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Esprit Announces FY12/13 Interim Results

Hong Kong, 27 February 2013 – Esprit Holdings Limited (“the Company”; stock code 0330), a global fashion brand, today announced results of the Company and its subsidiaries (“the Group” or “Esprit”) for the six months ended 31 December 2012.

During the second half of the calendar year 2012, the market environment was difficult, but the Group continued to focus on executing its Transformation Plan in order to improve Esprit’s business. While the Group has seen improvements in its product, supply chain, store concept and relationships with its business partners, it is important to remember that most initiatives in the Transformation Plan are still a work in progress.

Mr. Jose Manuel Martínez Gutiérrez (“Mr. Martínez”), the Group Chief Executive Officer of Esprit, said “The fundamentals of the Transformation Plan are sound: the repositioning of the brand back to its aspirational heritage, the upgrading of our product value for money and the enhancing of the shopping experience in our stores and point-of-sales are the best possible ways to strengthen the value proposition for our customers. Therefore, the management team will continue to work on these key initiatives, with a particular focus on product improvement as a priority. However we expect it to take some time to make these improvements visible to our customers and to see the benefits translated into operating results.”

Turnover

The Group’s turnover for the six months ended 31 December 2012 decreased by -13.4% in local currency to HK$13,554 million, from HK$16,699 million recorded for the six months ended 31 December 2011. Excluding the impact of the divestment of the North American operations and the store closure programme, the Group’s turnover was HK$13,306 million (1H FY11/12: HK$15,580 million), representing a year-on-year decline of -8.8% in local currency.

Turnover by Region

Europe remained the Group’s biggest region in terms of turnover. Excluding the divestment of North American operations and store closure programme, Europe accounted for 77.9% of total Group turnover and reported turnover decline of -9.1% year-on-year in local currency. The Asia Pacific region performed relatively better than Europe and reported turnover decline of -7.2% year-on-year in local currency. This decline was mainly attributable to a -11.2% decline in local currency sales in China. Asia Pacific region now accounts for 19.8% of the Group turnover (1H FY11/12: 17.3%).
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In North America, as a consequence of the closure of its loss making operations, turnover from the region decreased by -79.6% in local currency to HK$130 million (1H FY11/12: HK$640 million).

Turnover by Distribution Channels

The Group’s retail turnover was HK$8,102 million (1H FY11/12: HK$9,844 million) representing a -13.0% year-on-year decline in local currency. Excluding North America and the store closure programme, the Group’s retail turnover was HK$7,912 million (1H FY11/12: HK$8,809 million), representing a year-on-year decline of -5.1% in local currency.

This decline in retail turnover was attributable to a decrease in footfalls in the reporting period. The decline in footfalls was partially offset by a slight increase in the conversion rate.

The Group’s wholesale turnover was HK$5,356 million (1H FY11/12: HK$6,727 million), representing a -13.7% year-on-year decline in local currency. The decline can be attributed to a number of circumstances including: a decline in order intakes from wholesale customers who are experiencing similar macro and company specific issues as the Group’s own retail operation; a -9.0% year-on-year decrease in controlled wholesale space, mostly in identity corners (-22.3% year-on-year decrease); and the impact of the wholesale support initiatives such as accepting return of inventory and offering higher discounts.

Profitability

The Group recorded a gross profit of HK$6,910 million (1H FY11/12: HK$8,491 million) reflecting a gross profit margin of 51.0% (1H FY11/12: 50.8%).

The Group recorded an operating loss of HK$265 million (1H FY11/12: operating profit of HK$787 million) mainly due to a much lower gross profit contribution from the operation (HK$1,581 million decline). The year-on-year reduction in operating expenses of HK$529 million proved insufficient to correct for such a decline. After deduction of interest costs and taxes, the Group recorded a net loss of HK$465 million (1H FY11/12: net profit of HK$555 million).

Focus and priorities in 2H FY12/13

In the short-term, the Group will focus its efforts on stabilising the business performance by aggressively reducing costs, tactically activating the top line and decisively reducing inventory levels.

In parallel, the Group will continue to implement its medium-term initiatives to turn around its business and ensure sustainable growth. The key initiatives that the Group is focusing on include:

- building a high performance “product engine” by introducing improvements in areas including the structure of the product divisions, the integration of the supply chain, the
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improvement of processes and lead times, and the revision of strategies for pricing and gross profit margin

- enhancing the Group’s channels with a focus on rolling out its new store concept, improving current merchandising and inventory management systems and further integrating its channels
- developing future growth platforms, which include expansion in China and further development of the edc brand

Although expansion is not its short-term priority, the Group has selectively sought out quality expansion.

Mr. Raymond Or, Chairman of Esprit, commented: “The Group has made progress on various aspects of the business, including establishing a new product direction; creating more inspiring stores and fresh, stylish, feminine collections; eliminating unprofitable distribution channels; and restructuring the sourcing department. Moving forward, management will be very focused on the short-term and medium-term initiatives to revitalize the business. While the recovery is not going to happen in the short-term, I have strong faith that we will achieve our goals of restoring the Group’s long term sustainable growth and profitability.”
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Esprit Holdings Limited Unaudited Consolidated Financial Data

(In HK$ Million, with the exception of (loss)/earnings per share and dividend per share)

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<thead>
<tr>
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<th>For the 6 months ended 31 December 2012</th>
<th>For the 6 months ended 31 December 2011</th>
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<tbody>
<tr>
<td>Turnover</td>
<td>13,554</td>
<td>16,699</td>
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<tr>
<td>Gross Profit</td>
<td>6,910</td>
<td>8,491</td>
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<tr>
<td>Operating (Loss)/Profit</td>
<td>(265)</td>
<td>787</td>
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<tr>
<td>Net (Loss)/Profit</td>
<td>(465)</td>
<td>555</td>
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<td>Cash, Bank Balances and Deposits</td>
<td>6,783</td>
<td>3,408</td>
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<tr>
<td>Bank Loans</td>
<td>1,809</td>
<td>2,353</td>
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<td>(Loss)/Earnings per share</td>
<td>HK$(0.30)</td>
<td>HK$0.38 (Adjusted)</td>
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<td>Interim Dividend (per share)</td>
<td>-</td>
<td>HK$0.26</td>
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About Esprit

Esprit is a global fashion brand offering style and quality made to last. The brand creates women’s, men’s and kids’ collections for all occasions and distributes in approximately 1,000 directly managed retail stores and approximately 10,000 controlled-space wholesale point of sales. Esprit licenses its trademark to third party licensees that offer non-apparel products that abide by Esprit’s quality standards and brand essence. Esprit was listed on The Stock Exchange of Hong Kong Limited in 1993 and is a constituent stock of the Hang Seng Index, MSCI Hong Kong Small Cap Index and FTSE All-World Index for Hong Kong.

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Forward-Looking Statements
This press release contains certain forward-looking statements. Such forward-looking statements are subject to various risks and uncertainties, including without limitation, statements relating to our plans to transform the Company’s business, make significant investment in our businesses and achieve sustainable profitability in the future, and other risks and factors identified by us from time to time. Although the Group believes that the anticipations, believes, estimates, expectations and/or plan stated in this document are true, actual events and/or results could differ materially. It cannot assure you that those current anticipations, believes, estimates, expectations and/or plan will prove to be correct and you are cautioned not to place undue reliance on such statements. The Group undertakes no obligation to publicly update or revise any forward-looking statements contained in this document, whether as a result of new information, future events or otherwise, except as required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited or any other applicable laws and regulations.