15.2%). The decline in retail EBIT margin was mainly due to slightly higher markdown and discount and slightly higher merchandise costs leading to a decrease in retail gross profit margin. Negative comparable store sales and higher advertising expense also contributed to the decline. Excluding the losses from stores to be closed as part of the exceptional store closure program, the retail EBIT margin is 13.4%.

Profit before taxation was HK\$2,644 million (1H FY09/10: HK\$3,448 million).

Effective tax rate decreased to 19.1% (1H FY09/10: 21.6%) partly due to the one-off underprovision in prior years incurred in the same period last year while there was a net write back of overprovision for prior years during the six months ended 31 December 2010. Excluding the impact of the one-off underprovision in prior years and the net write back of overprovision, the effective tax rates for 1H FY10/11 would be largely similar to that of 1H FY09/10.

Net profit was HK\$2,140 million (1H FY09/10: HK\$2,705 million) and **net profit margin** was 12.1% (1H FY09/10: 14.6%).

03.5 BALANCE SHEET REVIEW

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2010, the Group had **cash and bank** balance of HK\$7,302 million (30 June 2010: HK\$6,748 million) while the net cash balance was HK\$4,702 million (30 June 2010: HK\$4,148 million). During the six months ended 31 December 2010, the Group generated HK\$1,854 million net cash inflow from operating activities (1H FY09/10: HK\$3,768 million). The decline of net cash inflow from operating activities was partly due to depreciation of EUR/HKD average rate, decline in profitability and increase in working capital.

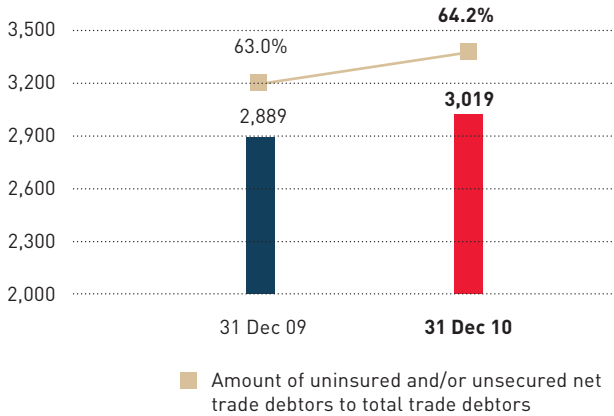
	For the 6 months ended 31 December	
HK\$ million	2010	2009
Cash and cash equivalents as at 1 July	6,748	4,840
Net cash inflow from operating activities	1,854	3,768
Net cash used in investing activities	(715)	(858)
Net cash (used in)/inflow from financing activities	(830)	61
Net increase in cash and cash equivalents	309	2,971
Effect of change in exchange rates	245	52
Cash and cash equivalents as at 31 December	7,302	7,863
Less:		
Bank loans	2,600	-
Net cash balance	4,702	7,863

Capital expenditure of the Group was HK\$590 million (1H FY09/10: HK\$743 million). Majority of the HK\$241 million investment in IT projects was related to the SAP/EPS project.

	For the 6 months ended 31 December	
HK\$ million	2010	2009
New stores and expansion	187	320
Existing stores	97	99
IT projects	241	299
Office & others	65	25
Purchase of property, plant and equipment	590	743

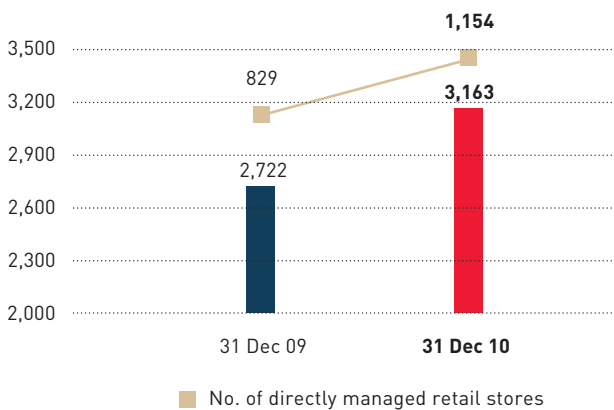
As at 31 December 2010, the Group had net trade debtors balance of HK\$3,019 million (31 December 2009: HK\$2,889 million). The increase was partly due to higher wholesale turnover in the second quarter ended 31 December 2010. Net trade debtors due over 90 days as a proportion to total net trade debtors fell to 8.4% (31 December 2009: 9.0%). The amount of uninsured and/or unsecured net trade debtors as a percentage of net trade debtors was 64.2% (31 December 2009: 63.0%)

Net trade debtors balance (HK\$ million)



As at 31 December 2010, the Group had an inventory balance of HK\$3,163 million (31 December 2009: HK\$2,722 million). The increase was partly due to the consolidation of China's inventory and increase in the number of directly managed retail stores. Inventory turnover days for the six months ended 31 December 2010 was 63 days (1H FY09/10: 60 days).

Inventory balance (HK\$ million)



As at 31 December 2010, the Group had total interest bearing external borrowings of HK\$2.6 billion (30 June 2010: HK\$2.6 billion) which was used to finance the acquisition of the remaining interest of the China Joint Venture. None of the Group's assets were pledged as security for overdraft or any short-term revolving facility.

SEASONALITY OF BUSINESS

The Group's business is affected by seasonal trends. These trends are primarily attributable to seasonal shipments to wholesale customers and key holiday sales periods, as well as the pricing of seasonal products. Due to the fact that sales and operating income may fluctuate in any reporting period, half year financials may not be indicative of the future trend of business and may not be extrapolated to provide a reliable forecast.

FOREIGN EXCHANGE RISK MANAGEMENT

In the past, most of the suppliers in Asia were asked to quote and settle in Euros. To better minimise our foreign exchange exposure on sourcing costs for merchandise produced for Europe and North America in Asia, some of the suppliers in Asia were asked to quote and settle in US dollar for selected pilot product divisions starting in the first half of the financial year. In addition, the Group entered into foreign exchange forward contracts with reputable financial institutions to hedge such foreign exchange risks.

OUTLOOK

In the second half of the financial year, total capital expenditure is expected to be around HK\$1.3 billion. We plan to invest about HK\$600 million in new store openings and existing store refurbishment. The Group maintains the target of 5-10% year-on-year growth in retail selling space for the full financial year FY10/11.

Although we see signs of improvement, our wholesale business remains being impacted by cautious consumer sentiment and spending in our core markets. As a result, our wholesale customers remain conservative with their pre-orders. The wholesale order book keeps improving and for the period between January and May 2011 shows a low single digit percentage decline.

Our commitment to providing best-in-class support is reflected by our increased investment in enhancing our systems and processes. In the second half of the financial year, we will invest over HK\$250 million in IT projects, primarily in the SAP/EPG project and over HK\$260 million on the distribution centre in Europe.

Increase in raw materials price and labour costs will pose pressures on our cost of goods sold. With the implementation of our sourcing initiatives, we are confident that at least part of the costs will be compensated in the short-term.

CORPORATE SOCIAL RESPONSIBILITIES

Esprit continues to give back to the community. SOS Children's Villages and Esprit committed to a long-term partnership, focused to provide new home in the village with essential services of education, health and various livelihood support. To celebrate the opening of the SOS Children's Village, the BIG BANG, a global campaign aimed at raising awareness of the charity project, was launched. Oscar nominated actress, Maggie Gyllenhaal and her husband Peter Sarsgaard acted as global ambassadors. Customers were invited to make their bang count in the participating 11 Esprit stores across the globe and also online. Esprit donated Euro 500,000 to the SOS Children's Village as part of the campaign in November 2010.





04
**FINANCIAL
SECTION**

04.1 INDEPENDENT REVIEW REPORT

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION TO THE BOARD OF DIRECTORS OF ESPRIT HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 33 to 43, which comprises the condensed consolidated balance sheet of Esprit Holdings Limited (the "Company") and its subsidiaries (together, the "Group") as at 31 December 2010 and the related condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting". The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".



PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 10 February 2011

04.2 INTERIM FINANCIAL INFORMATION

The Board of Directors of Esprit Holdings Limited (the "Company") is pleased to present the unaudited condensed consolidated interim financial information, along with selected explanatory notes, of the Company and its subsidiaries (the "Group") for the six months ended 31 December 2010 as follows:

Condensed consolidated income statement			
Unaudited for the 6 months ended 31 December			
	Notes	2010 HK\$ million	2009 HK\$ million (restated)
Turnover	2	17,693	18,475
Cost of goods sold		(7,855)	(8,377)
Gross profit		9,838	10,098
Staff costs		(2,407)	(2,251)
Occupancy costs		(2,148)	(1,881)
Logistics expenses		(685)	(692)
Advertising expenses		(446)	(338)
Depreciation		(403)	(433)
Other operating costs		(1,114)	(1,136)
Operating profit	3	2,635	3,367
Interest income		23	16
Finance costs	4	(14)	–
Share of results of associates		–	65
Profit before taxation	2	2,644	3,448
Taxation	5	(504)	(743)
Profit attributable to shareholders		2,140	2,705
Interim dividend	6	1,289	946
Earnings per share			
– Basic	7	HK\$1.66	HK\$2.12
– Diluted	7	HK\$1.66	HK\$2.11

Condensed consolidated statement of comprehensive income

Unaudited for the 6 months ended 31 December

	2010	2009
	HK\$ million	HK\$ million
Profit attributable to shareholders	2,140	2,705
Other comprehensive income		
Fair value gain on cash flow hedge	19	4
Exchange translation	1,056	196
Total comprehensive income for the period attributable to shareholders	3,215	2,905

Condensed consolidated balance sheet

	Notes	Unaudited 31 December 2010 HK\$ million	Audited 30 June 2010 HK\$ million
Non-current assets			
Intangible assets		7,523	7,345
Property, plant and equipment	8	4,472	3,976
Investment properties		12	12
Other investments		8	7
Deposits and prepayments		480	440
Deferred tax assets		592	532
		13,087	12,312
Current assets			
Inventories		3,163	2,455
Debtors, deposits and prepayments	9	3,671	3,043
Cash and cash equivalents		7,302	6,748
		14,136	12,246
Current liabilities			
Creditors and accrued charges	10	4,415	4,146
Taxation		792	918
Bank loans – current portion		520	520
		5,727	5,584
		8,409	6,662
Net current assets			
		21,496	18,974
Equity			
Share capital	11	129	129
Reserves		18,445	15,943
Total equity		18,574	16,072
Non-current liabilities			
Bank loans		2,080	2,080
Deferred tax liabilities		842	822
		2,922	2,902
		21,496	18,974

Condensed consolidated cash flow statement

Unaudited for the 6 months ended 31 December

	2010	2009
	HK\$ million	HK\$ million
Cash flows from operating activities		
Cash generated from operations	2,504	4,494
Hong Kong profits tax paid	(3)	(52)
Overseas tax paid	(647)	(674)
Net cash inflow from operating activities	1,854	3,768
Cash flows from investing activities		
Net cash outflow from acquisition of remaining interest in the associated companies	(150)	-
Deposit paid for acquisition of remaining interest in the associated companies	-	(388)
Purchase of property, plant and equipment	(590)	(743)
Proceeds from disposal of property, plant and equipment	2	10
Interest received	23	18
Dividend received from an associate	-	245
Net cash used in investing activities	(715)	(858)
Cash flows from financing activities		
Net proceeds on issue of shares for cash	8	61
Dividends paid	(826)	-
Interest paid on bank loans	(12)	-
Net cash (used in)/inflow from financing activities	(830)	61
Net increase in cash and cash equivalents	309	2,971
Cash and cash equivalents at beginning of period	6,748	4,840
Effect of change in exchange rates	245	52
Cash and cash equivalents at end of period	7,302	7,863
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	3,384	3,924
Short-term bank deposits	3,918	3,939
	7,302	7,863

Condensed consolidated statement of changes in equity

Unaudited for the 6 months ended 31 December 2010

	Share capital	Share premium	Employee share-based payment reserve	Hedging reserve	Contributed surplus	Translation reserve	Capital reserve	Retained profits	Total
	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million
At 1 July 2010	129	3,073	481	-	7	(797)	1	13,178	16,072
Exchange translation	-	-	-	-	-	1,056	-	-	1,056
Fair value gain on cash flow hedge	-	-	-	19	-	-	-	-	19
Profit attributable to shareholders	-	-	-	-	-	-	-	2,140	2,140
Total comprehensive income	-	-	-	19	-	1,056	-	2,140	3,215
2009/10 final dividend paid (Note 11)	-	37	-	-	-	-	-	(863)	(826)
Issues of shares	-	8	-	-	-	-	-	-	8
Employee share option benefits	-	-	105	-	-	-	-	-	105
Transfer of reserve upon exercise of share options	-	3	(3)	-	-	-	-	-	-
At 31 December 2010	129	3,121	583	19	7	259	1	14,455	18,574

Unaudited for the 6 months ended 31 December 2009

	Share capital	Share premium	Employee share-based payment reserve	Hedging reserve	Contributed surplus	Translation reserve	Capital reserve	Retained profits	Total
	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million
At 1 July 2009	125	2,841	378	(4)	7	627	1	10,434	14,409
Exchange translation	-	-	-	-	-	196	-	-	196
Fair value gain on cash flow hedge	-	-	-	4	-	-	-	-	4
Profit attributable to shareholders	-	-	-	-	-	-	-	2,705	2,705
Total comprehensive income	-	-	-	4	-	196	-	2,705	2,905
2008/09 final dividend payable	-	-	-	-	-	-	-	(870)	(870)
Issues of shares	-	61	-	-	-	-	-	-	61
Employee share option benefits	-	-	71	-	-	-	-	-	71
Transfer of reserve upon exercise of share options	-	17	(17)	-	-	-	-	-	-
At 31 December 2009	125	2,919	432	-	7	823	1	12,269	16,576

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1. Basis of preparation

This unaudited condensed consolidated interim financial information ("interim financial information") on pages 33 to 43 for the six months ended 31 December 2010 has been prepared in accordance with the International Accounting Standard ("IAS") 34 "Interim Financial Reporting" issued by the International Accounting Standards Board and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

This interim financial information should be read in conjunction with the annual financial statements for the year ended 30 June 2010. The accounting policies and methods of computation used in the preparation of this interim financial information are consistent with those used in the annual financial statements for the year ended 30 June 2010.

The Group adopted International Financial Reporting Standard ("IFRS") 8 (Amendment) "Operating Segments" and International Accounting Standard ("IAS") 17 (Amendment) "Operating Leases" in the year ended 30 June 2010.

As a result of the adoption of IFRS 8 (Amendment), segment assets have not been disclosed in the consolidated financial statements as it is not reported to the chief operating decision-maker.

As a result of the adoption of IAS 17 (Amendment), the depreciation of leasehold land in Hong Kong was classified as amortisation of prepaid lease payments and included in other operating costs in prior period and has been reclassified to depreciation for comparison purpose.

The Group did not early adopt the following IAS and IFRS that have been issued in the period from 1 July 2010 to 31 December 2010. The adoption of such standards is anticipated not to result in substantial changes to the Group's accounting policies.

		Effective for accounting periods beginning on or after
IAS 12 (Amendment)	Deferred Tax: Recovery of Underlying Assets	1 January 2012
IFRS 1 (Amendment)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters	1 July 2011
IFRS 7 (Amendment)	Disclosures – Transfers of Financial Assets	1 July 2011
IFRS 9 (Amendment)	Additions to IFRS 9 for Financial Liability Accounting	1 January 2013

2. Turnover and segment information

The Group is principally engaged in wholesale and retail distribution and licensing of quality fashion and life-style products designed under its own internationally-known Esprit brand name.

	Unaudited for the 6 months ended 31 December	
	2010 HK\$ million	2009 HK\$ million
Turnover		
Sales of goods	17,576	18,362
Licensing and other income	117	113
	17,693	18,475

The chief operating decision-makers have been identified as the executive directors ("Executive Directors") of the Group.

Management has determined the operating segments based on the reports reviewed by the Executive Directors that are used to assess performance and allocate resources.

The Executive Directors consider the business from an operations nature perspective, including wholesale and retail distribution and licensing of quality fashion and life-style products designed under its own internationally-known Esprit brand name.

Inter-segment transactions are entered into under the normal commercial terms and conditions that would also be available to unrelated third parties.

2. Turnover and segment information (continued)

Unaudited for the 6 months ended 31 December 2010

	Wholesale HK\$ million	Retail HK\$ million	Licensing HK\$ million	Corporate services, sourcing and others HK\$ million	Group HK\$ million
Total revenue	7,621	9,955	93	14,412	32,081
Inter-segment revenue	-	-	-	(14,388)	(14,388)
Revenue from external customers	7,621	9,955	93	24	17,693
Segment results	2,049	1,221	83	(718)	2,635
Interest income					23
Finance costs					(14)
Profit before taxation					2,644
Capital expenditure	19	288	-	283	590
Depreciation	30	313	2	58	403

Unaudited for the 6 months ended 31 December 2009 (restated)

	Wholesale HK\$ million	Retail HK\$ million	Licensing HK\$ million	Corporate services, sourcing and others HK\$ million	Group HK\$ million
Total revenue	8,738	9,642	92	14,041	32,513
Inter-segment revenue	-	(18)	-	(14,020)	(14,038)
Revenue from external customers	8,738	9,624	92	21	18,475
Segment results	2,210	1,467	83	(393)	3,367
Interest income					16
Share of results of associates					65
Profit before taxation					3,448
Capital expenditure	15	403	-	325	743
Depreciation	31	353	2	47	433

3. Operating profit

Unaudited for the 6 months ended 31 December		
	2010 HK\$ million	2009 HK\$ million (restated)
Operating profit is arrived at after charging and (crediting) the following:		
Depreciation	403	433
Loss on disposal of property, plant and equipment	14	6
Impairment of property, plant and equipment	2	10
Net exchange gains	(36)	(76)
Net (write back)/charge for provision for obsolete inventories	(35)	25
Occupancy costs		
Operating lease charge	1,673	1,439
Other occupancy costs	475	442
Provision for impairment of trade debtors	52	151

4. Finance costs

Unaudited for the 6 months ended 31 December		
	2010 HK\$ million	2009 HK\$ million
Interest on bank loans wholly repayable within five years	12	-
Imputed interest on financial assets and financial liabilities	2	-
	14	-

5. Taxation

Unaudited for the 6 months ended 31 December		
	2010 HK\$ million	2009 HK\$ million
Current tax		
Hong Kong profits tax		
Provision for current period	2	1
Underprovision for prior years	1	54
Overseas taxation		
Provision for current period (Overprovision)/Underprovision for prior years	527	724
	(18)	7
	512	786
Deferred tax		
Current period net credit	(8)	(43)
Taxation	504	743

Hong Kong profits tax is calculated at **16.5%** (2009: 16.5%) on the estimated assessable profit for the period, net of tax losses carried forward, if applicable.

Overseas (outside of Hong Kong) taxation has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group companies operate, net of tax losses carried forward, if applicable.

No share of associates' taxation for the six months ended 31 December 2010 (2009: a net tax charge of HK\$23 million) was recorded in the condensed consolidated income statement as share of results of associates. The Group acquired the remaining interests in the associated companies which became subsidiaries of the Group since February 2010.

6. Interim dividend

Unaudited for the 6 months ended 31 December		
	2010 HK\$ million	2009 HK\$ million
Interim dividend declared of HK\$1.00 (2009: HK\$0.74) per share	1,289	946

The amount of interim dividend is based on **1,289,477,475** shares in issue on **10 February 2011** (2009: 1,278,934,879 shares in issue on 3 February 2010).

7. Earnings per share

Basic

Basic earnings per share is calculated by dividing the profit attributable to shareholders by the weighted average number of ordinary shares in issue during the period after adjusting the outstanding number of ordinary shares deemed to be issued as at the beginning of the period as a result of the scrip dividend (note).

Unaudited for the 6 months ended 31 December		
	2010	2009
Profit attributable to shareholders (HK\$ million)	2,140	2,705
Weighted average number of ordinary shares in issue (million)	1,288	1,246
Adjustments for scrip shares (million) (note)	-	31
	1,288	1,277
Basic earnings per share (HK\$ per share)	1.66	2.12

Diluted

Diluted earnings per share is calculated based on the profit attributable to shareholders, and the weighted average number of shares in issue during the period and the outstanding number of ordinary shares deemed to be issued as at the beginning of the period as a result of the scrip dividend (note) after adjusting for the number of dilutive potential ordinary shares granted under the Company's share option scheme.

Unaudited for the 6 months ended 31 December		
	2010	2009
Profit attributable to shareholders (HK\$ million)	2,140	2,705
Weighted average number of ordinary shares in issue (million)	1,288	1,246
Adjustments for scrip shares (million) (note)	-	31
Adjustments for share options (million)	-	3
Weighted average number of ordinary shares for diluted earnings per share (million)	1,288	1,280
Diluted earnings per share (HK\$ per share)	1.66	2.11

Note: On 10 December 2009, the shareholders approved a special dividend of HK\$1.33 per share for the year ended 30 June 2009 by way of new fully paid shares ("scrip shares"). Approximately 31 million scrip shares were issued on 15 January 2010.

8. Property, plant and equipment

	Unaudited HK\$ million
Balance at 1 July 2010	3,976
Exchange translation	327
Additions	590
Disposals	(16)
Depreciation (note 3)	(403)
Impairment charge (note 3)	(2)
Balance at 31 December 2010	4,472

9. Debtors, deposits and prepayments

Debtors, deposits and prepayments include trade debtors. The ageing analysis by due date of trade debtors net of provision for impairment is as follows:

	Unaudited 31 December 2010 HK\$ million	Audited 30 June 2010 HK\$ million
Current	2,238	1,873
1-30 days	308	165
31-60 days	151	98
61-90 days	68	56
Over 90 days	254	197
Amount past due but not impaired	781	516
	3,019	2,389

The Group's sales to retail customers are made in cash, bank transfer or by credit card. The Group also grants credit period, which is usually 30 to 60 days to certain wholesale and franchise customers.

10. Creditors and accrued charges

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

	Unaudited 31 December 2010 HK\$ million	Audited 30 June 2010 HK\$ million
0-30 days	848	934
31-60 days	40	35
61-90 days	10	6
Over 90 days	6	17
	904	992

11. Share capital

	Unaudited 31 December 2010 HK\$ million	Audited 30 June 2010 HK\$ million
Authorised		
2,000,000,000 shares of HK\$0.10 each	200	200
	Number of shares of HK\$0.10 each Million	Nominal value HK\$ million
Issued and fully paid		
Balance at 1 July 2010	1,288	129
Exercise of share options (note 1)	-	-
Issue of scrip shares (note 2)	1	-
Balance at 31 December 2010	1,289	129

Note 1: During the period, **345,000** ordinary shares of **HK\$0.10** each were issued in respect of the share options exercised by Directors and employees under the share option scheme at exercise prices in the range of **HK\$24.20** to **HK\$24.45** each (representing a premium in the range of **HK\$24.10** to **HK\$24.35** each).

Note 2: On 24 November 2010, the shareholders approved a final dividend of HK\$0.67 per share for the year ended 30 June 2010. The shareholders were provided with an option to receive the final dividend in form of new fully paid shares in lieu of cash. On 29 December 2010, 904,515 shares were issued in respect of the final dividend.

12. Operating lease commitments

The total future minimum lease payments under non-cancelable operating leases are as follows:

	Unaudited 31 December 2010 HK\$ million	Audited 30 June 2010 HK\$ million
Land and buildings		
– within one year	3,038	2,767
– in the second to fifth year inclusive	9,832	9,156
– after the fifth year	7,710	7,491
	20,580	19,414
Other equipment		
– within one year	26	25
– in the second to fifth year inclusive	36	42
	62	67
	20,642	19,481

The total future minimum lease receipts under non-cancelable subleases in respect of land and buildings at 31 December 2010 are **HK\$72 million** (30 June 2010: HK\$55 million).

13. Capital commitments

	Unaudited 31 December 2010 HK\$ million	Audited 30 June 2010 HK\$ million
Property, plant and equipment		
– Contracted but not provided for	574	216
– Authorised but not contracted for	650	1,026
	1,224	1,242

14. Derivative financial instruments

The Group enters into foreign currency forward contracts in the management of its exchange rate exposures. The instruments purchased are primarily denominated in the currencies of the Group's principal markets.

At 31 December 2010, the fair value of the foreign currency forward contracts included in other receivables and other creditors and payables are as follows:

	Unaudited 31 December 2010		Audited 30 June 2010	
	Assets HK\$ million	Liabilities HK\$ million	Assets HK\$ million	Liabilities HK\$ million
Foreign currency forward contracts				
- Cash flow hedges	37	(18)	-	-
- Fair value hedges	-	(18)	7	-
	37	(36)	7	-

These amounts are based on market values of equivalent instruments at the balance sheet date.

At the balance sheet date, the total notional amount of outstanding foreign currency forward contracts to which the Group has committed is as below:

	Unaudited 31 December 2010 HK\$ million	Audited 30 June 2010 HK\$ million
Foreign currency forward contracts	2,399	162

15. Related party transactions

On 12 February 2010, the Group acquired the remaining interest of the associated companies with operations in the People's Republic of China from China Resources Enterprise, Limited. The transactions with these associated companies were inter-company transactions in the six months ended 31 December 2010.

In the ordinary course of business, the Group entered into transactions with related companies in the six months ended 31 December 2009. Details relating to these related party transactions are as follows:

	Unaudited for the 6 months ended 31 December	
	2010 HK\$ million	2009 HK\$ million
Transactions with associates		
Sales of finished goods	-	641
Royalty and accrued interest receivable/received	-	16
Commission receivable/received	-	1



05 OTHER INFORMATION



05.1 OTHER INFORMATION

DIRECTORS' PROFILE

Executive Directors

Ronald VAN DER VIS, aged 43, has been appointed as Executive Director on 22 June 2009 and was appointed as Group Chief Executive Officer on 1 November 2009. He is responsible for the overall management and control of the business of the Group. He has over 10 years experience as chief executive officer in brand building and retail in an international environment. He holds a Bachelor Degree in Business Administration from Nyenrode University, Netherlands, and a Master of Business Administration Degree (with Honours) from the Manchester Business School, University of Manchester, United Kingdom. Before joining the Company, Mr VAN DER VIS had worked for over 10 years in various senior management positions in Pearle Europe B.V., a leading international optical retail group and had been serving as its chief executive officer since January 2004. Mr VAN DER VIS is an independent non-executive director of Sonova Holding AG.

CHEW Fook Aun, aged 48, has been an Executive Director and Group Chief Financial Officer since 1 February 2009. He has over 25 years of experience in accounting, auditing and finance in the United Kingdom and Hong Kong. He is a graduate of the London School of Economics and Political Science of the University of London in the United Kingdom and holds a Bachelor of Science (Economics) degree from the University of London. Mr CHEW was a Council member of the Hong Kong Institute of Certified Public Accountants ("HKICPA") and was the Vice President of HKICPA in 2010. Mr CHEW is also a fellow member of the HKICPA and the Institute of Chartered Accountants in England and Wales. He is a member of the advisory committee of the Securities and Futures Commission, the corruption prevention advisory committee of the Independent Commission Against Corruption, the standing committee on company law reform of the Hong Kong Companies Registry and a Council member of the Financial Reporting Council of Hong Kong. Mr CHEW was an executive director and chief financial officer of The Link Management Limited, manager of The Link Real Estate Investment Trust, from 1 February 2007 to 16 January 2009. He was also the chief financial officer of Kerry Properties Limited from 1996 to 2004, a director of corporate finance for Kerry Holdings Limited from 1998 to 2004 and the executive director responsible for the property portfolio for Kyard Limited from 2004 to 2007.

Non-executive Directors

Heinz Jürgen KROGNER-KORNALIK, aged 69, is a Non-executive Director and the Chairman of the Board. He has been with the Group since January 1995. He became Chairman of the Board with effect from 5 December 2006 and has resigned as Chairman with effect from 11 February 2011. He was Group Chief Executive Officer from 1 November 2002 until he handed over the role and responsibilities of Group Chief Executive Officer to Mr Ronald VAN DER VIS on 1 November 2009 and remained as Executive Chairman until his re-designation as Non-executive Chairman on 30 June 2010 and until his resignation as Chairman with effect from 11 February 2011. In his role as Non-executive Chairman, Mr Krogner was primarily responsible for the overall corporate direction and strategy of the Group and providing leadership to the Board to discharge its functions effectively. He possesses a degree in business administration and industrial engineering. He was a consultant with Kurt Salmon Associates in a variety of areas, including production, organization, marketing, strategy and brand positioning, as well as with several textile firms, always in executive positions, before joining the Group.

Paul CHENG Ming Fun, aged 74, has been an Independent Non-executive Director of the Company since November 2002 and became Deputy Chairman of the Company effective from 20 July 2008. Mr CHENG is an independent non-executive director of Global Logistic Properties Limited, a company listed on the Singapore Stock Exchange. Mr CHENG is also an independent non-executive director of several companies which are listed on The Stock Exchange of Hong Kong Limited, and the AIM Board of the London Stock Exchange. He was a former member of the Hong Kong Legislative Council as well as Chairman of Inchcape Pacific Limited, N M Rothschild & Sons (Hong Kong) Ltd., The Link Management Limited and the Hong Kong General Chamber of Commerce. He is currently an Honorary Steward of the Hong Kong Jockey Club.

Jürgen Alfred Rudolf FRIEDRICH, aged 72, founded Esprit's European operations in 1976 and has been a Non-executive Director of the Company since 1997. He has over 32 years of experience in the apparel distribution and marketing business and is currently retired in Switzerland.

Alexander Reid HAMILTON, aged 69, has been an Independent Non-executive Director of the Company since August 1995. He is also a director of CITIC Pacific Limited, China Cosco Holdings Company Limited, Shangri-La Asia Limited, Octopus Cards Limited and a number of other Hong Kong companies. He was a partner of Price Waterhouse with whom he practiced for 16 years.

Dr Hans-Joachim KÖRBER, aged 64, has been an Independent Non-executive Director of the Company since May 2008. Following Mr KROGNER's resignation as Non-Executive Chairman with effect from 11 February 2011, Dr KÖRBER has been unanimously elected by the Board as the successor of Mr KROGNER to act as the Independent Non-executive Chairman of the Board with effect from 11 February 2011. Dr KÖRBER was the former chief executive officer of Metro AG for many years until his retirement in 2007. Under his guidance, Metro has grown to become one of the largest retailers in the world. Dr KÖRBER is a well-known executive in the international commercial community with extensive experience in finance & accounting, controlling, logistics and IT, including 23 years experience in retailing.

Raymond OR Ching Fai, aged 61, has been an Independent Non-executive Director of the Company since 1996. He is an executive director, chief executive officer and vice chairman of China Strategic Holdings Limited, an independent non-executive director and a vice chairman of G-Resources Group Ltd. He was the former vice chairman and chief executive of Hang Seng Bank Limited, the former chairman of Hang Seng Life Limited and a director of The Hongkong and Shanghai Banking Corporation Limited, Cathay Pacific Airways Limited and Hutchison Whampoa Limited until his retirement in May 2009.

Francesco TRAPANI, aged 53, has been appointed an Independent Non-executive Director of the Company since December 2008. Mr TRAPANI has over 22 years of experience in the luxury industry. He graduated with a degree in economics from the University of Naples and studied business administration at the New York University. Mr TRAPANI is the chief executive officer of the Bulgari Group since 1984, who has since led the Bulgari Group to become one of today's leading global players in the luxury market offering world famous fine jewellery, watches, accessories, fragrances and skincare. Bulgari SpA is listed on the Italian Stock Exchange. Mr TRAPANI is also deputy chairman of the board of directors of Altgamma, the association of Italian companies operating in the high-end of the market.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2010, the interests or short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), were as follows:

(1) Shares of the Company

Name of directors	Capacity	Beneficial interest in shares	Beneficial interest in unlisted underlying shares (Note 4)	Total number of shares	Approximate percentage of aggregate interests to total issued share capital
Ronald VAN DER VIS	Interest of a controlled corporation (Note 1)	–	8,400,000	8,400,000	0.65%
CHEW Fook Aun	Beneficial owner	–	2,400,000	2,400,000	0.19%
Heinz Jürgen KROGNER-KORNALIK	Beneficial owner	–	2,000,000	2,000,000	0.16%
Jürgen Alfred Rudolf FRIEDRICH	Beneficial owner	57,619,400	–	66,523,101	5.16%
	Interest of spouse (Note 2)	50,901	–		
	Founder of a discretionary trust (Note 3)	8,852,800	–		

Notes:

- The interests of the underlying shares of equity derivatives was held by Pisces Investments Limited of which Pisces Trust controlled 100% share interest. Mr Ronald VAN DER VIS is the settlor of the trust which beneficiaries are Mr Ronald VAN DER VIS, his spouse, Eef WOLTERS e/v VAN DER VIS and his child, Floris Maximilian Pieter Daniel VAN DER VIS.
- The shares were held by Mrs Anke Beck FRIEDRICH, the spouse of Mr Jürgen Alfred Rudolf FRIEDRICH.
- The shares were held by a discretionary trust, JAF Foundation (Switzerland), of which Mr Jürgen Alfred Rudolf FRIEDRICH is the founder.
- The interests of Directors and chief executives of the Company in the underlying shares of equity derivatives in respect of share options granted to them pursuant to the 2001 Share Option Scheme and the 2009 Share Option Scheme are detailed in "Share Options" section below.
- All interests disclosed above represent long position in the shares and underlying shares of the Company.

(2) Share Options of the Company

The interests of the Directors and chief executives of the Company in the share options of the Company are detailed in "Share Options" section below.

SHARE OPTIONS

2001 Share Option Scheme

The Company adopted a share option scheme on 26 November 2001 (the "2001 Share Option Scheme"). The 2001 Share Option Scheme was terminated on 10 December 2009, but the Options which have been granted and remained outstanding and/or committed as of that date shall continue to follow the provisions of the 2001 Share Option Scheme and the Listing Rules. Details of the grant of share options and a summary of the movements of the outstanding share options during the period under the 2001 Share Option Scheme are as follows:

Directors

Ronald VAN DER VIS

(through Pisces Investments Limited, of which Pisces Trust controlled 100% share interest. Mr Ronald VAN DER VIS is the settlor of the trust which beneficiaries are Mr Ronald VAN DER VIS, his spouse, Eef WOLTERS e/v VAN DER VIS and his child Floris Maximilian Pieter Daniel VAN DER VIS.)

Date of grant (dd/mm/yyyy)	Exercise price (HK\$)	Vesting date (dd/mm/yyyy)	Exercise period (dd/mm/yyyy)	Number of share options				As at 31/12/2010
				As at 01/07/2010	Granted	Exercised	Lapsed	
22/06/2009	46.45	22/06/2010	22/06/2010 – 21/06/2015	1,600,000	-	-	-	1,600,000
		22/06/2011	22/06/2011 – 21/06/2015	1,600,000	-	-	-	1,600,000
		22/06/2012	22/06/2012 – 21/06/2015	1,600,000	-	-	-	1,600,000
		22/06/2013	22/06/2013 – 21/06/2015	1,600,000	-	-	-	1,600,000
		22/06/2014	22/06/2014 – 21/06/2015	1,600,000	-	-	-	1,600,000
In aggregate				8,000,000	-	-	-	8,000,000

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Date of grant (dd/mm/yyyy)	Exercise price (HK\$)	Vesting date (dd/mm/yyyy)	Exercise period (dd/mm/yyyy)	Number of share options				As at 31/12/2010
				As at 01/07/2010	Granted	Exercised	Lapsed	
09/02/2009	41.70	09/02/2010	09/02/2010 – 08/02/2015	240,000	-	-	-	240,000
		09/02/2011	09/02/2011 – 08/02/2015	240,000	-	-	-	240,000
		09/02/2012	09/02/2012 – 08/02/2015	240,000	-	-	-	240,000
		09/02/2013	09/02/2013 – 08/02/2015	240,000	-	-	-	240,000
		09/02/2014	09/02/2014 – 08/02/2015	240,000	-	-	-	240,000
09/02/2010	56.90	09/02/2011	09/02/2011 – 08/02/2016	180,000	-	-	-	180,000
		09/02/2012	09/02/2012 – 08/02/2016	180,000	-	-	-	180,000
		09/02/2013	09/02/2013 – 08/02/2016	180,000	-	-	-	180,000
		09/02/2014	09/02/2014 – 08/02/2016	180,000	-	-	-	180,000
		09/02/2015	09/02/2015 – 08/02/2016	180,000	-	-	-	180,000
In aggregate				2,100,000	-	-	-	2,100,000

2001 Share Option Scheme (continued)

Directors (continued)

Heinz Jürgen KROGNER-KORNALIK

Date of grant (dd/mm/yyyy)	Exercise price (HK\$)	Vesting date (dd/mm/yyyy)	Exercise period (dd/mm/yyyy)	Number of share options				
				As at 01/07/2010	Granted	Exercised	Lapsed	As at 31/12/2010
27/11/2004	42.58	27/11/2008	27/11/2008 – 26/11/2010	600,000	-	-	600,000	-
			27/11/2009 – 26/11/2010	600,000	-	-	600,000	-
07/02/2007	83.00	07/02/2008	07/02/2008 – 06/02/2013	160,000	-	-	-	160,000
			07/02/2009 – 06/02/2013	160,000	-	-	-	160,000
			07/02/2010 – 06/02/2013	160,000	-	-	-	160,000
			07/02/2011 – 06/02/2013	160,000	-	-	-	160,000
			07/02/2012 – 06/02/2013	160,000	-	-	-	160,000
11/02/2008	102.12	11/02/2009	11/02/2009 – 10/02/2014	120,000	-	-	-	120,000
			11/02/2010 – 10/02/2014	120,000	-	-	-	120,000
			11/02/2011 – 10/02/2014	120,000	-	-	-	120,000
			11/02/2012 – 10/02/2014	120,000	-	-	-	120,000
			11/02/2013 – 10/02/2014	120,000	-	-	-	120,000
09/02/2009	41.70	09/02/2010	09/02/2010 – 08/02/2015	120,000	-	-	-	120,000
			09/02/2011 – 08/02/2015	120,000	-	-	-	120,000
			09/02/2012 – 08/02/2015	120,000	-	-	-	120,000
			09/02/2013 – 08/02/2015	120,000	-	-	-	120,000
			09/02/2014 – 08/02/2015	120,000	-	-	-	120,000
In aggregate				3,200,000	-	-	1,200,000	2,000,000

Employees & Consultants

Date of grant (dd/mm/yyyy)	Exercise price (HK\$)	Vesting date (dd/mm/yyyy)	Exercise period (dd/mm/yyyy)	Number of share options				
				As at 01/07/2010	Granted	Exercised	Lapsed	As at 31/12/2010
26/11/2003	24.20	26/11/2006	26/11/2006 – 25/11/2011	150,000	-	-	-	150,000
			26/11/2007 – 25/11/2011	305,000	-	-	-	305,000
			26/11/2008 – 25/11/2011	440,000	-	105,000	-	335,000
23/12/2003	24.45	23/12/2007	23/12/2007 – 22/12/2011	120,000	-	120,000	-	-
			23/12/2008 – 22/12/2011	120,000	-	120,000	-	-
27/11/2004	42.58	27/11/2006	27/11/2006 – 26/11/2010	120,000	-	-	120,000	-
			27/11/2007 – 26/11/2010	300,000	-	-	300,000	-
			27/11/2008 – 26/11/2010	480,000	-	-	480,000	-
			27/11/2009 – 26/11/2010	720,000	-	-	720,000	-
28/11/2005	55.11	28/11/2006	28/11/2006 – 27/11/2011	105,000	-	-	45,000	60,000
			28/11/2007 – 27/11/2011	105,000	-	-	45,000	60,000
			28/11/2008 – 27/11/2011	345,000	-	-	45,000	300,000
			28/11/2009 – 27/11/2011	345,000	-	-	45,000	300,000
			28/11/2010 – 27/11/2011	300,000	-	-	-	300,000
02/12/2005	56.20	02/12/2006	02/12/2006 – 01/12/2011	100,000	-	-	-	100,000
			02/12/2007 – 01/12/2011	140,000	-	-	-	140,000
			02/12/2008 – 01/12/2011	220,000	-	-	-	220,000
			02/12/2009 – 01/12/2011	220,000	-	-	-	220,000
			02/12/2010 – 01/12/2011	220,000	-	-	-	220,000
23/12/2005	56.50	23/12/2006	23/12/2006 – 22/12/2011	90,000	-	-	-	90,000
			23/12/2007 – 22/12/2011	90,000	-	-	-	90,000
			23/12/2008 – 22/12/2011	90,000	-	-	-	90,000
			23/12/2009 – 22/12/2011	90,000	-	-	-	90,000
			23/12/2010 – 22/12/2011	90,000	-	-	-	90,000

2001 Share Option Scheme (continued)

Employees & Consultants (continued)

Date of grant (dd/mm/yyyy)	Exercise price (HK\$)	Vesting date (dd/mm/yyyy)	Exercise period (dd/mm/yyyy)	Number of share options				
				As at 01/07/2010	Granted	Exercised	Lapsed	As at 31/12/2010
27/11/2006	80.60	27/11/2007	27/11/2007 – 26/11/2012	15,000	-	-	15,000	-
		27/11/2008	27/11/2008 – 26/11/2012	165,000	-	-	15,000	150,000
		27/11/2009	27/11/2009 – 26/11/2012	165,000	-	-	15,000	150,000
		27/11/2010	27/11/2010 – 26/11/2012	150,000	-	-	-	150,000
		27/11/2011	27/11/2011 – 26/11/2012	150,000	-	-	-	150,000
04/12/2006	79.49	04/12/2007	04/12/2007 – 03/12/2012	150,000	-	-	-	150,000
		04/12/2008	04/12/2008 – 03/12/2012	165,000	-	-	-	165,000
		04/12/2009	04/12/2009 – 03/12/2012	165,000	-	-	-	165,000
		04/12/2010	04/12/2010 – 03/12/2012	165,000	-	-	-	165,000
		04/12/2011	04/12/2011 – 03/12/2012	165,000	-	-	-	165,000
05/12/2006	80.95	05/12/2007	05/12/2007 – 04/12/2012	536,000	-	-	40,000	496,000
		05/12/2008	05/12/2008 – 04/12/2012	576,000	-	-	40,000	536,000
		05/12/2009	05/12/2009 – 04/12/2012	576,000	-	-	40,000	536,000
		05/12/2010	05/12/2010 – 04/12/2012	576,000	-	-	40,000	536,000
		05/12/2011	05/12/2011 – 04/12/2012	576,000	-	-	40,000	536,000
07/02/2007	83.00	07/02/2008	07/02/2008 – 06/02/2013	40,000	-	-	-	40,000
		07/02/2009	07/02/2009 – 06/02/2013	40,000	-	-	-	40,000
		07/02/2010	07/02/2010 – 06/02/2013	40,000	-	-	-	40,000
		07/02/2011	07/02/2011 – 06/02/2013	40,000	-	-	-	40,000
		07/02/2012	07/02/2012 – 06/02/2013	40,000	-	-	-	40,000
04/12/2007	119.00	04/12/2008	04/12/2008 – 03/12/2013	165,000	-	-	-	165,000
		04/12/2009	04/12/2009 – 03/12/2013	165,000	-	-	-	165,000
		04/12/2010	04/12/2010 – 03/12/2013	165,000	-	-	-	165,000
		04/12/2011	04/12/2011 – 03/12/2013	165,000	-	-	-	165,000
		04/12/2012	04/12/2012 – 03/12/2013	165,000	-	-	-	165,000
05/12/2007	118.70	05/12/2008	05/12/2008 – 04/12/2013	432,000	-	-	30,000	402,000
		05/12/2009	05/12/2009 – 04/12/2013	432,000	-	-	30,000	402,000
		05/12/2010	05/12/2010 – 04/12/2013	432,000	-	-	30,000	402,000
		05/12/2011	05/12/2011 – 04/12/2013	432,000	-	-	30,000	402,000
		05/12/2012	05/12/2012 – 04/12/2013	432,000	-	-	30,000	402,000
31/01/2008	100.80	31/01/2009	31/01/2009 – 30/01/2014	680,000	-	-	-	680,000
		31/01/2010	31/01/2010 – 30/01/2014	680,000	-	-	-	680,000
		31/01/2011	31/01/2011 – 30/01/2014	680,000	-	-	-	680,000
		31/01/2012	31/01/2012 – 30/01/2014	680,000	-	-	-	680,000
		31/01/2013	31/01/2013 – 30/01/2014	680,000	-	-	-	680,000
11/02/2008	102.12	11/02/2009	11/02/2009 – 10/02/2014	30,000	-	-	-	30,000
		11/02/2010	11/02/2010 – 10/02/2014	30,000	-	-	-	30,000
		11/02/2011	11/02/2011 – 10/02/2014	30,000	-	-	-	30,000
		11/02/2012	11/02/2012 – 10/02/2014	30,000	-	-	-	30,000
		11/02/2013	11/02/2013 – 10/02/2014	30,000	-	-	-	30,000
09/12/2008	44.25	09/12/2009	09/12/2009 – 08/12/2014	432,000	-	-	30,000	402,000
		09/12/2010	09/12/2010 – 08/12/2014	432,000	-	-	30,000	402,000
		09/12/2011	09/12/2011 – 08/12/2014	432,000	-	-	30,000	402,000
		09/12/2012	09/12/2012 – 08/12/2014	432,000	-	-	30,000	402,000
		09/12/2013	09/12/2013 – 08/12/2014	432,000	-	-	30,000	402,000

2001 Share Option Scheme (continued)

Employees & Consultants (continued)

Date of grant (dd/mm/yyyy)	Exercise price (HK\$)	Vesting date (dd/mm/yyyy)	Exercise period (dd/mm/yyyy)	Number of share options				
				As at 01/07/2010	Granted	Exercised	Lapsed	As at 31/12/2010
11/12/2008	45.95	11/12/2009	11/12/2009 – 10/12/2014	516,000	-	-	-	516,000
		11/12/2010	11/12/2010 – 10/12/2014	516,000	-	-	-	516,000
		11/12/2011	11/12/2011 – 10/12/2014	516,000	-	-	-	516,000
		11/12/2012	11/12/2012 – 10/12/2014	516,000	-	-	-	516,000
		11/12/2013	11/12/2013 – 10/12/2014	516,000	-	-	-	516,000
05/02/2009	39.76	05/02/2010	05/02/2010 – 04/02/2015	692,000	-	-	24,000	668,000
		05/02/2011	05/02/2011 – 04/02/2015	722,000	-	-	24,000	698,000
		05/02/2012	05/02/2012 – 04/02/2015	722,000	-	-	24,000	698,000
		05/02/2013	05/02/2013 – 04/02/2015	722,000	-	-	24,000	698,000
		05/02/2014	05/02/2014 – 04/02/2015	722,000	-	-	24,000	698,000
09/02/2009	41.70	09/02/2010	09/02/2010 – 08/02/2015	30,000	-	-	-	30,000
		09/02/2011	09/02/2011 – 08/02/2015	30,000	-	-	-	30,000
		09/02/2012	09/02/2012 – 08/02/2015	30,000	-	-	-	30,000
		09/02/2013	09/02/2013 – 08/02/2015	30,000	-	-	-	30,000
		09/02/2014	09/02/2014 – 08/02/2015	30,000	-	-	-	30,000
08/05/2009	51.76	08/05/2010	08/05/2010 – 07/05/2015	160,000	-	-	-	160,000
		08/05/2011	08/05/2011 – 07/05/2015	160,000	-	-	-	160,000
		08/05/2012	08/05/2012 – 07/05/2015	160,000	-	-	-	160,000
		08/05/2013	08/05/2013 – 07/05/2015	160,000	-	-	-	160,000
		08/05/2014	08/05/2014 – 07/05/2015	160,000	-	-	-	160,000
22/06/2009	46.45	22/06/2010	22/06/2010 – 21/06/2015	80,000	-	-	-	80,000
		22/06/2011	22/06/2011 – 21/06/2015	80,000	-	-	-	80,000
		22/06/2012	22/06/2012 – 21/06/2015	80,000	-	-	-	80,000
		22/06/2013	22/06/2013 – 21/06/2015	80,000	-	-	-	80,000
		22/06/2014	22/06/2014 – 21/06/2015	80,000	-	-	-	80,000
09/12/2009	53.74	09/12/2010	09/12/2010 – 08/12/2015	672,000	-	-	160,000	512,000
		09/12/2011	09/12/2011 – 08/12/2015	672,000	-	-	160,000	512,000
		09/12/2012	09/12/2012 – 08/12/2015	672,000	-	-	160,000	512,000
		09/12/2013	09/12/2013 – 08/12/2015	672,000	-	-	160,000	512,000
		09/12/2014	09/12/2014 – 08/12/2015	672,000	-	-	160,000	512,000
11/12/2009	53.90	11/12/2010	11/12/2010 – 10/12/2015	387,000	-	-	-	387,000
		11/12/2011	11/12/2011 – 10/12/2015	387,000	-	-	-	387,000
		11/12/2012	11/12/2012 – 10/12/2015	387,000	-	-	-	387,000
		11/12/2013	11/12/2013 – 10/12/2015	387,000	-	-	-	387,000
		11/12/2014	11/12/2014 – 10/12/2015	387,000	-	-	-	387,000
04/02/2010	57.70	04/02/2011	04/02/2011 – 03/02/2016	510,000	-	-	-	510,000
		04/02/2012	04/02/2012 – 03/02/2016	510,000	-	-	-	510,000
		04/02/2013	04/02/2013 – 03/02/2016	510,000	-	-	-	510,000
		04/02/2014	04/02/2014 – 03/02/2016	510,000	-	-	-	510,000
		04/02/2015	04/02/2015 – 03/02/2016	510,000	-	-	-	510,000
05/02/2010	55.46	05/02/2011	05/02/2011 – 04/02/2016	159,000	-	-	18,000	141,000
		05/02/2012	05/02/2012 – 04/02/2016	159,000	-	-	18,000	141,000
		05/02/2013	05/02/2013 – 04/02/2016	159,000	-	-	18,000	141,000
		05/02/2014	05/02/2014 – 04/02/2016	159,000	-	-	18,000	141,000
		05/02/2015	05/02/2015 – 04/02/2016	159,000	-	-	18,000	141,000

2001 Share Option Scheme (continued)

Employees & Consultants (continued)

Date of grant (dd/mm/yyyy)	Exercise price (HK\$)	Vesting date (dd/mm/yyyy)	Exercise period (dd/mm/yyyy)	Number of share options				
				As at 01/07/2010	Granted	Exercised	Lapsed	As at 31/12/2010
10/05/2010	52.61	10/05/2011	10/05/2011 – 09/05/2016	120,000	-	-	-	120,000
		10/05/2012	10/05/2012 – 09/05/2016	120,000	-	-	-	120,000
		10/05/2013	10/05/2013 – 09/05/2016	120,000	-	-	-	120,000
		10/05/2014	10/05/2014 – 09/05/2016	120,000	-	-	-	120,000
		10/05/2015	10/05/2015 – 09/05/2016	120,000	-	-	-	120,000
22/06/2010	45.24	22/06/2011	22/06/2011 – 21/06/2016	60,000	-	-	-	60,000
		22/06/2012	22/06/2012 – 21/06/2016	60,000	-	-	-	60,000
		22/06/2013	22/06/2013 – 21/06/2016	60,000	-	-	-	60,000
		22/06/2014	22/06/2014 – 21/06/2016	60,000	-	-	-	60,000
		22/06/2015	22/06/2015 – 21/06/2016	60,000	-	-	-	60,000
09/12/2010	37.92	09/12/2011	09/12/2011 – 08/12/2016	-	384,000	-	-	384,000
		09/12/2012	09/12/2012 – 08/12/2016	-	384,000	-	-	384,000
		09/12/2013	09/12/2013 – 08/12/2016	-	384,000	-	-	384,000
		09/12/2014	09/12/2014 – 08/12/2016	-	384,000	-	-	384,000
		09/12/2015	09/12/2015 – 08/12/2016	-	384,000	-	-	384,000
13/12/2010	38.10	13/12/2011	13/12/2011 – 12/12/2016	-	387,000	-	-	387,000
		13/12/2012	13/12/2012 – 12/12/2016	-	387,000	-	-	387,000
		13/12/2013	13/12/2013 – 12/12/2016	-	387,000	-	-	387,000
		13/12/2014	13/12/2014 – 12/12/2016	-	387,000	-	-	387,000
		13/12/2015	13/12/2015 – 12/12/2016	-	387,000	-	-	387,000
In aggregate				35,545,000	3,855,000	345,000	3,355,000	35,700,000
TOTAL				48,845,000	3,855,000	345,000	4,555,000	47,800,000

Notes:

- (i) The closing prices of the shares of the Company immediately before the share options granted on 9 December 2010 and 13 December 2010 were HK\$37.60 and HK\$38.30 respectively.
- (ii) The weighted average closing price of the shares immediately before the dates of exercise by the employees and consultants was HK\$41.27.
- (iii) No share options were cancelled under the 2001 Share Option Scheme during the six months ended 31 December 2010.

Share Options Expenses under 2001 Share Option Scheme

Share option expenses charged to the consolidated income statement are based on valuation determined using the Binomial model. Share options granted during the period were valued based on the following assumptions:

Date of grant	Option value ¹ HK\$	Share price at the date of grant HK\$	Exercisable price HK\$	Expected volatility ²	Annual risk-free interest rate ³	Life of option ⁴	Dividend yield ⁵
9 December 2010	8.46 – 13.17	37.50	37.92	55.05%	0.65% – 1.99%	2 – 6 years	3.49%
13 December 2010	8.71 – 13.47	38.10	38.10	55.01%	0.65% – 2.03%	2 – 6 years	3.49%

- Since the option pricing model requires input of highly subjective assumptions, fair values calculated are therefore inherently subjective and the model may not necessarily provide a reliable measure of share option expense.
- Estimated volatility was based on the historical stock prices over 3 years preceding the grant date, expressed as an annualised rate and based on daily price changes.
- The risk-free interest rate was based on the market yield of Hong Kong Exchange Fund notes with a remaining life corresponding to the expected option life.
- The expected option life was determined by reference to historical data of option holders' behaviour.
- Dividend yield was based on the average dividend yield (excluding special dividend) for the three years preceding the year of grant.

2009 Share Option Scheme

On 10 December 2009, the shareholders has approved at the 2009 Annual General Meeting of the Company a new share option scheme (the "2009 Share Option Scheme"). Details of the grant of share options and a summary of the movements of the outstanding share options during the period under the 2009 Share Option Scheme are as follows:

Directors

Ronald VAN DER VIS

(through Pisces Investments Limited, of which Pisces Trust controlled 100% share interest. Mr Ronald VAN DER VIS is the settlor of the trust which beneficiaries are Mr Ronald VAN DER VIS, his spouse, Eef WOLTERS e/v VAN DER VIS and his child Floris Maximilian Pieter Daniel VAN DER VIS.)

Date of grant (dd/mm/yyyy)	Exercise price (HK\$)	Vesting date (dd/mm/yyyy)	Exercise period (dd/mm/yyyy)	Number of share options				As at 31/12/2010
				As at 01/07/2010	Granted	Exercised	Lapsed	
27/09/2010	43.00	27/09/2013	27/09/2013 – 26/09/2020	-	400,000	-	-	400,000
In aggregate				-	400,000	-	-	400,000

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Date of grant (dd/mm/yyyy)	Exercise price (HK\$)	Vesting date (dd/mm/yyyy)	Exercise period (dd/mm/yyyy)	Number of share options				As at 31/12/2010
				As at 01/07/2010	Granted	Exercised	Lapsed	
27/09/2010	43.00	27/09/2013	27/09/2013 – 26/09/2020	-	300,000	-	-	300,000
In aggregate				-	300,000	-	-	300,000

Employees & Consultants

Date of grant (dd/mm/yyyy)	Exercise price (HK\$)	Vesting date (dd/mm/yyyy)	Exercise period (dd/mm/yyyy)	Number of share options				As at 31/12/2010
				As at 01/07/2010	Granted	Exercised	Lapsed	
19/04/2010	62.21	19/04/2011	19/04/2011 – 18/04/2016	160,000	-	-	-	160,000
		19/04/2012	19/04/2012 – 18/04/2016	160,000	-	-	-	160,000
		19/04/2013	19/04/2013 – 18/04/2016	160,000	-	-	-	160,000
		19/04/2014	19/04/2014 – 18/04/2016	160,000	-	-	-	160,000
		19/04/2015	19/04/2015 – 18/04/2016	160,000	-	-	-	160,000
02/07/2010	43.93	02/07/2011	02/07/2011 – 01/07/2016	-	600,000	-	-	600,000
		02/07/2012	02/07/2012 – 01/07/2016	-	600,000	-	-	600,000
		02/07/2013	02/07/2013 – 01/07/2016	-	600,000	-	-	600,000
		02/07/2014	02/07/2014 – 01/07/2016	-	600,000	-	-	600,000
		02/07/2015	02/07/2015 – 01/07/2016	-	600,000	-	-	600,000
27/09/2010	43.00	27/09/2013	27/09/2013 – 26/09/2020	-	9,160,000	-	50,000	9,110,000
04/10/2010	42.34	04/10/2011	04/10/2011 – 03/10/2016	-	400,000	-	-	400,000
		04/10/2012	04/10/2012 – 03/10/2016	-	400,000	-	-	400,000
		04/10/2013	04/10/2013 – 03/10/2016	-	400,000	-	-	400,000
		04/10/2014	04/10/2014 – 03/10/2016	-	400,000	-	-	400,000
		04/10/2015	04/10/2015 – 03/10/2016	-	400,000	-	-	400,000
In aggregate				800,000	14,160,000	-	50,000	14,910,000
TOTAL				800,000	14,860,000	-	50,000	15,610,000

Notes:

- (i) The closing price of the shares of the Company immediately before the share options granted on 2 July 2010, 27 September 2010 and 4 October 2010 were HK\$42.45, HK\$42.20 and HK\$42.10.
- (ii) No share options were cancelled under the 2009 Share Option Scheme during the six months ended 31 December 2010.

Share Options Expenses under 2009 Share Option Scheme

Share option expenses charged to the consolidated income statement are based on valuation determined using the Binomial model. Share options granted during the period were valued based on the following assumptions:

Date of grant	Option value ¹ HK\$	Share price at the date of grant HK\$	Exercisable price HK\$	Expected volatility ²	Annual risk-free interest rate ³	Life of option ⁴	Dividend yield ⁵
2 July 2010	10.77 – 11.88	42.00	43.93	44.52% – 59.05%	0.75% – 1.86%	2 – 6 years	6.21%
27 September 2010	12.46	43.00	43.00	50.63%	0.98%	4 years	6.21%
4 October 2010	10.21 – 11.79	41.50	42.34	44.57% – 55.62%	0.54% – 1.45%	2 – 6 years	6.21%

1. Since the option pricing model requires input of highly subjective assumptions, fair values calculated are therefore inherently subjective and the model may not necessarily provide a reliable measure of share option expense.
2. Estimated volatility was based on the historical stock prices over the period corresponding to the expected life preceding the grant date, expressed as an annualised rate and based on daily price changes.
3. The risk-free interest rate was based on the market yield of Hong Kong Exchange Fund notes with a remaining life corresponding to the expected option life.
4. The expected option life was determined by reference to historical data of option holders' behaviour.
5. Dividend yield was based on the average dividend yield (including special dividend) for the three years preceding the year of grant.

Save as disclosed above, at no time during the period under review was the Company or its subsidiaries a party to any arrangement that enabled the Directors of the Company or any of their spouses or children under the age of 18 to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31 December 2010, the following shareholders (other than the Directors and chief executives of the Company whose interests or short positions in the shares and underlying shares of the Company as disclosed above) had interests or short positions in the shares and underlying shares of the Company which were recorded in the register required to be kept by the Company under Section 336 of the SFO:

Name of shareholders	Capacity	Number of shares (Long position)	Number of shares (Short position)	Total number of shares	Approximate percentage of aggregate interests to total issued share capital
JPMorgan Chase & Co.	Interest of controlled corporations (Notes 1 to 4)	101,506,307	5,796,650	107,302,957	8.32%
Capital Research and Management Company	Investment manager (Note 5)	105,231,995	–	105,231,995	8.16%
AllianceBernstein L.P.	Investment manager Interest of controlled corporations (Note 5)	92,297,897 11,013,096	– –	103,310,993	8.01%
State Street Corporation	Custodian corporation/ approved lending agent (Notes 5 & 6)	72,412,024	–	72,412,024	5.62%
Sun Life Financial, Inc.	Investment manager (Notes 5 & 7)	68,330,834	–	68,330,834	5.30%

Notes:

1. The shares held by JPMorgan Chase & Co. were held in the following capacities:

Capacity	Number of shares (Long position)	Number of shares (Short position)
Beneficial owner	4,802,673	5,796,650
Investment manager	31,513,527	–
Custodian corporation/approved lending agent	65,190,107	–

SUBSTANTIAL SHAREHOLDERS' INTERESTS (CONTINUED)

2. Details of the interest in long position of the 101,506,307 shares held by JPMorgan Chase & Co. were as follows:

Name	Direct (D)/Indirect (I) interests in the shares	Aggregate long position in the shares	Approximate percentage of aggregate interests to total issued share capital
JPMorgan Chase Bank, N.A.	D	67,608,422	5.24%
JPMorgan Chase Bank, N.A.	I	4,802,673	0.37%
J.P. Morgan International Inc.	I	4,802,673	0.37%
Bank One International Holdings Corporation	I	4,802,673	0.37%
J.P. Morgan International Finance Limited	I	4,802,673	0.37%
J.P. Morgan Overseas Capital Corporation	I	1,249,522	0.10%
J.P. Morgan Whitefriars Inc.	D	1,249,522	0.10%
JPMorgan Asset Management Holdings Inc.	I	29,095,212	2.26%
J.P. Morgan Investment Management Inc.	D	6,722,323	0.52%
JPMorgan Asset Management (Asia) Inc.	I	463,328	0.04%
JPMorgan Asset Management (Taiwan) Limited	D	463,328	0.04%
JPMorgan Asset Management International Limited	I	21,909,561	1.70%
JPMorgan Asset Management Holdings (UK) Limited	I	21,909,561	1.70%
JPMorgan Asset Management (UK) Limited	D	21,909,561	1.70%
J.P. Morgan Capital Holdings Limited	I	3,553,151	0.28%
J.P. Morgan Chase (UK) Holdings Limited	I	3,553,151	0.28%
J.P. Morgan Chase International Holdings	I	3,553,151	0.28%
J.P. Morgan Securities Ltd.	D	3,553,151	0.28%

Explanatory Notes:

All the following interests were deemed to be held by the relevant company under the SFO. JPMorgan Chase & Co. was deemed to be interested in an aggregate of 101,506,307 shares held or deemed to be held by: (I) JPMorgan Chase Bank, N.A. (72,411,095 shares); and (II) JPMorgan Asset Management Holdings Inc. (29,095,212 shares), all were wholly-owned subsidiaries of JPMorgan Chase & Co.

(a) JPMorgan Chase Bank, N.A. directly held 67,608,422 shares and was also deemed to be interested in an aggregate of 4,802,673 shares held by the following indirect subsidiaries held through J.P. Morgan International Finance Limited ("JPIF"):

- (i) 1,249,522 shares were held by J.P. Morgan Whitefriars Inc., wholly-owned by J.P. Morgan Overseas Capital Corporation, a wholly-owned subsidiary of JPIF; and
- (ii) 3,553,151 shares were held by J.P. Morgan Securities Ltd., 98.95% subsidiary of J.P. Morgan Chase International Holdings, wholly-owned by J.P. Morgan Chase (UK) Holdings Limited, wholly-owned by J.P. Morgan Capital Holdings Limited, a wholly-owned subsidiary of JPIF.

(b) JPMorgan Asset Management Holdings Inc. ("JPAMH") was deemed to be interested in an aggregate of 29,095,212 shares held by the following subsidiaries:

- (i) 6,722,323 shares were held by J.P. Morgan Investment Management Inc., directly wholly-owned by JPAMH;
- (ii) 463,328 shares were held by JPMorgan Asset Management (Taiwan) Limited, wholly-owned by JPMorgan Asset Management (Asia) Inc., directly wholly-owned by JPAMH; and
- (iii) 21,909,561 shares were held by JPMorgan Asset Management (UK) Limited, wholly-owned by JPMorgan Asset Management Holdings (UK) Limited, wholly-owned by JPMorgan Asset Management International Limited, directly wholly-owned by JPAMH.

3. 65,190,107 shares of the interests disclosed in Note 2 above represent shares of the Company in the lending pool.

4. Details of the interest in short position of the 5,796,650 shares held by JPMorgan Chase & Co. were as follows:

Name	Direct (D)/Indirect (I) interests in the shares	Aggregate short position in the shares	Approximate percentage of aggregate interests to total issued share capital
JPMorgan Chase Bank, N.A.	I	5,796,650	0.45%
J.P. Morgan International Inc.	I	5,796,650	0.45%
Bank One International Holdings Corporation	I	5,796,650	0.45%
J.P. Morgan International Finance Limited	I	5,796,650	0.45%
J.P. Morgan Capital Holdings Limited	I	3,553,150	0.28%
J.P. Morgan Chase (UK) Holdings Limited	I	3,553,150	0.28%
J.P. Morgan Chase International Holdings	I	3,553,150	0.28%
J.P. Morgan Securities Ltd.	D	3,553,150	0.28%
J.P. Morgan Overseas Capital Corporation	I	2,243,500	0.17%
J.P. Morgan Whitefriars Inc.	D	2,243,500	0.17%

SUBSTANTIAL SHAREHOLDERS' INTERESTS (CONTINUED)

Explanatory Notes:

All the following interests were deemed to be held by the relevant company under the SFO. JPMorgan Chase & Co. was deemed to have a short position in an aggregate of 5,796,650 shares held by the following indirect subsidiaries:

- (a) 3,553,150 shares held by J.P. Morgan Securities Ltd., 98.95% subsidiary of J.P. Morgan Chase International Holdings, wholly-owned by J.P. Morgan Chase (UK) Holdings Limited, wholly-owned by J.P. Morgan Capital Holdings Limited, a wholly-owned subsidiary of JPIF, indirect wholly-owned subsidiary of JPMorgan Chase & Co; and
- (b) 2,243,500 shares held by J.P. Morgan Whitefriars Inc., wholly-owned by J.P. Morgan Overseas Capital Corporation, a wholly-owned subsidiary of JPIF, indirect wholly-owned subsidiary of JPMorgan Chase & Co.

5. All interests disclosed herein represent long positions in the shares of the Company.

6. All interests disclosed herein represent shares of the Company in the lending pool.

7. Details of the interest in long position of the 68,330,834 shares held by Sun Life Financial, Inc. were as follows:

- (a) 68,330,834 shares were held by Massachusetts Financial Services Company ("MFS"), 94.57% subsidiary of Sun Life of Canada (U.S.) Financial Services Holdings, Inc., 99.85% subsidiary of Sun Life Financial (U.S.) Investments LLC, wholly-owned subsidiary of Sun Life Financial (U.S.) Holdings, Inc., wholly-owned subsidiary of Sun Life Assurance Company of Canada – U.S. Operations Holdings, Inc., wholly-owned subsidiary of Sun Life Global Investments Inc., wholly-owned subsidiary of Sun Life Financial, Inc.; and

- (b) MFS was deemed to be interested in an aggregate of 26,042,194 shares held by the following subsidiaries:

- (i) 892,584 shares were held by MFS Heritage Trust Company, wholly-owned subsidiary of MFS;
- (ii) 17,439,234 shares were held by MFS Institutional Advisors, Inc., wholly-owned subsidiary of MFS;
- (iii) 221,524 shares were held by MFS Investment Management K.K., wholly-owned subsidiary of MFS;
- (iv) 4,455,351 shares were held by MFS International Ltd. ("MIL"), wholly-owned subsidiary of MFS; and
- (v) 3,033,501 shares were held by MFS International (U.K.) Limited, wholly-owned subsidiary of MIL, which in turn is a wholly-owned subsidiary of MFS.

Save as aforesaid and as disclosed in the "Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures" section of this report, the Company has not been notified by any person who had interest or short position in the shares or underlying shares of the Company as at 31 December 2010 which were required to be notified to the Company pursuant to Part XV of the SFO or which are recorded in the register required to be kept by the Company under Section 336 of the SFO.

INTERIM DIVIDEND

The Board of Directors has declared an interim dividend for the six months ended 31 December 2010 of HK\$1.00 per share (FY2009/2010: HK\$0.74).

In addition, the Board has provided the shareholders with an option to receive the interim dividend in form of new fully paid shares in lieu of cash. The dividend reinvestment price shall be determined by the average closing price of the shares of the Company for the five trading days preceding the commencement of the book closure period and including the Record Date (as defined hereunder) i.e. from 28 February 2011 to 4 March 2011, both days inclusive. Further details of the scrip dividend reinvestment scheme and the election form will be despatched on or around 11 March 2011 and the election period will commence on 11 March 2011 to 25 March 2011, both days inclusive.

The dividend will be payable on or about 12 April 2011 to the shareholders whose names appear on the Registers of Members of the Company at the close of business on 4 March 2011 (the "Record Date") (the "Shareholders"). The relevant dividend warrants and/or share certificates for new shares will be despatched to the Shareholders on or about 12 April 2011.

The scrip dividend reinvestment scheme is conditional upon the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the new shares to be issued under the scrip dividend reinvestment scheme.

CLOSURE OF REGISTERS OF MEMBERS

The Registers of Members of the Company will be closed from 7 March 2011 to 8 March 2011, 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 branch share registrar in Hong Kong, Tricor Secretaries Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:00 pm on 4 March 2011.

AUDIT COMMITTEE

The Audit Committee currently comprises five Independent Non-executive Directors. The Audit Committee 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 of the Group for the six months ended 31 December 2010 with the management.

HUMAN RESOURCES

As at 31 December 2010, the Group employed over 14,500 full-time equivalent staff (31 December 2009: over 11,500) around the globe. Competitive remuneration packages that take into account business performance, market practices and competitive market conditions are offered to employees in compensation for their contribution. In addition, share options and discretionary bonuses are also granted based on the Group's and individual's performances. All employees around the world are connected through the Group's quarterly newsletters and global intranet.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

Neither the Company nor any of its subsidiaries have purchased, sold or redeemed any of the Company's shares during the period under review.

AMERICAN DEPOSITORY RECEIPT PROGRAMME

Since November 2009, the Company has successfully established a Level 1 sponsored American Depositary Receipt programme with details as stated hereunder.

Ticker	ESPGY
CUSIP	29666V204
ISIN	US29666V2043
Ratio	2 Ordinary shares: 1 ADR
Country	Hong Kong
Effective Date	18 November 2009
Depository	BNY Mellon

CORPORATE GOVERNANCE

The Company has complied with the code provisions of Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules on the Stock Exchange throughout the six months ended 31 December 2010, with the deviation as stated below:

Under the code provision A.4.1 of the Code, non-executive directors should be appointed for a specific term, subject to re-election. Non-executive Directors of the Company have not been appointed for a specific term. However, under Bye-law 87 of the Company's Bye-laws, all Directors, including Non-executive Directors, of the Company are subject to retirement by rotation and re-election in the annual general meeting of the Company and each Director is effectively appointed under an average term of three years.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code.

The Company has made specific enquiry with all Directors and all of them confirmed that they have complied with the required standard set out in the Model Code for the six months ended 31 December 2010.

CHANGE OF CHAIRMAN OF THE BOARD AND RESIGNATION OF NON-EXECUTIVE DIRECTOR

Mr Heinz Jürgen KROGNER-KORNALIK, the Non-executive Chairman of the Board and Non-executive Director of the Company, has tendered his resignation with effect from 11 February 2011 due to his intended pursuit of other personal commitments. Following Mr KROGNER's resignation, Dr Hans-Joachim KÖRBER has been unanimously elected by the Board as the successor of Mr KROGNER to act as the Independent Non-executive Chairman of the Board with effect from 11 February 2011.

TERMS OF REFERENCE

The terms of reference of the Audit, Nomination and Remuneration Committees have been formulated with reference to the Code and have been posted on the Company's website (www.espritholdings.com).

On behalf of the board
ESPRIT HOLDINGS LIMITED

Heinz Jürgen KROGNER-KORNALIK
Non-executive Chairman

Hong Kong, 10 February 2011





06 GLOSSARY OF TERMS

Retail	
Term	Definition
Retail sales	Direct sale of merchandise to end consumers via directly managed retail stores or e-shop
Directly managed retail stores	Stores, concessions and outlets fully managed by Esprit. All stores are leased
New store opening	Newly opened store locations and includes expanded and relocated stores
Closed store	Closed store locations and includes shrunken and relocated stores
e-shop	On-line store
Comparable Stores (comp-store)	A directly managed retail store in existence on 1 July of the previous financial year and is still in operation at the reporting period end date and a. its net sales area has been changed by 10% or less within that period; or b. its cumulative renovated area within the same fiscal year is 20% or less (regardless of any net sales area change)
Comp-store sales growth	Local currency year-on-year change in sales generated by comparable stores
Mega flagship stores (mega stores)	Large type stores situated in prominent shopping areas. Offer the most complete collection of Esprit products from all divisions including most licensed products
Flagship stores	Large type stores, smaller than mega stores, situated in prominent shopping areas. Offer range of products from most divisions and some licensed products
Concession stores	Retail stores situated in big department stores. Offer selective range of product divisions
Outlet stores	Situated in the vicinity of major markets. Offer product collection exclusively made for outlets and prior season products at a more competitive price

Wholesale	
Term	Definition
Wholesale sales	Sale of merchandise to third party wholesale customers
Controlled wholesale space	POS which Esprit wholesale management team has control over the look and feel such as Esprit brand name logo, merchandising display, etc. Includes partnership stores, shop-in-stores and identity corners with wholesale customers
Wholesale order book	The value of wholesale orders received for future delivery
Yoy increase in wholesale order book	Year to date growth of order value recorded in wholesale order book, compared to same period last year
Franchise stores	Stand-alone stores closely resemble our own directly managed retail stores and concession stores located in department stores which local retail partners pay for investment. Esprit provides initial setup support and a wide range of on-going support services to ensure consistency with directly managed retail stores
Partnership stores (PSS)	Same as Franchise stores
Shop-in-stores (SIS)	Controlled wholesale space found in department stores where investments are funded by the department stores. Esprit provides initial setup support and a wide range of on-going support services to ensure consistency with directly managed retail stores
Identity corners (IC)	Mainly multi-label retailers offering a limited range of Esprit products. Esprit has less involvement in store appearance
Multi-label retailers	Retail shops which carry multiple brand labels, where the labels are typically differentiated by using brand specific fixtures and signage
Country distributors	Exclusive distributors for Esprit products in certain countries, such as China and India

Others	
Term	Definition
ADR	American Depository Receipt
Conversion rate	Measures the portion of Traffic which is translated into actual purchases
EPS	Earnings per share
Esprit Club (e-club)	Esprit customer loyalty programme where members can enjoy benefits such as collect points or apply discounts, receive updates on latest news about Esprit, enjoy exclusive offers and more. Benefits vary across different regions
Electronic Data Interchange (EDI)	The structured transmission of data between organisations by electronic means. Information such as inventory data are transferred from controlled-space POS computer systems to Esprit's merchandise planning
GP	Gross profit
Inventory turnover days	Calculated by dividing average inventory excluding consumables by average daily cost of goods sold for the reporting period
Licensing	For certain product categories, independent third parties are authorised to use the name of Esprit to manufacture and distribute products. Esprit works with over 30 licensees and offers over 30 categories of licensed products
NOOS	Never-out-of-stock styles
POS	Point-of-sales
Product divisions	There are 12 divisions including Women casual, Women collection, edc Women, sports, Men casual, Men collection, edc Men, Kids, Shoes, Accessories, bodywear, de. corp
Season	Collections of each product division with consistent theme/design. We design and produce up to 12 seasons per annum for our product divisions
Segment EBIT margin	Segment earnings before interest and taxation, finance costs and share of results of associates divided by the segment turnover
Sell through	An indicator of how fast a particular product is being sold to a consumer at retail level
Sqm	Square metre
Traffic	Footfall recorded in a store during a period of time
yoy	Year-on-year







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