

ESPRIT

esprit holdings limited interim report 01/02

Executive Directors

Michael YING Lee Yuen *Chairman*
CHHIBBER Surinder *Deputy Chairman*
Heinz Jürgen KROGNER-KORNALIK
John POON Cho Ming
Connie WONG Chin Tzi

Non-Executive Directors

Jürgen Alfred Rudolf FRIEDRICH
Alexander Reid HAMILTON*
Simon LAI Sau Cheong*
Raymond OR Ching Fai*

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Company Secretary

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HIGHLIGHTS OF INTERIM RESULTS FY 01/02

- Group turnover rose 16.4% to HK\$4,647.8 million
- EBITDA increased to over HK\$800 million for the six months period
- Net profit grew 41.0% to HK\$385.2 million, and net margin enhanced by 1.5% points to 8.3% of net sales
- Net cash more than doubled since June 30, 2001 to approximately HK\$800 million, with no term loans
- Interim dividend increased 25.0% year-on-year to HK6.0 cents per share

MANAGEMENT DISCUSSION AND ANALYSIS

review of operations

Group Turnover

Group sales increased by 16.4% in the first half of financial year 2001/2002 to HK\$4,647.8 million, leading us into our ninth consecutive year of turnover growth in spite of the poor economic conditions globally. The impact of currency translation throughout the period was marginal, unlike the last fiscal year; net of exchange impact, the rise in sales would have been 16.6%.

All countries of operation, except for Taiwan, achieved turnover growth in local currency terms, consolidating into a 22.7% and 3.8% year-on-year sales growth for Europe and Asia Pacific respectively. Germany remained our largest market, contributing approximately 48.2% of total turnover while attaining a 15.7% growth year-on-year. A German independent market survey showed that the brand awareness of ESPRIT was the highest among women's wear, reaching 84% of those surveyed (a 7% points increase from the 1997 survey). Benelux (i.e. Belgium and the Netherlands), recording a 40.2% growth year-on-year, became our second largest market. This growth was a direct result of our focused effort to expand in markets outside of Germany, as well as the introduction of uniform Euro pricing, which benefited Benelux consumers after inclusion of their higher value-added-tax. Amidst the highly competitive Hong Kong operating environment, Hong Kong achieved a 3.4% growth year-on-year. More frequent promotions had helped to preserve our market share in Asia Pacific during these tough economic times. In addition to registering convincing growth in our existing markets, the Group had planted seeds for future growth in three markets, U.K., Korea and New Zealand, by opening 2, 4 and 7 stores respectively.

Operation mix of Group turnover

	For the 6 months ended December 31,	
	2001	2000
wholesale – europe	50%	50%
wholesale – asia pacific	5%	4%
retail – europe	22%	18%
retail – asia pacific	22%	27%
others ¹	1%	1%

¹ Include third party royalty and commission income.

The growth in turnover was fueled by both wholesale and retail operations, which accounted for 55% and 44% of the Group turnover respectively. Our wholesale activities registered a 19.7% growth year-on-year. The ESPRIT brand continued to be one of the best performing brands within German department stores, thus leading to an increase in the number of wholesale customers and controlled store space. Retail sales were up 13.1% year-on-year, attributable to both the success of the injection program, which led to higher comparable store sales, and the increase in retail sales footage.

Global retail network

	Directly Managed Stores		No. of Franchised Shops
	Sales Footage (sq.ft.)	No. of Stores	
europe	612,637	115	1,273
asia pacific ²	892,315	382	285
china	163,766	102	408

² Exclude China joint venture.

Earnings Position

Gross profit for the half-year amounted to HK\$2,228.1 million, corresponding to 47.9% of turnover (2001: 49.0%). In comparison with the first half of financial year 2000/2001, gross profit margin was reduced by the following factors: widening of the gap between wholesale and retail proportion in our operation mix by 2% points and global



pricing pressures. The magnitude of the reduction was partly offset by lowered cost of goods sold resulted from our strong sourcing capabilities.

The decrease in gross profit margin was completely absorbed by a combination of our greater economies of scale, effective cost controls and improved efficiencies. As a percentage of sales, staff costs and buildings expenses, which together accounted for 68.7% of total operating expenses, dropped by 0.9% point and 0.1% point respectively. After deducting operating expenses, EBITDA for the six months grew to HK\$805.7 million (2001: HK\$655.3 million), and EBITDA margin increased 0.9% point to 17.3% (2001: 16.4%).

Net profit for the six months aggregated to HK\$385.2 million, an increase of 41.0% year-on-year over the same period last year. The net profit margin gained 1.5% points to 8.3% with the benefits of the German corporate tax cut started to show its effects in the first six months. While the Group is reviewing the rebuttable presumption of useful life under the new trademarks amortization rule in the Hong Kong Statement of Standard Accounting Practice, the Group had consequently recorded an additional HK\$13 million in trademarks amortization for the first six months.

Other Developments

Although its accounts were not consolidated into ours, a highly positive note for the Group was our China operation. Targeted to reach HK\$1 billion in turnover by 2003, our China operation registered over 32.1% in annual turnover growth in 2001, and its contribution to the Group's net profit during this reporting period increased 45.7% year-on-year. To capture the anticipated increase in consumer spending after China's official entrance into the World Trade Organization, we have plans to open 28 directly managed stores in China in 2002.

The launch of our ESPRIT Basic lines, which provided consumers with more choices of products at lower price points, had been well-received by the markets. After settling the litigation and obtaining the remaining 39% ownership of Red Earth International Holdings Limited during this reporting period for HK\$15 million, we plan to promote the brand more aggressively by leveraging on the global ESPRIT distribution network. To gauge market interest in Europe, a few Red Earth counters were recently launched in Germany (4 counters) and U.K. (2 counters).

In November 2001, one of the Group's subsidiaries, Esprit International, (with the intention to protect the global ESPRIT image) issued an objection to Esprit de Corp's ("EDC") recent move to distribute ESPRIT products through mass retailers. In response, EDC initiated a demand for arbitration and court proceedings in December 2001, which primarily alleged mismanagement of Esprit International, of which EDC is a 37% limited partner. The Group, after taking appropriate legal advice, believes that EDC's claims are entirely without merit and have filed counterclaims against EDC.

Liquidity and Financial Resources

During the past six months, the Group generated a positive operating cash flow of HK\$871.7 million (2001: HK\$614.8 million). In sum, our net cash increased by HK\$406.1 million over the balance at the end of our last fiscal year to HK\$794.0 million. Our debt to equity ratio, expressed as a percentage of interest bearing borrowings over shareholders' funds of HK\$2,487.4 million, was 2.0% (2001: 16.5%). The Group has assets of HK\$59.2 million pledged as security for overdraft and short-term facility. During the reporting period, the Group entered into foreign exchange forward contracts with large reputable financial institutions to reduce exposure to foreign currency exchange risk; outstanding contracts valued at contracted rates amounted to HK\$224.7 million, from HK\$170.4 million as of June 30, 2001.

Capital expenditure totaled HK\$196.1 million (2001: HK\$196.4 million) in the six months to December 31, 2001. The majority of this expenditure was used for expansion of our directly managed sales footage. For the rest of the fiscal year, the Group expects to



spend approximately HK\$200 million for upgrade and expansion of our global distribution network. The Group anticipates funding such capital expenditure with cash flows from operations.

Outlook

Looking ahead to the rest of this financial year, we expect the continuation of a tough operating environment worldwide and poor consumer sentiments across Asia Pacific, as well as increased competition. However, we remain confident in achieving turnover and net profit growth for the full financial year 2001/2002 and continue to grow on all major fronts. Even though we are not directly affected by U.S. economic performance and have not seen any significant impact from the tragic events of September 11, an early U.S. economic recovery would certainly help the apparel industry and accelerate our global growth.

Our European wholesale orders booked till April/May 2002 continue to show double-digit growth year-on-year. In January 2002, the Group started a new discretionary limit program, in which a few of our major European wholesale customers entrust us to inject merchandise for them at our discretion. The goal of this initiative is to share our merchandising expertise with our wholesale customers and strengthen our wholesale business. Consequently, the entire European wholesale operation should become more efficient, and sales performance should improve further.

On the retail front, we believe that double-digit sales growth is maintainable. Benefits of the injection program will be fully exploited throughout the Group, leading to more full price and higher comparable store sales. The expansion plan for our retail business will proceed as intended, as we will add approximately 110,000 square feet to our directly managed retail space during the next six months. To capture the benefits of the low rental rates available, we will continue to expand and upgrade the quality of our retail space by adding new stores in prime locations worldwide.

With Euro quotation from our suppliers and less volatile Euro exchange movement seen in the first half of the financial year, we anticipate that the currency translation factor would not hamper our financial performance as much as the last fiscal year, if any. The Group will continue to look for ways of controlling costs and enhancing operating efficiencies. Furthermore, we are determined to maximize the Group's tax efficiency through various planning and initiatives. All of the above would lead to further expansion of the Group's net margin.

We remain committed to offering clothing and lifestyle products with a distinguished image at affordable prices. With our strong financial position and our dedicated staff, we foresee a continuation of our growth momentum and finishing the financial year as our ninth consecutive year of turnover and profit growth.



INDEPENDENT REVIEW REPORT TO THE BOARD OF DIRECTORS OF ESPRIT HOLDINGS LIMITED

(incorporated in Bermuda with limited liabilities)

Introduction

We have been instructed by the company to review the interim financial report set out on pages 9 to 21.

Directors' responsibilities

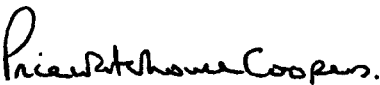
The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

Reviewed work performed

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended December 31, 2001.



PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, February 7, 2002

INTERIM RESULTS

The Board of Directors of Esprit Holdings Limited (the "Company") is pleased to announce that the unaudited condensed consolidated results of the Company and its subsidiaries (the "Group") for the six months ended December 31, 2001 together with comparative figures for the corresponding period are as follows:

condensed consolidated profit and loss account

	Note	For the 6 months ended December 31,	
		Unaudited 2001 HK\$'000	Unaudited 2000 HK\$'000
Turnover	2	4,647,845	3,994,242
Cost of Goods Sold		(2,419,795)	(2,035,993)
Gross Profit		2,228,050	1,958,249
Other Revenues		21,812	30,932
Staff Costs		(610,149)	(557,495)
Depreciation and Amortization		(130,120)	(97,365)
Other Operating Costs		(825,072)	(757,464)
Operating Profit		684,521	576,857
Finance Costs		(1,935)	(17,944)
Share of Profits of Associated Companies		13,773	10,360
Profit before Taxation	3	696,359	569,273
Taxation	4	(272,544)	(258,735)
Profit after Taxation		423,815	310,538
Minority Interests		(38,619)	(37,334)
Profit Attributable to Shareholders		385,196	273,204
Interim Dividend	5	68,906	53,902
Earnings Per Share			
– basic	6	33.7 cents	24.4 cents
– fully diluted	6	33.0 cents	23.7 cents
Dividend Per Share		6.0 cents	4.8 cents

condensed consolidated balance sheet

		Unaudited As at December 31, 2001 HK\$'000	Audited As at June 30, 2001 HK\$'000
	<i>Note</i>		
Intangible Assets		713,816	722,110
Fixed Assets		875,507	779,120
Other Investments		7,366	7,366
Associated Companies		92,021	78,980
Current Assets			
Stocks and work in progress		925,503	791,264
Debtors, deposits and prepayments	7	758,692	716,234
Amounts due from associated companies		28,954	10,349
Short-term bank deposits		102,507	7,855
Bank balances and cash		738,701	435,697
		2,554,357	1,961,399
Current Liabilities			
Creditors and accrued charges	8	965,382	746,923
Taxation		714,795	542,148
Obligations under finance leases			
– due within one year	9	882	1,303
Bank overdrafts		47,202	55,604
		1,728,261	1,345,978
Net Current Assets		826,096	615,421
Total Assets Less Current Liabilities		2,514,806	2,202,997
Financed by:			
Share Capital	10	114,577	114,251
Reserves		872,733	815,082
Retained Profit	11	1,431,321	1,115,031
Interim Dividend		68,746	–
Final Dividend		–	137,101
Shareholders' Funds		2,487,377	2,181,465
Minority Interests		21,546	18,204
Obligations under Finance Leases	9	508	941
Deferred Taxation		5,375	2,387
		2,514,806	2,202,997

condensed consolidated cash flow statement (unaudited)

	For the 6 months ended December 31,	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net Cash Inflow from Operating Activities	871,664	614,794
Returns on Investments and Servicing of Finance:		
Interest received	9,015	18,915
Interest paid	(1,855)	(17,811)
Interest element of finance leases	(80)	(133)
Dividends paid	(120,227)	(123,166)
Distribution to a non-affiliated partner of a limited partnership	(35,278)	(32,555)
Net Cash Outflow from Returns on Investments and Servicing of Finance	(148,425)	(154,750)
Taxation:		
Hong Kong profits tax paid	(49,316)	(45,324)
Overseas tax paid	(77,001)	(51,600)
Tax Paid	(126,317)	(96,924)
Investing Activities:		
Purchase of additional interest in a subsidiary	(15,000)	–
Purchase of fixed assets	(196,101)	(196,430)
Proceeds from disposal of fixed assets	2,408	2,396
Net Cash Outflow from Investing Activities	(208,693)	(194,034)
Net Cash Inflow before Financing	388,229	169,086
Financing:		
Net proceeds on issues of shares for cash	3,571	10,673
Repayment of obligations under finance leases	(873)	(754)
Repayment of bank loans	–	(77,966)
Net Cash Inflow / (Outflow) from Financing	2,698	(68,047)
Increase in Cash and Cash Equivalents	390,927	101,039
Cash and Cash Equivalents at July 1	387,948	707,126
Effect of Change in Exchange Rates	15,131	(15,719)
Cash and Cash Equivalents at December 31	794,006	792,446
Analysis of the Balances of Cash and Cash Equivalents:		
Short-term Bank Deposits	102,507	91,093
Bank Balances and Cash	738,701	720,796
Bank Overdrafts	(47,202)	(10,713)
Short-term Bank Loans	–	(8,730)
	794,006	792,446

**condensed consolidated statement of recognized gains and losses
(unaudited)**

	For the 6 months ended December 31,	
	2001	2000
	HK\$'000	HK\$'000
Exchange differences arising on translation of subsidiaries and associated companies not recognized in the profit and loss account	37,372	(30,972)
Profit for the period	385,196	273,204
Total recognized gains	422,568	242,232

Notes to the Financial Statements

1. Accounting policies

These unaudited condensed consolidated interim accounts ("interim accounts") are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") No. 25, "Interim Financial Reporting", issued by the Hong Kong Society of Accountants, and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The accounting policies and methods of computation used in the preparation of these interim accounts are consistent with those used in the annual accounts for the year ended June 30, 2001 except that the Group has changed certain of its accounting policies following its adoption of the following SSAPs issued by the Hong Kong Society of Accountants which are effective for accounting periods commencing on or after January 1, 2001:

SSAP 9 (revised)	:	Events after the balance sheet date
SSAP 29	:	Intangible assets
SSAP 30	:	Business combinations
SSAP 31	:	Impairment of assets

The changes to the Group's accounting policies and the effect of adopting these new policies are set out below:

(a) SSAP 9 (revised): Events after the balance sheet date

In accordance with the revised SSAP 9, the Group no longer recognizes dividends proposed or declared after the balance sheet date as a liability at the balance sheet date. This change in accounting policy has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

As detailed in Note 11, opening retained profit at July 1, 2000 have increased by HK\$125,474,000 which is the reversal of the provision for the 1999/2000 proposed final dividend previously recorded as a liability as at June 30, 2000 although not declared until after the balance sheet date. Opening retained profit at July 1, 2001 have increased by HK\$137,101,000 which is the reversal of the provision for the 2000/2001 proposed final dividend previously recorded as a liability as at June 30, 2001 although not declared until after the balance sheet date.

(b) SSAP 29: Intangible Assets

Trademarks

In prior years, trademarks were amortized by equal annual installments over their estimated economic life of 40 years. In accordance with SSAP 29 expenditure on acquired trademarks are amortized using the straight-line method over their useful lives with a rebuttable presumption that the useful life of an intangible asset will not exceed twenty years from the date when the asset is available for use. Consequently, the Group's amortization charge for the current period has been increased by HK\$13,124,000. However, the Company is still reviewing such rebuttable presumption and may make appropriate adjustments in the future.

(c) SSAP 30: Business Combinations

Goodwill and reserves arising on acquisition

Goodwill/reserves arising on acquisition represents the excess/shortfall of purchase consideration over the fair values ascribed to the net assets of subsidiaries acquired. Goodwill/reserves arising on acquisitions occurring on or after July 1, 2001 are included in intangible assets/reserves and are amortized using the straight-line method over their estimated useful lives. Goodwill/reserves arising on acquisitions that occurred prior to July 1, 2001 were taken directly to reserves in the year of acquisition. The Group has taken advantage of the transitional provisions in SSAP 30 and such goodwill/reserves on acquisition have not been retroactively capitalized and amortized. However any impairment arising on such goodwill is accounted for in accordance with SSAP 31 "Impairment of Assets".

2. Turnover

The Group is principally engaged in the design, licensing, sourcing, wholesale and retail distribution of high quality fashion products under the internationally known **ESPRIT** brand name in Europe, Asia Pacific and Canada, together with Red Earth cosmetics, skin and general body care products.

The turnover and contribution to operating profit after finance costs by principal activities and geographical markets are as follows:

	Turnover		Contribution to operating profit after finance costs	
	For the 6 months ended		For the 6 months ended	
	December 31,		December 31,	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Analysis by principal activities:				
Wholesale	2,575,718	2,151,793	552,309	387,338
Retail	2,035,636	1,800,332	119,020	147,388
Others	36,491	42,117	11,257	24,187
	4,647,845	3,994,242	682,586	558,913
Analysis by principal geographical markets:				
Germany	2,241,099	1,916,713	468,323	325,459
Belgium and the Netherlands	649,507	458,866	130,958	66,399
Hong Kong	578,876	560,054	6,088	49,074
Other Asia Pacific countries	666,325	676,092	38,498	67,818
Other European countries	480,622	343,134	27,462	25,976
Others	31,416	39,383	11,257	24,187
	4,647,845	3,994,242	682,586	558,913

3. Profit before taxation

	For the 6 months ended December 31,	
	2001	2000
	HK\$'000	HK\$'000
Profit before taxation is arrived at after crediting and charging the following:		
Crediting:		
Provision for doubtful debts written back	6,213	–
Provision for obsolete stock written back	15,138	–
Exchange gain	3,830	–
Charging:		
Depreciation and amortization		
– Owned assets	106,293	86,329
– Assets held under finance leases	533	866
– Trademarks	23,294	10,170
Exchange loss	–	6,379
Interest on short-term bank loans, overdrafts, and other loans wholly repayable within five years	1,855	17,811
Interest element of finance leases	80	133
Loss on disposal of fixed assets	5,690	2,822
Provision for doubtful debts	–	9,932
Provision for obsolete stock	–	12,139

4. Taxation

Hong Kong profits tax has been provided at the rate of 16% (2000/2001: 16%) on the estimated assessable profit for the period. Overseas taxation has been calculated at the rates of taxation prevailing in the countries in which the Group operates.

	For the 6 months ended December 31,	
	2001	2000
	HK\$'000	HK\$'000
Company and its subsidiaries:		
Hong Kong profits tax	31,942	27,040
Overseas taxation	239,870	230,285
	271,812	257,325
Associated companies – overseas taxation	732	1,410
	272,544	258,735

5. Interim Dividend

	For the 6 months ended December 31,	
	2001	2000
	HK\$'000	HK\$'000
Alignment of 2000/2001 final dividend on 1,332,000 (1999/2000: 248,000) new shares issued	160	28
Interim dividend declared of 6.0 Hong Kong cents (2000/2001: 4.8 Hong Kong cents) per share	68,746	53,874
	68,906	53,902

The amount for the 2001/2002 interim dividend is based on 1,145,772,831 shares (2000/2001: 1,122,368,345 shares) in issue as at January 31, 2002.

6. Earnings per share

The calculation of basic earnings per share is based on the unaudited profit attributable to shareholders of HK\$385,196,000 (2000/2001: HK\$273,204,000) and the weighted average number of shares in issue during the period of 1,143,169,751 (2000/2001: 1,120,443,088).

The calculation of fully diluted earnings per share is based on the unaudited profit attributable to shareholders of HK\$385,196,000 (2000/2001: HK\$273,204,000),

and the weighted average number of shares in issue during the period of 1,167,511,920 (2000/2001: 1,153,341,315) after adjusting for the number of dilutive ordinary shares deemed to be issued at no consideration based on the assumption that all outstanding share options granted under the Company's Employee Share Option Scheme had been exercised at July 1, 2001.

7. Debtors, deposits and prepayments

Debtors, deposits and prepayments included trade debtors and their ageing analysis is as follows:

	As at December 31, 2001 <i>HK\$'000</i>	As at June 30, 2001 <i>HK\$'000</i>
0-30 days	318,480	359,565
31-60 days	42,035	40,977
61-90 days	21,868	17,777
Over 90 days	27,591	20,808
	409,974	439,127

The Group's retail sales to customers are mainly on a cash basis. The Group also grants credit to certain wholesale and franchise customers which is usually 30 days.

8. Creditors and accrued charges

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

	As at December 31, 2001 <i>HK\$'000</i>	As at June 30, 2001 <i>HK\$'000</i>
0-30 days	369,344	316,147
31-60 days	58,927	23,838
61-90 days	18,316	4,173
Over 90 days	17,234	5,907
	463,821	350,065

9. Obligations under finance leases

	As at December 31, 2001 HK\$'000	As at June 30, 2001 HK\$'000
Total minimum lease payments		
– within one year	952	1,381
– in the second year	254	565
– in the third to fifth year inclusive	319	452
	1,525	2,398
Future finance charges on finance leases	(135)	(154)
Present value of finance lease liabilities	1,390	2,244
The present value of finance lease liabilities		
– within one year	882	1,303
– in the second year	235	519
– in the third to fifth year inclusive	273	422
	1,390	2,244
Amount due within one year included under current liabilities	(882)	(1,303)
	508	941

10. Share capital

	As at December 31, 2001 HK\$'000	As at June 30, 2001 HK\$'000
Authorized:		
2,000,000,000 shares of HK\$0.10 each	200,000	200,000
	Number of Shares of HK\$0.10 each '000	Nominal value HK\$'000
Issued and fully paid:		
At July 1, 2000	1,116,559	111,656
Issues of scrip dividend shares	780	78
Exercise of share options	25,166	2,517
At June 30, 2001	1,142,505	114,251
At July 1, 2001	1,142,505	114,251
Issues of scrip dividend shares <i>(Note (a))</i>	1,936	193
Exercise of share options <i>(Note (b))</i>	1,332	133
At December 31, 2001	1,145,773	114,577

Note (a)

At the annual general meeting of the Company held on November 26, 2001, shareholders of the Company approved a final dividend for the year ended June 30, 2001 of 12 Hong Kong cents per share of HK\$0.10 each. Shareholders may elect to receive fully paid new shares in lieu of cash ("Scrip Dividend Scheme"). Under this Scrip Dividend Scheme, 2000/2001 final dividend of HK\$17,033,782 was settled by the issue of 1,935,657 Scrip Dividend Shares at a premium of HK\$8.7 each.

Note (b)

During the period, 1,332,000 shares of HK\$0.10 were issued at a premium of the range from HK\$2.54 to HK\$2.62 each in relation to share options exercised by employees and Directors under the Share Option Scheme.

11. Retained profit

	<i>HK\$'000</i>
At July 1, 2000 as previously reported	730,796
Effect of proposed 1999/2000 final dividends as a result of adoption of SSAP 9 (revised)	125,474
At July 1, 2000 as restated	856,270
1999/2000 Final dividend paid	(125,502)
Profit for the year	575,329
2000/2001 Interim dividend paid	(53,965)
At June 30, 2001 as restated	1,252,132
Retained profit, after proposed dividends	1,115,031
2000/2001 Final dividend proposed	137,101
	1,252,132
Attributable to:	
Company and subsidiaries	1,222,173
Associated companies	29,959
At June 30, 2001	1,252,132
At July 1, 2001 as previously reported	1,115,031
Effect of proposed 2000/2001 final dividends as a result of adoption of SSAP 9 (revised)	137,101
At July 1, 2001 as restated	1,252,132
2000/2001 Final dividend paid	(137,261)
Profit for the period	385,196
	1,500,067
Retained profit, after interim dividend	1,431,321
2001/2002 Interim dividend	68,746
	1,500,067
Attributable to:	
Company and subsidiaries	1,457,067
Associated companies	43,000
At December 31, 2001	1,500,067

12. Operating lease commitments

	As at December 31, 2001 HK\$'000	As at June 30, 2001 HK\$'000
The total future minimum lease payments under non-cancellable operating leases are as follows:		
Land and buildings		
– within one year	676,996	605,132
– in the second to fifth year inclusive	1,898,978	1,598,340
– after the fifth year	1,784,177	1,364,879
	4,360,151	3,568,351
Other equipment		
– within one year	11,879	14,259
– in the second to fifth year inclusive	5,753	9,047
– after the fifth year	–	–
	4,377,783	3,591,657

13. Commitments

(a) Capital commitments

	As at December 31, 2001 HK\$'000	As at June 30, 2001 HK\$'000
Contracted but not provided for	109,562	175,628
Authorized but not contracted for	147,108	87,814
	256,670	263,442

(b) Foreign exchange contracts

The notional amounts of the Group's foreign exchange contracts are as follows:

	As at December 31, 2001 HK\$'000	As at June 30, 2001 HK\$'000
Forward contracts	224,734	170,371

Foreign exchange contracts are entered into primarily to protect the Group from the impact of currency fluctuation during the normal course of business.

14. Related party transactions

In the ordinary course of business and on normal commercial terms, the Group entered into transactions with the related companies during the six months ended December 31, 2001. Details relating to these related party transactions are as follows:

	For the 6 months ended December 31,	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
<hr/>		
Transactions with Associated Companies:		
Sales of finished goods	143,279	70,409
Other income	54	52
	<hr/>	<hr/>

INTERIM DIVIDEND

The directors have declared an interim dividend for the six months ended December 31, 2001 of HK6.0 cents per share (2000/2001: HK4.8 cents), payable on or about Friday, April 26, 2002 to the shareholders whose names appear on the Register of Members of the Company at close of business on Monday, March 11, 2002 ("Shareholders") with a scrip alternative to offer Shareholders the right to elect to receive such interim dividend wholly or partly by allotment of new shares credited as fully paid in lieu of cash (the "Scrip Dividend Scheme").

A circular containing details of the Scrip Dividend Scheme together with the relevant election form will be dispatched to Shareholders on or about Wednesday, March 13, 2002. The Scrip Dividend Scheme is conditional upon the granting by the Listing Committee of The Stock Exchange of Hong Kong Limited of the listing of and permission to deal in the new shares to be issued pursuant thereto. The relevant dividend warrants and certificates for the new shares to be issued pursuant to the Scrip Dividend Scheme will be dispatched to Shareholders on or about Friday, April 26, 2002.

EMPLOYMENT, TRAINING AND DEVELOPMENT

As at December 31, 2001, the Group had a total of 6,140 employees, an increase of 186 over June 30, 2001, in line with our expansion plans. Total staff costs for the half year amounted to HK\$610.1 million (2001: HK\$557.5 million). We remunerate our employees based on their performance, experience and the prevailing industry practices, with compensation policies and packages being reviewed on a regular basis. Bonuses are linked to both the performance of the Group and to individual performance as recognition of value creation. Aligning individual interests with the Group, share options are granted to senior management. To comply with the latest amendment to the Listing Rules, in November 2001 Annual General Meeting, the shareholders approved the adoption of a new share option scheme.

DIRECTORS' INTERESTS

As at December 31, 2001, the interests of the Directors, chief executives and their associates in the securities of the Company as recorded in the register kept by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

Name of Director	Shares of the Company				Share Options
	Personal Interests	Family Interests	Corporate Interests	Other Interests	Held as at Dec 31, 2001
Michael YING Lee Yuen	-	-	502,656,352*	-	15,000,000
Jürgen Alfred Rudolf FRIEDRICH	113,485,676	51,401	-	-	-#
CHHIBBER Surinder	3,090,385	-	-	-	8,000,000
Heinz Jürgen KROGNER-KORNALIK	-	-	-	-	4,000,000
John POON Cho Ming	-	-	-	-	8,000,000
Connie WONG Chin Tzi	1,854,597	-	-	-	-

* 502,656,352 shares were held by Great View International Limited which is wholly owned by Mr. Michael YING Lee Yuen.

Mr. Jürgen Alfred Rudolf FRIEDRICH bought an Equity-Linked-Note with face value of HK\$45,500,000 at strike of HK\$9.10, matured on January 18, 2002, with an obligation to receive 5,000,000 shares of HK\$0.10 each in the Company (the "Shares") on maturity if the closing price of the Shares was below HK\$9.10 on January 16, 2002.

Details of share option exercised during the period and outstanding share options as at December 31, 2001 granted to and accepted by the Executive Directors under the Share Option Scheme adopted by the Company on November 17, 1993 (“1993 Scheme”), in which the Executive Directors can subscribe for shares in the Company at HK\$2.64 to HK\$6.36 per share, are as follows:

Name of Director	As at			As at	
	Jun 30, 2001	Granted	Exercised	Expired	Dec 31, 2001
Michael YING Lee Yuen	15,000,000	–	–	–	15,000,000
CHHIBBER Surinder	8,000,000	–	–	–	8,000,000
Heinz Jürgen KROGNER-KORNALIK	4,000,000	–	–	–	4,000,000
John POON Cho Ming	8,000,000	–	–	–	8,000,000

These options were divided into two to eight equal fractional installments. The first exercisable date between each installment shall occur at intervals of six calendar months and expiring on the fifth anniversary of the first exercisable date of each installment or ten years from the date of adoption of the 1993 Scheme, whichever is the earlier. The earliest exercisable date for the first installment shall occur six months after the date of grant.

Save as disclosed above, none of the Directors, chief executives or their associates had any interests in the listed securities of the Company or any of its associated corporations as defined in the SDI Ordinance, and at no time during the period under review was the Company or its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDER’S INTEREST

As at December 31, 2001, the following interest of 10% or more in the issued share capital of the Company was recorded in the register of interests required to be maintained by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name of Shareholder	Number of Shares
Great View International Limited	502,656,352

This interest is also included as corporate interest of Mr. Michael YING Lee Yuen as disclosed under “Directors’ Interests” above.

Save as disclosed above, no person, other than the Directors of the Company, whose interests are set out in the section “Directors’ Interests” above, had registered an interest in the share capital of the Company that was required to be recorded pursuant to Section 16(1) of the SDI Ordinance.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Wednesday, March 6, 2002 to Monday, March 11, 2002, 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 share registrar in Hong Kong, Secretaries Limited, at 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong not later than 4:00 p.m. on Tuesday, March 5, 2002.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

AUDIT COMMITTEE

The Audit Committee, comprising three Non-executive Directors, 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 for the six months ended December 31, 2001 with management.

CORPORATE GOVERNANCE

During the period under review, the Company was in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

By Order of the Board
Esprit Holdings Limited
John POON Cho Ming
Executive Director & Group CFO

Hong Kong, February 7, 2002