Interim Results Announcement for the Six Months Ended December 31, 1997

Esprit Holdings Limited
(Incorporated in Bermuda with limited liability)

19 March, 1998

Highlights

- Turnover increased by 156% to HK$2.6 billion, reflecting the advantages of the broadening and diversification of the Group's earnings base beyond Asia
- Operating profit reached HK$289.4 million, up 135%
- The Group is developing the enormous potential of the ESPRIT brand with new licensing agreements concluded in cosmetics and jewelry, as well as expanding and exploring new markets, such as Canada, China, Japan and Eastern Europe
- Esprit sees continued, measured growth

INTERIM RESULTS

The Board of Directors of Esprit Holdings Limited ("the Company") is pleased to announce that the unaudited consolidated interim results of the Company and its subsidiaries ("the Group") for the six months ended December 31, 1997 together with comparative figures for the corresponding period in 1996 are as follows:

Six months ended December 31,	**1997**	**1996**
	HK$'000	*HK$'000*
Turnover	2,599,842	1,014,102
Operating Profit	289,354	123,189
Share of Profit/(Loss) of an Associated Company	(5,835)	653
Profit before Taxation	283,519	123,842
Taxation *(Note 1)*	119,699	27,883
Profit after Taxation	163,820	95,959
Minority Interests	(21,722)	1,224

Profit Attributable to Shareholders	142,098	97,183
Less: Interim Dividend	41,517	32,953
Retained Profits Carried Forward	100,581	64,230
Earnings per Share *(Note 2)*	13.0&162;	12.0&162;

Notes:

1. Taxation

Hong Kong profits tax has been provided at the rate of 16.5% (1996/97: 16.5%) on the estimated assessable profits arising in Hong Kong for the period. Taxes on profits assessable elsewhere have been calculated at the rates of taxation prevailing in the countries in which the Group operates. The taxation is made up as follows:

Six months ended December 31,	**1997** *HK$'000*	**1996** *HK$'000*
The Group:		
Hong Kong Profits Tax	14,446	16,951
Overseas Taxation	105,341	10,736
	119,787	27,687
Share of Taxation of an Associated Company:		
Overseas Taxation	(88)	196
	119,699	27,883

2. Earnings per Share

The calculation of the basic earnings per share is based on the unaudited profit attributable to shareholders of HK$142,098,000 (1996/97: HK$97,183,000) and the weighted average of ordinary shares in issue 1,092,241,246 (1996/97: 809,970,000 ordinary shares) during the period.

INTERIM DIVIDEND

The directors have declared an interim dividend of 3.80 cents per share in respect of the six months ended December 31, 1997 to be paid to those shareholders whose names appear on the Register of Members of the Company at close of business on April 24, 1998. The relevant dividend warrants will be dispatched to the shareholders on May 4, 1998.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from April 20, 1998 to April 24, 1998, both days inclusive, during which period no transfer of shares will be registered.

In order to qualify for the interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Share Registrars, Secretaries Limited, at 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong no later than 4:00 p.m. on April 17, 1998.

BUSINESS REVIEW AND OUTLOOK

review of operations

Net sales for the Group rose by 156% to HK$2.6 billion for the six months ended December 31, 1997. Profit attributable to shareholders increased by 46% to HK$142.1 million. Operating profit rose by 135% to HK$289.4 million while earnings per share grew 8% to 13.0 cents.

What we had in mind turned into reality: the strategic acquisition of Esprit's European, sourcing and licensing businesses in January 1997 transformed Esprit effectively into a global, vastly enlarged and vertically integrated company which controls one unified brand, except for the U.S. We have been on course to achieve multiple benefits: cost savings across the board, new efficiency and, importantly, a broadening and diversification of the Group's revenue base beyond Asia.

Our European operations and earnings cushioned us, to some extent, from the declining Asian economies in the first half of FY1997/98. With two thirds of our turnover currently accounted for by European markets, compared with 40% in FY1996/97, Esprit has managed to avoid being overly impacted by the economic downturn in Asia.

Our European operations, in line with our expectation, recorded a 12% growth over the same period last year. We gained strong momentum from a series of quick initiatives, from go-for-growth marketing activities to store expansions and exploring new markets and sourcing bases in Eastern Europe. Three country franchisee agreements were concluded in Ireland, Hungary and Slovenia. The Esprit brand also grew in strength. An independent market survey in January 1998 showed that consumer brand awareness of Esprit among women's wear brand names, was the second highest in the German market.

However, currency movements were of concern and the depreciation of the Deutsche Mark during the period under review affected our European earnings.

Asia, currently contributing to one-third of Group's turnover, faced currency turmoil and economic woes during the period under review. Sentiment was generally very negative and we were in constant review of our operations, especially in South Korea and South-East Asia where sales were affected. We also dealt with labour issues in South Korea, which accounted for 2% of Group's sales.

In the larger markets of Hong Kong, Taiwan and Australia, we managed to maintain our sales and secure additional market share. Our strategy in these markets is to minimize inventory level by promoting sales vigorously. In turn, this could mean increasing market share for us.

We have also sought to turn the Asian challenges into opportunities. One example is the identification and occupation of prime retail locations on favorable terms. Throughout Asia, our emphasis has been one of cost management and prudence coupled with spirited initiatives to

capture opportunities. We have also been promoting new products aggressively. Our balance sheet remains very healthy. Cash flow from our European operations was strong and the Group's debt-to-equity ratio was reduced to 57% from 70% in April 1997.
We undertook an extensive study of the information technology situation at Esprit in view of the computer-related Year 2000 problem and we are pleased to report that appropriate equipment and software have been installed where necessary.

riding with, and reinforcing, our global strategy
For Esprit, being global has meant more than just having geographic reach and spread. Our strategy of centralizing several operations, such as sourcing, warehousing and having a single, central image team based in London, has brought about a raft of benefits beyond just cost savings and further profitability. Some efficiency gains have morale-boosting value too, while brand control and brand design have been managed more effectively.
We have rationalized various back-office functions such as buying, sourcing, design and styling, and our central warehouse located in Germany is expected to work well internally as well as for our customers. Our single design team operating out of Europe has continued to provide the Esprit brand with fresh thinking, creative flair and consumer appeal. Our functional approach to Europe, as opposed to multiple country-by-country perspectives, has led to simplification and consolidation. Our business development strategy has similarly become more opportunity-focused rather than geography-driven - it is not whether management focus and investment should be directed at Asia or Europe but, rather, where the best opportunities may be.
Global strength has its advantages.

prospects
Looking ahead, the bright spots outnumber the grey areas but we will move forward cautiously.
From a global perspective, we are on track to develop the full international potential of the Esprit brand and we have a number of new business-building initiatives.
In expanding and maximizing the value of the ESPRIT trademark, Esprit and Egana International (Holdings) Limited entered into another exclusive licensing agreement in August 1997. The agreement enables Egana to use the ESPRIT trademark in the design, manufacture, distribution and promotion of precious, semi-precious fashion and costume jewelry worldwide.
A global joint licensing agreement has been signed with Coty Inc. for the latter to develop and market ESPRIT fragrances and cosmetics throughout the world. This is in line with our intention to explore the enormous potential of the ESPRIT brand by extending our licensing opportunities to products such as fragrances, cosmetics, athletic wear and tableware. The first fragrance is scheduled for launch in the year 2000 in the United States, followed by Europe and Asia.
In terms of new markets, we believe Canada offers much potential and the newly-acquired Esprit Canada, in which Esprit has a 75% stake, should place us in a good position for growth in North America.
Seeing further potential in Red Earth, Esprit has expressed its intention to acquire 60.78% of the business. An Australian line of natural beauty care and cosmetic products distributed by Esprit since 1992, Red Earth has been very well received by the younger generation. The brand's latest medium-priced strategy has created a niche. New markets that have been targeted for expansion include China, Taiwan, Japan, Singapore and Europe.
Our new joint venture with China Resources Enterprise, Limited bodes well for our expansion plans for China. We intend to build an effective nationwide distribution network primarily in key cities such as Beijing, Shanghai, Tianjin, Dalian and Wuhan.
The rest of Asia, however, is not expected to be easy. Various factors have impacted negatively on several countries and overall economic recovery is likely to take some time. Some uncertainty continues to surround Hong Kong while our South Korean operation will require time and additional action before it recovers from its loss position. Other markets, such as Taiwan, China and Australia, could offer steady growth.
Despite the economic difficulties and uncertainties of Asia, we remain positive because Esprit's boundaries stretch beyond just one geographic region. We are also mindful that management attention and investment resources should be directed at the best opportunities that emerge, from whichever part of the world.

We are also encouraged because our global strategy has been working well and our priorities remain clear. Our balance sheet is strong. Our cost-reduction programs have worked well and our inventory position is well-managed. Our business-building strategies are also in place and our new initiatives should yield results in due course.
We see continued, measured growth for Esprit.

PURCHASE, SALE OR REDEMPTION OF OWN SHARES

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

CODE OF BEST PRACTICE

None of the directors is aware of information that would reasonably indicate that the Company is not, or was not for any part of the six months ended December 31, 1997, in compliance with the Code of Best Practice issued by The Stock Exchange of Hong Kong Limited.

By Order of the Board
Alva Chan Wai Mo
Executive Director
Hong Kong, March 19, 1998