

A photograph of two women standing on a beach, holding hands. They are both wearing white, long-sleeved, ribbed sweaters and white knit hats. They are smiling and looking towards the camera. The background is a bright, sunny beach with a clear blue sky and a sandy shore.

# **Esprit Holdings Limited**

## **FY01/02 Final Results**

**September 18, 2002**

**[www.espritholdings.com](http://www.espritholdings.com)**

# ***Forward-looking Statements***

This presentation and subsequent discussion may contain certain forward-looking statements with respect to the financial condition, results of operations and business of Esprit. These forward-looking statements represent Esprit's expectations or beliefs concerning future events and involve known and unknown risks and uncertainties which could cause actual results, performance or events to differ materially from those expressed or implied in such statements.

# ***FY01/02 in a Snapshot***

<b>Turnover</b>	<b>HK\$9.2 billion</b>	<b>↑ 13.7%</b>
<b>EBITDA Margin</b>	<b>17.3%</b>	<b>↑ 0.8 % pt</b>
<b>Net Profit</b>	<b>HK\$927 million</b>	<b>↑ 61.2%</b>
<b>ROE</b>	<b>34.4%</b>	<b>↑ 5.9% pts</b>
<b>Cash Generated from Operations</b>	<b>HK\$1.6 billion</b>	<b>↑ 51.4%</b>

<b>EPS</b>	<b>HK 80.5 cents</b>	<b>↑ 57.2%</b>
<b>Proposed Final Dividend</b>	<b>HK 17.0 cents</b>	<b>↑ 41.7%</b>
<b>Proposed Special Dividend</b>	<b>HK 5.0 cents</b>	<b>First Time</b>
<b>Book Value per Share</b>	<b>HK\$2.72</b>	<b>↑ 42.6%</b>

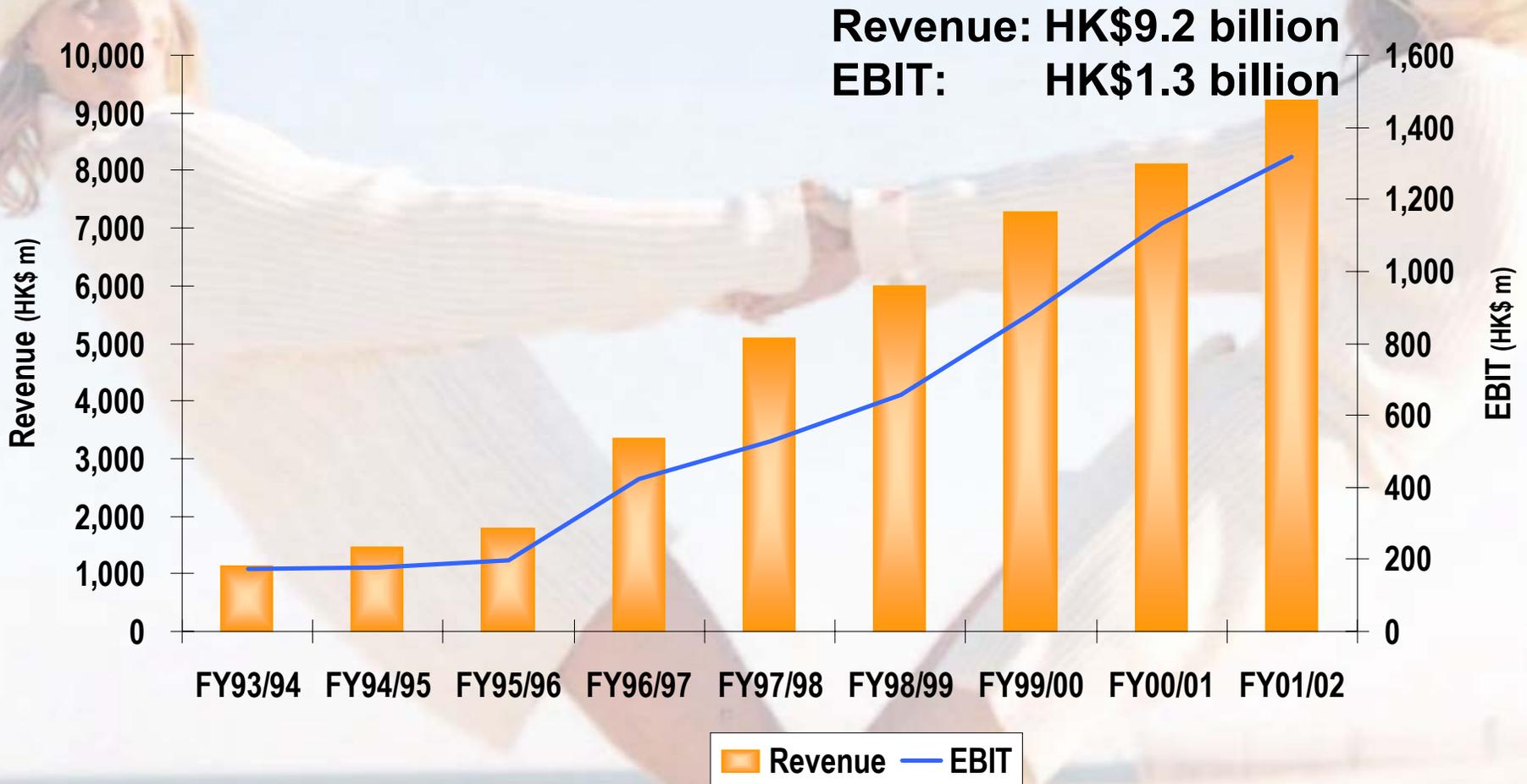
**We also acquired 100% ownership of  
ESPRIT and Red Earth worldwide and  
ended the year with HK\$154 million of Net Cash**

# **HK\$121 million One-time Tax Credit** **≅ HK 10 cents per share**

	<b>Final Results</b>	<b>Exclude One-time Tax Credit</b>
<b>Effective Tax Rate</b>	<b>28%</b> (-17% pts)	<b>37%</b> (-8% pts)
<b>Net Profit</b>	<b>HK\$927 million</b> (+61% YoY)	<b>HK\$806 million</b> (+40% YoY)
<b>Net margin</b>	<b>10.1%</b> (+3% pts)	<b>8.7%</b> (+1.6% pts)
<b>EPS</b>	<b>HK 80.5 cents</b> (+57% YoY)	<b>HK 70.0 cents</b> (+37% YoY)

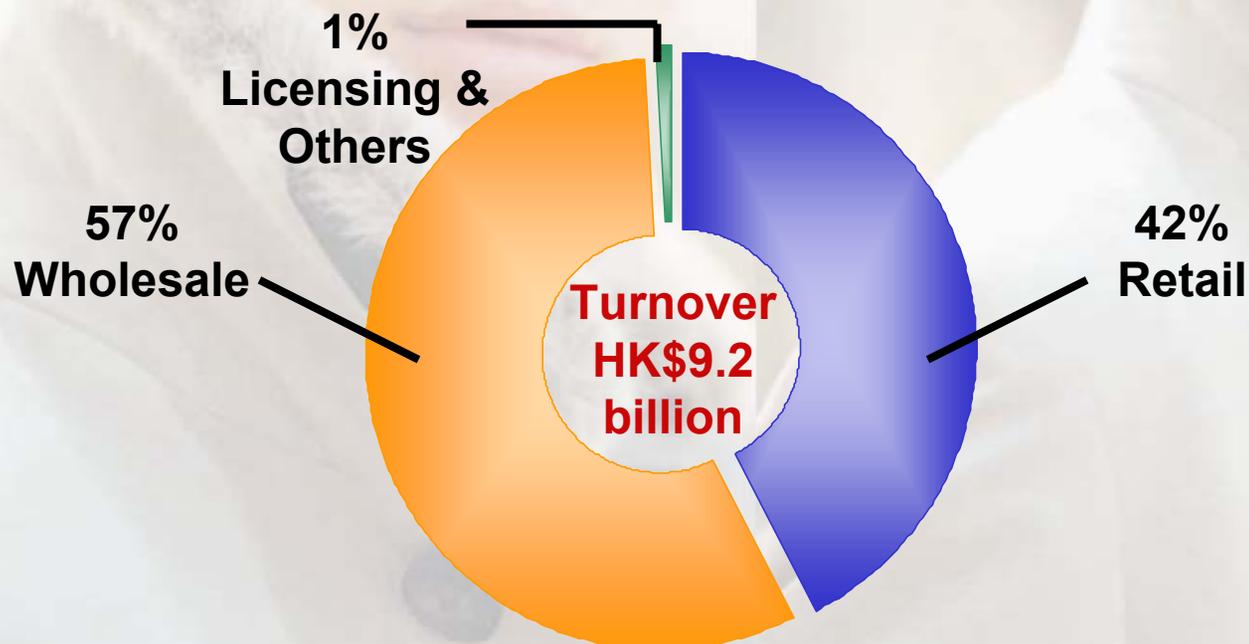
- **Maintain a stable annual dividend pay-out ratio of about 33%**
- **Pay out 50% of one-time tax credit as Special Dividend**

# *Ninth Consecutive Year of Revenue and Earnings Growth*



# Profitable Lines of Business with Double-digit Turnover Growth

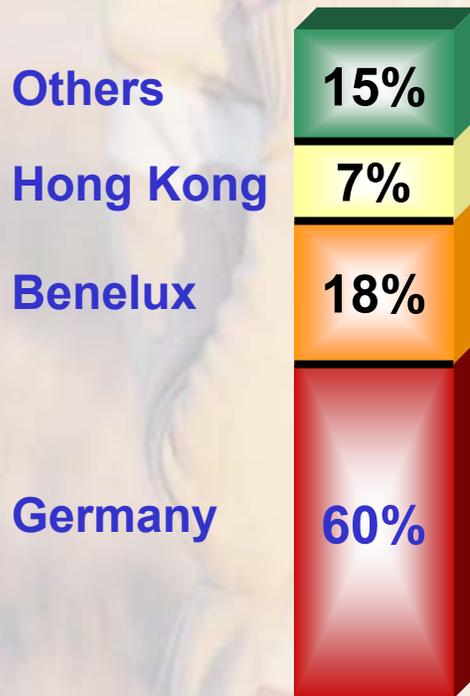
(in HK\$ m)	Wholesale	Retail	Sourcing	Licensing & Others
Turnover* (YoY Growth)	5,220 (+15%)	3,841 (+12%)	542 (+16%)	336 (+17%)
EBIT	845	4	430	196



\* Turnover includes inter-segment revenue.

# Wholesale - ↑15% YoY

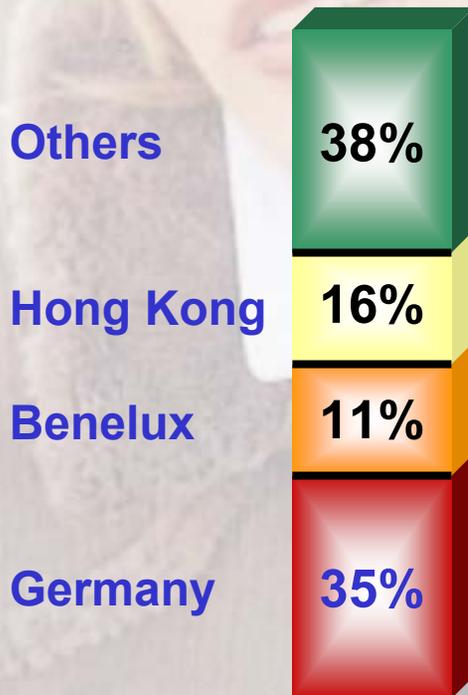
Total Wholesale Turnover  
HK\$5,220m



- Germany, our biggest wholesale market, continued to show healthy growth
- Growth momentum spurred by over 20% growth in each of Benelux, France and Hong Kong
- Added approximately 400 shop-in-stores and / or franchised shops internationally
- Achieved brand dominance, one of the best selling brands in department stores in Germany
- Launched the discretionary limit programs in Europe with success and will continue to extend it this year

# Retail - ↑12% YoY

Total Retail Turnover  
HK\$3,841m



- Secured many strategic store locations worldwide, sales footage up by 16% to approximately 1.6 million sq. ft. after investing over HK\$300 million
- Operating margin was affected by the discount-driven environment and the incremental rental expenses from new stores
- Comparable store sales were flat overall, with growth in Europe in excess of 10%
- Injection program, instrumental behind the strong comp store growth in Europe, had led to better merchandise and more full-price sales
- Asia Pacific achieved growth in the quantity of **ESPRIT** merchandise sold, reflective of our ability to maintain market share in the tough operating environment

# ***Sourcing* - ↑16% YoY**

- **Plays an integral part in supporting the Group's success, especially in the current highly competitive retail environment**
- **Sourcing higher quality products at a lower cost with faster delivery were made possible by our close ties with over 330 suppliers located throughout Asia Pacific and Europe**
- **About 50% of products sold in Europe were sourced from Asia Pacific**
- **Plan to progressively move sourcing functions to less expensive area, such as Shenzhen, and shift to lower cost suppliers in Northern China to reduce costs of goods**

# Licensing & Others - ↑17% YoY

## Licensed Product Categories

- ◆ Eyewear
- ◆ Jewelry
- ◆ Timewear
- ◆ Toys
- ◆ Bed & Bath
- ◆ Cosmetics
- ◆ Shoes & bags
- ◆ Kids' wear
- ◆ Homeware
- ◆ Socks
- ◆ Golf

- Added 5 licensees, for products such as sleepwear and swimwear, as part of the U.S. acquisition earlier this year
- Enlisted new licensing partners, such as Nine West for shoes and accessories and Adjmi for kids' wear
- Now has over 15 product licensees spanning more than 10 product categories
- With full control of the **ESPRIT** brand, we will be actively identifying suitable partners in new markets, for new product categories and lifestyle concepts

# ***Our Profitable China Joint Venture***

- ◆ **Turnover growth momentum continues**
  - **Over 30% annual growth in 2001 to over HK\$500 million**
  - **Approximately 20% growth YoY in first six months of 2002**
- ◆ **Added 12 directly managed retail stores and 130 franchised shops, totaling to approximately 600 points-of-sales**
- ◆ **Working to improve services and upgrading shop image to meet the expectations of the rising middle class**
- ◆ **Maintain target to reach HK\$1 billion retail sales in 2003**

# 17.3% EBITDA Margin - Exceeded our Target Range of 15 - 17%

	FY01/02	Change
Total Operating Expenses / Sales (%)	34.8%	↓ 0.6% pt
Staff Expenses / Sales (%)	13.0%	↓1.2% pts
Building Expenses / Sales (%)	10.2%	↑0.2% pt
Inventory Turnover (days) *	64	No Change

- Better economies of scale as wholesale turnover growth continued
- Downward adjustment in rental costs as we renew leases was offset by the increase in building expenses for new stores in prime locations
- Launched a vigorous expense management program to reduce wastage and inefficiencies, leading to a decline in staff costs and administrative expenses
- Minimal currency translation impact for the period

\* Inventory turnover (days) is defined as average inventory / average daily cost of goods sold.

# ***EBIT Margin Remains around 14% after Strict Compliance with New HK Accounting Standards***

**Additional HK\$31 million in trademark amortization charge for this fiscal year**

- ◆ **Under the new HKSSAP, there is a rebuttable presumption that the useful life of an intangible asset will not exceed 20 years (versus 40 years previously adopted by the Group)**
- ◆ **The Group has reviewed the estimated useful life of its trademarks with a firm of qualified independent appraisers, which is of the opinion that our trademarks have an indefinite economic life with at least 40 years**
- ◆ **But, the criteria prescribed by HKSSAP in establishing a useful life for a specific period longer than 20 years could not be unequivocally satisfied**
- ◆ **Accounting regulatory bodies are reviewing this accounting standard and the Group envisages reassessing application of this standard in 2003 which, if unchanged, will result in about HK\$100 million in trademark amortization charge for FY02/03**

# ***Latest Developments in North America – Initially Capitalize on Brand Awareness with Minimal Capital Commitment***

- ◆ **Leverage on existing global infrastructure to minimize costs**
- ◆ **Wholesale strategy to achieve a meaningful nationwide rollout by forming partnerships with leading department stores**
  - **Our fall collections of women's wear are being sold in Macy's**
- ◆ **Teaming up with local market leaders with multi-channel distribution capabilities as our product licensees**
  - **Nine West and Adjmi will commence selling ESPRIT products in early 2003**
- ◆ **Integrate Canadian operations into the North American management structure and to commence wholesale distribution in Canada**
- ◆ **Gradually build up experience in the North American market and target for approximately US\$100 million of turnover commencing in FY03/04**
- ◆ **For FY02/03, the US\$150 million asset acquisition has eliminated the 37% minority interest in Esprit International, thereby capturing approximately HK\$80 million profit before tax based on FY01/02 results**

# *Looking Forward to Achieving a Decade of Continual Growth*

- ◆ Increase our women's wear collections from 6 to 12 per year to cut product development lead time and to offer more trend-right merchandise, thus more full-price sales
- ◆ Expand retail space, budgeted HK\$400 million in capex to add over 200,000 sq. ft.
- ◆ Continue to win market share in Europe with additional retail space and without sacrificing margins
- ◆ Asia Pacific revenue is expected to be stable, but we are working to improve margins and profitability
- ◆ Focus on further growth in North America, Benelux, U.K. and China

# ***Corporate Governance – Substance over Form***

- ◆ **Esprit has been ranked in 2002 by:**
  - **Finance Asia magazine: one of the “Best Managed Company,” “Company most dedicated to Corporate Governance,” and “Strongest Commitment to Enhancing Shareholder Value” in Hong Kong**
  - **The Asset: one of Hong Kong’s “Best in Corporate Governance”**
  - **CFO Asia: one of Asia’s “Best Annual Report”**
- ◆ **Rotated audit partners (including Hong Kong and Germany)**
- ◆ **Restricted our firm of auditors from undertaking major consultancy work to avoid potential conflicts of interest**
- ◆ **Early adoption of HK accounting standards as a matter of best practice**
- ◆ **Proactively promote investor relations for better transparency**
- ◆ **In FY02/03, we will:**
  - **Commence formal quarterly meetings of the Board and the Audit Committee**
  - **Appoint an external firm to handle the internal audit functions**

# ***2001 Share Option Scheme***

- ◆ **Will continue to use share options as incentive for key personnel to enhance shareholder value, and for recruitment and retention of talents; no options have been issued so far**
- ◆ **Support expensing share options but will await uniform standards for Hong Kong listed companies**
- ◆ **14.6 million outstanding stock options (approximately 1% of the issued capital\*) expiring on or before November 2003 – orderly disposal will continue**

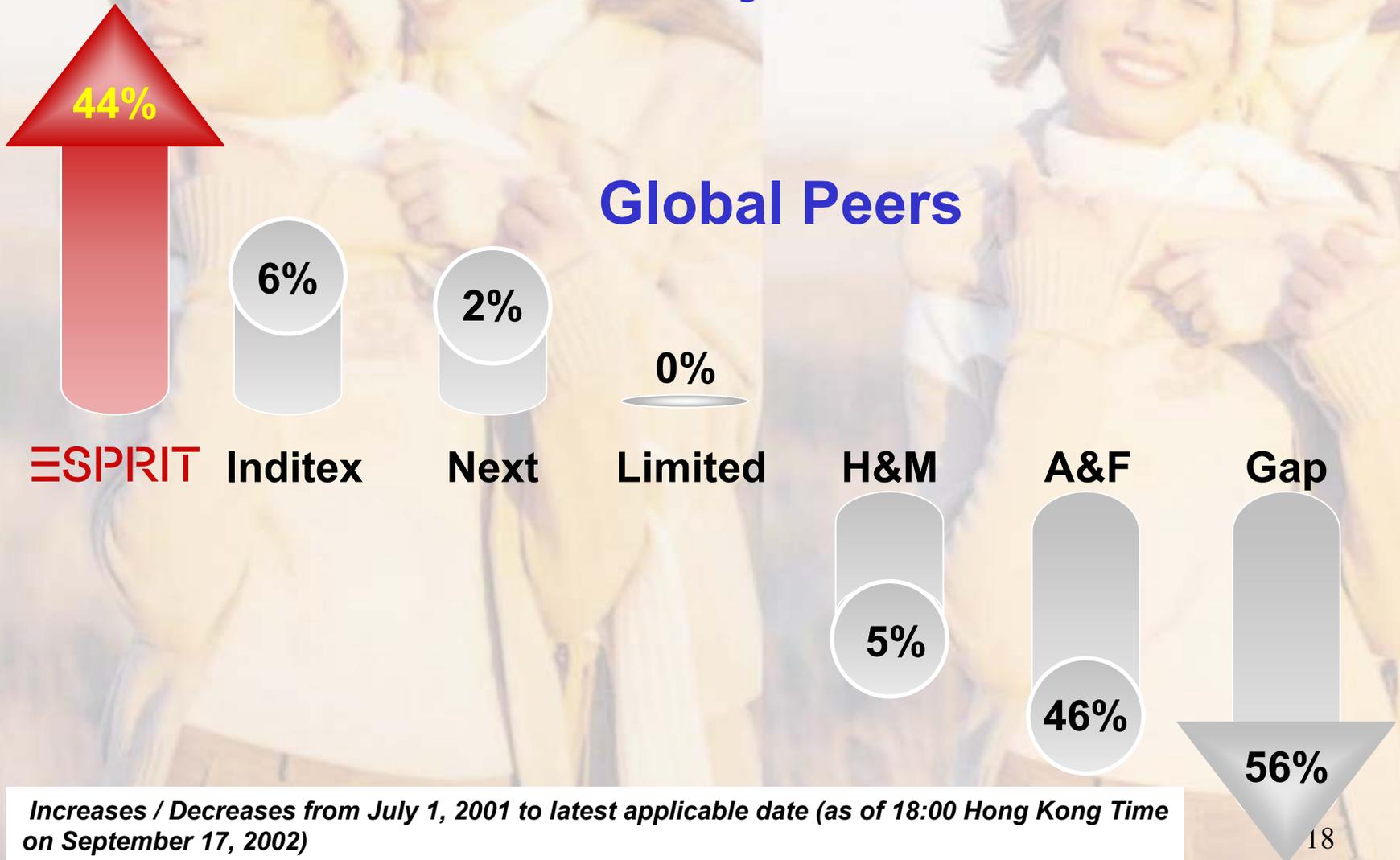
## ***Broaden Shareholder Base***

- ◆ **Reduce board lot size from 2,000 to 500 shares effective September 23, 2002**
- ◆ **Lower barrier of participation for retail investors**

*\* 1,177 million shares issued as of June 30, 2002*

# Relative Share Price Performance since July 2001

## Global Peers



*Increases / Decreases from July 1, 2001 to latest applicable date (as of 18:00 Hong Kong Time on September 17, 2002)*

# Also Outperformed the Hong Kong Indices

- Relative to Hang Seng Index : **↑ 95%\***
- Relative to MSCI Hong Kong Index: **↑ 83%\***



\* Since July 1, 2001

# Valuation Compares Favorably with Global Leaders

	<b>ESPRIT</b>	<b>LEADERS</b>		<b>OTHERS</b>			
		H&M	Inditex	Next	A&F	Limited	Gap
ROE (%)	34.36 <sup>#</sup>	27.94	25.66	36.27	33.13	20.51	-0.26
Est. P/E (x)	14.90 <sup>*</sup>	29.26	29.39	14.33	12.65	14.51	39.94
Est. PEG	0.67 <sup>*</sup>	2.71	1.69	1.09	0.70	1.04	2.46
Price / Book	4.59 <sup>^</sup>	9.63	8.48	5.70	3.78	1.86	3.44

As of 18:00 Hong Kong time on September 17, 2002

All data sources from Bloomberg

<sup>#</sup> Based on FY01/02 final results

<sup>\*</sup> Based on closing price on September 17, 2002 and FY02/03 consensus estimate (mean)

<sup>^</sup> Based on closing price on September 17, 2002 and FY01/02 published book value per share

A photograph of two women on a beach, both wearing white knit sweaters and hats, holding hands and smiling. The background is a bright, sunny beach scene with the ocean and sky visible.

# ESPRIT

[www.espritholdings.com](http://www.espritholdings.com)