STOCK CODE 00330

ANNUAL REPORT

ESPRIT HOLDINGS LIMITED
YEAR ENDED 30 JUNE 2016

ESPRIT

ANNUAL REPORT FY 15/16

ESPRIT HOLDINGS LIMITED

ESPRIT

Corporate information

Chairman
· Raymond OR Ching Fai
  Independent Non-executive Director

Deputy Chairman
· Paul CHENG Ming Fun
  Independent Non-executive Director

Executive Directors
· Jose Manuel MARTINEZ GUTIERREZ
  Group CEO
· Thomas TANG Wing Yung
  Group CFO

Non-executive Director
· Jürgen Alfred Rudolf FRIEDRICH

Independent Non-executive Directors
· José María CASTELLANO RIOS
· Alexander Reid HAMILTON
· Carmelo LEE Ka Sze
· Norbert Adolf PLATT

Company Secretary
· Florence NG Wai Yin

Principal bankers
· The Hongkong and Shanghai Banking Corporation Limited
· Deutsche Bank AG
· The Bank of East Asia, Limited
· BNP Paribas
· Hang Seng Bank Limited
· Industrial and Commercial Bank of China
· ANZ Bank
· China Merchants Bank

Auditor
· PricewaterhouseCoopers
  Certified Public Accountants

Principal legal advisor
· Baker & McKenzie
· Freshfields Bruckhaus Deringer

Share listing
Esprit's shares are listed on The Stock Exchange of Hong Kong Limited (SEHK). The Company has a Level 1 sponsored American Depositary Receipt (ADR) program.

Stock code
· SEHK : 00330
· ADR : ESPGY

Principal share registrar
MUFG Fund Services (Bermuda) Limited
The Belvedere Building
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Hong Kong branch share registrar
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Corporate profile

Founded in 1968, Esprit is an international fashion brand that pays homage to its roots and expresses a relaxed, sunny Californian attitude towards life. Esprit creates inspiring collections for women, men and kids made from high-quality materials paying great attention to detail. All of Esprit's products demonstrate the Group's commitment to make consumers "feel good to look good". The Company's "esprit de corps" reflects a positive and caring attitude towards life that embraces community, family and friends – in that casual, laid-back California style. The Esprit style.

The Group distributes its products directly to end-consumers through directly-managed retail stores ("Retail (excl. e-shop)") and online ("e-shop"), and also distributes through third parties, both offline and online ("Wholesale"). The Group markets its products under two brands, namely the Esprit brand and the edc brand. Listed on The Hong Kong Stock Exchange since 1993, Esprit has headquarters in Germany and Hong Kong.

Content

01
TO OUR SHAREHOLDERS

Raymond OR Ching Fai

"The progress we have made gives us much confidence that we are on the right path towards restoring the long-term competitiveness of the Group."

01.1 Letter from Chairman

Dear Shareholders,

Esprit has achieved good progress both strategically and financially over the past financial year. The advances made reflect the benefits of our strategic plan, which is proving effective to enhance the competitiveness of our products and channels. We are gratified to see that these operational improvements are also contributing to improvements in financial metrics. This reaffirms the potential of Esprit and lays the foundation for our road to recovery.

Review of FY15/16

Results

Overall market conditions have remained challenging. On the one hand, our industry is going through significant changes fueled by the development of the online channels and increasingly aggressive price competition. On the other hand, the macroeconomic picture was uncertain in Europe and turned especially weak in our Asian markets, with the economic slowdown in China and the devaluation of Renminbi combining to significantly dampen consumer sentiment. The weakness of the Euro currency against our reporting currency, the Hong Kong dollar, also placed considerable pressure on the Group's financial results.

Nonetheless, I am pleased to report that the Group recorded a net profit of +HK$21 million for FY15/16, driven by strong performance of our retail channels (offline and online), reduced cost of the operations and a favorable net tax balance. The Group also obtained a material exceptional gain from the sale of office space in Hong Kong but this was offset by exceptional expenses resulting from the acceleration of cost restructuring measures (e.g. social plans in Europe).

Regarding the positive development of the retail channels, we see how the Vertical Omnichannel Model implemented in FY14/15 is improving the attractiveness of our products and the sales effectiveness of our retail stores and e-shop. As a result, we have achieved a gain in retail space productivity for the first time in nine years, and this trend has been consistent throughout the year. This growth was the result of a highly positive development in Europe, while the eroded consumer confidence in Asia took a toll on our sales performance in the region. Unfortunately, revenue of the Group's wholesale channel declined due to the reduction of controlled space. Overall, the Group's revenue was HK$17,788 million, virtually unchanged year-on-year with a slight decline of -1.1% in local currency.

Regarding profitability, our gross profit margin slightly improved and the operating expenses (OPEX), excluding exceptional non-recurring items, were reduced by -1.9% year-on-year in local currency terms, despite our decision to significantly increase marketing and advertising expenses. As a result, the loss from underlying operations, excluding exceptional items, was reduced to a LBIT of -HK$572 million. As mentioned, a positive net tax balance complemented our bottom line to reach a positive net profit of HK$21 million in the financial year under review.

Financial Position

Preserving a strong financial position through prudent cash management continued to be a top priority during the year. As a consequence, the Group maintained a healthy net cash position of HK$5,341 million as at 30 June 2016. As explained in my previous letter to you, the Board has decided to deploy some of our cash reserve into business initiatives (e.g. marketing efforts and Omnichannel initiatives) that can support the improvement of product performance. In view of the positive development in the financial year under review, we will continue with the same approach next year.

As the net profit for the financial year was very small, the Board does not recommend the payment of a dividend at this time.

Key Decisions by the Board during the Year

Business

During the year, the Board has been actively monitoring the progress of the Strategic Plan. In view of the positive trend of sales performance, the Board is encouraging measures to facilitate faster recovery of the Group's overall profitability: achieving excellence in the execution of the new Vertical Omnichannel Model, tackling the challenges in the wholesale channel and the Asia Pacific region, and continuing the reduction of structural costs by closing unprofitable stores and streamlining every operating expense down to a minimum level. These combined measures will bring improvement of the Group's results in the coming years and, once the company stabilizes its profitability, we shall shift gears to accelerate growth.

Management

We recognize that a successful turnaround of the business is closely tied to the commitment and efforts of our management team. Correspondingly, the Board has always embraced a pay-for-performance approach in the organization, using a combination of short and long-term incentives linked to key performance metrics. This year, the Board has approved the adoption of the Employees' Share Award Scheme to provide additional flexibility to incentivize and retain selected senior managers. The Board strongly believes that this scheme helps ensure a better alignment of executive compensation with shareholders' interests.

Sustainability

Operating our business responsibly for all stakeholders has always been an integral part of the Esprit culture. This year, we have continued our focus on social and environmental sustainability, adopting more proactive measures to use sustainable materials and minimize water pollution across our whole supply chain. Amongst other initiatives, we have established a program, which ensures that the wood used to make our viscose fabric does not come from ancient or endangered forests. We have also joined the Better Cotton Initiative, to help reduce our environmental impact in respect to cotton usage. Behaving sustainably is a core belief of Esprit and a fundamental element for our long-term success.

Shareholders

As part of our ongoing Investor Relations efforts, we maintain regular and ongoing conversations with our shareholders to keep closely apprised of their expectations, and to ensure that we exercise judgment in the best interest of the company as well as that of our stakeholders. This year, in response to feedback from our shareholders and investors, the Company has significantly enhanced the quality of financial disclosure by revamping the segmental reporting method of this annual report. Given the increasing importance of e-commerce, its performance is now reported separately as a standalone operating segment. We believe this will enable investors to better understand and assess the financial performance of the Group.

Closing

Looking ahead to FY16/17, we anticipate the shifting market dynamics as described at the beginning of this letter will continue to exert pressure on every player in the industry. The Board is of the view that companies best poised to navigate these challenges are those with the agility to quickly react to product trends, and the ability to serve consumers seamlessly across different channels. To this end, the Board remains confident that the Strategic Plan stands us in good stead, and we remain fully committed to adhering to it as the best way forward to deliver long-term value to our shareholders.

Last but not least, on behalf of the Board, I would like to thank our shareholders for their continued confidence; our consumers for their loyalty; and our over 8,300 employees worldwide, whose passion and commitment have enabled us to achieve the positive developments of the financial year under review. While the road to recovery is still full of challenges, the progress we have made gives us much confidence that we are on the right path towards restoring the long-term competitiveness of the Group.

Dr Raymond OR Ching Fai//Independent Non-executive Chairman
20 September 2016

Jose Manuel MARTINEZ GUTIERREZ

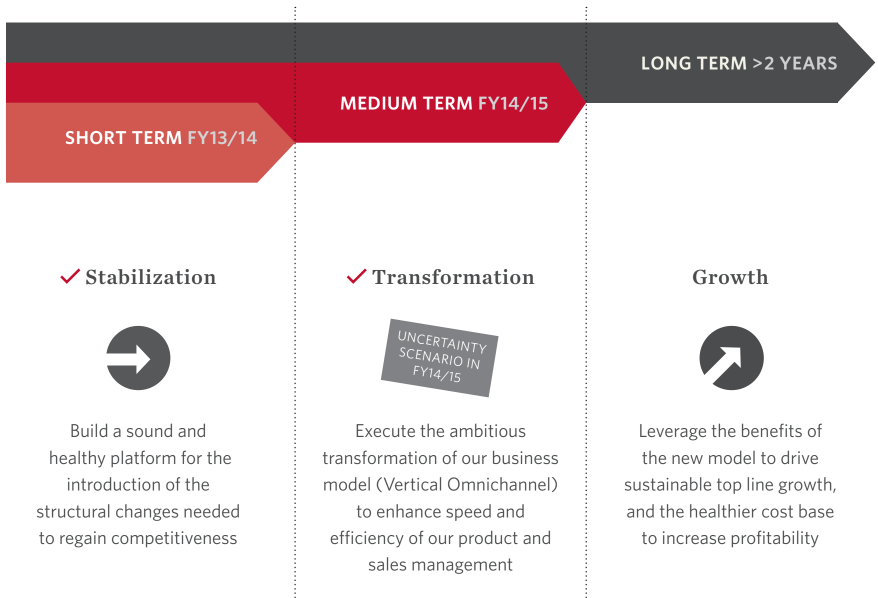
"The Strategic Plan is proving effective to enhance the competitiveness of our products and channels ... contributing to improvements in financial metrics."

01.2 Letter from Group CEO

Dear Shareholders,

As presented to you in previous years, the strategic plan ("Strategic Plan") for the turnaround of Esprit has been proceeding along three distinct phases: Stabilization, Transformation and Growth, as articulated in the diagram below.

Overview of Strategic Plan



The **Stabilization** phase in the financial year ended 30 June 2014 effectively stopped the continued decline of the Group's results since 2007. It was also an instrumental period of time to prepare the Company for the deep changes to come in the following year.

The **Transformation** phase in the financial year ended 30 June 2015 ("FY14/15") was the most demanding and riskiest phase of our Strategic Plan as we introduced a whole new way of working for the entire organization and for our business partners, including suppliers and wholesale partners. More specifically, the Group implemented in FY14/15 faster and more cost-efficient product development and supply chain processes (the "Vertical Model"), in order to significantly enhance the design and value-for-money of our products. In parallel, we also started to develop an ambitious project to maximize the joint performance of all our sales channels, i.e. retail and wholesale, offline and online (the "Omnichannel Model").

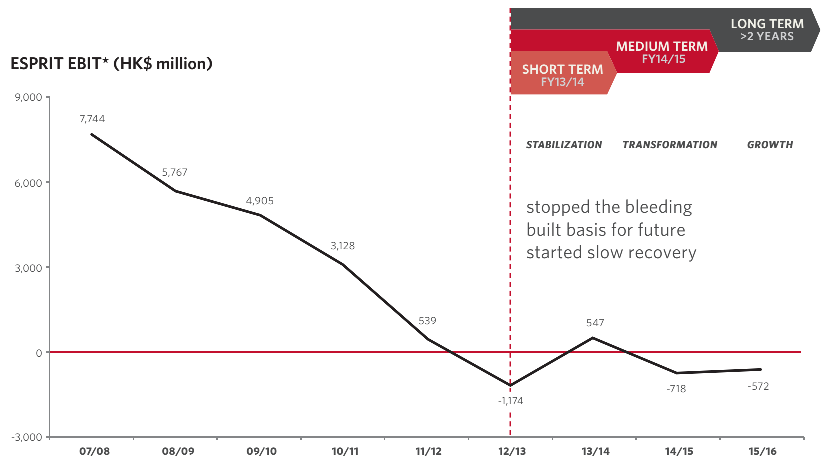
The **Growth** phase initiated in the financial year ended 30 June 2016 ("FY15/16") is then the time when we expected to observe an improved performance of the first collections developed under the Vertical Model ("Vertical Products") and the first results from our initial Omnichannel initiatives. Therefore, we are especially encouraged by the noticeable improvement of the sales performance of our retail stores and our e-shops in FY15/16. This progress has led to a positive development of our general financial performance, while it also reinforces the confidence that our strategic initiatives are bringing Esprit on the right track.

In summary, in the last three years, the execution of our Strategic Plan has served three major purposes:

- Interrupt the negative trend of the Group's bottom line ("stop the bleeding")
- Implement a new way of working as the basis to build our success in the future
- Start the path to progressively recover the profitability of Esprit

All three reflect on the recent development of the Group's EBIT from underlying operations (i.e. the EBIT excluding all exceptional items, such as the termination of the North American operations, the impairments of China's goodwill, the one-off costs of the main social plans or the different provisions and impairments related to the closure of heavy loss-making stores), as presented in the following chart:

Recent Development of EBIT from Underlying Operations



* EBIT from underlying operations, i.e. excluding exceptional items (e.g. closure of N.A. operations, impairment of China goodwill, sales of HK office space or provisions and impairments for store closures)

Notwithstanding this positive progress, the Group still faces important challenges in the near term. On the one hand, we must still fully develop and consolidate the core elements of our Strategic Plan (mainly the Vertical and the Omnichannel models) in order to sustain sales productivity increases in the coming years. On the other hand, we must find specific solutions for two major business areas, where performance is still declining, i.e. the Wholesale channel and the Asia Pacific region. These are areas that pose significant pressure on our top and bottom lines. Finally, we must continue enhancing profitability of the business via cost reduction. If all these factors continue to improve as they have done in FY15/16, we shall focus on the main opportunities to reignite expansion in our markets and into new countries. Seizing this opportunity presents enormous potential for our growth in the medium term.

After three years fully devoted to implement the new way of working in Esprit, we feel that the major goals have been accomplished and that we have a clear understanding of our key challenges ahead, as well as of the critical actions to address them. The rest of this letter provides further details on the main aspects of our performance, our strategy and our most immediate future.

Improved Financial Performance in FY15/16

The Group achieved a net profit of +HK$21 million for FY15/16, after a net loss of HK$3,696 million last year. This was the result of a combination of three major factors:

i) **Better than expected results from the underlying operations (excluding exceptional items) of -HK$572 million** – LBIT of the underlying operations was visibly improved over last year. The key driver of such improvement was the productivity gains in our retail operations, including e-shops, which had a very positive impact across different financial metrics:

Revenue of the Group was almost flat year-on-year, with a slight decline of -1.1% in local currency. This is a highly favorable development against the reduction in total controlled space of -13.1% reflecting a significant productivity gain (increased sales per sqm) of the retail operations for the first time in nine years.

Gross profit margin was 50.2%, an increase of 0.3 percentage points compared with last year. The Group benefited from a higher proportion of retail revenue reaching 67.3% of the Group (2015: 64.0%), which was partially offset by slightly increased markdowns and the negative impact of the weakness of the Euro.

Operating Expenses ("OPEX") of the underlying operations (excluding exceptional items) amounted to HK$9,501 million, representing a year-on-year reduction of -1.9% in local currency. This figure results from two different effects: effective reduction of most of our cost lines, especially the most relevant ones (i.e. Staff -9.8% and Occupancy -5.4% year-on-year in local currency), partly offset by the increase in marketing and advertising expenses (+33.6% in local currency) due to the new brand campaigns, in logistics (+5.5% in local currency) due to the strong growth of e-commerce, and in other operating costs (+5.9% in local currency) due to an unusual provision write back last year. The development of our regular OPEX was positive and structural cost-saving measures were implemented throughout the year to bring them further down to a healthier level in coming years. These restructuring measures have triggered provisions and impairment charges in the second half of the financial year, which are further explained under the "Exceptional non-recurring expenses" section right below.

ii) **Exceptional non-recurring expenses of HK$755 million** – These expenses are mostly one-off provisions and impairments related to the acceleration of cost restructuring measures. While these expenses adversely impacted our financial performance in FY15/16, they are derived from the following actions that shall contribute positively to our cost base from the next financial year onwards:

a. Staff reduction plans to reduce overhead costs, triggering one-off costs of HK$462 million;

b. License of the Esprit Kids business to Groupe Zannier, triggering the impairment of the IT applications associated with the Esprit Kids division, in the amount of HK$48 million;

c. Net provision for store closure and onerous leases of HK$186 million, thereof:

    i. Agreement to sublet empty store space on 34th Street, New York, requiring a provision of HK$162 million;

    ii. Closure of certain loss-making stores in Asia Pacific as a result of the local economic slowdown, requiring provisions of HK$198 million; and

    iii. Net write-back of provision of HK$174 million primarily due to improvement in retail performance in Europe.

d. Impairment of fixed assets on loss-making stores of HK$59 million.

iii) Exceptional net gains of HK$1,337 million – These are one-off net gains arising from non-operational activities, comprising:

a. A net gain of HK$731 million from the sale of our Hong Kong office premises;

b. A write-back of tax provisions of HK$409 million as a result of favorable assessment by the Inland Revenue Department of Hong Kong concerning the taxability of income generated by several subsidiaries of the Group; and

c. A net taxation credit of HK$197 million mainly due to the tax deductibility of the exceptional non-recurring expenses mentioned above and the release of tax provision from previous years.

As for the balance sheet, the Group maintained a sound financial position that enables the finalization of our Strategic Plan and the implementation of growth initiatives in the future. Our net cash was kept at HK$5.3 billion as at 30 June 2016 (30 June 2015: HK$5.0 billion).

Positive Results of the Strategic Plan

As discussed above, the core of our Strategic Plan is the implementation of a Vertical Model to produce a sustained flow of competitive products, together with the optimization of our sales channels performance through the Omnichannel Model. These two pillars are complemented by renewed Brand campaigns and strengthened management and teams. The developments this year showed that these four elements have begun to bear fruit.

i) Improved products through our new Vertical Model – Over the past two years, management have devoted most of their time and efforts to design and implement a new way of working across all product-related areas because we were and still are certain that product improvement is the key to make Esprit successful again. The diagram below outlines the main components of our Vertical Model.

Overview of Vertical Model

VERTICAL

1. **Lean Supply Chain Management** – Fast and efficient product development by integrating the supply chain and introducing best practices
2. **Category Management Teams** – End to end product management by integrating all functions in teams specialized on each product category
3. **New Merchandising Model** – Fast and direct collaboration between Product and Markets by centralizing merchandise management decisions
4. **Seasonal Calendar** – Flexible flow of products by structuring the collections along 4 seasons (vs. 12 monthly capsules)
5. **Product Range Reduction** – Minimum size of the product range by maximizing synergies across channels
6. **Fast to Market** – Fast and flexible reaction to demand by establishing short lead time product development and supply chain processes
7. **Stock Management Optimization** – Optimal deployment of inventories by running last-minute allocation and sales replenishment models

Note: Initiative 8. "Vertical Wholesale Model" treated as an independent project in the future

Overall, most of the elements of the Vertical Model are already in place and fully functioning in the organization, however, the final one is still important work in progress. "Stock Management Optimization" refers to the ability to decide the best possible allocation of inventories, mostly through tools that allow for immediate reaction to sales (e.g. last-minute allocation and replenishment systems). Those tools depend on flexible logistics behind them, which Esprit will count on after the extension of our distribution center in Mönchengladbach, Germany. Construction work has already commenced and should be completed by mid-2017.

Nevertheless, after completion of most of the other changes and since the introduction of the first Vertical Products in Spring/Summer 2015, we are observing a positive trend in our retail sales confirmed by the performance in FY15/16:

- Retail revenue, including e-shop (67.3% of the Group's revenue), grew by +3.8% year-on-year in local currency, despite a year-on-year reduction in retail net sales area of -10.9%, fueled by sales growth in comparable stores of +8.1% in local currency

- From a product perspective, growth was driven by the divisions where the Vertical Model was first implemented, i.e. Esprit Women and edc, which reported growth in comparable retail stores, including e-shop, of +10.3% and +11.2% in local currency, respectively

- From a geographical perspective, retail revenue, including e-shop, grew stronger in European countries, +8.0% year-on-year in local currency, with comparable stores sales growth of +9.2% in local currency

- In Germany, our largest market, our comparable stores* outperformed the market throughout the year, except for one month, by an average of +9.5 percentage points (based on the comparable market data published by TextilWirtschaft)

  * *Only full price brick and mortar stores because this is the type of stores used by TextilWirtschaft to present the German retail market performance.*

ii) **Improved Channels Management through the Omnichannel Model** – We are well aware that the production of stronger collections will not suffice in a market characterized by a massive offering of competitive products. We believe that successfully managing the relationship with individual consumers will prove vital and this is why we are developing our Omnichannel Model on three major principles: (1) Direct to Consumer, with the goal to expand our loyal customers base "Esprit Friends" and create the best possible program for them; (2) Cross-Channel Operations, in order to provide flexible customer interactions in any channel that they choose: retail or wholesale, offline or online; and (3) Integrated Commercial Activity of these channels to secure the best customer experience in a perfectly consistent manner. This approach leverages key competitive advantages of Esprit (e.g. a broad base of loyal consumers, strong CRM capabilities, best-in-class e-commerce operations, etc.) and we expect it to be instrumental in facilitating growth in the short and medium term. The diagram below highlights the three major elements of our Omnichannel Model.

Overview of Omnichannel Model

1. **Direct to Consumer** – Consumer-centric model for all channels by developing the best possible loyalty program "Esprit Friends" and making it the basis for all sales operations

2. **Cross-Channel Operations** – Best in class integration of retail and wholesale, offline and online operations by developing state of the art digital capabilities

3. **Integrated Commercial Activity** – Seamless consumer experience by coordinating all the marketing initiatives and management: Product-Price-Promotion-Place-People

While we feel that the Omnichannel Model is still at an early stage of implementation, we are encouraged by the following developments in FY15/16:

- 27% year-on-year growth of active Esprit Friends (i.e. members of the program who have purchased in the last 12 months)

- Share of Esprit Friends of the Group's retail net sales increased to 70% (FY14/15: 63%)

- Number of cross-channel Esprit Friends (i.e. members buying both offline and online) increased by 12% year-on-year

- 95% of invited wholesale partners, offered an opportunity to join our Omnichannel Model, signed up for a scheme that will fully integrate them into the "Esprit Friends" program, Esprit's Commercial Plan and the business of our e-shop "esprit.com"

- Sales from smartphones increased by 84% year-on-year

iii) **Ambitious Brand Marketing campaigns (#ImPerfect)** – In FY15/16 we decided to escalate our brand marketing spend and to boost the "boldness" of our campaigns. Triggered by the positive performance of the Vertical Products, since September 2015, we have embarked on the "#ImPerfect" campaign to strengthen and rejuvenate our brand image. The campaign is designed to present the all-time values of Esprit to a new generation of consumers with a more colorful, expressive and youthful concept and a stronger focus on digital media. The campaign launch positively impacted the market, especially in terms of engaging new consumers through our social media.

iv) **Strengthened management and professional teams** – All of the aforementioned progress has only been possible with the commitment and passion of our global team. Our executive management team members are highly familiar with both the principles and daily operation of a Vertical Model, with a proven track record to drive business performance. We also count on highly experienced and successful management to build up our Omnichannel Model. In the markets, this year we welcomed two very strong executives as General Managers for the Rest of Europe and the Asia Pacific regions. And, in general, I have the privilege to see daily that we count on outstanding professional teams that are proving the key asset to bring Esprit back to profitability and growth.

Key Challenges Ahead

Still the most important factor for the success of Esprit is to continue improving our sales performance by completing all developments along the four elements of the Strategic Plan: Brand, Vertical Model, Omnichannel Model and People.

In addition, as mentioned in the first part of this letter, the Group faces headwinds in two important business areas: the Wholesale channel and the Asia Pacific region.

We are encountering two-pronged difficulties in the **Wholesale channel**. Externally, the channel is under increasing pressure from low price vertical retailers, continued sales shift towards online, declining consumers' traffic, etc., that create business and financial difficulties for many players. This exerts considerable pressure on our wholesale footprint and results in a progressive reduction of controlled space as well as wholesale revenue. Internally, we must still develop good performing solutions to fully extend the benefits of the Vertical and Omnichannel models to our wholesale partners, so that we can achieve similar improvement as seen in our retail. These solutions are not obvious because the principles of a Vertical operation are often conflicting with the operation of our partners (e.g. fully centralized merchandising decisions). We have tested different approaches during the past two years with mixed results, which makes our progress slower than desired. To this end, a dedicated project team in Esprit is working to define our new wholesale model based on specialized solutions for each type of partner. We are currently in the phase of testing the most promising models with selected partners.

As for **Asia Pacific ("APAC")**, the difficulties in the region are also attributable to both external and internal issues. From a macroeconomic perspective, the combination of volatility in the financial markets and the economic slowdown in China has dampened consumer sentiment and reduced the flow of consumers' traffic into the malls in the region. This has provoked a highly promotional-driven market with negative impact on sales and margins. From an internal perspective, there are brand-specific weaknesses related to our distribution network in APAC, different than those of the main international brands in Asia (i.e. Esprit's retail space concentration in department stores and discount outlets). While the strategy and action plan is clear for Esprit to correct this situation, it is taking time to implement all the necessary measures. Nonetheless, we already see progress in terms of rapid e-commerce sales growth, improved operational excellence across retail functions, gross profit margin normalization, downsizing of local structures, etc., that make us confident about the revival of our long-term potential in the region.

Outlook

To summarize, FY15/16 has been a positive year with improved financial performance and successful development of the most critical elements of our Strategic Plan. Moving forward, we must keep the focus on improving our bottom line and step up the efforts to accelerate the positive trends of last year, while tackling pending matters and the aforementioned issues, so that all areas of the business can contribute positively to the turnaround of Esprit.

As explained in my letter to shareholders last year, growth will only come progressively as the Group still faces a decline of its wholesale space and retail space (as loss-making retail stores still need to be closed). We must continue to counter this space reduction with better sales productivity and profitability measures. Our short-term outlook for FY16/17 is based on the immediate priorities presented in this letter.

Controlled space in retail is expected to decline by high-single-digit percentage due to our decision to speed up the closure of loss-making retail space. Our wholesale controlled space is also likely to decline at a rate similar to those in previous years.

Space productivity (sales per square meter) remains our main focus as we systematically enhance the execution of our Vertical and Omnichannel Models. Improvement in FY16/17 will likely be more moderate than in FY15/16 because we are comparing against higher sales per sqm levels in most of the stores. Still we anticipate sustained productivity increases that must drive bottom line improvement throughout the year.

Thanks to the Omnichannel initiatives, the strong growth momentum of **e-shop** is expected to continue. Growth of e-shop revenue for Europe in FY16/17 will likely be in single-digit, as we compare against a very large base, while the growth in Asia Pacific is expected to remain in high-double digit.

Gross profit margin should remain at a stable level or achieve a modest increase.

OPEX will be visibly reduced by the accelerated closure of loss making stores and the impact of the cost restructuring measures already implemented as part of our goal to reduce HK$1 billion OPEX over the next two years (communicated in the last IR Day). Also, following the strong push in brand marketing in FY15/16, we plan to bring our expenditure in marketing and advertising to a lower level in FY16/17.

CAPEX is expected at a level similar to that in FY15/16. We will continue to moderately invest in retail stores refurbishment, Omnichannel initiatives, and the extension and upgrade of our distribution center in Europe.

Closing

Esprit is operating in an industry that is undergoing thorough fundamental changes, the shift in consumer preferences, the increasing relevance of e-commerce and the intense price competition are placing considerable pressure on most players in the industry.

I believe that the Vertical and Omnichannel models offer us the best way to confront these challenges. Although the transformation may seem to take longer than initially expected by investors, employees and other stakeholders, it is enhancing Esprit's ability to compete in the longer term. In view of the progress made in the past three years, we are confident that Strategic Plan is proving effective.

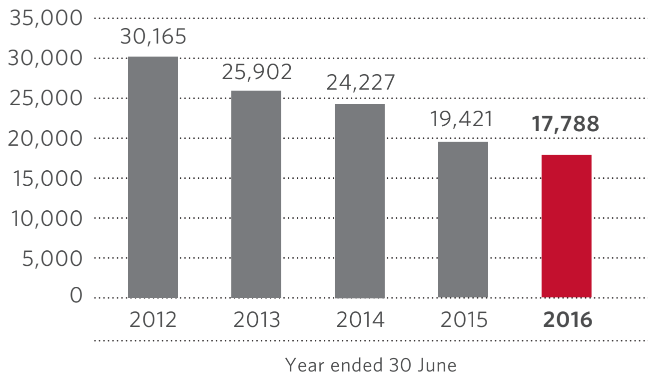
In closing, I would like to thank the Board, the management team and all of Esprit's employees for their trust, dedication and commitment during this vital phase for Esprit. I am also very grateful for the continued support and patience of our shareholders during the course of this turnaround journey. We are now a step closer and in a stronger position to restore Esprit back to its full potential.

Jose Manuel MARTINEZ GUTIERREZ//Executive Director and Group CEO
20 September 2016

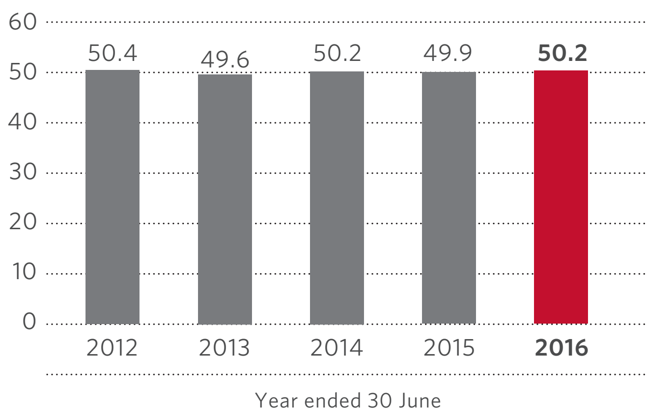
02
HIGHLIGHTS IN FY15/16

02 Highlights in FY15/16

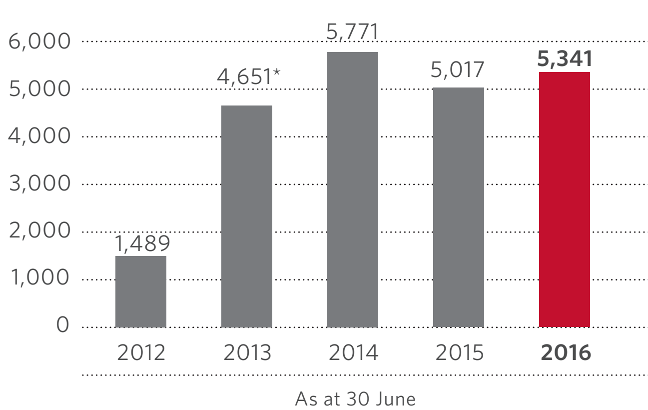
Revenue (HK$ million)



Gross profit margin (%)



Net cash (HK$ million)



* Include the proceeds from rights issue (November 2012) of approximately HK$5 billion

Positive financial performance in FY15/16

- Net profit of +HK$21 million
- Result from underlying operations LBIT (excl. exceptional items) improved by 20.7% year-on-year in LCY
- Revenue almost flat year-on-year -1.1% in LCY, a positive development against -13.1% reduction of total controlled space, driven by positive retail sales performance (offline and online)
- Stable gross profit margin of 50.2% (+0.3% points vs last year) despite weakness of Euro currency
- Operating expenses (excl. exceptional items) reduced by 1.9% in LCY, especially on most important cost lines, i.e. Staff (-9.8%) and Occupancy (-5.4%)
- Net cash increased by HK$324 million to HK$5.3 billion, with zero debt

Successful development of the Strategic Plan

- Vertical Model: more competitive products resulting in the first retail space productivity growth in nine years, retail comparable store sales (incl. e-shop) grew +8.1% year-on-year in LCY
- Omnichannel Model: improved sales channels performance through different online and offline initiatives e.g. e-shop, representing 23.3% of Group revenue, grew +15.3% year-on-year in LCY
- Moving forward main focus on: achieving excellence in our Vertical and Omnichannel models, executing specific plans to tackle current weaknesses in the wholesale business and the Asia Pacific region and further reducing HK$1 billion of operating expenses

Revenue

Group revenue (HK$ million)
17,788
▼ 8.4% in HKD terms
▼ 1.1% in LCY

Retail (incl. e-shop) revenue (HK$ million)
11,978
▼ 3.6% in HKD terms
▲ 3.8% in LCY

Wholesale revenue (HK$ million)
5,658
▼ 17.3% in HKD terms
▼ 10.0% in LCY

Total controlled space (Sqm) (retail & wholesale combined)
648,324
▼ 13.1%

Retail controlled space (Sqm)
291,572
▼ 10.9%

Wholesale controlled space (Sqm)
356,752
▼ 14.9%

Gross profit (HK$ million)

8,929
▼ 7.9% in HKD terms

Gross profit margin (%)
50.2%
▲ 0.3% pts in HKD terms

LBIT (HK$ million)

596
(2015: HK$3,683 million)

LBIT margin (%)
3.3%
(2015: 19.0%)

Net profit (HK$ million)

21
(2015: net loss of HK$3,696 million)

Net profit margin (%)
0.1%
(2015: net loss margin of 19.0%)

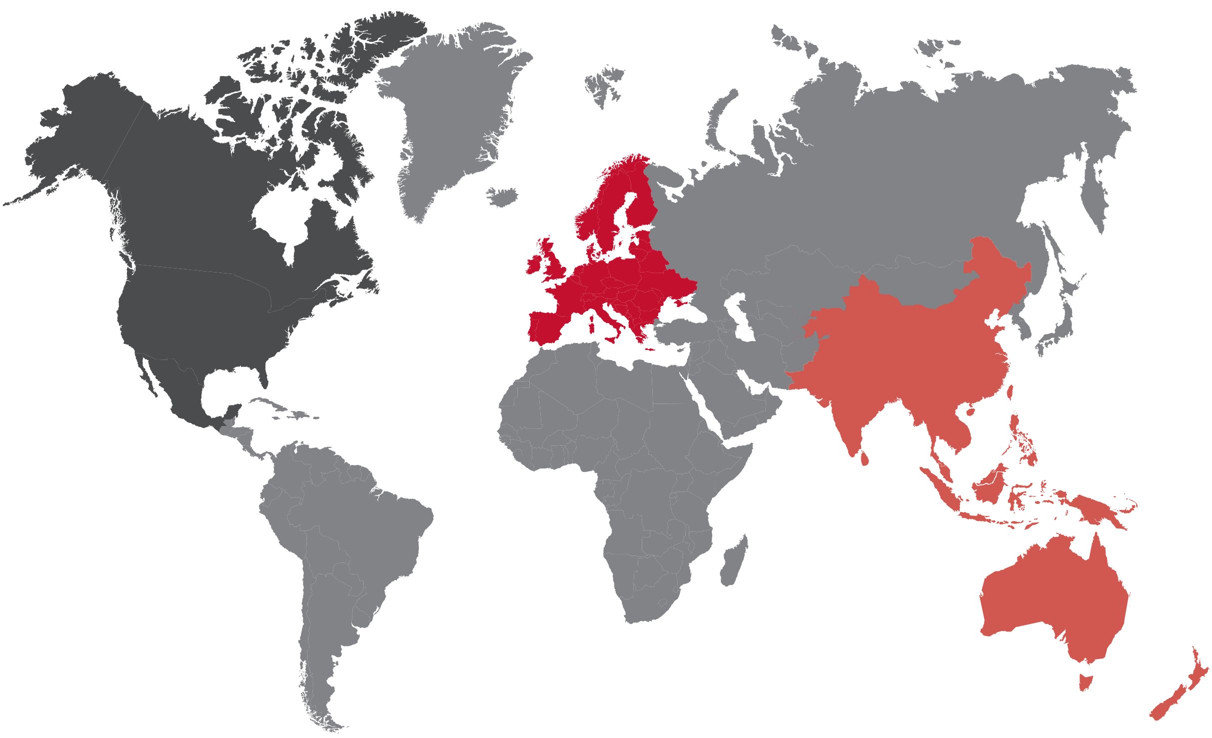
Basic earnings per share (HK$)

0.01

▲ | ▼ year-on-year change

Our international distribution network

To date, Esprit's collections are distributed via an international network covering around 40 countries worldwide through our directly managed retail stores, own e-shops and wholesale points of sales.

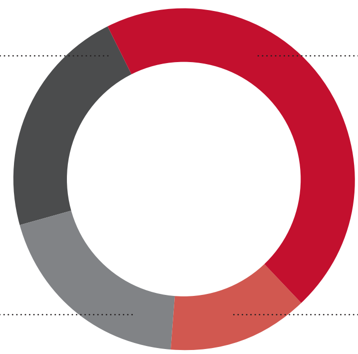


40 countries
20 e-shops
761 retail stores
6,332 wholesale POS

Our business across four major product divisions

The Group markets its products under two brands, namely the Esprit brand and edc brand, which offer apparel and lifestyle products for women, men as well as kids. In this annual report, products are categorized into four major groups: Esprit Women, Esprit Men, Lifestyle, and edc.

HK$ million // % to Group revenue // % local currency growth



edc

edc women
3,059 // 17.2% // -1.5%
edc men
815 // 4.6% // 0.1%

ESPRIT WOMEN

women casual
5,462 // 30.7% // 2.6%
women collection
2,184 // 12.3% // -1.5%
trend#
437 // 2.4% // -6.9%

LIFESTYLE AND OTHERS

bodywear^
921 // 5.2% // 8.0%
accessories^
888 // 5.0% // -4.7%
shoes^
704 // 3.9% // 1.8%
kids
465 // 2.6% // -18.0%
others*
479 // 2.7% // -3.8%

ESPRIT MEN

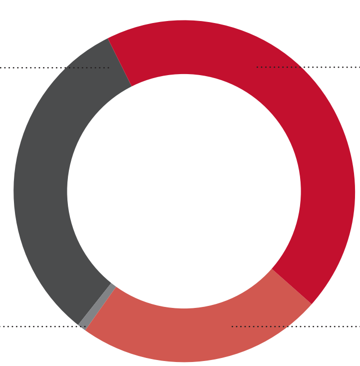
men casual
1,932 // 10.9% // -6.7%
men collection
442 // 2.5% // -11.3%

The Trend Division was set up as a laboratory to test our fast-to-market product development processes. The lessons we have learned have been applied to other product divisions under the Women segment, hence it is more meaningful to interpret the combined performance of these product divisions
^ Bodywear, accessories and shoes under edc brand are grouped together with those under Esprit brand in FY15/16 while they were grouped under edc others in FY14/15. Comparative figures of bodywear, accessories and shoes are restated accordingly
* Others include mainly licensing income & licensed products like timewear, eyewear, jewelry, bed & bath, houseware, etc.

Our business through four sales channels

We distribute our products primarily through directly managed retail stores, as well as points of sales managed by third parties. Directly managed retail stores include standalone stores, concession counters in department stores, the online shop ("e-shop") and outlets, which together are reported under the retail channel. Points of sales managed by third parties include franchise stores, shop-in-stores and identity corners in multi-labels, which together are reported under the wholesale channel.

HK$ million // % to Group revenue // % local currency growth



WHOLESALE
5,658 // 31.8% // -10.0%

RETAIL (EXCL. E-SHOP)
7,825 // 44.0% // -1.3%

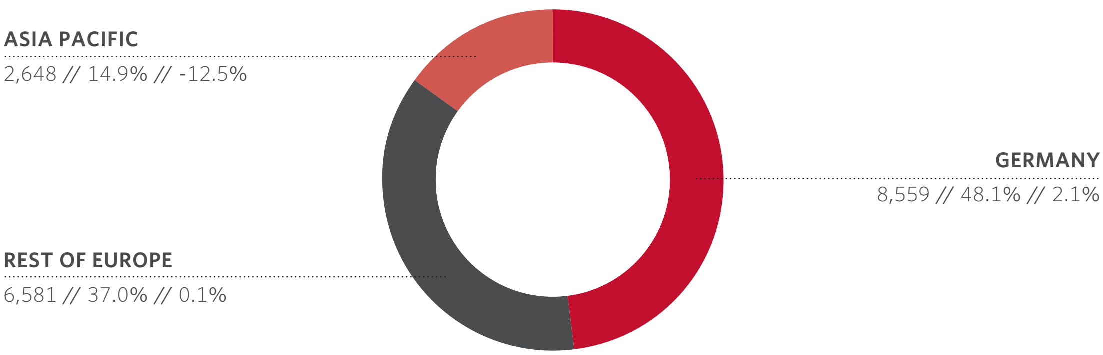
LICENSING & OTHERS
152 // 0.9% // 2.1%

E-SHOP
4,153 // 23.3% // 15.3%

Our business in three major markets

The majority of the Group's business is located in Europe and Asia Pacific. Countries in which we operate are grouped along three major regions: "Germany", "Rest of Europe" and "Asia Pacific". The Rest of Europe region includes our business in America and the Middle East.

HK$ million // % to Group revenue // % local currency growth



Breakdown of group revenue

	For the year ended 30 June				
	2016	2015	2014	2013	2012
Geographical mix (%)					
Germany	**48**	47	48	45	43
Rest of Europe @	**37**	37	37	37	40
Asia Pacific #	**15**	16	15	18	17
Operation mix (%)					
Retail	**67**	64	63	60	59
Wholesale	**32**	35	36	39	40
Licensing and others	**1**	1	1	1	1
Product mix (%)					
women casual	**31**	29	30	29	30
women collection	**12**	12	11	11	10
trend	**2**	3	2	1	n.a.
men casual	**11**	12	12	12	13
men collection	**2**	3	3	4	3
accessories ^	**5**	5	5	5	5
bodywear ^	**5**	4	5	5	4
shoes ^	**4**	4	4	4	4
kids ^	**3**	3	3	3	4
others*	**3**	3	3	3	5
edc women	**17**	17	18	18	18
edc men	**5**	5	4	5	4

@ The Rest of Europe region includes our business in America and the Middle East.
# Since the year ended 30 June 2014, wholesale revenue from Chile, Colombia and the Middle East has been re-grouped from Asia Pacific to Rest of Europe. Figures for the years ended 30 June 2013 and 2012 have been restated accordingly
^ Include revenue from edc product category
* Others include mainly licensing income & licensed products like timewear, eyewear, jewelry, bed & bath, houseware, etc.
n.a. Not applicable

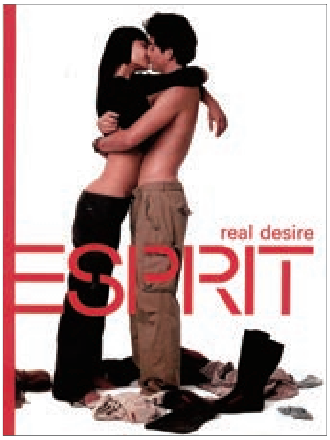
03
WHO WE ARE

Our Brand
Our Soul

Founded in 1968 in San Francisco by Susie and Doug Tompkins, Esprit is an international brand with a sunny Californian attitude. Susie and Doug founded Esprit to be a brand for their friends , for a generation of people who wanted to live their lives in a special way:
Living in freedom with passion and fun. Making the world a better place. Creating things together.

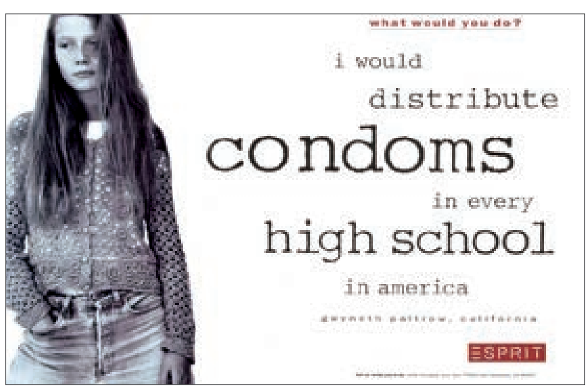
And Esprit grew as...

an inclusive brand, inspired by real people and emotions.



a daring brand, always creative, unconventional and free-spirited.

a positive brand, coming to the market with optimism fun and a look on the bright side of life.



a responsible brand, passionate to change the world through a friendly revolution.

ESPRIT

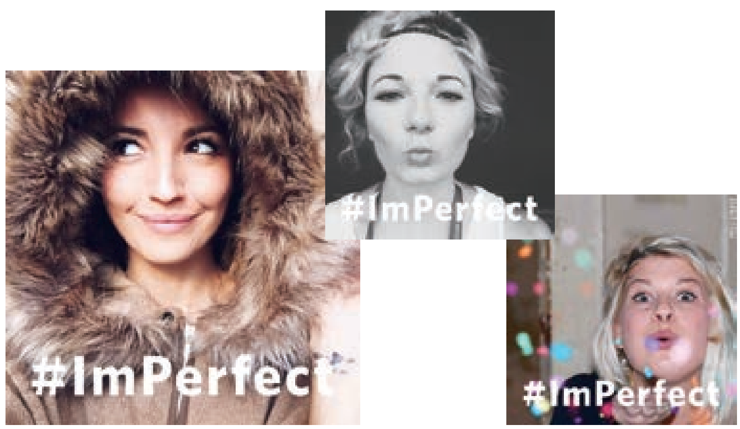
a unique brand! With a unique name, a unique logo, a unique spirit and a unique history in the market.

Our Consumers *Our Friends*

The Esprit women

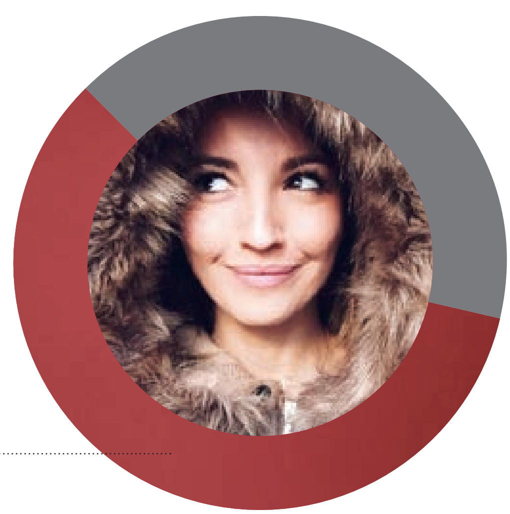
"There is no one perfect Esprit woman. Because Esprit is about the individuality of many. About what's on the outside and what's on the inside. About variety of sizes, shapes, colors, faces. There is no one perfect Esprit woman. There are many. She is the woman everyone wants to be. She was born a woman and just keeps getting younger. She doesn't lead and she doesn't follow, she's just out there if you can catch up with her. She believes that if you believe it, it will come. She believes that words haven't lost their meaning, like love and desire, like forever and a day, like different but the same, like life is what you make it."

—Doug Tompkins



Our customers come from a wide distribution of age concentrating in the age group between 28 and 48. They often join Esprit in their twenties, when the life of these women and men changes in many meaningful ways. Once they reach the brand, they stay with Esprit for life.

Majority of our consumers join our loyalty program Esprit Friends. To date, we have **more than 6 million active Esprit Friends members**, who make 70% of our retail sales. Our everyday mission is to make sure that we stay in touch with them, listen to them and bring them the best of Esprit.



70%

Esprit Friends

Our Promise
Our Heart

Our Products
Our Passion

We make products that our Friends will love in their wardrobes. Each piece is designed to make them
"feel good to look good"

Casual fashion

Newness and market trends in fabrics, colors and shapes, expressed in the effortless and comfortable Esprit style.

Perfect quality

Maximum attention to detail in the design, materials, fit and production of every garment.

Outstanding value for money

Always the best possible value for money for our consumers.

Three Product Lines

To match every personal style and every occasion

Casual

Feel relaxed?
Let us inspire you with a fresh and natural style for your every day look.

ESPRIT

Collection

Want to dress up a bit?
Let us help you with your business look or that special occasion

ESPRIT

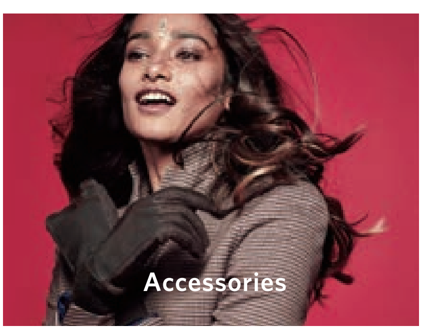
edc

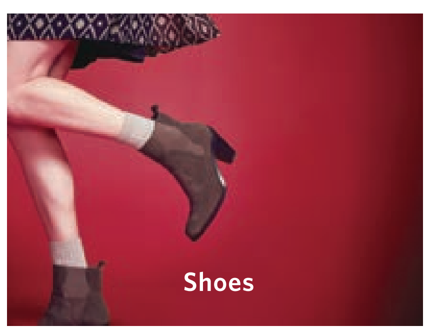
Prefer to be more progressive, edgy, urban, youthful? So do we!

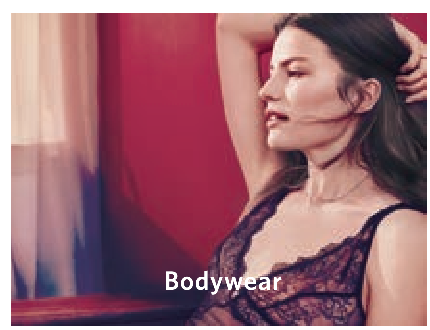
edc

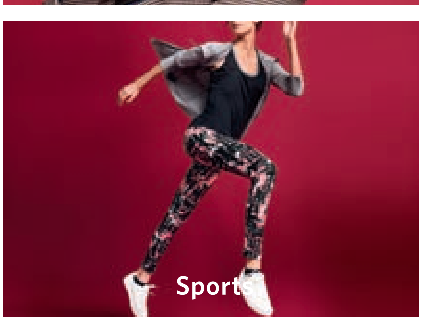
And our Lifestyle World

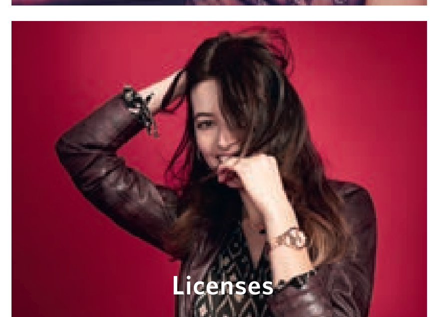
to ensure that nothing is missing from our Friends' wardrobes











Our Strategy
Our Brain

Our ambition is to become the
Best Casual Fashion Brand in the market.

BEST

Product that is always **the best value for money**: Best quality among those brands with similar or lower prices. Much better prices than premium brands with comparable quality.

CASUAL

Best-in-class products with **effortless and comfortable** design, fabrics and fitting, for day-long wearability.

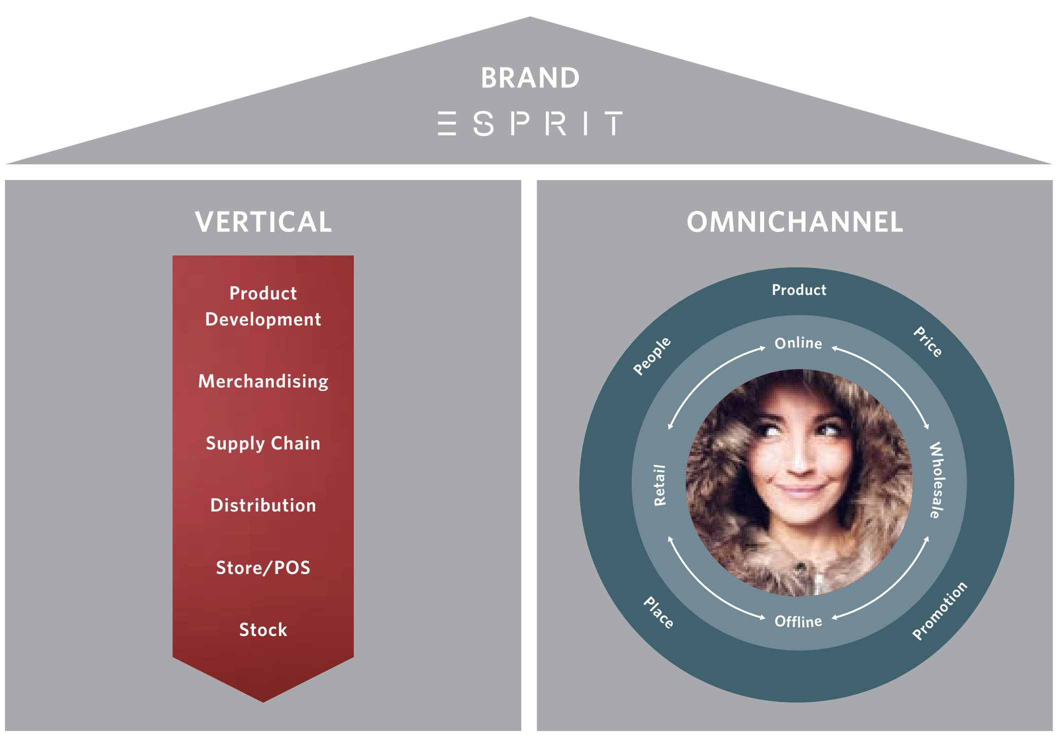
FASHION

Up-to-date collections that always bring novelty and capture the freshest innovation in fabrics, colors, design, etc.

BRAND

A Brand that stands for its great name and its **rich history and heritage.**

Our **business model** is built around our core: brand, product and consumer. In terms of brand, Esprit is a great brand with rich history and heritage, which we are committed to preserve and keep alive. In terms of product, we work under a Vertical Model, which we consider the optimal way to develop the best possible products in a fast and efficient manner. In terms of consumer, we develop our Omnichannel model, which fully focuses on our loyal customers, our Esprit Friends and operate all channels; online, offline, retail, wholesale, to ensure that our Friends always get the best experience in every contact with Esprit.



Our Stores
Our Face

The Lighthouse store concept looks into our Californian roots to create a space where our consumers feel at home. Every element of our Lighthouse store concept is designed to make product the star, and shopping an easy and exciting experience.

Our stores around the world

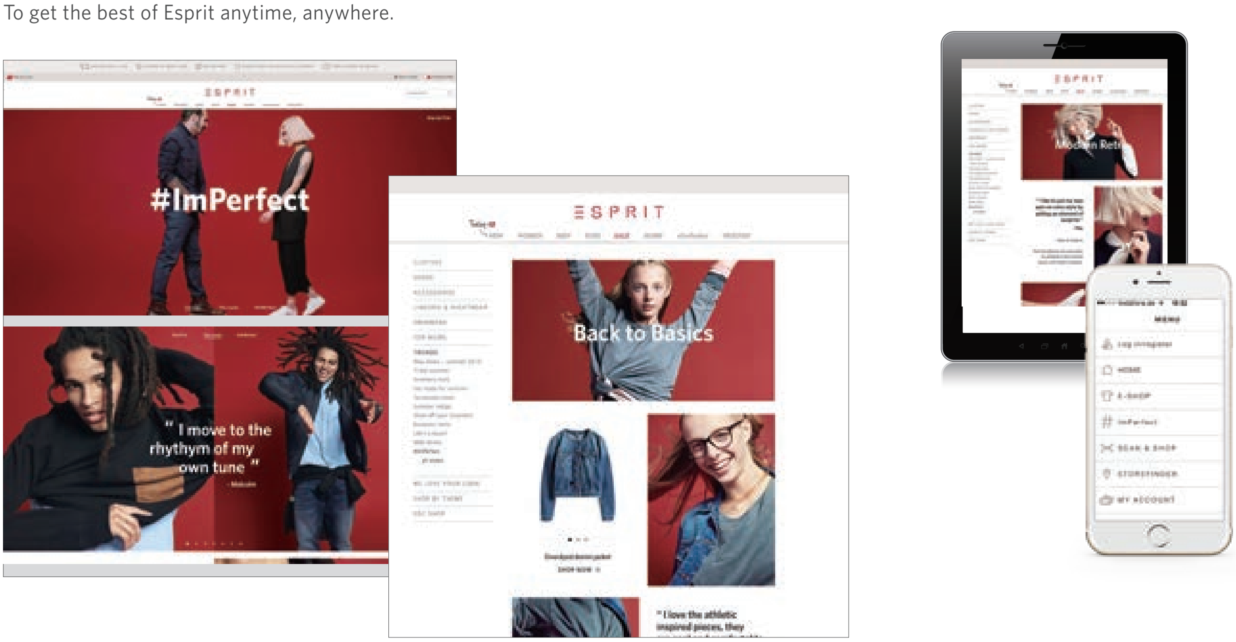
Düsseldorf

Hong Kong

Paris

Our e-shop

To get the best of Esprit anytime, anywhere.



Our Business
Our Body

40 countries / **20** e-shops / **761** retail stores / **6,332** wholesale POS

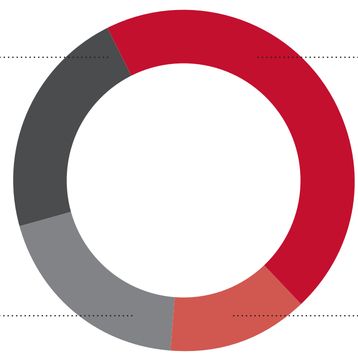
Revenue = HK$17.8 billion in FY 15/16

edc // 21.8%

edc Women
edc Men

ESPRIT WOMEN // 45.4%

Women Casual
Women Collection
Trend



LIFESTYLE AND OTHERS // 19.4%

Accessories, Bodywear
Shoes, Kids, Others*

ESPRIT MEN // 13.4%

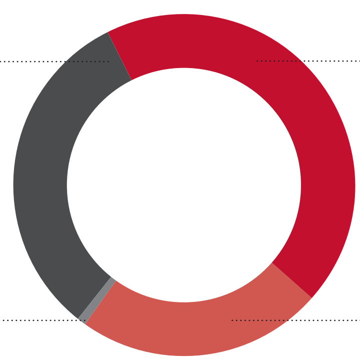
Men Casual
Men Collection

WHOLESALE // 31.8%

Franchise Stores, Shop-in-Stores,
Identity Corners in multilabel,
E-Commerce

RETAIL (EXCL. E-SHOP) // 44.0%

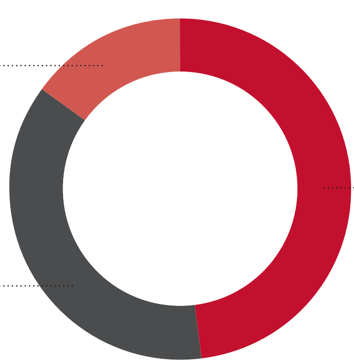
Stores,
Concession counters,
Outlets



LICENSING & OTHERS // 0.9%

E-SHOP // 23.3%

ASIA PACIFIC // 14.9%



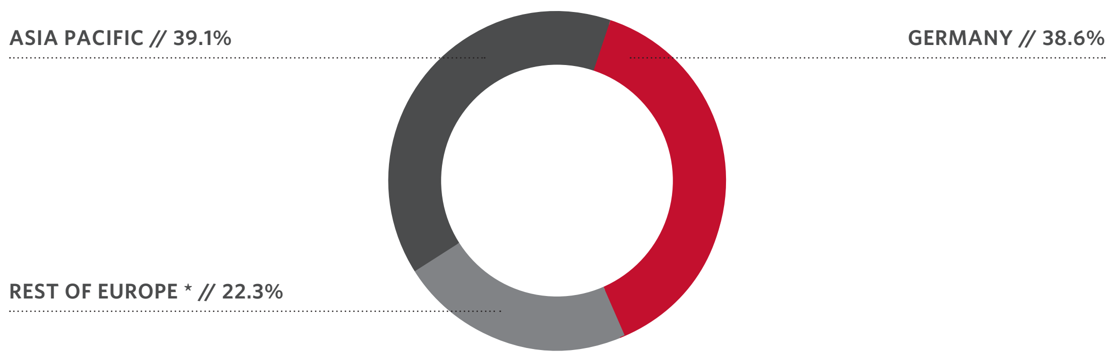
GERMANY // 48.1%

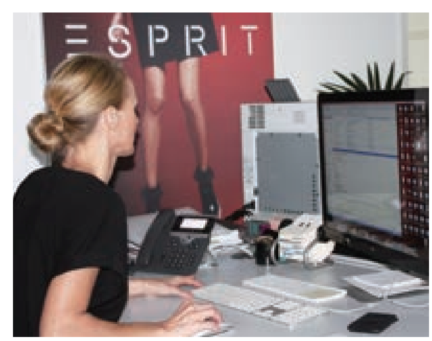
REST OF EUROPEˆ // 37.0%

* Others include mainly licensing income & licensed products like timewear, eyewear, jewelry, bed & bath, houseware, etc.
ˆ Includes our business in America and the Middle East
% Denotes % to Group revenue

Our People

Over 8,000 professionals making it all happen





% Denotes the proportion to total number of employees as at 30 June 2016 in terms of full-time equivalent

* Includes employees in North America

04
MANAGEMENT DISCUSSION AND ANALYSIS

04 Management discussion and analysis

04.1 Revenue analysis

For the financial year ended 30 June 2016 ("FY15/16" or "Financial Year Under Review"), Group revenue amounted to HK$17,788 million (2015: HK$19,421 million), almost flat year-on-year ("yoy") in local currency ("LCY") with a slight decline of -1.1%. This is a favorable development against the reduction in total controlled space of -13.1% that reflects a significant productivity gain (increase of sales per square meter) of the retail operations for the first time in nine years. This top line performance also represents a substantial improvement after the previous four consecutive years of yoy revenue declines in local currency (-11.5%, -9.9%, -11.5% and -10.5% in FY14/15, FY13/14, FY12/13 and FY11/12 respectively). Due to unfavorable currency impact resulting from the yoy depreciation of the EUR/HKD average exchange rate of -7.6%, the yoy decline in Group revenue was -8.4% in Hong Kong Dollar terms.

Overall dynamic behind the topline development in the second half of FY15/16 ("2HFY15/16") was very similar to what we saw in the first half of FY15/16 ("1HFY15/16"). More specifically, we continued to see consistent positive growth in retail sales and comparable retail store sales, driven by our core market, Europe, and core product groups, Women divisions and edc division. Nonetheless, weaknesses in the wholesale channel and the Asia Pacific region continued, and they remain the two most challenging areas of our business.

Revenue by product

The Group markets its products under two brands, namely the Esprit brand and edc brand, which offer apparel and lifestyle products for women, men as well as kids. For the purpose of this management discussion and analysis, products are categorized into four major groups: Esprit Women, Esprit Men, Lifestyle, and edc.

Revenue by product

	For the year ended 30 June					
	2016		2015		Change in %	
Product division	**HK$ million**	**% to Group Revenue**	HK$ million	% to Group Revenue	HK$	Local currency
Esprit Women	**8,083**	**45.4%**	8,584	44.2%	-5.8%	1.7%
women casual	**5,462**	**30.7%**	5,754	29.6%	-5.1%	2.6%
women collection	**2,184**	**12.3%**	2,323	12.0%	-6.0%	-1.5%
trend #	**437**	**2.4%**	507	2.6%	-13.9%	-6.9%
Esprit Men	**2,374**	**13.4%**	2,773	14.3%	-14.4%	-7.6%
men casual	**1,932**	**10.9%**	2,235	11.5%	-13.6%	-6.7%
men collection	**442**	**2.5%**	538	2.8%	-17.8%	-11.3%
Lifestyle and others	**3,457**	**19.4%**	3,827	19.7%	-9.7%	-2.4%
bodywear ^	**921**	**5.2%**	919	4.8%	0.2%	8.0%
accessories ^	**888**	**5.0%**	1,014	5.2%	-12.4%	-4.7%
shoes ^	**704**	**3.9%**	746	3.8%	-5.7%	1.8%
kids	**465**	**2.6%**	622	3.2%	-25.2%	-18.0%
others *	**479**	**2.7%**	526	2.7%	-8.9%	-3.8%
edc	**3,874**	**21.8%**	4,237	21.8%	-8.6%	-1.2%
edc women	**3,059**	**17.2%**	3,359	17.3%	-8.9%	-1.5%
edc men	**815**	**4.6%**	878	4.5%	-7.3%	0.1%
Group Total	**17,788**	**100.0%**	19,421	100.0%	-8.4%	-1.1%

\# The Trend Division was set up as a laboratory to test our fast-to-market product development processes. The lessons we have learned have been applied to other product divisions under the Women segment, hence it is more meaningful to interpret the combined performance of these product divisions

^ Bodywear, accessories and shoes under edc brand are grouped together with those under Esprit brand in FY15/16 while they were grouped under edc others in FY14/15. Comparative figures of bodywear, accessories and shoes are restated accordingly

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

In the previous financial year, the Group devoted most of its efforts to the implementation of the Vertical Model in order to develop improved products in terms of design, quality and value-for-money ("Vertical Products") because management considered products to be the most critical element to a successful turnaround for the Group. Esprit Women and edc, the two largest product groups representing 67.2% (2015: 66.0%) of Group revenue, were the first divisions to implement the Vertical Model and are the ones showing better performance in FY15/16.

Esprit Women

- Represented 45.4% of Group revenue (2015: 44.2%)
- The largest product group comprising primarily women casual (fresh and natural style for relaxed everyday look), and women collection (daily business or special occasion dress up look)
- Revenue grew by +1.7% yoy in LCY

Due to its size and strategic importance, Esprit Women was the first product group to adopt the Vertical Model. This is the first full year of operation of the Vertical Model and its positive impact has led to improved sales performance of the product group. Revenue grew by +1.7% yoy in LCY. In terms of product lines under the product group, Women Casual and Women Collection recorded sales performance of +2.6% yoy in LCY and -1.5% yoy in LCY respectively. Both divisions showed improvement in the retail channel (including e-shop) where revenue of Esprit Women grew by +6.7% yoy in LCY (Women Casual: +7.7%, and Women Collection: +8.8%).

Esprit Men

- Represented 13.4% of Group revenue (2015: 14.3%)
- Comprising men casual and men collection
- Revenue declined by -7.6% yoy in LCY

The Vertical Model was rolled out to this product group at a later stage and the product team has been restructured and strengthened in the Financial Year Under Review. As a consequence, positive impacts from these changes surfaced later during the year, and helped narrow the rate of decline to -6.6% in 2HFY15/16 yoy in LCY as compared to -8.4% yoy in 1HFY15/16 for a total of -7.6% yoy in LCY for the year. In terms of product lines, both men casual and men collection experienced similar development, with their rates of revenue decline narrowed to -6.7% and -11.3% yoy in LCY respectively.

Lifestyle and others

- Represented 19.4% of Group revenue (2015: 19.7%)
- Comprising mainly bodywear, accessories, shoes, kids, licensed products such as timewear, eyewear, jewelry, bed & bath, houseware, as well as licensing income from the licensing business
- Revenue declined by -2.4% yoy in LCY

Bodywear, Accessories, Shoes and Kids are the largest divisions under Lifestyle and others, together accounting for 86.1% of the revenue of this product group. In FY15/16, Bodywear and Shoes outperformed other divisions and achieved revenue growth of +8.0% and +1.8% yoy in LCY, respectively. This positive performance was offset by i) revenue decline of -4.7% yoy in LCY for Accessories, and ii) the larger revenue drop of -18.0% yoy in LCY of the Kids division which was being wound down in preparation for our licensing partnership with Groupe Zannier. This partnership is designed to re-build a relevant scale of Kids division mostly in the European markets and its full implementation has begun in January 2016, with Autumn/Winter 2016 being its first collection.

edc

- Represented 21.8% of Group revenue (2015: 21.8%)
- The second largest product group comprising edc women and edc men, offering progressive, edgy, urban and youthful style
- Revenue declined by -1.2% yoy in LCY

The Vertical Model was rolled out to edc product group right after Esprit Women, and the benefit is gradually being reflected in its sales performance. While its revenue still recorded a slight decline, the rate of decline has narrowed to -1.2% yoy in LCY. In terms of product lines under the product group, edc women and edc men recorded sales performance of -1.5% yoy in LCY and +0.1% yoy in LCY, respectively. Similar to Esprit Women, the improvement was more visible in the retail channel (including e-shop) where revenue of edc grew by +6.5% yoy in LCY (edc women: +6.7% and edc men: +5.8%).

Revenue by region

The majority of the Group's business is located in Europe and Asia Pacific. Countries in which we operate are grouped along three major regions: "Germany", "Rest of Europe" and "Asia Pacific". The Rest of Europe region includes our business in America and the Middle East.

Revenue by country

	For the year ended 30 June						
	2016		2015		Revenue change in %		Net change
Country ^^	**HK$ million**	**% to Group Revenue**	HK$ million	% to Group Revenue	HK$	Local currency	in net sales area^
Germany * #	**8,559**	**48.1%**	9,097	46.9%	-5.9%	2.1%	-10.1%
Rest of Europe	**6,581**	**37.0%**	7,108	36.6%	-7.4%	0.1%	-13.7%
Benelux #	**2,121**	**11.9%**	2,410	12.4%	-12.0%	-4.1%	-21.8%
France	**1,128**	**6.4%**	1,221	6.3%	-7.7%	0.9%	-7.2%
Switzerland	**984**	**5.5%**	1,010	5.2%	-2.5%	2.1%	-6.9%
Austria	**832**	**4.7%**	864	4.5%	-3.8%	4.5%	-6.8%
Sweden	**262**	**1.5%**	269	1.4%	-2.5%	6.7%	-25.8%
Finland	**233**	**1.3%**	284	1.5%	-17.9%	-10.4%	-17.6%
Spain	**216**	**1.2%**	223	1.1%	-3.0%	5.4%	-4.6%
United Kingdom	**151**	**0.8%**	203	1.0%	-25.5%	-20.2%	-14.2%
Italy	**131**	**0.7%**	137	0.7%	-4.5%	4.7%	-2.8%
Denmark	**111**	**0.7%**	123	0.6%	-9.5%	-1.7%	-31.5%
Poland	**73**	**0.4%**	14	0.1%	404.9%	456.7%	0.2%
Ireland	**7**	**0.0%**	6	0.0%	13.6%	24.1%	-4.3%
Norway	**4**	**0.0%**	16	0.1%	-76.7%	-72.7%	–
Portugal	**1**	**0.0%**	5	0.0%	-79.9%	-78.4%	–
Others ##	**327**	**1.9%**	323	1.7%	1.1%	6.5%	-2.9%
Asia Pacific	**2,648**	**14.9%**	3,216	16.5%	-17.6%	-12.5%	-19.4%
China	**1,182**	**6.6%**	1,500	7.7%	-21.2%	-18.0%	-24.7%
Hong Kong	**332**	**1.9%**	386	2.0%	-14.1%	-14.1%	-9.9%
Australia and New Zealand	**324**	**1.8%**	375	1.9%	-13.7%	-1.2%	-13.0%
Singapore	**256**	**1.4%**	301	1.6%	-14.7%	-9.6%	-16.4%
Malaysia	**192**	**1.1%**	239	1.2%	-19.4%	-3.3%	-4.8%
Taiwan	**188**	**1.1%**	200	1.0%	-6.1%	-0.9%	-13.2%
Macau	**102**	**0.6%**	132	0.7%	-23.0%	-23.0%	-20.3%
Others @	**72**	**0.4%**	83	0.4%	-12.9%	-4.0%	-21.0%
Total	**17,788**	**100.0%**	19,421	100.0%	-8.4%	-1.1%	-13.1%

^ Net change since 1 July 2015
^^ Country as a whole includes retail, wholesale and licensing operations
* Since FY15/16, our German wholesale operation team has taken over the management of the wholesale business in other European countries, mainly Slovenia, Bosnia-Herzegovina and Romania. As a consequence, for the year ended 30 June 2016, wholesale revenue from these European countries has been re-grouped from Rest of Europe to Germany. Comparative figures have been restated accordingly
# Include licensing
Others under Rest of Europe include i) retail revenue from Czech Republic, Hungary, Slovakia, Latvia, Malta, Slovenia, Estonia and Greece; ii) wholesale revenue from other countries mainly Chile, Colombia and the Middle East, as well as iii) third party licensing income that comes from Asia Pacific, Europe other than Germany, America and the Middle East
@ Others under Asia Pacific include wholesale revenue from other countries mainly Thailand and the Philippines

Germany

- Represented 48.1% of Group revenue (2015: 46.9%)
- Revenue grew by +2.1% yoy in LCY compared to -10.1% yoy reduction in total controlled space
- **Retail** revenue (excl. e-shop), represented 36.0% of Germany, grew by +5.0% yoy in LCY
- **e-shop** revenue, represented 28.9% of Germany, grew by +11.5% yoy in LCY
- **Wholesale** revenue, represented 34.8% of Germany, declined by -7.4% yoy in LCY

	For the year ended 30 June						
	2016		2015		Revenue change in %		Net change in net sales area^
Distribution channel	**HK$ million**	**% to Total Revenue**	HK$ million	% to Total Revenue	HK$	Local currency	
Retail (excl. e-shop)	**3,079**	**36.0%**	3,186	35.0%	-3.3%	5.0%	-3.4%
e-shop	**2,480**	**28.9%**	2,400	26.4%	3.3%	11.5%	n.a.
Wholesale #	**2,978**	**34.8%**	3,497	38.4%	-14.9%	-7.4%	-14.0%
Licensing	**22**	**0.3%**	14	0.2%	62.9%	70.8%	n.a.
Total	**8,559**	**100.0%**	9,097	100.0%	-5.9%	2.1%	-10.1%

^ Net change since 1 July 2015
\# Since FY15/16, our German wholesale operation team has taken over the management of the wholesale business in other European countries, mainly Slovenia, Bosnia-Herzegovina and Romania. As a consequence, for the year ended 30 June 2016, wholesale revenue from these European countries has been re-grouped from Rest of Europe to Germany. Comparative figures have been restated accordingly
n.a. Not applicable

Due to its significant size, strategic importance, and also the latest management reporting structure of the Group, e-shop is now considered a key operating segment by management, and it is therefore carved out from the retail channel and reported separately. The e-shops in Germany, Rest of Europe and Asia Pacific are aggregated into one reporting segment under global e-shop. Details of global e-shop performance are discussed separately in the next section headed "Revenue by distribution channel".

The improved performance of **Germany retail (excl. e-shop)** reflected improvements in our product offering, channel management and marketing operations. These improvements drove productivity gain of our retail space in Germany and led to yoy growth in comparable store sales of +5.8%. Comparable full price brick and mortar stores[1] in the country outperformed the market virtually every month throughout the year, by an average of +9.5% points (based on the comparable market data published by TextilWirtschaft). This positive development was partly offset by a -3.4% yoy reduction in retail net sales area in the country, attributable to our strategic decision to accelerate closure of certain unprofitable retail stores. Retail (excl. e-shop) revenue thus grew by +5.0% in LCY.

Germany Wholesale remained to be challenging. The difficulties that we are experiencing in the wholesale channel are two folds. On the one hand, the channel is under increasing pressure from low price vertical retailers, continued sales shift towards online, declining consumers' traffic, etc., that create business and financial difficulties for many players. This exerts considerable pressure on our wholesale footprint in Germany and results in yoy reduction in controlled wholesale space of -14.0% and decline in wholesale revenue of -7.4% in LCY during the year. That being said, it is worth noting that part of the decline in controlled wholesale space was attributable to the transfer of 713 points of sales ("POS") under the Kids division, in preparation for our licensing partnership with Groupe Zannier. Excluding these Kids POS, the reduction in controlled wholesale space would have been -8.5% yoy. On the other hand, we have yet to finalize practical solutions for our different types of partners to bring the best of the Vertical Model of Esprit to our wholesale partners.

Rest of Europe

- Represented 37.0% of Group revenue (2015: 36.6%); comprising countries in Europe except Germany, as well as countries in America and the Middle East
- Revenue grew by +0.1% yoy in LCY, compared to -13.7% yoy reduction in total controlled space
- **Retail** revenue (excl. e-shop), represented 37.1% of the region, grew by +3.0% yoy in LCY
- **e-shop** revenue, represented 22.9% of the region, grew by +17.7% yoy in LCY
- **Wholesale** revenue, represented 38.0% of the region, declined by -10.1% yoy in LCY

	For the year ended 30 June						
	2016		2015		Revenue change in %		Net change in net sales area^
Distribution channel	**HK$ million**	**% to Total Revenue**	HK$ million	% to Total Revenue	HK$	Local currency	
Retail (excl. e-shop)	**2,440**	**37.1%**	2,551	35.9%	-4.4%	3.0%	-16.8%
e-shop	**1,512**	**22.9%**	1,385	19.5%	9.1%	17.7%	n.a.
Wholesale	**2,499**	**38.0%**	3,035	42.7%	-17.6%	-10.1%	-11.8%
Licensing and others	**130**	**2.0%**	137	1.9%	-5.4%	-4.8%	n.a.
Total	**6,581**	**100.0%**	7,108	100.0%	-7.4%	0.1%	-13.7%

^ Net change since 1 July 2015
n.a. Not applicable

Due to its significant size, strategic importance, and also the latest management reporting structure of the Group, e-shop is now considered a key operating segment by management, and it is therefore carved out from the retail channel and reported separately. The e-shops in Germany, Rest of Europe and Asia Pacific are aggregated into one reporting segment under global e-shop. Details of global e-shop performance are discussed separately in the next section headed "Revenue by distribution channel".

[1] Only full price brick and mortar stores because this is the type of stores used by TextilWirtschaft to present the German retail market development.

Similar to Germany, improvements in product offering, channel management and marketing operations drove productivity gain of our **retail** space in Rest of Europe, as reflected by its yoy retail comparable store sales growth of +6.9% in LCY. The productivity gain on retail space was partly offset by a -16.8% yoy reduction in retail net sales area in the region, mainly due to i) closure of 31 concession counters in the Netherlands as a result of the bankruptcy of a local department store, and ii) closure of 12 unprofitable stores under store closures and onerous leases. Overall, retail (excl. e-shop) revenue grew by +3.0% yoy in LCY.

Wholesale performance in the region continued to be challenging for the same reasons as discussed under Germany. This has resulted in wholesale revenue decline of -10.1% yoy in LCY for the region, which is broadly in line with the corresponding -11.8% reduction in controlled wholesale space during the year. Also similar to Germany, part of the decline in controlled wholesale space was attributable to the transfer of 150 wholesale POS under the Kids division, in preparation for our licensing partnership with Groupe Zannier. Excluding these Kids POS, the reduction in controlled wholesale space would have been -9.9% yoy.

Asia Pacific

- Represented 14.9% of Group revenue (2015: 16.5%); comprising mainly China, Hong Kong, Australia and New Zealand, Singapore, Malaysia, Taiwan and Macau
- Revenue declined by -12.5% yoy in LCY, compared to -19.4% yoy reduction in total controlled space
- **Retail** revenue (excl. e-shop), represented 87.1% of the region, declined by -12.6% yoy in LCY
- **e-shop** revenue, represented 6.1% of the region, grew by +72.2% yoy in LCY
- **Wholesale** revenue, represented 6.8% of the region, declined by -38.4% yoy in LCY

	For the year ended 30 June						
	2016		2015		Revenue change in %		Net change
Distribution channel	HK$ million	% to Total Revenue	HK$ million	% to Total Revenue	HK$	Local currency	in net sales area^
Retail (excl. e-shop)	2,306	87.1%	2,804	87.2%	-17.8%	-12.6%	-14.1%
e-shop	161	6.1%	99	3.1%	63.5%	72.2%	n.a.
Wholesale	181	6.8%	313	9.7%	-42.1%	-38.4%	-34.6%
Total	**2,648**	**100.0%**	3,216	100.0%	-17.6%	-12.5%	-19.4%

^ Net change since 1 July 2015
n.a. Not applicable

Due to its significant size, strategic importance, and also the latest management reporting structure of the Group, e-shop is now considered a key operating segment by management, and it is therefore carved out from the retail channel and reported separately. The e-shops in Germany, Rest of Europe and Asia Pacific are aggregated into one reporting segment under global e-shop. Details of global e-shop performance are discussed separately in the next section headed "Revenue by distribution channel".

The underperformance in Asia Pacific is attributable to a combination of external and internal factors. Externally, unfavorable macro factors, including volatility in the financial markets and the economic slowdown in China, have dampened consumer sentiment and reduced the flow of consumers' traffic into the shopping malls in the region. This has provoked a highly promotional-driven market with negative impact on sales and margins. Internally, there are brand-specific weaknesses related to our distribution network (e.g. retail space concentration in department stores and discount outlets). While the strategy and action plan to correct this situation are being executed, it will take some time to implement all the necessary measures. Nonetheless, we already see progress in terms of rapid e-commerce sales growth, improved operations across retail functions, gross profit margin normalization, downsizing of local structures, etc., that make us confident about the revival of our long-term potential in the region.

Our business in Asia Pacific is predominately **retail (excl. e-shop)**, which accounted for 87.1% of the total revenue in the region. Management has started to correct the weaknesses in our distribution network by closing specific POS, which explains the -14.1% yoy reduction in retail net sales area and the corresponding -12.6% LCY decline in Retail (excl. e-shop) revenue during the year. This pressure was partly compensated by successful expansion of **e-shop** in the region which reported revenue growth of +72.2% yoy in LCY.

Wholesale revenue, only represented 6.8% of the region, and declined -38.4% yoy in LCY. The decline is broadly in line with the corresponding -34.6% yoy reduction in controlled wholesale space primarily due to business termination by wholesale customers in China. Given that Asia Pacific wholesale only represents 1.0% of the Group's revenue, its real impact on the Group's overall top line performance has been limited.

Revenue by distribution channel

The Group distributes its products directly to end-consumers through directly-managed retail stores ("Retail (excl. e-shop)") and online ("e-shop"), and also distributes through third parties, both offline and online ("Wholesale").

Revenue by distribution channel

	For the year ended 30 June						
	2016		2015		Revenue change in %		Net change in net sales area ^
Distribution channel	**HK$ million**	**% to Group Revenue**	HK$ million	% to Group Revenue	HK$	Local currency	
Retail (excl. e-shop)	**7,825**	**44.0%**	8,541	44.0%	-8.4%	-1.3%	-10.9%
e-shop	**4,153**	**23.3%**	3,884	20.0%	6.9%	15.3%	n.a.
Wholesale	**5,658**	**31.8%**	6,845	35.2%	-17.3%	-10.0%	-14.9%
Licensing and others	**152**	**0.9%**	151	0.8%	0.9%	2.1%	n.a.
Total	**17,788**	**100.0%**	19,421	100.0%	-8.4%	-1.1%	-13.1%

^ Net change since 1 July 2015
n.a. Not applicable

Retail (excl. e-shop)

- Represented 44.0% of Group revenue (2015: 44.0%)
- Distribution network comprises 761 directly managed retail stores (2015: 890 POS), including 384 standalone stores, 288 concession counters mainly in department stores and 89 off-price outlets
- Revenue declined by -1.3% yoy in LCY, compared to -10.9% reduction in net sales area
- Comparable store sales grew yoy by +4.3%

Retail (excl. e-shop) revenue by country

	For the year ended 30 June						
	2016		2015		Revenue change in %		Net change in net sales area^
Country	**HK$ million**	**% to Total Revenue**	HK$ million	% to Total Revenue	HK$	Local currency	
Germany	**3,079**	**39.4%**	3,186	37.3%	-3.3%	5.0%	-3.4%
Rest of Europe	**2,440**	**31.2%**	2,551	29.9%	-4.4%	3.0%	-16.8%
Benelux	**891**	**11.4%**	953	11.2%	-6.5%	2.1%	-21.1%
Switzerland	**602**	**7.7%**	604	7.1%	-0.2%	3.5%	-5.3%
Austria	**402**	**5.1%**	411	4.8%	-2.2%	6.3%	-8.7%
France	**321**	**4.1%**	383	4.5%	-16.2%	-8.9%	-15.5%
Sweden	**85**	**1.1%**	53	0.6%	62.4%	77.6%	-40.6%
Poland	**65**	**0.8%**	11	0.1%	463.8%	526.6%	0.2%
Finland	**54**	**0.7%**	67	0.8%	-19.3%	-11.9%	-42.2%
Denmark	**15**	**0.2%**	14	0.2%	1.7%	9.9%	–
United Kingdom	**5**	**0.1%**	45	0.5%	-88.9%	-88.3%	-100.0%
Norway	**–**	**–**	10	0.1%	-100.0%	-100.0%	–
Asia Pacific	**2,306**	**29.4%**	2,804	32.8%	-17.8%	-12.6%	-14.1%
China	**939**	**12.0%**	1,189	13.9%	-21.0%	-17.9%	-16.8%
Hong Kong	**331**	**4.2%**	386	4.5%	-14.2%	-14.2%	-9.9%
Australia and New Zealand	**304**	**3.9%**	358	4.2%	-15.3%	-2.9%	-13.0%
Singapore	**253**	**3.2%**	300	3.5%	-15.4%	-10.3%	-16.4%
Malaysia	**191**	**2.4%**	239	2.8%	-20.0%	-3.9%	-4.8%
Taiwan	**186**	**2.4%**	200	2.3%	-7.1%	-1.9%	-13.2%
Macau	**102**	**1.3%**	132	1.6%	-23.0%	-23.0%	-20.3%
Total	**7,825**	**100.0%**	**8,541**	**100.0%**	**-8.4%**	**-1.3%**	**-10.9%**

^ Net change since 1 July 2015

FY15/16 has been a year of positive progress for our retail business. Most importantly, productivity (sales per square meter) of retail net sales area resumed to positive growth, reversing the downward trend since FY07/08. The improvement was driven by Germany as well as Rest of Europe, where retail (excl. e-shop) sales increased yoy by +5.0% and +3.0% in LCY respectively, a favorable development considering -3.4% and -16.8% yoy reduction in retail net sales area respectively. As discussed earlier, these encouraging retail sales performances in Europe reflect our well received product offerings, together with the success of our Omnichannel initiatives and the efforts on our brand marketing campaigns. Unfortunately, such positive development in Europe was offset by -12.6% yoy LCY decline in retail (excl. e-shop) sales in Asia Pacific.

Directly managed retail stores by country – movement since 1 July 2015

	As at 30 June 2016					
Country	No. of stores	Net opened stores*	Net sales area (m²)	Net change in net sales area*	No. of comp stores (ex e-shop)	Comp-store sales growth (ex e-shop)
Germany	**147**	**(3)**	**118,599**	**-3.4%**	**125**	**5.8%**
Rest of Europe	**143**	**(54)**	**86,490**	**-16.8%**	**112**	**6.9%**
Switzerland	37	(2)	17,123	-5.3%	34	6.0%
Belgium	22	(4)	16,190	-11.3%	22	5.8%
France	21	(5)	12,138	-15.5%	19	3.3%
Netherlands	20	(35)	14,492	-31.4%	17	8.4%
Austria	19	(1)	15,299	-8.7%	14	10.8%
Poland	11	–	3,273	0.2%	–	n.a.
Sweden	7	(3)	3,736	-40.6%	–	n.a.
Luxembourg	3	–	1,869	–	3	8.6%
Finland	2	(3)	1,745	-42.2%	2	17.5%
Denmark	1	–	625	–	1	9.7%
United Kingdom	–	(1)	–	-100.0%	–	n.a.
Asia Pacific	**471**	**(72)**	**86,483**	**-14.1%**	**222**	**-4.1%**
China	250	(58)	41,821	-16.8%	115	-11.1%
Taiwan	73	(1)	6,617	-13.2%	25	-6.6%
Australia	66	(4)	8,080	-11.4%	42	7.3%
Malaysia	35	(4)	12,909	-4.8%	20	-3.0%
Singapore	21	(2)	6,630	-16.4%	11	4.7%
Hong Kong	14	(1)	6,473	-9.9%	2	4.2%
New Zealand	8	(1)	1,571	-20.5%	3	9.9%
Macau	4	(1)	2,382	-20.3%	4	-1.8%
Total	**761**	**(129)**	**291,572**	**-10.9%**	**459**	**4.3%**

* Net change since 1 July 2015
n.a. Not applicable

Directly managed retail stores by store type – movement since 1 July 2015

	No. of POS					Net sales area (m²)				
		vs 1 July 2015					vs 1 July 2015			
Store type	As at 30 June 2016	Opened	Closed	As at 1 July 2015	Net change	As at 30 June 2016	Opened	Closed	As at 1 July 2015	Net change
Stores	**384**	22	(66)	428	(44)	**222,983**	6,293	(32,818)	249,508	-10.6%
– Germany	**134**	4	(10)	140	(6)	**105,159**	1,176	(6,517)	110,500	-4.8%
– Rest of Europe	**132**	2	(25)	155	(23)	**78,181**	728	(14,673)	92,126	-15.1%
– Asia Pacific	**118**	16	(31)	133	(15)	**39,643**	4,389	(11,628)	46,882	-15.4%
Concession counters	**288**	19	(107)	376	(88)	**27,633**	2,664	(12,159)	37,128	-25.6%
– Germany	**2**	2	–	–	2	**794**	794	–	–	n.a.
– Rest of Europe	**–**	–	(31)	31	(31)	**–**	1	(3,439)	3,438	-100.0%
– Asia Pacific	**286**	17	(76)	345	(59)	**26,839**	1,869	(8,720)	33,690	-20.3%
Outlets	**89**	15	(12)	86	3	**40,956**	3,893	(3,646)	40,709	0.6%
– Germany	**11**	1	–	10	1	**12,646**	405	(3)	12,244	3.3%
– Rest of Europe	**11**	1	(1)	11	–	**8,309**	181	(281)	8,409	-1.2%
– Asia Pacific	**67**	13	(11)	65	2	**20,001**	3,307	(3,362)	20,056	-0.3%
Total	**761**	56	(185)	890	(129)	**291,572**	12,850	(48,623)	327,345	-10.9%

n.a. Not applicable

In terms of retail space development, the yoy space reduction of -10.9% is in line with our strategic direction to rationalize the store network in order to maximize space productivity of this channel. The decline was largely attributable to -10.6% yoy space reduction of standalone stores and -25.6% yoy space reduction of concession counters, while the space for off-price outlets remained stable with +0.6% growth. Among the 185 closures over the past twelve months, 15 were stores under store closure and onerous leases announced previously, 31 were concession counters in the Netherlands due to the bankruptcy of a local department store, and 68 were non-performing concession counters in department stores in China, which have been closed upon lease expiry.

e-shop

- Represented 23.3% of Group revenue (2015: 20.0%)
- Revenue grew by +15.3% yoy in LCY
- **Germany**, represented 59.7% of e-shop revenue, grew by +11.5% yoy in LCY
- **Rest of Europe**, represented 36.4% of e-shop revenue, grew by +17.7% yoy in LCY
- **Asia Pacific**, represented 3.9% of e-shop revenue, grew by +72.2% yoy in LCY

Started in Germany in 1999, our global e-shop now operates in over 20 countries, including: Germany, Belgium, Netherlands, Luxemburg, France, Switzerland, Austria, United Kingdom, Denmark, Finland, Sweden, Czech Republic, China, Hong Kong, Taiwan, Singapore and Malaysia. The channel has grown to HK$4,153 million in sales in FY15/16, representing 23.3% of Group revenue. Despite its size, e-shop has continued to grow at a double-digit rate, with its revenue increased +15.3% yoy in LCY during the year under review. The strong growth of our e-shop contributed very positively to this year's results. We believe that our e-shop has the following competitive strengths that have driven our success to date and will continue to distinguish us from competition.

- Broad base of loyal customers under the "Esprit Friends" loyalty program
- Simple and convenient shopping experience based on strong internal knowhow
- Robust CRM system enabling us to drive demand through personalized communication
- Country-specific online destinations and mobile apps addressing the distinct needs and preferences of our customer in each market
- State-of-the-art fulfillment center located in Europe

Germany and **Rest of Europe** contributed 59.7% and 36.4% of global e-shop revenue in FY15/16 and continued their growth momentum with +11.5% and +17.7% revenue growth yoy in LCY, respectively. We believe that this growth was particularly fueled by the implementation of Omnichannel initiatives, which leverage the key competitive advantages of Esprit. In this respect, we are encouraged by the following developments during the year: i) 90% of e-shop sales were made to Esprit Friends members and the number of active Esprit Friends members[2] increased by 27% yoy; ii) cross-channel Esprit Friends members, buying both offline and online, increased by +12% yoy; iii) European websites attracted more than 193 million visit per year, up by +5% yoy; and iv) sales initiated from smartphones increased by +84% yoy. Development of Omnichannel initiatives will continue to be instrumental in facilitating growth of our e-shop (as well as offline sales) in the short and medium term.

As for **Asia Pacific**, we are at early stage of developing our e-shop presence in the region. It was initially rolled out to China and Australia in 2012/2013, and we only accelerated the expansion into the rest of Asia Pacific recently, including Hong Kong, Taiwan, Malaysia and Singapore. After only a few years of operations, e-shop revenue from the region has grown to HK$161 million, representing 3.9% of the global e-shop revenue. With the introduction of our Omnichannel initiatives this year, the e-shops in Asia Pacific have enjoyed strong revenue growth of +72.2% yoy in LCY. We see large potential for growth of the e-shop in the region and have already stepped up resources in our regional e-shop team to seize this opportunity.

2 Customers who placed at least one order in the last twelve month period

Wholesale

- Represented 31.8% of Group revenue (2015: 35.2%)
- Distribution network comprises 6,332 POS, including 945 franchise stores ("PSS"), 3,298 shop-in-stores in department stores and 2,089 identity corners in multi-label stores
- Revenue declined by -10.0% yoy in LCY, compared to -14.9% yoy reduction in controlled space

Wholesale revenue by country

	For the year ended 30 June						
	2016		2015		Revenue change in %		Net change in net sales area^
Country	HK$ million	% to Total Revenue	HK$ million	% to Total Revenue	HK$	Local currency	
Germany *	**2,978**	**52.6%**	3,497	51.1%	-14.9%	-7.4%	-14.0%
Rest of Europe	**2,499**	**44.2%**	3,035	44.3%	-17.6%	-10.1%	-11.8%
Benelux	**651**	**11.5%**	909	13.3%	-28.4%	-21.7%	-22.3%
France	**545**	**9.7%**	596	8.7%	-8.5%	0.7%	-3.9%
Austria	**227**	**4.0%**	269	3.9%	-15.7%	-7.8%	-4.7%
Spain	**202**	**3.6%**	213	3.1%	-5.1%	3.2%	-4.6%
Sweden	**148**	**2.6%**	199	2.9%	-25.7%	-18.2%	-16.7%
Finland	**147**	**2.6%**	188	2.7%	-21.4%	-13.8%	-11.9%
Switzerland	**132**	**2.3%**	167	2.4%	-20.8%	-17.6%	-10.8%
Italy	**123**	**2.2%**	131	1.9%	-6.6%	2.6%	-2.8%
United Kingdom	**91**	**1.6%**	108	1.6%	-15.6%	-10.4%	-1.7%
Denmark	**53**	**0.9%**	70	1.0%	-24.3%	-17.0%	-36.3%
Ireland	**5**	**0.1%**	4	0.1%	12.4%	23.8%	-4.3%
Norway	**4**	**0.1%**	6	0.1%	-41.1%	-31.0%	–
Portugal	**–**	**0.0%**	4	0.1%	-100.0%	-100.0%	–
Others #	**171**	**3.0%**	171	2.5%	0.7%	9.5%	-2.9%
Asia Pacific	**181**	**3.2%**	313	4.6%	-42.1%	-38.4%	-34.6%
China	**109**	**1.9%**	230	3.4%	-52.6%	-50.8%	-41.7%
Others @	**72**	**1.3%**	83	1.2%	-12.9%	-4.0%	-21.0%
Total	**5,658**	**100.0%**	6,845	100.0%	-17.3%	-10.0%	-14.9%

^ Net change since 1 July 2015
* Since FY15/16, our German wholesale operation team has taken over the management of the wholesale business in other European countries, mainly Slovenia, Bosnia-Herzegovina and Romania. As a consequence, for the year ended 30 June 2016, wholesale revenue from these European countries has been re-grouped from Rest of Europe to Germany. Comparative figures have been restated accordingly
\# Others under Rest of Europe include wholesale revenue from other countries mainly Chile, Colombia and the Middle East
@ Others under Asia Pacific include wholesale revenue from other countries mainly Thailand and the Philippines

As described in previous pages, we are experiencing difficulties in the wholesale channel. Firstly, there exists structural pressure on the channel: aggressive competition from low price vertical retailers, continued sales shift towards online, declining consumers' traffic, etc., that create business and financial difficulties for many players. Secondly, Esprit has not yet fully developed practical solutions to bring the best of the Vertical Model to our wholesale partners. We have made progress regarding a new vertical model for some PSS partners and we have successfully rolled out an incentive scheme that can fully integrate our PSS partners into the "Esprit Friends" program, Esprit's Commercial Plan and the business of our e-shop "esprit.com". But there is still work to be done to complete a comprehensive solution for all types of wholesale partners.

As a result, during FY15/16, there was a net reduction of 1,347 controlled wholesale POS, majority of which were related to the transfer of 863 shop-in-stores and identity corners of Kids division in Europe, in relation to licensing of the Kids division to Groupe Zannier, as discussed in the previous section. In Asia Pacific, there was a net closure of 95 franchise stores, mostly due to business termination by wholesale partners in China.

Wholesale distribution channel by country (controlled space only) – movement since 1 July 2015

As at 30 June 2016

	Franchise stores**				Shop-in-stores**				Identity corners**				Total**			
Country	No. of stores	Net sales area (m²)	Net opened stores*	Net change in net sales area*	No. of stores	Net sales area (m²)	Net opened stores*	Net change in net sales area*	No. of stores	Net sales area (m²)	Net opened stores*	Net change in net sales area*	No. of stores	Net sales area (m²)	Net opened stores*	Net change in net sales area*
Germany #	**258**	**63,215**	**(17)**	**-9.4%**	**2,370**	**94,762**	**(581)**	**-15.2%**	**1,068**	**21,775**	**(380)**	**-20.7%**	**3,696**	**179,752**	**(978)**	**-14.0%**
Rest of Europe	**485**	**100,326**	**(60)**	**-12.9%**	**928**	**29,417**	**(88)**	**-6.9%**	**1,021**	**23,991**	**(126)**	**-12.9%**	**2,434**	**153,734**	**(274)**	**-11.8%**
Benelux	99	30,180	(33)	-22.9%	130	5,364	(20)	-12.8%	260	5,650	(67)	-26.9%	489	41,194	(120)	-22.3%
France	129	23,795	-	-2.1%	261	5,875	(55)	-17.1%	167	4,611	23	7.7%	557	34,281	(32)	-3.9%
Austria	58	9,800	(5)	-6.9%	93	3,275	10	14.1%	39	926	(12)	-28.7%	190	14,001	(7)	-4.7%
Sweden	26	7,419	(5)	-17.6%	-	-	-	-	44	1,103	(7)	-10.1%	70	8,522	(12)	-16.7%
Finland	19	4,842	(2)	-4.7%	78	3,513	(9)	-8.6%	100	3,157	(54)	-23.9%	197	11,512	(65)	-11.9%
Switzerland	23	3,657	(3)	-14.9%	48	2,443	(8)	-3.9%	20	421	(4)	-10.8%	91	6,521	(15)	-10.8%
Italy	15	3,160	(4)	-13.1%	35	1,046	(3)	-14.0%	214	3,643	22	13.0%	264	7,849	15	-2.8%
Spain	19	2,866	-	-1.4%	177	5,276	3	4.7%	70	2,085	(31)	-24.7%	266	10,227	(28)	-4.6%
Denmark	7	1,687	(5)	-47.4%	2	28	2	100.0%	36	855	3	3.3%	45	2,570	-	-36.3%
Norway	1	242	-	-	-	-	-	-	-	-	-	-	1	242	-	-
United Kingdom	2	143	-	-	14	579	-	-4.6%	63	1,410	2	-0.6%	79	2,132	2	-1.7%
Portugal	-	-	-	-	-	-	-	-	2	35	-	-	2	35	-	-
Ireland	-	-	-	-	3	152	-	-	6	95	(1)	-10.4%	9	247	(1)	-4.3%
Others ^	87	12,535	(3)	-1.5%	87	1,866	(8)	-11.3%	-	-	-	-	174	14,401	(11)	-2.9%
Asia Pacific	**202**	**23,266**	**(95)**	**-34.6%**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**202**	**23,266**	**(95)**	**-34.6%**
China	93	13,622	(72)	-41.7%	-	-	-	-	-	-	-	-	93	13,622	(72)	-41.7%
Thailand	85	6,151	(7)	-1.3%	-	-	-	-	-	-	-	-	85	6,151	(7)	-1.3%
Philippines	21	2,867	-	-	-	-	-	-	-	-	-	-	21	2,867	-	-
Others	3	626	(16)	-79.9%	-	-	-	-	-	-	-	-	3	626	(16)	-79.9%
Total	**945**	**186,807**	**(172)**	**-15.3%**	**3,298**	**124,179**	**(669)**	**-13.4%**	**2,089**	**45,766**	**(506)**	**-16.8%**	**6,332**	**356,752**	**(1,347)**	**-14.9%**

* Net change since 1 July 2015
** Excludes salon
\# For the year ended 30 June 2016, controlled wholesale POS and space in other European countries mainly Slovenia, Bulgaria and Bosnia-Herzegovina have been re-grouped from Others under Rest of Europe to Germany. Comparative figures have been restated accordingly
^ Controlled wholesale POS and space in Rest of Europe include controlled wholesale POS and space in countries outside Europe, mainly Colombia, Chile and the Middle East

04.2 Profitability analysis

As the Group is undergoing transformation, there are exceptional gains and expenses arising from non-operational activities of the Group ("Exceptional Items"). Management is of the view that it is more meaningful to carve out these Exceptional Items for better assessment of the performance of the underlying operations ("Underlying Operations"). As such, for the purpose of this Profitability Analysis section, we have categorized expenses into two categories: "Regular OPEX" and "Exceptional Items" comprising those relating to the net provisions for store closures and onerous leases, impairment of fixed assets on loss-making stores, as well as relevant expenses/gains that are expected to be non-recurring.

On this basis, the following items are classified as Exceptional Items in FY15/16:

1. Exceptional non-recurring expenses of HK$755 million, in relation to our recent acceleration of cost restructuring measures, as follows:
   a. HK$462 million one-off costs in relation to staff reduction plans ("Staff Reduction Plans"), primarily at the headquarters and affiliates in Europe, to reduce overhead costs;
   b. HK$186 million net provision for store closures and onerous leases, thereof:
      i. HK$162 million provision in relation to the store lease of 34th Street, New York, representing the shortfall against the liabilities under lease as a result of sub-letting the vacant store space;
      ii. HK$198 million provision for closure of certain loss-making stores in Asia Pacific as a result of negative business development;
      iii. HK$174 million net write-back of provision primarily due to improvement in retail performance in Europe;
   c. HK$59 million impairment of fixed assets on loss-making stores;
   d. HK$48 million impairment of the IT applications for Kids division as they are no longer in use due to licensing of kids business to Groupe Zannier.
2. Exceptional net gains of HK$1,337 million comprising the following:
   a. HK$731 million net gain from the sale of the Hong Kong office;
   b. HK$409 million write-back of tax provisions as a result of favorable assessment by the Inland Revenue Department of Hong Kong concerning the taxability of the income generated by subsidiaries engaged in the distribution operation of the Group;
   c. HK$197 million net taxation credit mainly due to tax deductibility of the aforementioned exceptional non-recurring expenses and the release of tax provision from previous years.

The combination of the result from Underlying Operations and all the Exceptional Items above has produced a Net Profit of HK$21 million for the Group.

The table below presents the results of the Group for FY15/16 and FY14/15, with a differentiation of Regular OPEX and Exceptional Items as discussed above.

	For the year ended 30 June			
	2016	2015	Change in %	
	HK$ million	HK$ million	HK$	Local currency
Revenue	**17,788**	19,421	-8.4%	-1.1%
Cost of goods sold	**(8,859)**	(9,726)	-8.9%	-1.6%
Gross profit	**8,929**	9,695	-7.9%	-0.5%
Gross profit margin	***50.2%***	*49.9%*	*0.3% pt*	*0.3% pt*
Regular OPEX				
Staff costs	**(3,018)**	(3,562)	-15.3%	-9.8%
Occupancy costs	**(2,793)**	(3,160)	-11.6%	-5.4%
Logistics expenses	**(1,022)**	(1,048)	-2.5%	5.5%
Marketing and advertising expenses	**(1,015)**	(820)	23.7%	33.6%
Depreciation	**(591)**	(713)	-17.0%	-10.6%
Other operating costs	**(1,062)**	(1,110)	-4.1%	5.9%
Subtotal	**(9,501)**	(10,413)	-8.7%	-1.9%
LBIT of Underlying Operations	**(572)**	(718)	-20.3%	-20.7%
Exceptional Items				
One-off costs in relation to staff reduction plans	**(462)**	–		
Net provision for store closures and onerous leases	**(186)**	(282)		
Impairment of fixed assets	**(59)**	(171)		
Impairment of IT applications of Esprit Kids Division	**(48)**	–		
Impairment of China goodwill	**–**	(2,512)		
Net gain on disposal of Hong Kong office premises	**731**	–		
Subtotal	**(24)**	(2,965)		
LBIT of the Group	**(596)**	(3,683)	-83.8%	-83.2%
Net interest income	**11**	16		
Loss before taxation	**(585)**	(3,667)		
Taxation (credit/(charge)) *	**606**	(29)		
Net profit/(loss)	**21**	(3,696)		

* Mainly comprises the exceptional net gain of HK$409 million and HK$197 million, arising mainly from write-back of tax provision and tax deductibility of the Exceptional Items and the release of tax provision from previous years, respectively, as detailed at the beginning of this Profitability Analysis section

Gross profit was HK$8,929 million (2015: HK$9,695 million). Gross profit margin remained stable at 50.2% with a slight increase of +0.3 percentage point over last year (2015: 49.9%). The pressure from weakness of the Euro and slightly increased markdowns, was offset by benefit from a higher proportion of retail (including e-shop) revenue (67.3% of Group revenue this year as opposed to 64.0% of Group revenue last year).

Regular OPEX (excluding Exceptional Items) was reduced to HK$9,501 million (2015: HK$10,413 million), representing a yoy decline of -8.7% in Hong Kong Dollar terms or -1.9% in LCY, despite our decision to increase marketing and advertising expenses by 33.6% in LCY. Excluding marketing and advertising expenses, the Regular OPEX was reduced by -4.9% in LCY terms as we remain vigilant in controlling costs with savings achieved in most of the recurring cost lines. The increase in logistics expenses (+5.5% yoy in LCY) is directly correlated to the positive growth of our e-shop business (+15.3% yoy in LCY). As for the increase in marketing and advertising expenses (+33.6% yoy in LCY), this is in association with our strategic decision to increase spending in brand campaigns and Omnichannel initiatives to fuel future growth.

The Group has implemented cost-saving measures throughout the year changing structural aspects (e.g. legal entities, IT systems, business models, core operational processes, etc.) in order to bring OPEX down to a healthier level in the coming years. These changes triggered some of the provisions and impairment charges classified as Exceptional Items this year. The corresponding savings are expected to take full effect during the next two years, although some have already started to happen in the 2HFY15/16, enabling us to reduce Regular OPEX in the 2HFY15/16 by -10.4% yoy in LCY, as compared to an increase of +6.1% in the 1HFY15/16. The table below sets forth the development of our Regular OPEX for 1HFY15/16 versus 2HFY15/16.

			Year-on-year Change	
	1HFY15/16	2HFY15/16	1HFY15/16	2HFY15/16
	HK$ million	HK$ million	in LCY	in LCY
Staff costs	1,616	1,402	-3.4%	-17.1%
Occupancy costs	1,428	1,365	-4.9%	-6.0%
Marketing and advertising expenses	535	480	46.8%	19.7%
Logistics expenses	516	506	5.4%	5.6%
Depreciation	302	289	-7.0%	-14.6%
Other operating costs	597	465	63.9%	-30.2%
Regular OPEX	**4,994**	**4,507**	**6.1%**	**-10.4%**

Comparing the sequential development from 1HFY15/16 to 2HFY15/16, there are noticeable savings achieved in the two largest cost line items, i.e. staff costs and occupancy costs, which recorded yoy reduction of -17.1% and -6.0% in LCY respectively in 2HFY15/16, larger than the -3.4% and -4.9% in LCY recorded in 1HFY15/16 respectively. These additional savings reflected our efforts in accelerating closure of certain unprofitable distribution and reducing all overhead costs in the affiliates and central headquarters by streamlining our organizational structure. As for marketing and advertising expenses, following the strong push of the branding campaign in the 1HFY15/16, our strategic spending on brand marketing continued in 2HFY15/16 with a reduced intensity. As a consequence, marketing and advertising expenses was reduced to HK$480 million in 2HFY15/16 as compared to HK$535 million in 1HFY15/16.

Other operating costs principally include IT expenses, sample costs, legal and professional fees, exchange gain or loss, and provisions and impairments (with respect to inventory and trade debtors). The significant yoy reduction in other operating costs in 2HFY15/16 (-30.2% in LCY) was attributable to savings achieved across most cost lines thanks to implementation of the cost-saving measures.

Exceptional Items refers to exceptional gains and expenses arising from non-operational activities of the Group. As detailed in the beginning of this section, there were a net exceptional non-recurring expense of HK$755 million in relation to our recent acceleration of cost restructuring measures, and a net exceptional gain of HK$731 million on disposal of the Hong Kong office premises.

Taking these into consideration, **EBIT** of the Group was a loss of HK$596 million (2015: loss of HK$3,683 million). Excluding the Exceptional Items, the EBIT of the Underlying Operations was a loss of -HK572 million (2015: loss of -HK$718 million).

Net Interest income was HK$11 million (2015: HK$16 million), including interest earned on cash, bank balances and deposits, representing an effective interest rate of 0.8% per annum (2015: 0.6%). As a consequence, **Loss before taxation** was HK$585 million (2015: Loss before taxation of HK$3,667 million).

Taxation was a net tax credit of HK$606 million (2015: net tax charge of HK$29 million), as a result of the write-back of tax provision (HK$409 million), as well as tax deductibility of the Exceptional Items and the release of tax provision from previous years (HK$197 million), as detailed at the beginning of this Profitability Analysis section.

Net profit was HK$21 million as compared to a net loss of HK$3,696 million last year. This was the result of a combination of positive retail sales performance, operational cost reduction, and net gains from exceptional items.

04.3 Liquidity and financial resources analysis

The Group remained prudent to maintain a sound financial position that enables the execution of our Strategic Plan and growth efforts over the coming years.

Cash: As at 30 June 2016, **cash, bank balances and deposits** reached HK$5,341 million (30 June 2015: HK$5,017 million), representing a yoy increase of HK$324 million. The increase in net cash was the results of a combination of the followings:

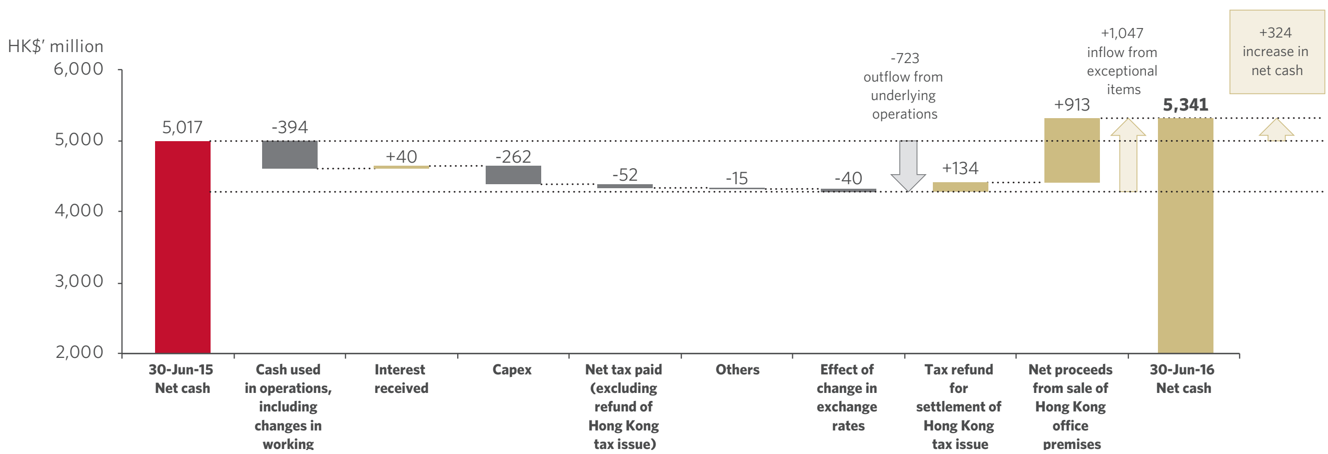
i) HK$913 million net proceeds from the disposal of Hong Kong office premises;

ii) HK$82 million net tax refund associated with i) the favorable assessment by the Inland Revenue Department of Hong Kong (HK$134 million); and ii) net tax payment (HK$52 million);

partially offset by,

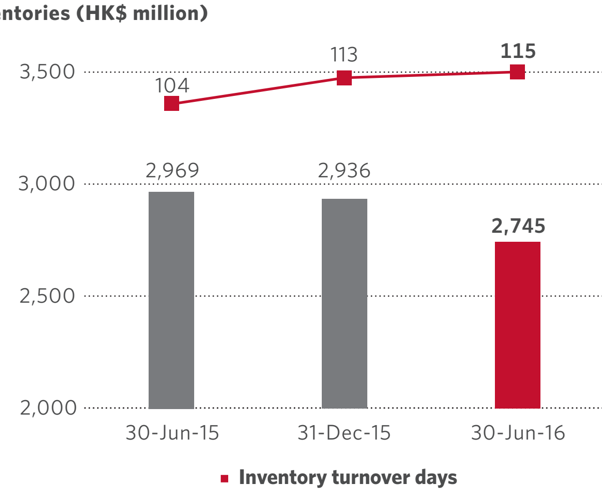
iii) HK$262 million invested in capital expenditure; and

iv) HK$394 million cash used in operations including payments in association with the staff reduction plans.



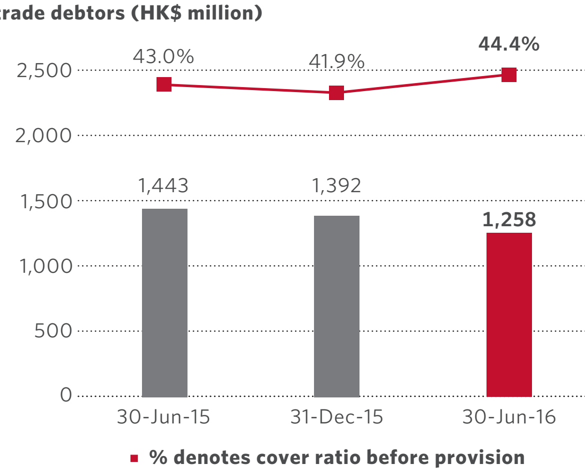
Inventories: Our inventory balance amounted to HK$2,745 million (30 June 2015: HK$2,969 million), representing a yoy reduction of -7.5%. The main driver behind the improvement was the positive sales development of retail operations, although the depreciation of the EUR/HKD closing rate of -0.9% yoy also contributed slightly to the reduction. Inventory turnover days was 115 days, an increase of 11 days as compared to a year ago (30 June 2015: 104 days), primarily attributable to our strategic decision to increase purchase of inventory to push retail sales growth during the year under review. In terms of ageing profile, inventory (in terms of units) aged over six months increased to 20.6% (30 June 2015: 18.3%), mainly due to weak retail sales performance in Asia Pacific while the inventory ageing profile of Europe remained relatively stable.

Inventories (HK$ million)



Net trade debtors was HK$1,258 million (30 June 2015: HK$1,443 million), representing a yoy decrease of -12.8%, which is broadly in line with the development of wholesale revenue and the slight depreciation of the EUR/HKD closing rate of -0.9%. As a result of our efforts in tightening credit control, the amount of net trade debtors overdue over 90 days was reduced by -24.1% yoy to HK$123 million (30 June 2015: HK$162 million). The cover ratio before provision (the amount of insured and secured gross trade debtors including VAT over total gross trade debtors including VAT) increased to 44.4% (30 June 2015: 43.0%).

Net trade debtors (HK$ million)



Capital expenditure (CAPEX): We remain cautious in CAPEX investments as we stay vigilant in cash flow management and cost control. The Group invested HK$262 million (2015: HK$349 million) in CAPEX in FY15/16, representing a reduction of 24.9% yoy. We invested HK$71 million in new store opening, HK$75 million in store refurbishment, HK$44 million in IT projects, and HK$72 million in Office and others including approximately HK$8.6 million in the project on extension of our distribution center in Mönchengladbach to enable stock replenishment capability.

	For the year ended 30 June	
HK$ million	**2016**	2015
New stores	**71**	96
Refurbishment	**75**	92
IT projects	**44**	77
Office & others	**72**	84
Purchase of property, plant and equipment	**262**	349

Total interest bearing external borrowings: As at 30 June 2016, the Group had no interest bearing external borrowings (30 June 2015: nil).

Foreign exchange risk management

The Group faces foreign exchange risk arising from exposure to various currencies, primarily with respect to the Euro.

While the majority of the Group's revenue is denominated in Euro, we report our financial results in Hong Kong Dollars. As a result, fluctuations in the value of the Euro against the Hong Kong Dollar could adversely affect our revenue which is reported in Hong Kong Dollar. In addition, the purchases of finished goods in Euro account for only a small portion of our total purchases of finished goods while our net sales, which are generated primarily in Euro, may pose severe pressure on our gross margin. Although we currently use foreign currency forward contracts to hedge exposure to the foreign exchange risk related to our purchases, fluctuations in the value of the Euro against other currencies, mostly against the US Dollar, could affect our margins and profitability.

Since the beginning of FY15/16, the Euro exchange rate has maintained its weakness. In June 2016, the United Kingdom's vote to leave the European Union ("Brexit") has caused much uncertainty in the European economy, as well as substantial depreciation of the British Pounds. As our business in the United Kingdom contributes less than 1% of the Group's revenue, the depreciation of the British Pounds will have little direct impact on the Group's revenue. That being said, Brexit may put pressure on the Euro currency. In view of this potential risk, the Group has taken measures to proactively manage its Euro exposure, specifically early hedging of virtually all purchases of finished goods for FY16/17 at an average rate better than the prevailing market rates, which should help protect our gross margin for the next 12 months. The Group will continuously monitor and review purchases of finished goods as well as potential price adjustment, depending on the movements of relevant exchange rates.

Human resources

As at 30 June 2016, the Group employed over 8,300 full-time equivalent staff (30 June 2015: over 9,100) 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, awarded shares 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 newsletters and global intranet.

Dividend

In view of a small net profit for the year ended 30 June 2016, the Board has not recommended the distribution of a final dividend (FY14/15: nil).

04.4 Outlook for FY16/17

All in all, FY15/16 has been a positive year for the Group with improved financial performance and successful development of the most critical elements of our Strategic Plan. Moving forward, we must keep the focus on improving our bottom line and step up the efforts to accelerate the positive trends of last year, while tackling the pending matters and issues in the wholesale channel and in the Asia Pacific region, so that all areas of our business contribute positively to the turnaround of Esprit.

As mentioned in "Letter from Group CEO", growth will only come progressively as the Group still faces a decline of its wholesale space and retail space (as loss-making retail stores still need to be closed). We must continue to counter this with better sales productivity and profitability measures. The outlook of the Group for FY16/17 is based on the immediate priorities presented in the"Letter from Group CEO" of this results announcement.

With respect to **controlled space** development, retail selling space is expected to decline by high-single-digit due to our decision to accelerate the closure of loss-making retail space. In wholesale, controlled space is likely to decline at a rate similar to the one in the previous years.

Space productivity (sales per square meter) remains our main focus by systematically enhancing the execution of our Vertical and Omnichannel models. Improvement in FY16/17 will likely be more moderate than in FY15/16 as we compare against higher sales per square meter levels in most of the stores. Still we anticipate sustained productivity increases that must drive bottom line improvement throughout the year.

Thanks to the Omnichannel initiatives, the strong growth momentum of **e-shop** is expected to continue. Growth of e-shop revenue for Europe in FY16/17 will likely be in single-digit, as we compare against a very large base, while the growth in Asia Pacific is expected to remain in high-double digit.

Regarding **gross profit margin**, it may be affected by the weakness of the Euro but we aim to maintain a stable level or a modest increase.

As for **OPEX**, we anticipate it to be visibly reduced by the accelerated closure of loss-making stores and the impact of the cost restructuring measures already implemented as part of our goal to reduce HK$1 billion OPEX (excluding exchange rate impact) over the next two years (communicated in the last Investor Relations Day). Also, following the strong push in Brand marketing in FY15/16, we plan to bring our expenditure in marketing and advertising at a lower level in FY16/17.

CAPEX is expected to be similar to that of FY15/16. We will continue to moderately invest in retail store refurbishment, Omnichannel initiatives, and the extension and upgrade of our distribution center in Europe.

05
SUSTAINABILITY

05 Sustainability

Sustainability has been an integral part of Esprit's corporate culture since the Company's founding in 1968. In times of increasing pollution, climate change and social injustice, we see it as our responsibility to act towards greater sustainability and transparency, as well as to create products that foster a sustainable environment for future generations.

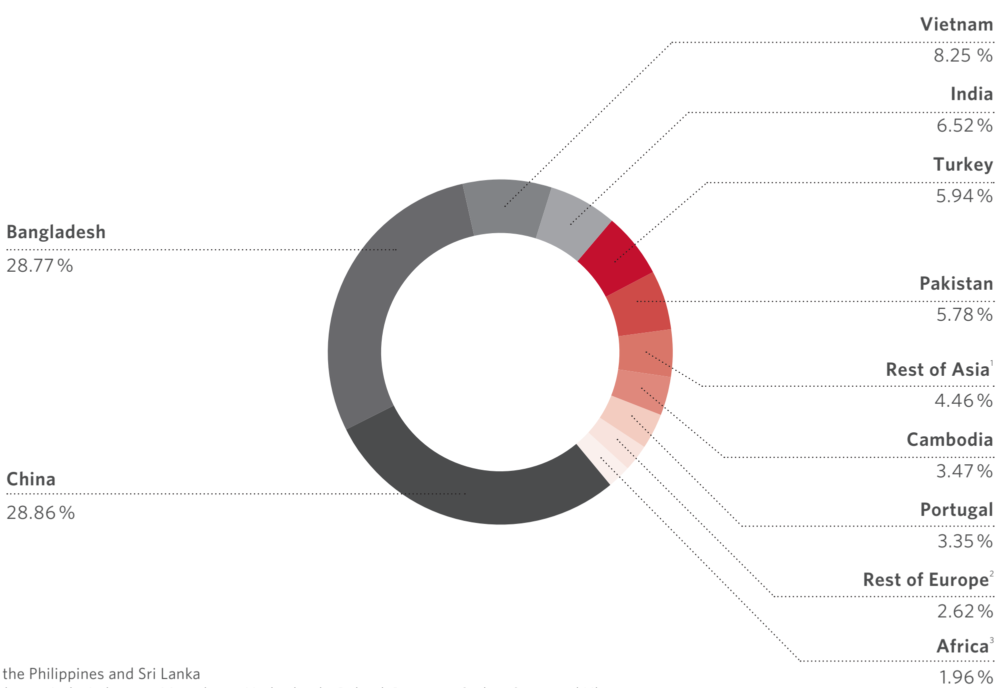
In recent years, we have also experienced an increasing interest in sustainability among our consumers, shareholders and society at large. In the fiscal Year FY15/16, we strengthened our sustainability strategy and structured the different sustainability programs to ensure a more systematic approach to the sustainability issues that we have identified as most material for our business.

Providing our consumers with fashion that reflects a free-spirited, accessible and positive attitude, while always maintaining high quality standards in products and operations, is at the core of what we strive to do. Operating on a global market and with a global supply chain, we see it as our duty to act responsibly. Building strong, lasting relationships with our suppliers and partners is a first step towards this goal. Moreover, an honest and authentic dialogue with our consumers is indispensable to be a responsible organization and partner to our stakeholders.

Along with this Sustainability section, we published our Sustainability Report for FY15/16 in accordance with the GRI G4 "Core" level. The Sustainability Report provides a detailed overview of the sustainability initiatives mentioned in this chapter. For further information please read our Sustainability Report.

In FY15/16 our goods were sourced from 25 countries throughout Asia, Africa and Europe. The main sourcing countries for finished garments were Bangladesh, China, India, Portugal, Pakistan, Turkey and Vietnam. The textile industry is exceptionally labor intensive and creates millions of jobs in developing countries. Combined, the factories we work with approximately employ 360,000 people across the globe.

Countries of origin for Esprit products in FY15/16 based on ordered quantity



[1] Including Indonesia, the Philippines and Sri Lanka
[2] Including Belarus, Bulgaria, Italy, Lithuania, Macedonia, Netherlands, Poland, Romania, Serbia, Spain and Ukraine
[3] Including Madagascar, Morocco and Tunisia

Responsible Sourcing

The sustainability program at Esprit has three focus areas: Sustainable Materials, Social Sustainability and Environmental Sustainability. The sustainability program is supported by a social compliance strategy, aiming at ensuring that we always operate in compliance with local law and international standards regarding labor rights in order to ensure responsible business across our supply chain. To achieve systematic change in the industry and to increase the impact of our projects, we partner with our industry peers in multi-stakeholder and industry initiatives. Collaboration is a key tool and element in our sustainability strategy – only through collaboration across the textile industry can we ensure that our future goals and vision for sustainability are achieved.

In addition to participating in different industry initiatives, our Social & Environmental Sustainability department manages risks related to sustainability and social responsibility in our business operations on a day-to-day basis. To ensure that we are efficient in this effort, the team works with our Risk Management, Fabric Management and Quality Assurance teams to establish the Esprit Minimum Requirements Steering Committee (EMRSC). The EMRSC works to implement national and international requirements, such as the standards of the International Labour Organization (ILO), the REACH* standards, environmental standards, and policies related to animal welfare in our operations, as well as to define and coordinate our different projects that support our sustainability strategy. With the EMRSC we gather the knowledge of various departments across Esprit in order to effectively deal with the challenges and risks in the fields of sustainability, social compliance and product safety.

Sustainable Materials

In FY15/16 around 40% of Esprit products contained more than 90% cotton, which puts more sustainable cotton high on our agenda. We have been a Learning Member of the Better Cotton Initiative (BCI) since February 2016. BCI is a non-profit organization that has a holistic approach for a sustainable cotton production by including the environmental, social and economic aspects. The organization particularly supports the people who grow cotton, to implement more environmental friendly cultivation methods that also help farmers save costs. With the BCI learning membership Esprit has one year to implement Better Cotton into our supply chain and to set targets for the coming years.

Besides the BCI program we also have an Organic Cotton collection for our Newborn collection, certified by the Global Organic Textile Standard (GOTS)[4]. The GOTS certified cotton is traceable throughout the production process and focuses on natural fertilizers, pest control methods, crop rotation and improved water and energy management for a healthier environment.

Esprit also uses a high amount of cellulose fibers, and viscose, in particular. In FY15/16 around 14% of our styles contained more than 80% of rayon, viscose, modal or other cellulose fibers, which are made from wood pulp. To avoid the wood pulp coming from endangered forests, Esprit has partnered with Canopy, a non-profit organization, which aims to eliminate the use of wood pulp from endangered forests in the viscose supply chain. Esprit supports this aim and has therefore started work to analyze our supply chain to ensure that all cellulose fibers used in our products will be sustainably harvested by 2017.

We believe that all living creatures deserve to be treated with respect and dignity. To support this belief, we have implemented an Animal Welfare Policy to prevent cruel treatment of animals used in our supply chain. This also entails sourcing raw materials responsibly; all products derived from animals must be sourced in accordance with our Code of Conduct and the Farm Animal Welfare Council's (FAWC) "Five Freedoms"[5].

In accordance with our Animal Policy, we strongly condemn any removal of feather or down from live birds or forced-fed animals. To ensure a high level of transparency, in FY15/16 we started the certification process of our entire supply chain with the Responsible Down Standard (RDS)[6]. Our initial goal was to complete the process by June 2016, but in fact we finished in March 2016, three months ahead of schedule. Thus, all Esprit suppliers that provide down styles, and Esprit itself, are certified with an RDS facility scope certificate. In the RDS certification process, all stakeholders in the supply chain – from duck and goose farms to Esprit itself – are audited to ensure that no live-plucked down or feathers are used in Esprit's garments. All of Esprit's Fall/Winter 2016 styles that contain down are certified by the RDS. Our goal is to maintain this level of transparency and continue with the RDS certification in the future.

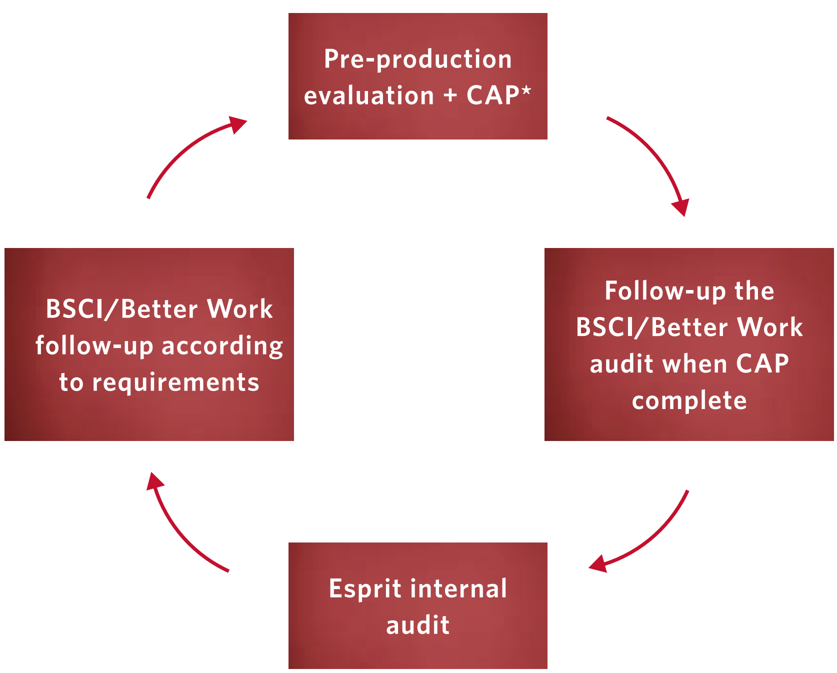
[4] For further information please visit: http://www.global-standard.org
[5] For further information please visit: https://www.gov.uk/government/groups/farm-animal-welfare-committee-fawc
[6] For further information please visit: http://responsibledown.org
* REACH is a system of European Union regulation concerning the Registration, Evaluation, Authorization and Restriction of Chemicals. For further information please visit http://ec.europa.eu/growth/sectors/chemicals/reach

Social Sustainability

As a fashion company that does not own production facilities, Esprit relies on external partners to manufacture our products. We have clear expectations of our suppliers with regard to working conditions. These expectations are defined in our Code of Conduct, which references the Core Conventions of the International Labour Organization (ILO) and the ILO Declaration on Fundamental Principles and Rights at Work. The Code of Conduct is integrated into our general supplier agreement, which all suppliers sign upon beginning to work with Esprit.

In addition to incorporating our social compliance standards into our supplier agreements, we require comprehensive audits to assess how well working conditions meet local law and international standards, and to improve factory working conditions. Esprit is a member of both, the Business Social Compliance Initiative (BSCI)[7] and Better Work[8]. As an ILO program, we require factories to participate in Better Work where available, and rely on the BSCI auditing program elsewhere. An audit program does not ensure factory improvement by itself, but it is the first step in analyzing where the problems may occur. It is equally important to follow up and monitor audit findings and remediation to ensure that these are mitigated and handled in the best possible way.

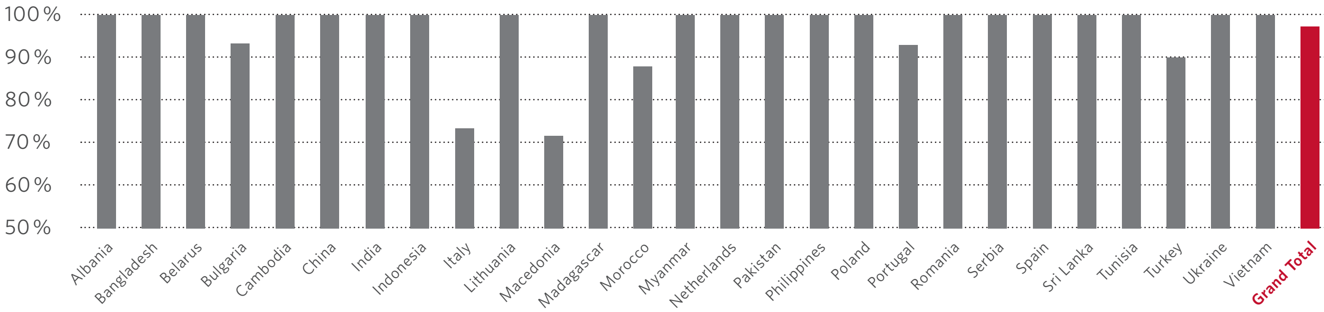
Social compliance on-boarding



* Corrective Action Plan

[7] For further information please visit: http://www.bsci-intl.org
[8] For further information please visit: http://betterwork.org

Supplier factories audited in FY15/16



Like many brands in the fashion industry, Esprit is increasingly aware of the importance of assuring that the workers who make our products earn a decent living. In September 2015, Esprit joined 17 other brands in signing a Memorandum of Understanding with IndustriALL Global Union to form the Action, Collaboration, Transformation (ACT)[9] program. Rather than calculating a living wage for each significant producing area, members of ACT believe that living wage is best achieved by facilitating the development of nation- and industry-wide collective bargaining agreements in key garment and textile producing countries to allow workers' representatives and factory management to negotiate wages and any other aspect of working conditions deemed appropriate by both parties. As a key part of this effort, ACT strives to improve brand purchasing practices and to provide expertise to enhance factory productivity to support increased wages within a healthy local textile industry. While we understand that this approach is ambitious, allowing workers to negotiate wages on their own behalf is really the only viable long-term solution to the vexing problem of excessively low wages in the global apparel industry.

Environmental Sustainability

The environmental problems caused by the fashion industry are garnering increasing attention from the media and society at large. Fabric manufacturing, laundries, dyeing and finishing processes are important to creating fashionable garments, but they also generate waste and, if not treated responsibly, much pollution. In order to keep these processes as environmentally friendly as possible, they must be managed properly. We want to ensure that not only are our products safe for consumers, but that we also protect the environment and local communities where they are made. We focus on the use of chemicals in the manufacturing process to identify chemicals of concern and apply the precautionary principle in our evaluation.

In FY15/16 we conducted a Tier 2 supply chain mapping of Asia Pacific to gain a deeper understanding of our supply chain and the risks and opportunities we face. However, to map our Tier 2 suppliers, we first had to prepare a clear definition which is explained in the following chart:

Esprit supply chain definition

Area	Definition	Esprit engagement
Tier 1	Place of fabrication: garment sewing, finishing and packaging	Direct contact
Tier 2	Spinning, weaving/ knitting, dyeing, printing, finishing	Direct and indirect contact
Tier 3	Raw material providers: chemical suppliers, yarn supplier, machinery suppliers	Direct and indirect contact

In Tiers 2 and 3, a significant and increasing portion of Esprit production is through nominated fabric, yarn and chemical suppliers. Esprit does not place orders directly with these suppliers, but we require that materials used in our products be purchased from them.

Mapping our supply chain is the first step to achieve a more sustainable production. The next step is to actually visit the Tier 2 facilities and get a deeper understanding of their chemical usage. Therefore, we created an audit protocol so that every visit is guided by the same process and procedures.

Since December 2014, our products have been free of poly- and perfluorinated chemicals (PFCs). PFCs are used for a water-repellent surface on garments and decompose very slowly. In the environment, their impact is very negative, especially on the health of people and animals. Through our ongoing chemical management program, we work closely with our suppliers to maintain this achievement.

In FY15/16 we conducted an assessment with 17 Tier 2 supplier audits to check the usage of alternative non-PFC chemicals in the production. Therefore, the Esprit Fabric Management team conducted audits at these 17 Tier 2 facilities that were identified to manufacture all water repellent products for Esprit. The results of these audits were generally successful, 16 mills already reached an advanced level, while the results of one mill were ranked in the middle area. After the audit, the mills received a Corrective Action Plan which defines all areas of improvement. After four weeks, our Fabric Management team conducted to a second round of audits. With this ongoing audit process we want to ensure that in the future all Esprit products will be free of any PFC chemistry. Since 2012 Esprit has been a member of the Zero Discharge of Hazardous Chemicals (ZDHC)[10] group, which works alongside like-minded industry peers to develop the tools and protocols to empower the entire supply chain and eliminate chemical discharges. The long-term target of the ZDHC's "Roadmap to Zero" is zero discharge of hazardous chemicals by 2020. To achieve this ambitious goal, Esprit continues to work alongside the ZDHC Group on the development of a holistic system by adopting the Manufacturing Restricted Substance List (MRSL)[11] to minimize chemical hazards in our supply chain.

[9] For further information please visit: http://www.hiil.org/project/act-towards-living-wages-in-global-supply-chains
[10] For further information please visit: http://www.roadmaptozero.com/
[11] For further information please visit: http://www.roadmaptozero.com/pdf/MRSL.pdf

06
CORPORATE GOVERNANCE

06.1 Corporate governance report

Esprit is committed to achieving high standards of corporate governance. The Esprit Corporate Governance Code adopted by the board of directors (the "Board" or the "Director(s)") of the Company sets out a range of governance principles and practices to direct and guide the business conducts and affairs of the Company and its subsidiaries (the "Group"). It aims at providing greater transparency, quality of disclosure as well as more effective risk management and internal control. The execution and enforcement of the Company's corporate governance system is monitored by the Board. The Board will review the current practices at least annually, and make appropriate changes where considered necessary. We believe our commitment in high standard practices will translate into long-term value and ultimately maximizing returns to shareholders. Management pledge to building long-term interests for shareholders via, for example, conducting business in a socially responsible and professional manner.

The Board has reviewed the corporate governance practices of the Company. The Company has applied the principles of, and complied with, the applicable code provisions of the Corporate Governance Code and Corporate Governance Report ("CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") during the financial year ended 30 June 2016, except for certain deviations as specified with considered reasons for such deviations as explained below.

Board of Directors

Composition of the Board

The Directors of the Company during the financial year and up to the date of this report are:

Executive Directors

Jose Manuel MARTINEZ GUTIERREZ (Group Chief Executive Officer)
Thomas TANG Wing Yung (Group Chief Financial Officer)

Non-executive Director

Jürgen Alfred Rudolf FRIEDRICH

Independent Non-executive Directors

Dr Raymond OR Ching Fai (Chairman)
Paul CHENG Ming Fun (Deputy Chairman)
Dr José María CASTELLANO RIOS
Alexander Reid HAMILTON
Carmelo LEE Ka Sze
Norbert Adolf PLATT

Meetings attended/held

The Board conducts at least four regular Board meetings a year and additional meetings are held as and when required to discuss significant events or important issues. Sufficient notice is given for regular Board meetings to all Directors enabling them to attend and reasonable notice will be given in case of special Board meetings. The Group ensures that appropriate and sufficient information is provided to Board members in a timely manner to keep them abreast of the Group's latest developments thereby assisting them in the discharge of their duties.

The individual attendance records of each Director at the Board meetings, Board Committees meetings and general meetings of the Company during the financial year ended 30 June 2016 is set out in the table below:

	Board	Non-executive Directors	Audit Committee	Nomination Committee	Remuneration Committee	Risk Management Committee	General Committee	Annual general meeting
Executive Directors								
Jose Manuel MARTINEZ GUTIERREZ	9/9				4/4		3/3	1/1
Thomas TANG Wing Yung	9/9					1/1	3/3	1/1
Non-executive Director								
Jürgen Alfred Rudolf FRIEDRICH	6/9	1/1			3/4			1/1
Independent Non-executive Directors								
Raymond OR Ching Fai (Chairman)	9/9	1/1		1/1				1/1
Paul CHENG Ming Fun (Deputy Chairman)	9/9	1/1		1/1	4/4			1/1
José María CASTELLANO RIOS	9/9	1/1	4/4			1/1		1/1
Alexander Reid HAMILTON	9/9	1/1	4/4	1/1				1/1
Carmelo LEE Ka Sze	9/9	1/1		1/1	4/4	1/1		1/1
Norbert Adolf PLATT	9/9	1/1	4/4		4/4			1/1

Board meetings and minutes

Minutes of the Board meetings and Board Committees meetings have been recorded in sufficient detail including any matters considered in the meetings, decisions reached and concerns or queries raised by the Directors or dissenting views expressed. Draft and final versions of minutes of meetings of the Board and Board Committees are sent to the Directors or Board Committee members for comments and records respectively within a reasonable time after the meeting. Minutes of meetings of the Board and Board Committees are kept by the Company Secretary, which are open for inspection following reasonable notice by any Director.

Clear distinction between the responsibilities of the Board and management

The Board oversees the overall management of the Group, including oversight of the Group's operations, whilst allowing management substantial autonomy to run and develop the business.

Decisions reserved for the Board are mainly related to:

- The long-term objectives and strategy of the Group;
- Monitoring the performance of management;
- Ensuring that appropriate and effective risk management and internal control systems are established and maintained to enable risks to be assessed and managed;
- Monitoring the quality and timeliness of external reporting;
- Monitoring the policies and practices on the compliance with applicable laws and regulations; and
- Approving the Company's policies and practices on corporate governance.

Board independence

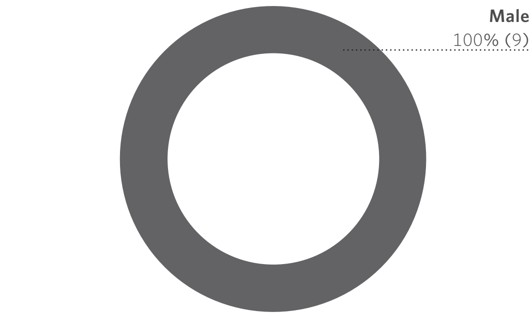
Throughout the year and up to the date of this report, the Company has six Independent Non-executive Directors, representing more than one-third of the Board. At least one of the Independent Non-executive Directors has the appropriate professional qualifications or accounting or related financial management expertise under rule 3.10 of the Listing Rules. The Company has received confirmation of independence from each Independent Non-executive Director as set out in rule 3.13 of the Listing Rules and continues to consider each of them to be independent. In addition, no controlling shareholder is present on the Board ensuring decisions are made fairly and without conflicts of interest.

In assessing the independence of the Independent Non-executive Directors, the Nomination Committee and the Board would consider the character and the judgement demonstrated by the Director's contribution to the Board during the years of services, the relationship with the Group other than being a Director, the past and present directorships and important appointments of the Director outside the Group. Further appointment of an Independent Non-executive Director who serves more than nine years shall be subject to a separate resolution to be approved by the shareholders.

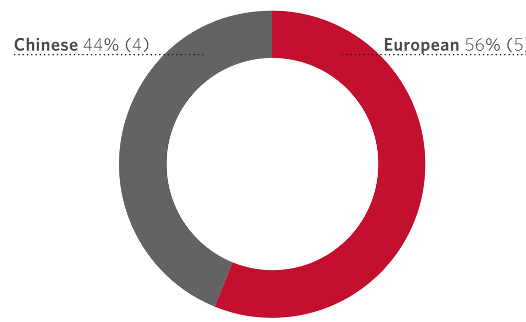
Board effectiveness

The Board has adopted a board diversity policy (the "Board Diversity Policy") setting out the approach to achieve diversity on the Board with the aims of enhancing the quality of its performance and ensuring orderly succession for appointments. The Company considers aspects of board diversity including but not limited to gender, ethnicity, age, professional experience, skills and knowledge. The ultimate decision will be based on merit and contribution that the individual will bring to the Board.

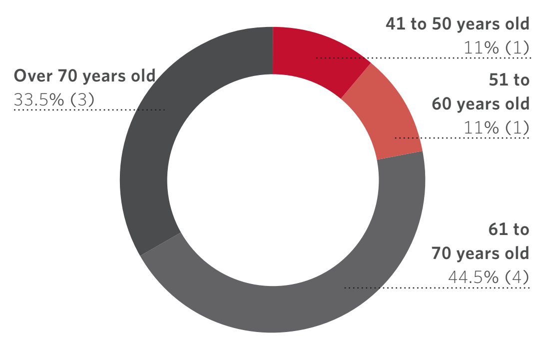
Gender



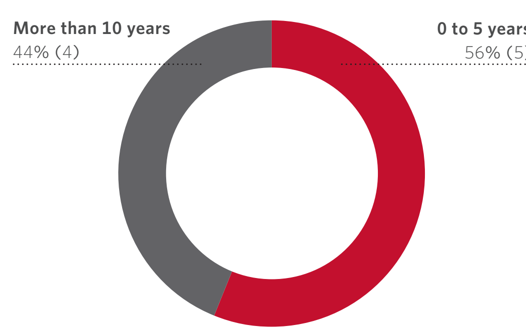
Ethnicity



Age



Length of service



Note: () denotes number of Directors

Board effectiveness (continued)

The Directors come from diverse business and professional backgrounds appropriate to the requirement of the business of the Company. The Board endeavours to support the expansion of the Board membership by identifying appropriate candidates who will bring further skills, insights and value to the business so that we have a well-balanced composition of Executive Directors and Non-executive Directors.

Continuous professional development

Each newly appointed Director receives comprehensive, formal and tailored induction program to ensure that he/she has an overview of the business and operations of the Group and a proper understanding of the Esprit Corporate Governance Code, his/her responsibilities and obligations under the Listing Rules and applicable laws and regulatory requirements.

Continuous professional development programs are provided for Directors to develop and refresh their knowledge, skills and understanding of the business and markets in which the Group operates. All Directors were provided with Esprit and industry news, monthly updates, research reports and other reading materials of the Group's business and the industry and regulatory environments in which the Group operates.

Participation in Director's continuous professional development program during the financial year is summarized as follows:

	Reading materials/ attending professional briefings or seminars or conferences relating to regulatory updates and directors' duties	Reading materials/ attending professional briefings or seminars or conferences relating to business and industry
Executive Directors		
Jose Manuel MARTINEZ GUTIERREZ	✓	✓
Thomas TANG Wing Yung	✓	✓
Non-executive Director		
Jürgen Alfred Rudolf FRIEDRICH	✓	✓
Independent Non-executive Directors		
Raymond OR Ching Fai	✓	✓
Paul CHENG Ming Fun	✓	✓
José María CASTELLANO RIOS	✓	✓
Alexander Reid HAMILTON	✓	✓
Carmelo LEE Ka Sze	✓	✓
Norbert Adolf PLATT	✓	✓
Company Secretary		
Florence NG Wai Yin	✓	✓

Directors' responsibilities for the consolidated financial statements

The Directors are responsible for overseeing the preparation of the consolidated financial statements for the year ended 30 June 2016, to ensure that they give a true and fair view of the state of affairs of the Group and of its profit and cash flows for that financial year. In respect of the consolidated financial statements for the year ended 30 June 2016, the Directors are satisfied that management have selected appropriate accounting policies, applied them consistently in accordance with the International Financial Reporting Standards and made judgments and estimates that are prudent and reasonable, and have prepared the consolidated financial statements on the going concern basis.

The Directors are responsible for ensuring the maintenance of proper accounting records, safeguarding of the assets of the Company and taking reasonable steps for the prevention and detection of fraud and other irregularities.

Chairman and Group Chief Executive Officer

Dr Raymond OR Ching Fai is the Chairman of the Board and Mr Jose Manuel MARTINEZ GUTIERREZ is the Group Chief Executive Officer. The role of the Board's Chairman is to provide leadership in order to enable the Board to discharge its function effectively, while the Group Chief Executive Officer focuses on managing and controlling the business of the Group. The roles of the Board's Chairman and the Group Chief Executive Officer are clearly outlined to ensure there is a key distinction between the two positions and are exercised by different individuals.

Non-executive Directors

During the year, the Non-executive Directors (a majority of whom are independent) provided the Group with a wide range of expertise and experience. Their active participation in the Board meetings and Board Committees meetings brought independent judgement on issues relating to the Group's strategy, performance and management process, taking into account the interests of all shareholders of the Company.

Non-executive Directors of the Company have not been appointed for a specific term. Under code provision A.4.1 of the CG Code, non-executive directors should be appointed for a specific term, subject to re-election. Nevertheless, 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 ("AGM") and each Director is effectively appointed under an average term of not more than three years.

Directors' securities transactions

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 for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 of the Listing Rules. 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 financial year ended 30 June 2016.

Furthermore, the Company has established written guidelines in respect to securities transactions by the Directors and relevant employees to ensure there are no improper dealings.

Board committees

To oversee particular aspects of the Company's affairs and to assist in the execution of its responsibilities, the Board has established five Board Committees, namely the Audit Committee, the Nomination Committee, the Remuneration Committee, the Risk Management Committee and the General Committee. Terms of reference of the Audit Committee, the Nomination Committee and the Remuneration Committee are available on the Company's website and HKExnews website. The terms of reference are updated from time to time with reference to best corporate governance practices in the market and the Listing Rules. A summary of the membership and responsibilities and duties of each Board Committee performed during the year is included below.

Audit Committee

Members:
Alexander Reid HAMILTON (Chairman)
José María CASTELLANO RIOS
Norbert Adolf PLATT

Responsibilities include, amongst other things, the following:

- Provide an independent review of the effectiveness of the financial reporting process including the adequacy of the resources, qualifications, experience of staff of the accounting, internal audit and financial reporting function, and their training programs and budget;
- Review of the internal control system, including the whistleblowing arrangements, and risk management system;
- Review of financial information of the Company;
- Oversee the audit process and the Company's relations with the auditors; and
- Perform other duties as assigned by the Board.

The Audit Committee currently comprises three Independent Non-executive Directors. The Audit Committee met four times during the year. The attendance record of the Audit Committee members is recorded in the "Meetings attended/held" section above. The Audit Committee is provided with sufficient resources to discharge its duties and meets regularly with management, internal auditors and external auditors and reviews their reports. The Audit Committee also has established a whistleblowing policy and system. Our Group Chief Financial Officer, external auditors, internal auditors and senior management are invited to attend the meetings to answer questions raised by the Audit Committee.

Duties performed during the year include, amongst other things, the following:

- Reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal control, and financial reporting matters including the review of the quarterly trading updates, interim results and annual results of the Group for the year ended 30 June 2016;
- Reviewed the nature, scope and findings of internal and external audits, and the Company's treasury activities, tax issue and liquidity; and
- Reviewed the fees for audit and non-audit services to the external auditors.

Auditor's remuneration

The Audit Committee has reviewed the fees for audit and non-audit services to the external auditors for the financial years ended 30 June 2016 and 2015. A summary of which is as follows:

	2016 HK$ million	2015 HK$ million
Nature of the services		
Audit services	**15**	14
Other services	**2**	3
	17	17

Internal audit function

The Company's internal audit function ("Internal Audit") reports directly to the Audit Committee. Internal Audit is responsible for performing regular and systematic reviews of the risk management and internal control systems. The reviews provide reasonable assurance that the risk management and internal control systems continue to operate satisfactorily and effectively within the Group and the Company. Where specialist skills are required, Internal Audit engages an outside professional firm to assist them in their reviews. The attainment of such objectives involves the following activities being carried out by Internal Audit:

- Reviewing and appraising the soundness, adequacy and application of operational, financial, compliance and other controls and promoting effective internal control in the Group and the Company;
- Appraise the risk management system to ensure the full compliance with the requirements under the risk management policy (the "Risk Management Policy") adopted by the Board;
- Ascertaining the extent of compliance with established policies, procedures and statutory requirements;
- Ascertaining the extent to which the Group's and the Company's assets are accounted for, managed, and safeguarded from losses of all kinds;
- Appraising the reliability and usefulness of information for reporting to management;
- Recommending improvements to the existing systems of risk management and internal control; and
- Carrying out investigations and special reviews requested by management and/or the Audit Committee of the Board.

Nomination Committee

Members:
Raymond OR Ching Fai (Chairman)
Paul CHENG Ming Fun
Alexander Reid HAMILTON
Carmelo LEE Ka Sze

Responsibilities include, amongst other things, the following:

- Review and recommend the structure, size and composition of the Board;
- Review and monitor the implementation of the Board Diversity Policy to ensure its effectiveness;
- Identify and recommend individuals suitably qualified to become Board member(s), selection of candidates for nomination to the Board will be based on the aforesaid aspects of diversity;
- Assess the independence of Independent Non-executive Directors;
- Recommend to the Board on relevant matters relating to the appointment or re-election of Directors and succession planning for Directors;
- Keep under review the leadership needs of the organization with a view to ensuring the Company can compete effectively in the market place; and
- Make recommendations concerning membership of the Audit Committee, the Nomination Committee, the Remuneration Committee, the Risk Management Committee and the General Committee.

The Nomination Committee currently comprises four Independent Non-executive Directors. The Nomination Committee met once during the year. The attendance record of the Nomination Committee members is set out in the "Meetings attended/held" section above.

Duties performed during the year:

- Reviewed the structure, size and composition of the Board;
- Assessed the independence of the Independent Non-executive Directors;
- Reviewed the implementation of the Board Diversity Policy. More information on the diversity of the Board is set out in the "Board effectiveness" section above; and
- Provided recommendation to the Board on the re-election of Directors standing for re-election at the 2015 AGM.

Remuneration Committee

Members:
Paul CHENG Ming Fun (Chairman)
Jose Manuel MARTINEZ GUTIERREZ
Jürgen Alfred Rudolf FRIEDRICH
Carmelo LEE Ka Sze
Norbert Adolf PLATT

Responsibilities include, amongst other things, the following:

- Recommend to the Board on the Group's policy and structure for all Directors' and senior management's remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;
- Determine specific remuneration packages of all individual Executive Directors and senior management;
- Review and approve the compensation payable to Executive Directors and senior management for any loss or termination of office or appointment; and those for dismissal or removal of Directors for misconduct;
- Recommend to the Board on the remuneration for Non-executive Directors;
- Review and approve management's remuneration proposals with reference to the Board's corporate goals and objectives;
- Review the design of share incentive schemes for approval by the Board and shareholders; and
- Ensure that no Director or any of his associates is involved in deciding his own remuneration.

The Remuneration Committee currently comprises four Non-executive Directors, three of whom are independent, and one Executive Director. The Remuneration Committee met four times during the year. The attendance record of the Remuneration Committee members is set out in the "Meetings attended/held" section above.

Duties performed during the year:

- Reviewed and determined the remuneration packages of the Executive Directors and senior management;
- Reviewed and approved key performance indicators for the bonus opportunity of the Executive Directors and senior management for the financial year ending 30 June 2017;
- Reviewed the proposal for grant of share options to eligible persons of the Company and the Group pursuant to the share option scheme of the Company; and
- Reviewed and recommended the employees' share award scheme to the Board and reviewed and recommended the proposal for grant of awarded shares to selected employees of the Company and the Group to the Board.

Remuneration policy

The fundamental policy of the Group's remuneration and incentive scheme is to link total compensation of Executive Directors, senior management and employees with reference to the corporate goals and objectives set by the Board. Remuneration package is performance-based and takes into account business performance, market practice and competitive market conditions in order to attract, motivate and retain talent. The Remuneration Committee should consult the Chairman of the Board and/or the Group Chief Executive Officer about the remuneration proposals for other Executive Directors. The recommended remuneration package comprises salaries, bonus opportunity and long-term incentive plans.

Remuneration policy (continued)

Non-executive Directors are compensated with the aim to fairly represent their efforts and time dedicated to the Board and Board Committee matters and reference is made to the level of remuneration for non-executive directors of listed companies with global operation. The recommended remuneration package comprises annual directorship fee, fee for representation on Board Committees, where appropriate, chairmanship fee and share options.

Risk Management Committee

Members:
Carmelo LEE Ka Sze (Chairman)
Thomas TANG Wing Yung
José María CASTELLANO RIOS

Responsibilities include, amongst other things, the following:

- Review the effectiveness of the Group's risk management function;
- Review and assess the Group's risk appetite annually;
- Review and monitor the Group's risk profiles and ensure an appropriate risk control environment is enforced and maintained;
- Review and assess the methodologies employed by management to identify, measure, manage and/or control risks that may have an impact on the business in accordance with the Group's risk appetite and the Risk Management Policy;
- Review half-yearly risk management report, which shall include, amongst other things, a confirmation from management on the effectiveness of the risk management system; and
- Review and assess the Risk Management Policy.

The Risk Management Committee has been established with effect from 1 July 2015. It currently comprises two Independent Non-executive Directors and one Executive Director. The Chairman of the Board, Group Chief Executive Officer, Group Chief Financial Officer, senior management, the heads of risk, compliance and internal auditors and external advisors may be invited to attend the meetings as and when appropriate.

The Board has adopted the Risk Management Policy with key objective of ensuring a consistent basis for measuring, controlling, monitoring and reporting risks across the Group at all levels to support the achievement of the organization's strategic objective. It ensures the implementation of a structured risk management framework across the Group, where the responsibilities for identifying, assessing, and managing risks will be shared with frontline staff or business unit owners on an ongoing basis.

Duties performed during the year:

- Reviewed the half-yearly risk management report; and
- Reviewed the top 10 risks of the Group.

More information about risk management practices of the Group may be found in the "Risk Management and Internal Control" section below.

General Committee

Members:
Jose Manuel MARTINEZ GUTIERREZ
Thomas TANG Wing Yung

Responsibilities include, amongst other things, the following:

Discuss, consider and approve routine corporate administrative matters of the Company such as:

- Routine administration of the 2001 Share Option Scheme and the 2009 Share Option Scheme;
- Issue of new shares upon exercise of share options granted under the share option schemes adopted by the Company;
- Implement share repurchase strategy upon approval by the Board in accordance with the delegated authority;
- Determine at the request of management any person or persons who may be regarded as "relevant employees" pursuant to the Guidelines Regarding Securities Transactions by Employees of the Company;
- Respond to routine enquiries from The Stock Exchange of Hong Kong Limited relating to the continuing obligations of the Company under the Listing Rules;
- Issue statements regarding unusual movements in price and/or trading volume of the shares of the Company; and
- Other administrative matters.

The General Committee currently comprises two Executive Directors. The General Committee met three times during the year. The attendance record of the General Committee members is set out in the "Meetings attended/held" section above.

Duties performed during the year:

- Approved the change of bank authorized signatories;
- Approved certain banking facilities; and
- Approved the adoption of the employees' share award scheme and the opening of a cash securities account.

Corporate governance function

The Board is responsible for performing corporate governance duties. The duties of the Board in respect of the corporate governance functions include:

- Developing and reviewing the Company's policies and practices on corporate governance;
- Reviewing and monitoring the training and continuous professional development of Directors and senior management;
- Reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements; and
- Reviewing the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

During the financial year ended 30 June 2016 and up to the date of this report, the Board has performed the corporate governance duties in accordance with the CG Code.

Risk management and internal control

The Board is responsible for the risk management and internal control systems. Risk management is an existing practice of Esprit. Previously, annual High Level Risk Assessment exercises were conducted to evaluate Esprit's risks. In 2015, Esprit implemented the Risk Management Policy to formally outline its risk management and internal control systems in form of a "Three Lines of Defense Model".

First line of defense

The systems begin with management, made up of business unit owners who identify, assess, mitigate, and monitor risks as an integral part of Esprit's day-to-day operations. Documentation and reporting of the individual risks and their respective risk ratings and controls is done in the form of Risk Registers which are updated regularly. Members of the senior management whom the business unit owners report into review the Risk Registers and escalate key risks under their purview to the Risk Manager, Mr Thomas TANG Wing Yung (the Group Chief Financial Officer).

In addition, management confirms that they have:

(i) reviewed Risk Registers of relevant business units across the Group;
(ii) assessed and documented risks in the Risk Registers based on the methodologies and the risk parameters stated in the Risk Management Policy; and
(iii) completed the Risk Registers, established relevant controls, and considered the risk appetite to be appropriate for the Group based on their best knowledge.

Thus, management collectively own, manage, and oversee a magnitude of risks, which represent the *first line of defense* in the "Three Lines of Defense Model".

Second line of defense

The Risk Manager is responsible for the implementation and maintenance of risk management processes across the Group. Throughout the year, the Risk Manager provides training to management on risk assessment methodologies, reviews the Risk Management Policy, and facilitates a regular risk assessment process and timely communication to the Risk Management Committee. Based on management's assessments, the Risk Manager selects the Top 10 Risks of the Group in consultation with the Group Chief Executive Officer, and reports to the Risk Management Committee. This is the *second line of defense* in the "Three Lines of Defense Model".

Third line of defense

Internal Audit independently appraises the risk management and internal control systems and reports the results and its opinion to the Audit Committee. This process represents the *third line of defense* in the "Three Lines of Defense Model".

Governing bodies

The Risk Management Committee in turn reports to the Board, which determines Esprit's risk appetite, evaluates the level of risk Esprit should take and monitors and addresses top risks regularly.

Based on the reports from the Risk Management Committee and the Audit Committee, the Board considers the risk management and internal control systems to be satisfactory as at 30 June 2016 and operating effectively according to the Risk Management Policy.

Shareholders' rights and investor relations

Shareholders communication policy

The Company has adopted a shareholders communication policy to ensure that shareholders, and in appropriate circumstances, the investment community at large, are provided with ready, equal and timely access to balanced and understandable information about the Company (including its financial performance, strategic goals and plans, material developments, governance and risk profile), in order to enable shareholders to exercise their rights in an informed manner, and to allow shareholders and the investment community to engage actively with the Company.

Enquiries of shareholders

Enquiries of shareholders can be sent to the Company either by email at esprit-ir@esprit.com or by post to the Company's Hong Kong headquarters at 43/F, Enterprise Square Three, 39 Wang Chiu Road, Kowloon Bay, Kowloon, Hong Kong. Shareholders can also make enquiries to the Board directly at the general meetings of the Company.

How shareholders can convene a special general meeting

Shareholders holding at the date of the deposit of the requisition not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company can at all times submit a signed written requisition, specifying the purpose, to the Board or the Company Secretary to require the convening of a special general meeting ("SGM") and deposit the requisition at the Company's Hong Kong headquarters at 43/F, Enterprise Square Three, 39 Wang Chiu Road, Kowloon Bay, Kowloon, Hong Kong; and such meeting shall be held within two months after the deposit of such requisition. Upon receiving a valid request from shareholder(s), the Board shall within twenty-one days of such deposit proceed to convene a SGM. If within twenty-one days of such deposit the Board fails to proceed to convene the SGM, the requisitionist(s), or any of them representing more than one half of the total voting rights of all of them, themselves may convene a SGM, but any SGM so convened shall not be held after the expiration of three months from twenty-one days of the deposit.

Shareholders' rights and investor relations (continued)

Procedures for putting forward proposals at general meeting

Shareholders representing not less than one-twentieth of the total voting rights of all shareholders having a right to vote at the AGM at the date of the requisition or who are no less than 100 shareholders can submit a written requisition to the Board or the Company Secretary to propose a resolution at the AGM. The written requisition must state the resolution, accompanied by a statement of not more than one thousand words with respect to the matter referred to in the proposed resolution or the business to be dealt with at the AGM and contain the signatures of all the requisitionist(s) (which may be contained in one document or in several documents in like form). Such requisition must be deposited at the Company's Hong Kong headquarters at 43/F, Enterprise Square Three, 39 Wang Chiu Road, Kowloon Bay, Kowloon, Hong Kong not less than six weeks before the AGM in the case of a requisition requiring notice of a resolution and not less than one week before the AGM in the case of any other requisition and be accompanied by a sum of money reasonably sufficient to meet the Company's expenses in serving the notice of the resolution and circulating the statement given by the requisitionists to all shareholders in accordance with the requirements under the applicable laws and rules. Provided that if, after a copy of the requisition requiring notice of a resolution has been deposited at the Company's Hong Kong headquarters, an AGM is called for a date six weeks or less after the copy has been deposited, the copy though not deposited within the time required shall be deemed to have been properly deposited for the purposes thereof.

Voting by poll

The Company's shareholders are adequately informed of their rights and the procedures to demand voting by poll in general meetings at which their approvals are sought through disclosure in the Company's circulars to shareholders.

At the 2015 AGM, the Chairman of the meeting demanded voting by poll on all resolutions put forth at the meeting. The detailed procedures for conducting a poll were explained to the shareholders on commencement of the 2015 AGM. Tricor Secretaries Limited, the Company's branch share registrar in Hong Kong, was appointed as the scrutineer for voting by poll at the 2015 AGM to ensure the votes were properly counted.

While it was only since 2009 that rule 13.39(4) of the Listing Rules has become effective which sets out that any vote of shareholders at a general meeting must be taken by poll, we have been voting by poll on all resolutions put forth to the shareholders since 2003.

Transparency and disclosure

The Company recognizes the importance of timely quarterly trading updates, interim and non-selective disclosure of information. Latest information of the Company including annual and interim reports, announcements and press releases, constitutional documents, presentations, and webcasts are updated on Esprit's Investor Relations website (www.espritholdings.com) in a timely manner.

Esprit actively distributes information on the annual and interim results, and the first and the third quarter trading updates through email alerts. In addition, a results briefing is organized to ensure that members of the public has access to first-hand information on the results announcement. A live webcast is available along with an archive of the webcast on Esprit's Investor Relations website so that the results briefing is easily and readily accessible to individuals all over the world in English.

Esprit is committed to a timely disclosure of information. Aside from annual and interim reports, since 2009, Esprit has voluntarily commenced releasing quarterly trading update to further increase the transparency of the Company. Since 2004, Esprit has adopted the International Financial Reporting Standards in order for the financial results to be comprehended by international audiences in a consistent manner. Another illustration of the Company's efforts in enhancing shareholders' understanding in its operation is the inclusion of a glossary of the terms commonly used within Esprit since Annual Report FY08/09.

Maintaining a two-way communication with shareholders is one of the main goals of Esprit and the Company's AGM is one platform for shareholders to exchange views directly with the Board. Poll results are made publicly available on the same day of the meeting, typically in the space of a few hours, again to ensure the timely disclosure of information.

Pro-active investor relations

To ensure our investors have a better understanding of the Company, our management engages in a pro-active investor relations program. Our Group Chief Financial Officer and Investor Relations Department communicate with research analysts and institutional investors in an on-going manner. In addition, our Executive Director(s) meet with research analysts and the press after our results announcements, attend major investors' conferences, participate in international non-deal roadshows ("NDRs"), and host Investor Relations Day and Analysts Day to communicate the Company's financial performance and strategic priorities. On 15 March 2016, an Investor Relations Day was held in Ratingen, Germany, live webcast of the presentations together with an announcement covering price-sensitive information and the presentation materials were available at the Company's website.

Shareholders' rights and investor relations (continued)

Conferences and NDRs attended in FY15/16

Date	Event	Organizer	Location
September – October 2015	FY14/15 Post Final Results Roadshow	Deutsche Bank	Hong Kong Singapore
		UBS	London
		HSBC	Boston New York San Francisco
November 2015	Morgan Stanley Fourteenth Annual Asia Pacific Summit	Morgan Stanley	Singapore
February – March 2016	FY15/16 Post Interim Results Roadshow	UBS	Hong Kong Singapore
		J.P. Morgan	New York Boston
		HSBC	London
May 2016	11th Annual J.P. Morgan Global Consumer and Retail Conference	J.P. Morgan	London

American depositary receipt program

The Company has established a Level 1 sponsored American Depositary Receipt program with details as stated hereunder.

Symbol	ESPGY
CUSIP	29666V204
ISIN	US29666V2043
Ratio	2 Ordinary shares: 1 ADR
Country	Hong Kong
Effective Date	18 November 2009
Depositary	Deutsche Bank Trust Company Americas

Other stakeholders

In addition to its investors, the Company is concerned about other stakeholders and for years has factored in corporate social responsibility into every business decision. In an effort to provide more clarity on the Company's corporate social responsibility efforts, a summary of Sustainability Report of the Company has been incorporated into this Annual Report in the section headed "Sustainability". The Sustainability Report is available on the Company's website at http://www.esprit.com/company/sustainability.

Professional advice

The Company has established a policy enabling all Directors to seek independent professional advice in appropriate circumstances, at the Company's expense. The Board provides separate independent professional advice to Directors to assist the relevant Director or Directors to discharge their duties to the Company as and when requested or necessary.

Company Secretary

The Company Secretary is responsible for, among other things, ensuring that Board procedures are observed, and that the Company's Bye-laws, applicable laws, relevant rules and regulations, are complied with. She assists the Chairman of the Board and the Board in implementing and strengthening corporate governance practices and processes of the Company. All Directors have access to the advice and services of the Company Secretary.

The Company Secretary assists the Chairman of the Board in ensuring efficient information flow within the Board and Board Committees and between Directors and senior management. She is responsible for facilitating induction program of new Directors and the continuous professional development of existing Directors. She assists the Chairman of the Board and Chairmen of the Board Committees in the development of the agendas for the Board meetings and Board Committee meetings. She also attends and prepares minutes for Board and Board Committee meetings

06.2 Report of the Directors

The Directors present their annual report and the audited consolidated financial statements of the Group for the year ended 30 June 2016.

Principal activities

The Company is an investment holding company. The activities of the principal subsidiaries are shown in note 30 to the consolidated financial statements. The Group is principally engaged in retail and wholesale distribution and licensing of quality fashion and non-apparel products designed under its own internationally-known Esprit brand name.

Results and appropriations

The results of the Group and appropriations of the Company are set out in the consolidated income statement on page 91 of this annual report and in the accompanying notes to the consolidated financial statements.

In view of a small net profit for the year ended 30 June 2016, the Board has not recommended the distribution of a final dividend (FY14/15: nil). Details are set out in note 9 to the consolidated financial statements.

Reserves

Movements in reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on page 95 of this annual report and in note 29 to the consolidated financial statements respectively.

Business review

A fair review of the business of the Group as required pursuant to Schedule 5 to the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) (the "Companies Ordinance"), comprising an analysis of the Group performance using financial key performance indicators during the year, description of the principal risks and uncertainties facing the Group, particulars of important events affecting the Group that have occurred since the end of the financial year as well as indication of likely future development in the business of the Group are set out in the sections headed "To our shareholders", "Highlights in FY15/16" and "Management discussion and analysis" on pages 8 to 28 and pages 44 to 57 of this annual report respectively. Discussions on the environmental policies and performance of the Group, compliance by the Group with the relevant laws and regulations that have a significant impact on the Group and the account of the Group's key relationships with its stakeholders are contained in the summary of Sustainability Report of the Company in the section headed "Sustainability" on pages 60 to 63 of this annual report. Sustainability Report of the Company is available on the Company's website at http://www.esprit.com/company/sustainability.

Share capital

During the year, no ordinary share of the Company of HK$0.10 each was issued in relation to the share option scheme adopted on 26 November 2001 (the "2001 Share Option Scheme") and the share option scheme adopted on 10 December 2009 (the "2009 Share Option Scheme").

Further details of movements in share capital of the Company are set out in note 19 to the consolidated financial statements.

Financial summary

A summary of the consolidated results and the consolidated statement of financial position of the Group for the last ten financial years is set out on pages 130 and 131 of this annual report respectively.

Property, plant and equipment

Details of movements in property, plant and equipment of the Group during the year are set out in note 14 to the consolidated financial statements.

Pension schemes

Particulars of pension schemes of the Group are set out in note 11 to the consolidated financial statements.

Principal subsidiaries

Particulars of the Company's principal subsidiaries as at 30 June 2016 are set out in note 30 to the consolidated financial statements.

Charitable donations

During the year, the Group made charitable donations totaling HK$0.5 million.

Directors

The Directors of the Company during the financial year and up to the date of this report are:

Executive Directors

Jose Manuel MARTINEZ GUTIERREZ (Group Chief Executive Officer)
Thomas TANG Wing Yung (Group Chief Financial Officer)

Non-executive Director

Jürgen Alfred Rudolf FRIEDRICH

Independent Non-executive Directors

Dr Raymond OR Ching Fai (Chairman)
Paul CHENG Ming Fun (Deputy Chairman)
Dr José María CASTELLANO RIOS
Alexander Reid HAMILTON
Carmelo LEE Ka Sze
Norbert Adolf PLATT

Directors (continued)

Under bye-law 87(1) of the Company's Bye-laws, one-third of the Directors must retire, thus becoming eligible for re-election at each AGM. Furthermore, any Director who was not elected or re-elected at each of the preceding two AGMs must retire, thus becoming eligible for re-election at the AGM. This year, Dr Raymond OR Ching Fai, Mr Alexander Reid HAMILTON, Mr Carmelo LEE Ka Sze and Mr Norbert Adolf PLATT will retire at the forthcoming AGM and being eligible, offer themselves for re-elections. The biographical details of the retiring Directors will be set out in a circular to shareholders of the Company to assist shareholders in making an informed decision on their re-elections. None of the Directors standing for re-election at the forthcoming AGM has a service contract with any member of the Group which is not determinable by the relevant employer within one year without payment of compensation (other than statutory compensation). They have no fixed term of service with the Company and are subject to retirement by rotation and re-election in accordance with the Company's Bye-laws.

Directors and senior management profile

Executive Directors

Jose Manuel MARTINEZ GUTIERREZ, aged 46, has been an Executive Director of the Company and Group Chief Executive Officer since September 2012. He is responsible for the overall management and control of the business of the Group. He is a member of the Remuneration Committee and the General Committee of the Board, a director of certain subsidiaries and a trustee of a trust of the Company.

Mr MARTINEZ obtained a Bachelor's Degree in Business Administration from Universidad Autónoma de Madrid, and a Master in Business Administration Degree (Honours with Distinction) from J.L. Kellogg Business School, Northwestern University.

His professional career spans investment banking, strategy consulting and senior management positions in the global retail and consumer goods industries. Prior to joining Esprit, Mr MARTINEZ was the group director of distribution and operations for Industria De Diseño Textil, S.A. ("Inditex") based in Spain. Prior to joining Inditex, Mr MARTINEZ spent 8 years at McKinsey & Company leading the firm's retail and consumer goods practice in Spain, and advising clients in Europe and South America on strategy, category management and store operations.

Thomas TANG Wing Yung, aged 61, has been an Executive Director of the Company and Group Chief Financial Officer since May 2012. He is a member of the Risk Management Committee and the General Committee of the Board and a director of certain subsidiaries of the Company. Mr TANG obtained a Bachelor of Science degree in Modern Mathematics from Surrey University, United Kingdom. He has been an associate member of The Institute of Chartered Accountants in England and Wales since 1981. He is also a fellow member of The Hong Kong Institute of Certified Public Accountants (Practising) and has over 35 years of experience in accounting and finance.

Prior to joining the Company, Mr TANG was executive director and chief financial officer of Sino Land Company Limited and Sino Hotels (Holdings) Limited, and chief financial officer of Tsim Sha Tsui Properties Limited until his resignation in March 2012. He first joined these three companies as chief financial officer in November 2003. All these companies are listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Prior to joining the Sino group, he was a managing director of an investment and financial advisory services firm that is a member of an international group, overseeing operations in the Asia-Pacific region. Mr TANG started his career as an accountant working for Peat Marwick (KPMG) in London and Hong Kong.

Non-executive Directors

Dr Raymond OR Ching Fai, aged 66, has been an Independent Non-executive Director of the Company since 1996 and became Chairman of the Board since June 2012. He is the Chairman of the Nomination Committee of the Board, a director of a subsidiary and a trustee of a trust of the Company. He was conferred an Honorary Doctor of Social Science by the City University of Hong Kong in November 2014. Dr OR is an executive director, chief executive officer and chairman of China Strategic Holdings Limited, an independent non-executive director and a vice chairman of G-Resources Group Ltd. and an independent non-executive director of Chow Tai Fook Jewellery Group Limited, Industrial and Commercial Bank of China Limited, Regina Miracle International (Holdings) Limited and Television Broadcasts Limited. All these companies are listed on the Stock Exchange. He is a non-executive director and deputy chairman of Aquis Entertainment Limited, a company listed on the Australian Securities Exchange. 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.

Paul CHENG Ming Fun, aged 79, has been an Independent Non-executive Director of the Company since November 2002 and became Deputy Chairman of the Board since July 2008. He is the Chairman of the Remuneration Committee and a member of the Nomination Committee of the Board, a director of a subsidiary and a trustee of a trust of the Company. Mr CHENG obtained his Bachelor of Arts degree from Lake Forest University (Illinois, USA) and Master of Business Administration degree from the Wharton School of the University of Pennsylvania. Mr CHENG is an independent non-executive director of Chow Tai Fook Jewellery Group Limited, a company listed on the Stock Exchange. He is an independent non-executive director of Global Logistic Properties Limited, a company listed on the Singapore Stock Exchange. He is also an independent non-executive director of Pacific Alliance China Land Ltd., a company listed on the AIM Board of the London Stock Exchange. Mr CHENG was a former member of the Hong Kong Legislative Council as well as the former chairman of Inchcape Pacific Limited, N M Rothschild & Sons (Hong Kong) Ltd., The Link Management Limited (Link Asset Management Limited) and the Hong Kong General Chamber of Commerce. He is currently an Honorary Steward of the Hong Kong Jockey Club.

Directors and senior management profile (continued)

Non-executive Directors (continued)

Jürgen Alfred Rudolf FRIEDRICH, aged 78, founded Esprit's European operations in 1976 and has been a Non-executive Director of the Company since 1997. He is a member of the Remuneration Committee of the Board. Mr FRIEDRICH has over 32 years of experience in the apparel distribution and marketing business and is currently retired in Switzerland.

Dr José María CASTELLANO RIOS, aged 69, has been an Independent Non-executive Director of the Company since December 2014. He is a member of the Audit Committee and the Risk Management Committee of the Board. He was the deputy chairman, chief executive officer and director of Inditex, the Spanish listed company owner of Zara and several other fashion apparel brands, which he served from 1985 to 2005. After being in the industry of international fashion and apparel for around 30 years, Dr CASTELLANO became the president, chief executive officer and director of Grupo Corporativo ONO, S.A. and Cableuropa S.A.U. from 2006 to 2009. He was also the vice-chairman of N M Rothschild in Spain for a number of years starting from 2007. Most recently, Dr CASTELLANO was the chairman and president of Nova Caixa Bank between 2011 and 2014.

Dr CASTELLANO obtained a Bachelor of Art degree in Economics from the University of Santiago de Compostela in Spain and a Doctor of Philosophy degree in Economics from the University of Madrid in Spain. He was a professor of financial economics and accounting at the University of A Coruña in Spain until 2013.

Alexander Reid HAMILTON, aged 74, has been an Independent Non-executive Director of the Company since August 1995. He is the Chairman of the Audit Committee and a member of the Nomination Committee of the Board. Mr HAMILTON is an independent non-executive director of COSCO International Holdings Limited and Shangri-La Asia Limited. Both companies are listed on the Stock Exchange. Mr HAMILTON is also a director of Octopus Cards Limited and other Hong Kong companies. He was an independent non-executive director of CITIC Limited. He was a partner of Price Waterhouse with whom he practiced for 16 years.

Carmelo LEE Ka Sze, aged 56, has been an Independent Non-executive Director of the Company since July 2013. He is the Chairman of the Risk Management Committee and a member of the Nomination Committee and the Remuneration Committee of the Board. He is a partner of Messrs. Woo Kwan Lee & Lo, Solicitors & Notaries. Mr LEE is a member of the SFC (HKEC Listing) Committee and a member of the Disciplinary Panels of the Hong Kong Institute of Certified Public Accountants. Mr LEE was appointed as a convenor and member of the Financial Reporting Review Panel of the Financial Reporting Council of Hong Kong in July 2016. He is a member of the Campaign Committee and a Co-Chairman of the Corporate Challenge Half Marathon of The Community Chest of Hong Kong. He served as the chairman of the Listing Committee of the Stock Exchange from 2012 to 2015 after serving as deputy chairman and member of the Listing Committee of the Stock Exchange from 2009 to 2012 and from 2000 to 2003 respectively.

Mr LEE obtained a Bachelor of Laws degree and Postgraduate Certificate in Laws from The University of Hong Kong and qualified as a solicitor in Hong Kong, England and Wales, Singapore and Australian Capital Territory, Australia.

Mr LEE is a non-executive director of Hopewell Holdings Limited, CSPC Pharmaceutical Group Limited, Yugang International Limited, Safety Godown Company Limited and Termbray Industries International (Holdings) Limited and an independent non-executive director of KWG Property Holding Limited and China Pacific Insurance (Group) Co. Ltd., all these companies are listed on the Stock Exchange. He was a non-executive director of The Cross-Harbour (Holdings) Limited from September 2004 to December 2012, a non-executive director of Y.T. Realty Group Limited from September 2004 to February 2016 and an independent non-executive director of Ping An Insurance (Group) Company of China, Ltd. from June 2009 to June 2015.

Norbert Adolf PLATT, aged 69, has been an Independent Non-executive Director of the Company since December 2012. He is a member of the Audit Committee and the Remuneration Committee of the Board. He has 40 years of extensive experience in the industry of luxury goods. Mr PLATT was the chief executive officer of the Richemont group from October 2004 to March 2010. The Richemont group's luxury goods interests encompass a portfolio of internationally renowned brands including Cartier, Van Cleef & Arpels, Piaget, Montblanc, Chloé and Alfred Dunhill. Under his leadership, the Richemont group recorded significant growth in turnover and profits. Mr PLATT is currently a non-executive director of Compagnie Financière Richemont SA, the holding company of the Richemont group which is listed in Switzerland.

Prior to acting as chief executive officer of the Richemont group, Mr PLATT was the chief executive officer of Montblanc International GmbH ("Montblanc International") between 1987 and 2004. Mr PLATT successfully transformed Montblanc International from a maker of writing instruments into a diversified and globally renowned manufacturer of luxury goods. Under his leadership, Montblanc International recorded remarkable growth in its turnover. Mr PLATT remained as the chairman of Montblanc Simplo GmbH based in Hamburg, Germany until 30 June 2013. From 1972 to 1987, Mr PLATT held various chief executive positions in Rollei Singapore and Germany.

Mr PLATT graduated with a Master of Science Degree in Precision Mechanical Engineering, and attended business management and marketing programs at Harvard Business School of Harvard University and INSEAD.

Senior management

Arndt BROCKMANN, aged 42, is General Manager Germany. He manages the overall business strategy and is responsible for the profit and loss of Germany. He has over 15 years of experience in international fashion and apparel, both in retail as well as wholesale oriented companies. Prior to joining the Group in March 2013, Mr BROCKMANN was retail director of s. Oliver group, where he was responsible for turning around the non-performing retail business. He worked at Inditex from 2005 to 2011, where he started as international director with various roles across Europe before becoming managing director of Zara Germany for almost 5 years. Previous roles include retail manager (Eastern Europe, Middle East and Africa) of Puma AG. He started his career in 1997 in the trade marketing & franchising department at Hugo Boss AG. Mr BROCKMANN obtained a MBA from INSEAD in Fontainebleau and Singapore.

Directors and senior management profile (continued)

Senior management (continued)

Juan Antonio CHAPARRO VAZQUEZ, aged 47, is Chief Supply Chain Officer of the Group. He is responsible for developing and operating all supply chain functions of the Group, including global buying, global sourcing, product planning, global quality control and sustainability, and inbound logistics. In 2016, he has also undertaken the responsibility over the Esprit Men Product Division, where he leads product direction and manages the development of the collections. Mr CHAPARRO was recently appointed as Independent Member of the Supervisory Board of Adolfo Dominguez S.A., Madrid, Spain, which is a high-fashion company, listed in the Madrid stock exchange, with core focus on the Spanish market. Mr CHAPARRO brings with him a rich background in product development, vertical supply chain management and apparel retailing. Prior to joining our Group in February 2013, he was the buying director of Zara, the main brand of Inditex, where he spent over 12 years in various positions. In the period between 2005 and 2009, he managed his own apparel company and provided retail management consulting services to several top brands. Mr CHAPARRO obtained a Master's degree in Business Management and Marketing Management from Business & Marketing School of ESIC University in Spain.

Leif ERICHSON, aged 36, is Chief Operations & Systems Officer of the Group. He manages the Omnichannel Operations as well as the implementation of the Omnichannel Strategy and is responsible for the global IT systems of the Group. Mr ERICHSON joined Esprit in 2003 and worked in several positions in the merchandise management area before he developed into area of e-commerce operations in 2009. In 2010, Mr ERICHSON was appointed as Vice President – Head of e-Commerce Operations where he successfully transformed the e-commerce operations into leading edge operations in the fashion industry. Before promoted to the current position, Mr ERICHSON held the position of Senior Vice President – Head of Omnichannel between 2014 to 2015, where he built up the seamless integration between the digital and bricks and mortar customer experience with services such as Click & Collect. He obtained a Master of Business Administration (Diplom-Kaufmann) from the University of Applied Sciences Cologne, Germany.

Simon HECKSCHER, aged 35, is General Manager Outlets of the Group. He manages the Global Outlet Strategy and is responsible for the profit and loss of the Group's outlet business (excluding APAC). For more than 2 years, he was Senior Vice President – Head of Corporate Strategy of the Group and was responsible for strategic initiatives including the implementation of a vertical business model. Prior to joining Esprit in September 2013, Mr HECKSCHER has spent almost 7 years at The Boston Consulting Group (BCG). He has worked on various strategic projects in the apparel industry, banking and industrial goods sector across Europe and the Middle East, including the support of the Group's transformation plan from 2011 to 2013. Mr HECKSCHER obtained a Master of Business Administration degree with Dean's Honors and Distinction from Columbia University in the City of New York, USA, a Master of Business Administration degree (Diplom-Kaufmann) from the University of Mannheim, Germany, and a Master of International Business degree from the University of Sydney, Australia.

Elena LAZCANOTEGUI LARRARTE, aged 42, is Chief edc Officer of the Group. Prior to joining the Group in December 2012, she was leading the fast-to-market product development in Zara (women). During her 15 years in Zara, she held various management positions in supply chain management, product management and store management. She obtained Bachelor Degree of Business Administration from the University of Deustro in Spain and studied international business at Adolfo Ibáñez University in Chile.

Dieter MESSNER, aged 45, is General Manager Europe, Americas & Middle East. He has overall profit and loss responsibility for the retail and wholesale businesses in these three regions. Prior to joining the Group in June 2015, he spent the last 10 years in the DIY retail industry as board member responsible for the international business of OBI. Between 1995 and 2004, Mr MESSNER worked for McKinsey & Company leading and managing various retail projects across Europe. He has more than 15 years of non-food retail experience and has a profound knowledge of many Central, Western, and Eastern European markets. Mr MESSNER graduated from the Vienna University of Economics and Business Administration and obtained a Master of Business Administration degree from the Kellogg School of Management.

Jürgen MICHELBERGER, aged 51, is Chief Digital Officer of the Group. He manages the implementation of the Omnichannel strategy and is responsible for the profit and loss of the Group's e-commerce business. Mr MICHELBERGER joined Esprit in 1993 as Shop-in-Store Manager Germany and was promoted to Retail Partnership Manager Europe in 1996, where he successfully rolled out the shop-in-store and franchise expansion in Europe. In 2000, he was assigned to build up the Group's European e-commerce business and introduced the Esprit Friends customer loyalty scheme in 2001. In 2012, he was appointed as Senior Vice President – Head of Global e-commerce, followed by promotion to Chief Digital Officer in 2014. Prior to joining Esprit, he worked in retail operations management at Hugo Boss and later managed his family's retail business. He is a trained trade merchant and obtained a Master's degree in Textile Business Management from LDT Nagold Academy of Fashion Management in Germany.

Arnd MUELLER, aged 49, is Chief Brand Marketing Officer of the Group. He is responsible for the implementation of the brand direction in all consumer communication. Prior to joining the Group in December 2011, Mr MUELLER held senior marketing, brand management and commercial business executive positions in Europe and the USA at the Walt Disney Company, Avery Dennison and the Bertelsmann Music group. Mr MUELLER spent the majority of his career within commercial and brand management positions at international corporations and brands. In his career at the Walt Disney Company, he held management positions in the European consumer product business and later led the branded apparel business of the Walt Disney Company in the USA. He led corporate marketing and creative brand development for the fortune 500 company Avery Dennision in their apparel and retail branding and information solution business. He obtained a Business Administration and Marketing degree from the University of Duesseldorf.

Directors and senior management profile (continued)

Senior management (continued)

Rafael PASTOR ESPUCH, aged 46, is the Chief Product Officer of the Group. He is responsible for managing the product creation and design of all product divisions of the Esprit brand. Prior to joining the Group in November 2013, Mr PASTOR's extensive experience spans commercial strategy, product design, production, planning and distribution during his almost 18 years in Inditex. For 12 years, February 2001 to January 2013, he was executive director of "Zara Basic", a woman product division of Zara, where he managed over two billion euro sales, reaching over 80 countries and 5 continents, with consistent like-for-like sales growth over the past recent years. Prior to this role, between 1995 and 2001, he served as product manager for Zara shoes, as the international clothing product manager for the United States, Greece and the Middle East market, and as controller of another woman division. Mr PASTOR obtained a Bachelor degree in Economic and Business Studies from the University of Madrid, Spain.

José Antonio RAMOS CALAMONTE, aged 44, is the Chief Commercial Officer of the Group. After signing on with the Group as Chief Strategy Officer in January 2013, he is now responsible for the multichannel department commercial distribution which incorporates the centralized management related to the different channels of retail, wholesale and e-commerce (including planning, merchandise management, allocation and commercial model definition) and the management of the different multichannel support services (including sales operations, logistics, go to market). Prior to joining the Group, he was a member of the executive board of Carrefour Spain, responsible for the food business after having managed the textile & home business for a few years. Preceding his move to Carrefour, he held key positions at Zara (Inditex) in the product divisions and in the distribution unit for several years. He started his career as a strategy consultant with McKinsey & Company. He obtained a MBA (Focus on Finance and Risk Management) from the MIT Sloan School of Management, Cambridge, USA in addition to a Double Degree in Business Administration and Law from the University ICADE (U.P.C.), Madrid, Spain – Dublin, Ireland.

Guillaume THERY, aged 54, is General Manager – Asia Pacific. He has overall profit and loss responsibility of Asia Pacific. Mr THERY has extensive experience in retail and luxury sectors across Asia. Prior to joining the Group in September 2015, he spent most of his career in retail business with a specific focus on Asian markets for the past 15 years while holding several positions within the LVMH group. His last role was president of the LVMH Fashion Group for Asia, taking care of the development of several brands such as Celine, Givenchy, Kenzo, Marc Jacobs, Loewe. Mr THERY started his career in Marks & Spencer in the United Kingdom, followed by several European retail functions in Fnac (Kering group) and a general management role of an independent French airline company.

Ernst-Peter VOGEL, aged 51, is Chief Financial Operations Officer of the Group. He is primarily responsible for the Group's operational finance functions including the Group's statutory and management reporting as well as the non-merchandising procurement functions and general administrative functions for the German companies. He joined the Group in 2003 as Senior Vice President – Finance Europe and has been overseeing various global finance projects and major IT projects of the Group in the past years, including the introduction of SAP to replace the former European ERP system. Before joining the Group, he headed the finance team of an international lifestyle group for 5 years. He has over 15 years of extensive experience in finance and tax matters, and possesses a qualification as a German Certified Public Accountant (Wirtschaftsprüfer) and tax advisor (Steuerberater). He obtained a Master of Business Administration degree (Diplom-Kaufmann) from the University of Frankfurt.

Dr Marion WELP, aged 45, is Chief HR & Legal Affairs Officer of the Group. Dr WELP is responsible for leading the Global HR, Legal and Compliance teams. Her prime focus is on global organizational effectiveness achieved by optimizing the Esprit resources and driving operational excellence and capability. She joined Esprit in 2007, and has built up the European legal department and later taking on responsibility for Group legal & compliance function globally. Prior to joining the Group, Dr WELP was a corporate attorney at Ecolab GmbH & Co. KG from 2000 to 2007. She obtained her juris doctorate degree from the University of Münster, Germany and the Master of Laws degree from the Dickinson School of Law, Pennsylvania, USA. Dr WELP is an admitted member of the German as well as the New York Bar Association, is a nominated executive board member of the German In-house Counsel Association (Bundesverbands der Unternehmensjuristen) and was recognized in 2015 as one of Germany's leading in-house counsels by "Legal 500".

Directors' emoluments

Particulars of the remuneration of the Director and senior management for the financial year disclosed pursuant to section 383 of the Companies Ordinance and Appendix 16 of the Listing Rules are set out in note 12 to the consolidated financial statements. The interests of the Directors in share options and awarded shares are set out in "Share option schemes" section and "Share award scheme" section below. Information about the remuneration policy of the Group is set out in the section headed "Corporate governance report" on pages 66 to 74 of this annual report.

Long-term incentive schemes

The Company has two share option schemes and the share award scheme at different times to recognize the contribution of certain employees and help retain them for the Group's operations and further development. One of the share option schemes had been terminated and no further share options could thereafter be granted. However, all remaining provisions of such share option scheme remain in full force and effect to govern the exercise of all the share options granted under such share option scheme prior to its expiration.

Share option schemes

2001 Share Option Scheme

The Company adopted the 2001 Share Option Scheme on 26 November 2001 and the scheme was terminated on 10 December 2009. Notwithstanding its termination, the share options which were granted and remained outstanding and/or committed as of that date continued to follow the provisions of the 2001 Share Option Scheme and the Listing Rules. Particulars of the 2001 Share Option Scheme are set out in note 19 to the consolidated financial statements. A summary of the movements of the outstanding share options under the 2001 Share Option Scheme during the year is as follows:

Employees & consultants

				Number of share options				
Date of grant (dd/mm/yyyy)	Exercise price (HK$)	Vesting date (dd/mm/yyyy)	Exercise period (dd/mm/yyyy)	As at 01/07/2015	Granted	Exercised	Lapsed	As at 30/06/2016
09/12/2009	53.74	09/12/2010	09/12/2010 - 08/12/2015	184,000	-	-	184,000	-
		09/12/2011	09/12/2011 - 08/12/2015	184,000	-	-	184,000	-
		09/12/2012	09/12/2012 - 08/12/2015	184,000	-	-	184,000	-
		09/12/2013	09/12/2013 - 08/12/2015	184,000	-	-	184,000	-
		09/12/2014	09/12/2014 - 08/12/2015	184,000	-	-	184,000	-
11/12/2009	53.90	11/12/2010	11/12/2010 - 10/12/2015	111,000	-	-	111,000	-
		11/12/2011	11/12/2011 - 10/12/2015	111,000	-	-	111,000	-
		11/12/2012	11/12/2012 - 10/12/2015	111,000	-	-	111,000	-
		11/12/2013	11/12/2013 - 10/12/2015	111,000	-	-	111,000	-
		11/12/2014	11/12/2014 - 10/12/2015	111,000	-	-	111,000	-
04/02/2010	57.70	04/02/2011	04/02/2011 - 03/02/2016	120,000	-	-	120,000	-
		04/02/2012	04/02/2012 - 03/02/2016	120,000	-	-	120,000	-
		04/02/2013	04/02/2013 - 03/02/2016	120,000	-	-	120,000	-
		04/02/2014	04/02/2014 - 03/02/2016	120,000	-	-	120,000	-
		04/02/2015	04/02/2015 - 03/02/2016	120,000	-	-	120,000	-
05/02/2010	55.46	05/02/2011	05/02/2011 - 04/02/2016	60,000	-	-	60,000	-
		05/02/2012	05/02/2012 - 04/02/2016	60,000	-	-	60,000	-
		05/02/2013	05/02/2013 - 04/02/2016	60,000	-	-	60,000	-
		05/02/2014	05/02/2014 - 04/02/2016	60,000	-	-	60,000	-
		05/02/2015	05/02/2015 - 04/02/2016	60,000	-	-	60,000	-
09/12/2010	37.92	09/12/2011	09/12/2011 - 08/12/2016	138,000	-	-	78,000	60,000
		09/12/2012	09/12/2012 - 08/12/2016	138,000	-	-	78,000	60,000
		09/12/2013	09/12/2013 - 08/12/2016	138,000	-	-	78,000	60,000
		09/12/2014	09/12/2014 - 08/12/2016	138,000	-	-	78,000	60,000
		09/12/2015	09/12/2015 - 08/12/2016	138,000	-	-	78,000	60,000
13/12/2010	38.10	13/12/2011	13/12/2011 - 12/12/2016	111,000	-	-	60,000	51,000
		13/12/2012	13/12/2012 - 12/12/2016	111,000	-	-	60,000	51,000
		13/12/2013	13/12/2013 - 12/12/2016	111,000	-	-	60,000	51,000
		13/12/2014	13/12/2014 - 12/12/2016	111,000	-	-	60,000	51,000
		13/12/2015	13/12/2015 - 12/12/2016	111,000	-	-	60,000	51,000
11/02/2011	40.40	11/02/2012	11/02/2012 - 10/02/2017	60,000	-	-	-	60,000
		11/02/2013	11/02/2013 - 10/02/2017	60,000	-	-	-	60,000
		11/02/2014	11/02/2014 - 10/02/2017	60,000	-	-	-	60,000
		11/02/2015	11/02/2015 - 10/02/2017	60,000	-	-	-	60,000
		11/02/2016	11/02/2016 - 10/02/2017	60,000	-	-	-	60,000
09/12/2011	11.09	09/12/2012	09/12/2012 - 08/12/2017	138,000	-	-	78,000	60,000
		09/12/2013	09/12/2013 - 08/12/2017	138,000	-	-	78,000	60,000
		09/12/2014	09/12/2014 - 08/12/2017	138,000	-	-	78,000	60,000
		09/12/2015	09/12/2015 - 08/12/2017	138,000	-	-	78,000	60,000
		09/12/2016	09/12/2016 - 08/12/2017	138,000	-	-	78,000	60,000
Total				**4,610,000**	**-**	**-**	**3,455,000**	**1,155,000**

Note:
No share options were canceled under the 2001 Share Option Scheme during the year.

Share option schemes (continued)

2009 Share Option Scheme

The Company adopted the 2009 Share Option Scheme on 10 December 2009. Particulars of the 2009 Share Option Scheme are set out in note 19 to the consolidated financial statements. A summary of the movements of the outstanding share options under the 2009 Share Option Scheme, including the share options granted during the year is as follows:

Directors

Jose Manuel MARTINEZ GUTIERREZ

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 01/07/2015	Granted	Exercised	Lapsed	As at 30/06/2016
11/03/2013	10.04	11/03/2016	11/03/2016 – 10/03/2023	3,000,000	–	–	–	3,000,000
		11/03/2017	11/03/2017 – 10/03/2023	1,000,000	–	–	–	1,000,000
		11/03/2018	11/03/2018 – 10/03/2023	1,000,000	–	–	–	1,000,000
04/11/2013	14.18	04/11/2016	04/11/2016 – 03/11/2023	400,000	–	–	–	400,000
31/10/2014	10.124	31/10/2017	31/10/2017 – 30/10/2024	400,000	–	–	–	400,000
In aggregate				**5,800,000**	**–**	**–**	**–**	**5,800,000**

Thomas TANG Wing Yung

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 01/07/2015	Granted	Exercised	Lapsed	As at 30/06/2016
11/03/2013	10.04	11/03/2016	11/03/2016 – 10/03/2023	1,500,000	–	–	–	1,500,000
		11/03/2017	11/03/2017 – 10/03/2023	400,000	–	–	–	400,000
		11/03/2018	11/03/2018 – 10/03/2023	400,000	–	–	–	400,000
04/11/2013	14.18	04/11/2016	04/11/2016 – 03/11/2023	300,000	–	–	–	300,000
31/10/2014	10.124	31/10/2017	31/10/2017 – 30/10/2024	300,000	–	–	–	300,000
In aggregate				**2,900,000**	**–**	**–**	**–**	**2,900,000**

Raymond OR Ching Fai

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 01/07/2015	Granted	Exercised	Lapsed	As at 30/06/2016
30/06/2014	11.00	30/06/2015	30/06/2015 – 29/06/2024	450,000	–	–	–	450,000
In aggregate				**450,000**	**–**	**–**	**–**	**450,000**

Paul CHENG Ming Fun

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 01/07/2015	Granted	Exercised	Lapsed	As at 30/06/2016
30/06/2014	11.00	30/06/2015	30/06/2015 – 29/06/2024	280,000	–	–	–	280,000
In aggregate				**280,000**	**–**	**–**	**–**	**280,000**

Jürgen Alfred Rudolf FRIEDRICH

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 01/07/2015	Granted	Exercised	Lapsed	As at 30/06/2016
30/06/2014	11.00	30/06/2015	30/06/2015 – 29/06/2024	110,000	–	–	–	110,000
In aggregate				**110,000**	**–**	**–**	**–**	**110,000**

Share option schemes (continued)

2009 Share Option Scheme (continued)

Directors (continued)

Alexander Reid HAMILTON

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 01/07/2015	Granted	Exercised	Lapsed	As at 30/06/2016
30/06/2014	11.00	30/06/2015	30/06/2015 – 29/06/2024	110,000	–	–	–	110,000
In aggregate				**110,000**	**–**	**–**	**–**	**110,000**

Carmelo LEE Ka Sze

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 01/07/2015	Granted	Exercised	Lapsed	As at 30/06/2016
30/06/2014	11.00	30/06/2015	30/06/2015 – 29/06/2024	100,000	–	–	–	100,000
In aggregate				**100,000**	**–**	**–**	**–**	**100,000**

Norbert Adolf PLATT

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 01/07/2015	Granted	Exercised	Lapsed	As at 30/06/2016
30/06/2014	11.00	30/06/2015	30/06/2015 – 29/06/2024	110,000	–	–	–	110,000
In aggregate				**110,000**	**–**	**–**	**–**	**110,000**

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 01/07/2015	Granted	Exercised	Lapsed	As at 30/06/2016
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	–
27/09/2010	43.00	27/09/2013	27/09/2013 – 26/09/2020	2,830,000	–	–	750,000	2,080,000
19/04/2011	34.71	19/04/2012	19/04/2012 – 18/04/2017	120,000	–	–	120,000	–
		19/04/2013	19/04/2013 – 18/04/2017	120,000	–	–	120,000	–
		19/04/2014	19/04/2014 – 18/04/2017	120,000	–	–	120,000	–
		19/04/2015	19/04/2015 – 18/04/2017	120,000	–	–	120,000	–
		19/04/2016	19/04/2016 – 18/04/2017	120,000	–	–	120,000	–
17/05/2011	30.90	17/05/2014	17/05/2014 – 16/05/2021	600,000	–	–	600,000	–
		17/05/2015	17/05/2015 – 16/05/2021	200,000	–	–	200,000	–
		17/05/2016	17/05/2016 – 16/05/2021	200,000	–	–	200,000	–
16/09/2011	18.17	16/09/2014	16/09/2014 – 15/09/2021	600,000	–	–	600,000	–
		16/09/2015	16/09/2015 – 15/09/2021	200,000	–	–	200,000	–
		16/09/2016	16/09/2016 – 15/09/2021	200,000	–	–	200,000	–
27/09/2011	8.76	27/09/2014 (Note 2)	27/09/2014 – 28/02/2016 (Note 2)	425,000	–	–	425,000	–
		27/09/2014 (Note 3)	27/09/2014 – 31/01/2017 (Note 3)	300,000	–	–	–	300,000
		27/09/2014	27/09/2014 – 26/09/2021	6,975,000	–	–	1,800,000	5,175,000

Share option schemes (continued)

2009 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 01/07/2015	Granted	Exercised	Lapsed	As at 30/06/2016
10/05/2012	14.78	10/05/2013	10/05/2013 – 09/05/2018	120,000	–	–	120,000	–
		10/05/2014	10/05/2014 – 09/05/2018	120,000	–	–	120,000	–
		10/05/2015	10/05/2015 – 09/05/2018	120,000	–	–	120,000	–
		10/05/2016	10/05/2016 – 09/05/2018	120,000	–	–	120,000	–
		10/05/2017	10/05/2017 – 09/05/2018	120,000	–	–	120,000	–
12/12/2012	12.32	12/12/2015 (Note 4)	12/12/2015 – 31/01/2017 (Note 4)	150,000	–	–	–	150,000
		12/12/2015	12/12/2015 – 11/12/2022	4,690,000	–	–	1,325,000	3,365,000
11/03/2013	10.04	11/03/2016 (Note 5)	11/03/2016 – 31/01/2017 (Note 5)	45,000	–	–	–	45,000
		11/03/2016	11/03/2016 – 10/03/2023	6,699,000	–	–	1,770,000	4,929,000
		11/03/2017	11/03/2017 – 10/03/2023	2,248,000	–	–	625,000	1,623,000
		11/03/2018	11/03/2018 – 10/03/2023	2,248,000	–	–	625,000	1,623,000
04/11/2013	14.18	04/11/2016 (Note 6)	04/11/2016 – 31/01/2017 (Note 6)	150,000	–	–	–	150,000
		04/11/2016	04/11/2016 – 03/11/2023	9,205,000	–	–	1,725,000	7,480,000
		04/11/2017	04/11/2017 – 03/11/2023	660,000	–	–	–	660,000
		04/11/2018	04/11/2018 – 03/11/2023	660,000	–	–	–	660,000
21/03/2014	13.592	21/03/2017	21/03/2017 – 20/03/2024	510,000	–	–	210,000	300,000
		21/03/2018	21/03/2018 – 20/03/2024	170,000	–	–	70,000	100,000
		21/03/2019	21/03/2019 – 20/03/2024	170,000	–	–	70,000	100,000
30/06/2014	11.00	30/06/2017	30/06/2017 – 29/06/2024	210,000	–	–	30,000	180,000
		30/06/2018	30/06/2018 – 29/06/2024	70,000	–	–	10,000	60,000
		30/06/2019	30/06/2019 – 29/06/2024	70,000	–	–	10,000	60,000
31/10/2014	10.124	23/03/2015 (Note 7)	23/03/2015 – 30/10/2024 (Note 7)	60,000	–	–	–	60,000
		23/03/2015 (Note 8)	23/03/2015 – 30/10/2024 (Note 8)	20,000	–	–	–	20,000
		23/03/2015 (Note 9)	23/03/2015 – 30/10/2024 (Note 9)	20,000	–	–	–	20,000
		31/10/2017	31/10/2017 – 30/10/2024	10,495,000	–	–	2,300,000	8,195,000
		31/10/2018	31/10/2018 – 30/10/2024	40,000	–	–	–	40,000
		31/10/2019	31/10/2019 – 30/10/2024	40,000	–	–	–	40,000
13/10/2015	6.55	13/10/2018	13/10/2018 – 12/10/2025	–	8,840,000	–	290,000	8,550,000
		13/10/2019	13/10/2019 – 12/10/2025	–	680,000	–	80,000	600,000
		13/10/2020	13/10/2020 – 12/10/2025	–	680,000	–	80,000	600,000
23/12/2015	8.07	13/10/2018	13/10/2018 – 12/10/2025	–	125,000	–	–	125,000
03/05/2016	6.82	03/05/2019	03/05/2019 – 02/05/2026	–	240,000	–	–	240,000
		03/05/2020	03/05/2020 – 02/05/2026	–	80,000	–	–	80,000
		03/05/2021	03/05/2021 – 02/05/2026	–	80,000	–	–	80,000
In aggregate				**53,160,000**	**10,725,000**	**–**	**16,195,000**	**47,690,000**
Total				**63,020,000**	**10,725,000**	**–**	**16,195,000**	**57,550,000**

Share option schemes (continued)

2009 Share Option Scheme (continued)

Notes:
1. The closing prices of the shares of the Company immediately before the share options granted on 13 October 2015, 23 December 2015 and 3 May 2016 were HK$6.41, HK$8.20 and HK$6.80 respectively.
2. With effect from 8 December 2015, the exercise period of 425,000 share options at exercise price of HK$8.76 was changed from the period of 27 September 2014 to 26 September 2021 to the period of 27 September 2014 to 28 February 2016.
3. With effect from 23 February 2016, the exercise period of 300,000 share options at exercise price of HK$8.76 was changed from the period of 27 September 2014 to 26 September 2021 to the period of 27 September 2014 to 31 January 2017.
4. With effect from 23 February 2016, the exercise period of 150,000 share options at exercise price of HK$12.32 was changed from the period of 12 December 2015 to 11 December 2022 to the period of 12 December 2015 to 31 January 2017.
5. With effect from 23 February 2016, the exercise period of 45,000 share options at exercise price of HK$10.04 was changed from the period of 11 March 2016 to 10 March 2023 to the period of 11 March 2016 to 31 January 2017.
6. With effect from 23 February 2016, the exercise period of 150,000 share options at exercise price of HK$14.18 was changed from the period of 4 November 2016 to 3 November 2023 to the period of 4 November 2016 to 31 January 2017.
7. With effect from 10 April 2015, the vesting date of 60,000 share options at exercise price of HK$10.124 was accelerated from 31 October 2017 to 23 March 2015 and the exercise period was changed from the period of 31 October 2017 to 30 October 2024 to the period of 23 March 2015 to 30 October 2024.
8. With effect from 10 April 2015, the vesting date of 20,000 share options at exercise price of HK$10.124 was accelerated from 31 October 2018 to 23 March 2015 and the exercise period was changed from the period of 31 October 2018 to 30 October 2024 to the period of 23 March 2015 to 30 October 2024.
9. With effect from 10 April 2015, the vesting date of 20,000 share options at exercise price of HK$10.124 was accelerated from 31 October 2019 to 23 March 2015 and the exercise period was changed from the period of 31 October 2019 to 30 October 2024 to the period of 23 March 2015 to 30 October 2024.
10. No share options were canceled under the 2009 Share Option Scheme during the year.

Share award scheme

The Board has adopted the Employees' Share Award Scheme (the "Share Award Scheme") on 17 March 2016. Particulars of the Share Award Scheme are set out in note 19 to the consolidated financial statements. A summary of the movements of the outstanding awarded shares under the Share Award Scheme, including the awarded shares granted during the year is as follows:

Directors

Jose Manuel MARTINEZ GUTIERREZ

		Number of awarded shares				
Date of grant (dd/mm/yyyy)	Vesting date (dd/mm/yyyy)	As at 01/07/2015	Granted	Vested	Lapsed	As at 30/06/2016
29/04/2016	13/10/2017	–	758,932	–	–	758,932
In aggregate		**–**	**758,932**	**–**	**–**	**758,932**

Thomas TANG Wing Yung

		Number of awarded shares				
Date of grant (dd/mm/yyyy)	Vesting date (dd/mm/yyyy)	As at 01/07/2015	Granted	Vested	Lapsed	As at 30/06/2016
29/04/2016	13/10/2017	–	347,844	–	–	347,844
In aggregate		**–**	**347,844**	**–**	**–**	**347,844**

Employees

		Number of awarded shares				
Date of grant (dd/mm/yyyy)	Vesting date (dd/mm/yyyy)	As at 01/07/2015	Granted	Vested	Lapsed	As at 30/06/2016
29/04/2016	13/10/2017	–	2,276,796	–	–	2,276,796
In aggregate		**–**	**2,276,796**	**–**	**–**	**2,276,796**
Total		**–**	**3,383,572**	**–**	**–**	**3,383,572**

Accounting treatment for share options and awarded shares

Details of accounting treatment for share options and awarded shares are set out in note 19 to the consolidated financial statements.

Directors' rights to acquire shares or debentures

Save as disclosed above, at no time during the year 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.

Equity-linked agreements

No equity-linked agreements were entered into by the Company during the financial year or subsisted at the end of the financial year, save for the 2001 Share Option Scheme, the 2009 Share Option Scheme and the Share Award Scheme as disclosed in "Share option schemes" section and "Share award scheme" section above.

Directors' interests and short positions in shares, underlying shares and debentures

As at 30 June 2016, 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 pursuant to the Model Code contained in the Listing Rules, were as follows:

Name of Directors	Capacity	Beneficial interest in shares	Beneficial interest in unlisted underlying shares (Note 6)	Total number of shares	Approximate percentage of aggregate interest to total issued share capital
Jose Manuel MARTINEZ GUTIERREZ	Beneficial owner	1,500,000	5,800,000	8,058,932	0.41%
	Beneficiary of a trust under the Share Award Scheme	758,932			
Thomas TANG Wing Yung	Beneficial owner	100,000	2,900,000	3,347,844	0.17%
	Beneficiary of a trust under the Share Award Scheme	347,844			
Raymond OR Ching Fai	Beneficial owner (Note 1)	3,000,000	450,000	3,450,000	0.17%
Paul CHENG Ming Fun	Beneficial owner (Note 2)	881,836	280,000	2,043,778	0.10%
	Interest of spouse (Note 3)	881,942	–		
Jürgen Alfred Rudolf FRIEDRICH	Beneficial owner (Note 4)	45,500,000	110,000	45,663,669	2.34%
	Interest of spouse (Note 5)	53,669	–		
Alexander Reid HAMILTON	Beneficial owner	–	110,000	110,000	0.00%
Carmelo LEE Ka Sze	Beneficial owner	–	100,000	100,000	0.00%
Norbert Adolf PLATT	Beneficial owner	–	110,000	110,000	0.00%

Notes:
1. The interests of 200,000 shares were held jointly by Dr Raymond OR Ching Fai and his spouse, Mrs OR WONG Lai Ning.
2. The shares were held jointly by Mr Paul CHENG Ming Fun and his spouse, Mrs Janet Mary CHENG.
3. The shares were deemed to be held by the spouse of Mr Paul CHENG Ming Fun, Mrs Janet Mary CHENG.
4. Mr Jürgen Alfred Rudolf FRIEDRICH has entered into a securities lending agreement with a third party for the interest of 10,000,000 shares beneficially owned by him.
5. The shares were held by the spouse of Mr Jürgen Alfred Rudolf FRIEDRICH, Mrs Anke Beck FRIEDRICH.
6. The interests of the Directors and chief executives of the Company in the underlying shares of equity derivatives in respect of share options of the Company and in awarded shares are detailed in sections of "Share option schemes" and "Share award scheme" above respectively.
7. All interests disclosed above represent long position in the shares and underlying shares of the Company.

Save as disclosed above, as at 30 June 2016, none of the Directors and chief executives of the Company or their respective associates had any interests or short positions, whether beneficial or non-beneficial, in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the 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 pursuant to the Model Code.

Directors' material interests in transactions, arrangements or contracts

No transactions, arrangement and contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of or at any time during the year save as disclosed under section "Related party transactions and connected transactions" stated below.

Substantial shareholders' interests

As at 30 June 2016, 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 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)	Approximate percentage of aggregate interest to total issued share capital	Number of shares (Short position)	Approximate percentage of aggregate interest to total issued share capital
Massachusetts Financial Services Company (Note 1)	Investment manager	272,316,305	14.00%	–	–
Sun Life Financial, Inc. (Note 1)	Investment manager	272,316,305	14.00%	–	–
Lone Pine Capital LLC	Investment manager	243,468,305	12.52%	–	–
HSBC International Trustee Limited (Notes 2 and 3)	Trustee	212,446,078	10.92%	–	–
Total Market Limited (Notes 2 and 3)	Beneficial owner	211,822,656	10.89%	–	–
Spring Forest International Limited (Notes 2 and 3)	Interest in a controlled corporation	211,822,656	10.89%	–	–
YFT Group Limited (Notes 2 and 3)	Interest in a controlled corporation	211,822,656	10.89%	–	–
YFT Holdings Limited (Notes 2 and 3)	Interest in a controlled corporation	211,822,656	10.89%	–	–
Michael YING Lee Yuen (Notes 2 to 4)	Interest in a controlled corporation	211,822,656	10.89%	–	–
Marathon Asset Management LLP (Note 5)	Investment manager	149,349,015	7.68%	–	–

Notes:
1. Massachusetts Financial Services Company ("MFS") is a subsidiary of Sun Life Financial, Inc. ("SLF"). Accordingly, SLF was deemed to be interested in the shares held by MFS and its direct and indirect subsidiaries.
2. The entire issued share capital of Total Market Limited ("Total Market") is held by Spring Forest International Limited, which in turn is a wholly-owned subsidiary of YFT Group Limited ("YFT Group"). YFT Group is a wholly-owned subsidiary of YFT Holdings Limited ("YFT Holdings"). HSBC International Trustee Limited ("HITL") controls 100% of YFT Holdings.
3. HITL, in its capacity as trustee of the discretionary trust set up by Mr Michael YING Lee Yuen ("Mr YING") as settlor and other trusts, was directly interested or deemed to be interested in the shares held by Total Market and in the remaining 623,422 shares respectively pursuant to Part XV of the SFO.
4. Mr YING was deemed to be interested in the shares held by Total Market pursuant to Part XV of the SFO.
5. Marathon Asset Management LLP is 40.05%, 40.05% and 19.90% controlled by Mr William ARAH, Mr Neil OSTRER and Marathon Asset Management (Services) Ltd respectively.

Save as disclosed hereinabove and in the "Directors' interests and short positions in shares, underlying shares and debentures" section above, 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 30 June 2016 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.

Purchase, sale or redemption of the Company's shares

Save as disclosed in this report with regard to the purchase of existing share(s) by the trustee appointed for the administration of the Share Award Scheme, Computershare Hong Kong Trustees Limited, in accordance with such share award scheme, neither the Company nor any of its subsidiaries have purchased, sold or redeemed any of the Company's shares during the year.

Pre-emptive rights

There are no provisions for pre-emptive rights under the Company's Bye-laws.

Major customers and suppliers

During the year, less than 30% of the Group's sales were attributable to the five largest customers and less than 30% of the Group's purchases were attributable to the Group's five largest suppliers.

Public float

As at the date of this report and insofar as the Directors are aware, the Company maintained sufficient public float as required under the Listing Rules.

Management contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Permitted indemnity provision

The Company's Bye-laws provide that the Directors, secretary and other officers of the Company for the time being shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they or any of them shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty. Such provisions were in force during the course of the financial year and remained in force as of the date of this report.

Related party transactions and connected transactions

Details of the significant related party transactions undertaken in the normal course of business are provided under note 28 to the consolidated financial statements. None of these related party transactions constitutes a connected transaction as defined in the Listing Rules.

Corporate governance

Particulars of the Company's corporate governance practices are set out on pages 66 to 74 of this annual report.

Auditor

The consolidated financial statements have been audited by PricewaterhouseCoopers who are due to retire and, being eligible, offer themselves for re-appointment at the forthcoming AGM.

On behalf of the Board
ESPRIT HOLDINGS LIMITED

Dr Raymond OR Ching Fai
Chairman

Hong Kong, 20 September 2016

07
FINANCIAL SECTION

07.1 Independent auditor's report

TO THE SHAREHOLDERS OF ESPRIT HOLDINGS LIMITED
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Esprit Holdings Limited (the "Company") and its subsidiaries set out on pages 91 to 128, which comprise the consolidated statement of financial position as at 30 June 2016, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and its subsidiaries as at 30 June 2016, and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Other matters

This report, including the opinion, has been prepared for and only for you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

PricewaterhouseCoopers

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 20 September 2016

07.2 Consolidated income statement

	Notes	For the year ended 30 June 2016 HK$ million	2015 HK$ million
Revenue	5	**17,788**	19,421
Cost of goods sold		**(8,859)**	(9,726)
Gross profit		**8,929**	9,695
Staff costs	11	**(3,480)**	(3,562)
Occupancy costs		**(2,793)**	(3,160)
Logistics expenses		**(1,022)**	(1,048)
Marketing and advertising expenses		**(1,015)**	(820)
Depreciation		**(591)**	(713)
Impairment of property, plant and equipment		**(107)**	(171)
Impairment of goodwill	13	**–**	(2,512)
Additional provision for store closures and leases, net	21	**(186)**	(282)
Gain on disposal of subsidiaries	27	**731**	–
Other operating costs		**(1,062)**	(1,110)
Operating loss (LBIT)	6	**(596)**	(3,683)
Interest income		**40**	45
Finance costs	7	**(29)**	(29)
Loss before taxation		**(585)**	(3,667)
Taxation (credit/(charge))	8	**606**	(29)
Profit/(loss) attributable to shareholders of the Company		**21**	(3,696)
Earnings/(loss) per share			
– Basic and diluted	10	**HK$0.01**	HK$(1.90)

The notes on pages 97 to 128 form an integral part of these consolidated financial statements.

07.3 Consolidated statement of comprehensive income

	For the year ended 30 June	
	2016 HK$ million	2015 HK$ million
Profit/(loss) attributable to shareholders of the Company	**21**	(3,696)
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Fair value (loss)/gain on cash flow hedge, net of tax	**(152)**	164
Exchange translation	**(373)**	(1,452)
	(525)	(1,288)
Total comprehensive income for the year attributable to shareholders of the Company, net of tax	**(504)**	(4,984)

The notes on pages 97 to 128 form an integral part of these consolidated financial statements.

07.4 Consolidated statement of financial position

		As at 30 June	
	Notes	**2016 HK$ million**	2015 HK$ million
Non-current assets			
Intangible assets	13	**2,902**	3,031
Property, plant and equipment	14	**2,159**	2,835
Investment properties	15	**19**	17
Other investments		**7**	7
Debtors, deposits and prepayments	17	**220**	240
Deferred tax assets	22	**745**	649
		6,052	6,779
Current assets			
Inventories	16	**2,745**	2,969
Debtors, deposits and prepayments	17	**1,571**	2,008
Tax receivable		**331**	640
Cash, bank balances and deposits	18	**5,341**	5,017
		9,988	10,634
Current liabilities			
Creditors and accrued charges	20	**3,495**	3,672
Provision for store closures and leases	21	**604**	557
Tax payable		**60**	687
		4,159	4,916
Net current assets		**5,829**	5,718
Total assets less current liabilities		**11,881**	12,497
Equity			
Share capital	19	**194**	194
Reserves		**11,203**	11,704
Total equity		**11,397**	11,898
Non-current liabilities			
Deferred tax liabilities	22	**484**	599
		11,881	12,497

Approved by the Board of Directors on 20 September 2016.

JOSE MANUEL **MARTINEZ GUTIERREZ**
Executive Director

THOMAS **TANG** WING YUNG
Executive Director

The notes on pages 97 to 128 form an integral part of these consolidated financial statements.

07.5 Consolidated statement of cash flows

		For the year ended 30 June	
	Notes	**2016 HK$ million**	2015 HK$ million
Cash flows from operating activities			
Cash (used in)/generated from operations	23	**(394)**	257
Hong Kong profits tax refunded/(paid), net		**124**	(105)
Overseas tax paid, net		**(42)**	(224)
Net cash used in operating activities		**(312)**	(72)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(262)**	(349)
Proceeds from disposal of property, plant and equipment	23	**9**	35
Net cash inflow on disposal of subsidiaries	27	**913**	-
Net cash inflow on acquisition of businesses		**-**	1
Interest received		**40**	45
Net (increase)/decrease in bank deposits with maturities of more than three months		**(528)**	1,041
Net cash generated from investing activities		**172**	773
Cash flows from financing activities			
Purchase of shares for Share Award Scheme		**(23)**	-
Net proceeds on issue of shares for cash		**-**	3
Dividends paid		**-**	(95)
Repayment of bank loan		**-**	(260)
Interest paid on bank loan		**-**	(1)
Net cash used in financing activities		**(23)**	(353)
Net (decrease)/increase in cash and cash equivalents		**(163)**	348
Cash and cash equivalents at beginning of year		**3,688**	3,661
Effect of change in exchange rates		**(40)**	(321)
Cash and cash equivalents at end of year		**3,485**	3,688
Analysis of balances of cash and cash equivalents			
Bank balances and cash		**2,856**	2,602
Bank deposits		**2,485**	2,415
Cash, bank balances and deposits	18	**5,341**	5,017
Less: bank deposits with maturities of more than three months		**(1,856)**	(1,329)
		3,485	3,688

The notes on pages 97 to 128 form an integral part of these consolidated financial statements.

07.6 Consolidated statement of changes in equity

For the year ended 30 June 2016

	Share capital HK$ million	Share premium HK$ million	Shares held for Share Award Scheme HK$ million	Employee share-based payment reserve HK$ million	Hedging reserve HK$ million	Contributed surplus HK$ million	Translation reserve HK$ million	Capital reserve HK$ million	Retained profits HK$ million	Total HK$ million
At 1 July 2015	194	8,220	-	836	126	7	(798)	1	3,312	11,898
Exchange translation	-	-	-	-	-	-	(373)	-	-	(373)
Fair value loss on cash flow hedge, net of tax										
- net fair value gain	-	-	-	-	23	-	-	-	-	23
- transferred to income statement										
- exchange difference	-	-	-	-	(22)	-	-	-	-	(22)
- transferred to inventories	-	-	-	-	(164)	-	-	-	-	(164)
- deferred tax effect	-	-	-	-	11	-	-	-	-	11
Profit attributable to shareholders of the Company	-	-	-	-	-	-	-	-	21	21
Total comprehensive income, net of tax	-	-	-	-	(152)	-	(373)	-	21	(504)
Transactions with owners										
Employee share-based compensation benefits	-	-	-	26	-	-	-	-	-	26
Purchase of shares for Share Award Scheme	-	-	(23)	-	-	-	-	-	-	(23)
Total transactions with owners	-	-	(23)	26	-	-	-	-	-	3
At 30 June 2016	194	8,220	(23)	862	(26)	7	(1,171)	1	3,333	11,397
Representing:										
Proposed final dividend										-
Balance after proposed final dividend										11,397
At 30 June 2016										11,397

The notes on pages 97 to 128 form an integral part of these consolidated financial statements.

07.6 Consolidated statement of changes in equity

For the year ended 30 June 2015

	Share capital HK$ million	Share premium HK$ million	Shares held for Share Award Scheme HK$ million	Employee share-based payment reserve HK$ million	Hedging reserve HK$ million	Contributed surplus HK$ million	Translation reserve HK$ million	Capital reserve HK$ million	Retained profits HK$ million	Total HK$ million
At 1 July 2014	194	8,204	-	774	(38)	7	654	1	7,115	16,911
Exchange translation	-	-	-	-	-	-	(1,452)	-	-	(1,452)
Fair value gain on cash flow hedge, net of tax										
- net fair value gain	-	-	-	-	494	-	-	-	-	494
- transferred to income statement										
- exchange difference	-	-	-	-	(19)	-	-	-	-	(19)
- transferred to inventories	-	-	-	-	(311)	-	-	-	-	(311)
Loss attributable to shareholders of the Company	-	-	-	-	-	-	-	-	(3,696)	(3,696)
Total comprehensive income, net of tax	-	-	-	-	164	-	(1,452)	-	(3,696)	(4,984)
Transactions with owners										
Issue of shares	-	3	-	-	-	-	-	-	-	3
Employee share option benefits	-	-	-	63	-	-	-	-	-	63
2013/14 final dividend paid	-	6	-	-	-	-	-	-	(78)	(72)
2014/15 interim dividend paid	-	6	-	-	-	-	-	-	(29)	(23)
Transfer of reserve upon exercise of share options	-	1	-	(1)	-	-	-	-	-	-
Total transactions with owners	-	16	-	62	-	-	-	-	(107)	(29)
At 30 June 2015	194	8,220	-	836	126	7	(798)	1	3,312	11,898
Representing:										
Proposed final dividend										-
Balance after proposed final dividend										11,898
At 30 June 2015										11,898

The contributed surplus of the Group represents the difference between the nominal value of the shares of the subsidiaries acquired pursuant to the Group reorganization in 1993 and the nominal value of the Company's shares issued in exchange thereof.

The capital reserve of the Group represents a non-distributable reserve set aside by a subsidiary according to relevant statutory requirements.

The notes on pages 97 to 128 form an integral part of these consolidated financial statements.

07.7 Notes to the consolidated financial statements

For the year ended 30 June 2016

1. General information

Esprit Holdings Limited (the "Company") and its subsidiaries (together the "Group") are principally engaged in retail and wholesale distribution and licensing of quality fashion and non-apparel products designed under its own internationally-known Esprit brand name.

The Company is a limited liability company incorporated in Bermuda. The registered address is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The Company has its primary listing on The Stock Exchange of Hong Kong Limited (code: 00330) and also has its shares traded on the International Bulletin Board of the London Stock Exchange.

The Company's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements are presented in millions of units of Hong Kong Dollars, unless otherwise stated.

These consolidated financial statements have been approved for issue by the Board of Directors on 20 September 2016.

2. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below.

(a) Basis of preparation

These consolidated financial statements of the Group have been prepared in accordance with IFRS.

As the Company is listed in Hong Kong, it is required to prepare consolidated financial statement and to comply with the disclosure requirements of the Hong Kong Companies Ordinance. The requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) come into operation during the financial year, as a result, there are changes to presentation and disclosures of certain information in the consolidated financial statements.

There were no adoption of new standards, amendments to standards and interpretation that would have any significant impact on the Group's consolidated financial statements for the financial year ended 30 June 2016.

The Group has not early adopted the following IAS and IFRS that have been issued but are not yet effective.

		Effective for accounting periods beginning on or after
IAS 1 (Amendments)	Disclosure Initiative	1 January 2016
IAS 7 (Amendments)	Disclosure Initiative	1 January 2017
IAS 12 (Amendments)	Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017
IAS 16 and 38 (Amendments)	Clarification of Acceptable Methods of Depreciation and Amortization	1 January 2016
IAS 16 and 41 (Amendments)	Agriculture: Bearer Plants	1 January 2016
IAS 27 (Amendments)	Equity Method in Separate Financial Statements	1 January 2016
IFRS 2 (Amendments)	Classification and Measurement of Share-based Payment Transactions	1 January 2018
IFRS 9	Financial Instruments	1 January 2018
IFRS 10, 12 and IAS 28 (Amendments)	Investment Entities: Applying the Consolidation Exception	1 January 2016
IFRS 10 and IAS 28 (Amendments)	Sales or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined
IFRS 11 (Amendments)	Accounting for Acquisitions of Interests in Joint Operations	1 January 2016
IFRS 14	Regulatory Deferral Accounts	1 January 2016
IFRS 15	Revenue from Contracts with Customers	1 January 2018
IFRS 16	Leases	1 January 2019
IFRSs (Amendments)	Annual Improvements to IFRSs 2012-2014 Cycle	1 January 2016

The Group will apply these new and revised standards and amendments in the period of initial application. The Group is currently assessing the impact of the adoption of the above new and revised standards and amendments and is not yet in a position to state whether they would have a significant impact on the Group's results of operations and financial position.

When preparing the consolidated financial statements, management has adopted certain accounting, valuation and consolidation methods to comply with IFRS. The preparation of these consolidated financial statements also requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the accounting policies. The areas involving a higher degree of judgment and complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 4 "Critical accounting estimates and judgments".

These consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain financial instruments and investment properties to fair value. The policies set out below have been consistently applied to all the years presented.

2. Summary of significant accounting policies (continued)

(b) Subsidiaries

(i) Consolidation
Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The Group applies the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. When a business combination is achieved in stages, the Group remeasures its previously held interest in the acquiree at its fair value at the date when control is obtained, with any resulting gain or loss recognized in the income statement.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previously held equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the income statement.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions – that is, as transactions with owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interest are also recorded in equity.

(ii) Separate financial statements
Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable. In addition, the contribution to the Company's Share Award Scheme Trust (as defined in Note 30(d)), a controlled structured entity, is stated at cost in "Contribution to Share Award Scheme Trust" first, and then will be transferred to the "Shares held for Share Award Scheme" under equity when the contribution is used for the acquisition for the shares of the Company.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiaries in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

(c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, have been identified as the executive directors that make strategic decisions.

(d) Foreign currency translation

(i) Functional and presentation currency
Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in the currency of Hong Kong Dollars, which is the Company's functional and presentation currency.

(ii) Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

(iii) Group companies
The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(a) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

(b) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(c) all resulting exchange differences are recognized in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income. When a foreign operation is sold, such exchange differences are transferred to the income statement as part of the gain or loss on sale. When an inter-company loan balance which forms part of the net investment in a foreign entity is repaid, such exchange differences are transferred to the income statement.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognized in equity.

2. Summary of significant accounting policies (continued)

(e) Property, plant and equipment

Property, plant and equipment, other than freehold land, are stated at historical cost less accumulated depreciation and accumulated impairment losses (if any). Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Freehold land is not depreciated. Leasehold land and leasehold improvements are depreciated over the initial lease terms. Fixtures are depreciated over the shorter of five years and their estimated useful lives on a straight-line basis. Depreciation on other assets is calculated using the straight-line method to write down their cost to their residual values over their estimated useful lives. The principal annual rates are as follows:

Buildings	$3^1/_3$% – 5%
Plant and machinery	30%
Furniture and office equipment	10% – $33^1/_3$%
Motor vehicles	25% – 30%

No depreciation is provided for construction in progress until it is completed and ready for use.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2(h)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

(f) Investment properties

Investment properties are interests in land and buildings which are held for long term and/or for capital appreciation. Such properties are carried in the statement of financial position at their fair values. Changes in fair values of investment properties are recognized directly in the income statement in the period in which they arise.

(g) Intangible assets

(i) Goodwill
Goodwill represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previously held equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill included in intangible assets is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

(ii) Trademarks
Trademarks are shown at historical cost. Trademarks with indefinite useful lives are carried at cost less accumulated impairment losses, if any.

Trademarks with indefinite useful lives are not amortized but are tested for impairment (Note 2(h)).

(iii) Customer relationships
Customer relationships acquired in a business combination are recognized at fair value at the acquisition date. The customer relationships have an expected life of 10 years and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method over the expected life of the customer relationships.

(h) Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortization and are tested for impairment annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use.

For the purposes of assessing impairment, assets other than goodwill are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units ("CGUs")). Goodwill is allocated to CGUs for the purposes of impairment testing. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose identified according to operating segment.

An impairment loss recognized in prior periods for an asset other than goodwill is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the assets' carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognized. Any goodwill impairment is recognized immediately as an expense and is not subsequently reversed.

(i) Inventories

Inventories are stated at the lower of cost and net realizable value with cost being determined on a weighted average basis. Cost comprises the direct costs of merchandise, charges that have been incurred in bringing inventories to their current location and condition and the transfer from equity of any gains or losses on qualifying cash flow hedges relating to purchase of inventories. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2. Summary of significant accounting policies (continued)

(j) Receivables

Receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. If collection of receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are classified as non-current assets. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all the amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flow, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of provision is recognized in the income statement. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited to the income statement.

Receivables denominated in foreign currencies are translated at the year-end exchange rates. The resulting gains or losses are recorded in the consolidated income statement, with the exception of the gains or losses resulting from the translation of inter-company long-term loans, which are considered to form part of the net investment in the related subsidiaries because settlement is neither planned nor likely to occur in the foreseeable future. The impacts of translation of these items have been reflected in other comprehensive income.

(k) Payables

Payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

Payables denominated in foreign currencies are translated at the year-end exchange rates. The resulting gains or losses are recorded in the consolidated income statement, with the exception of the gains or losses resulting from the translation of inter-company long-term loans. The impacts of translation of these items have been reflected in other comprehensive income.

(l) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are shown under current liabilities on the statement of financial position.

(m) Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

Borrowing costs are recognized in the income statement in the period in which they are incurred.

(n) Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or share options are shown in equity as a deduction, net of tax, from the proceeds.

(o) Current and deferred tax

The tax expense for the year comprises current and deferred tax. Tax is recognized in the income statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case the tax is also recognized in other comprehensive income or directly in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the date of the statement of financial position in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the date of the statement of financial position and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2. Summary of significant accounting policies (continued)

(p) Employee benefits

(i) Pension obligations
The Group principally participates in defined contribution plans and pays contributions to publicly or privately administered pension plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due and if applicable, are reduced by contributions forfeited by those employees who leave the scheme or the plan prior to vesting fully in the contributions.

(ii) Share options
The Group operates an equity-settled, share-based compensation plan to grant share options to directors, employees and consultants of the Group in exchange for their services provided to the Group. The cost of equity-settled transactions with directors, employees and consultants is measured by reference to the fair value at the date at which they are granted. The fair value of the share options granted is recognized as an expense over the relevant period of the service (the vesting period of the share options). The total amount to be expensed over the vesting period is determined by reference to the fair value of the share options granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of share options that are expected to be vested. The Group recognizes the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity.

When the share options are exercised, the proceeds received net of any directly attributable transactions cost are credited to share capital and share premium.

The grant of share options by the Company over its equity instruments to the employees of subsidiaries is treated as a capital contribution. The fair value of employee services received, measured by reference to the fair value at the date of grant, is recognized over the vesting period as an increase to investment in subsidiaries with a corresponding credit to equity.

(iii) Awarded shares
The Group operates an equity-settled, share-based compensation plan to grant awarded shares to directors and employees of the Group in exchange for their services provided to the Group. The cost of equity-settled transactions with directors and employees is measured by reference to the fair value at the date at which they are granted. The fair value of the awarded shares granted is recognized as an expense over the relevant period of the service (the vesting period of awarded shares). The total amount to be expensed over the vesting period is determined by reference to the fair value of the awarded shares granted; excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of awarded shares that are expected to be vested. The Group recognizes the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity. The consideration paid by the Company through the Share Award Scheme trustee (Note 19(d)) for purchasing the Company's shares from the market, including any directly attributable incremental cost, is presented as "Shares held for Share Award Scheme" and the amount is deducted from total equity.

When the Share Award Scheme trustee transfers the Company's shares to the awardees upon vesting, the related costs of the awarded shares vested are credited to "Shares held for Share Award Scheme", with a corresponding adjustment to equity.

The grant of awarded shares by the Company over its equity instruments to the employees of subsidiaries is treated as a capital contribution. The fair value of employee services received, measured by reference to the fair value at the date of grant, is recognized over the vesting period as an increase to investment in subsidiaries with a corresponding credit to equity.

(iv) Employee leave entitlements
Employee entitlements to annual leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the date of the statement of financial position.

(v) Bonus plans
The Group recognizes a liability and an expense for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

(q) Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

(r) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services, net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group. Revenue is recognized as follows:

(i) Sales of goods – retail
Sales of goods are recognized on sale of a product to the customer. Retail sales are mainly in cash or by credit card.

(ii) Sales of goods – wholesale
Sales of goods are recognized on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to the customer and title has been passed.

(iii) Licensing income
Licensing income is recognized on an accrual basis in accordance with the substance of the relevant agreements.

(iv) Interest income
Interest income is recognized on a time proportion basis using the effective interest method.

2. Summary of significant accounting policies (continued)

(s) Accounting for derivative financial instruments

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair values. Changes in the fair value of derivative instruments that do not qualify for hedge accounting are recognized immediately in the income statement.

The method of recognizing the resulting gain or loss where the derivative is designated as a hedging instrument depends on the nature of the item being hedged. The Group can designate certain derivatives as either: (i) hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedges); or (ii) hedges of highly probable forecast transactions (cash flow hedges).

The Group is required to document at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group is also required to document its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

(i) Fair value hedge
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

(ii) Cash flow hedge
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in the income statement.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit or loss (for instance when the forecast sale that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

(t) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessors) are charged to the income statement on a straight-line basis over the period of the lease, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

(u) Dividend distributions

Dividend distributions to the Company's shareholders are recognized as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

(v) Financial guarantee

A financial guarantee contract is a contract that requires the Company to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee contracts are initially recognized at fair value on the date the guarantee was given. Subsequently, the liabilities under such guarantees are measured at the higher of the best estimate of the expenditure required to settle any financial obligation arising at the date of the statement of financial position and the initial measurement. These estimates are determined based on debtors' payment history, supplemented by the judgment of management of the Group.

3. Financial risk management and fair value

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks, mainly foreign exchange risk and credit risk. The Group's overall risk management program focuses on minimizing the potential adverse effects of these risks on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

(i) Foreign exchange risk
The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Euro, US Dollar and Renminbi. Foreign exchange risk primarily arises from future commercial transactions and recognized monetary assets and liabilities that are denominated in currencies that are not the functional currencies of the Group's entities.

To minimize the Group's foreign exchange exposure on costs for merchandise produced for Europe in Asia, majority of the suppliers in Asia were asked to quote and settle in US dollar. In addition, to manage the foreign exchange risk arising from future commercial transactions, the Group enters into forward foreign exchange contracts with reputable financial institutions to hedge the foreign exchange risk.

The impact on the Group's post-tax profit or loss and total comprehensive income in response to a 1% strengthening in Euro and Renminbi against US Dollar in relation to monetary items and derivative financial instruments in existence at the date of the statement of financial position, with all other variables held constant, would have been:

	2016 HK$ million	2015 HK$ million
Euro against US Dollar		
Impact on post-tax profit or loss: gain	**9**	3
Impact on total comprehensive income: (loss)	**(19)**	(48)
Renminbi against US Dollar		
Impact on post-tax profit or loss: gain	**7**	7
Impact on total comprehensive income: gain	**7**	7

(ii) Credit risk
The Group's credit risk is primarily attributable to trade and other debtors and deposits with banks.

There is no significant concentration of credit risk with respect to trade debtors as the Group has a large number of internationally dispersed customers. It has policies in place to ensure that wholesale sales of products are made to customers with an appropriate credit history. Sales to retail customers are made in cash, bank transfer or by credit card. The Group grants credit for a period which is usually 30 to 60 days to certain wholesale and franchise customers. The Group does not hold any collateral over the trade debtors. The Group manages the credit risk mainly by purchasing credit guarantee insurance and arranging the trade debtors to be covered by letters of credit or bank guarantees. Individual risk limits are set based on internal ratings in accordance with limits set by management. The utilization of credit limits is regularly monitored.

The Group has a group credit control policy in place to promote good practice in credit control procedures across the Group and protect and limit the Group's overall exposure to credit risks. This policy provides the general principle to guide the credit management process by setting forth the general acceptable practices for limiting credit exposures and in particular, the establishment of the regional and country credit limit for control of credit.

The credit risk on deposits with banks is limited because the Group mainly places the deposits in banks with high credit rating and management does not expect any losses from non-performance by banks.

(iii) Liquidity risk
The Group manages liquidity risk by continuously monitoring forecast and actual cash flows, by keeping sufficient cash, bank balances and deposits and by maintaining adequate banking facilities.

The table below analyzes the Group's financial liabilities into relevant maturity groupings based on the remaining period at the date of the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year HK$ million	**Between 1 and 2 years HK$ million**	**Between 2 and 5 years HK$ million**
At 30 June 2016			
Creditors and accrued charges	**3,495**	**–**	**–**
At 30 June 2015			
Creditors and accrued charges	3,672	–	–

Note: Included in creditors and accrued charges with a maturity less than 1 year are derivative financial instruments of **HK$66 million** (2015: HK$23 million).

3. Financial risk management and fair value (continued)

(a) Financial risk factors (continued)

(iv) Interest rate risk
The Group's interest rate risk arises primarily from bank loans. Bank loans at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The Group earns interest income on cash deposits. The Group has no interest-bearing borrowings as at 30 June 2016.

The Group monitors closely its interest rate risk exposure and considers hedging significant interest rate risk exposure should the need arise.

(b) Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group's capital structure consists of equity, cash, bank balances and deposits as shown in the consolidated statement of financial position.

The Group's capital structure is being reviewed annually to ensure these objectives are to be achieved. In order to maintain or adjust the capital structure, the Group will consider the macroeconomic conditions, prevailing interest rates and adequacy of cash flows generating from operations and may adjust the amounts of dividends paid to shareholders, return capital to shareholders or issue new shares.

The Group monitors capital by maintaining a net cash position throughout the year. Net cash position is calculated by cash, bank balances and deposits less interest bearing borrowings. As at 30 June 2016, the Group maintained a net cash position of **HK$5,341 million** (2015: HK$5,017 million).

(c) Fair value estimation

IFRS 7 requires disclosure for financial instruments that are measured at fair value by level of the following fair value measurement hierarchy:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value of financial instruments traded in active markets is based on quoted market prices at the date of the statement of financial position. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in Level 1.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

The Group's investment properties measured at fair value are included in Level 2 of the fair value measurement hierarchy (Note 15).

The Group's derivative financial instruments measured at fair value are included in Level 2 of the fair value measurement hierarchy (Note 26).

4. Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Useful life and impairment of trademarks

(i) Indefinite useful life
The Group's acquired Esprit trademarks are classified as an indefinite-lived intangible asset in accordance with IAS 38 "Intangible Assets". This conclusion is supported by the fact that Esprit trademark legal rights are capable of being renewed indefinitely at insignificant cost and therefore are perpetual in duration, relate to a well-known and long established fashion brand since 1968, and based on the future financial performance of the Group, they are expected to generate positive cash flows indefinitely. This view was supported by an independent professional appraiser, who was appointed by the Group to perform an assessment of the useful life of Esprit trademarks in accordance with the requirements set out in IAS 38. Having considered the factors specific to the Group, the appraiser opined that Esprit trademarks should be regarded as an intangible asset with an indefinite useful life. Under IAS 38, the Group re-evaluates the useful life of Esprit trademarks each year to determine whether events and circumstances continue to support the view of indefinite useful life for this asset. Having considered the current circumstances, relevant legal and regulatory factors and business plan, management considers the classification of the trademark as indefinite-lived intangible asset is appropriate.

(ii) Impairment
In accordance with IAS 36 "Impairment of Assets", the Group completed its annual impairment test for Esprit trademarks by comparing their recoverable amount to their carrying amount as at 30 June 2016. The Group conducted an internal valuation of the Esprit trademarks as one corporate asset based on a fair value less costs of disposal calculation as of 30 June 2016. For the last financial year, the Group appointed an independent professional valuer to conduct an external valuation. The valuation uses cash flow projections based on financial estimates covering a two-year period, expected royalty rates deriving from the Esprit trademarks in the range of **3% to 5%** (2015: 3% to 5%) and a post-tax discount rate of **14.7%** (2015: 14%). The cash flows beyond the two-year period are extrapolated using a steady **3%** (2015: 3%) growth rate. This growth rate does not exceed the long-term average growth rate for apparel markets in which the Group operates. Management has considered the above assumptions and valuation and has also taken into account the business expansion plan going forward, the current wholesale order books and the strategic retail expansion worldwide and believes that there is no impairment in the Esprit trademarks.

(b) Impairment of goodwill

In accordance with IAS 36 "Impairment of Assets", the Group completed its annual impairment test for goodwill allocated to the Group's various CGUs by comparing their recoverable amount to their carrying amount as at the date of the statement of financial position. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of CGUs, or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

The recoverable amount of a CGU is determined based on fair value less costs of disposal calculation. In the current year, the calculation of the recoverable amount of the China business uses cash flow projections based on financial budgets approved by management covering a seven-year period to have a long-term view of China business and a post-tax discount rate of **12%** (2015: 13%). The estimated compound annual growth rate is expected to be **16%** (2015: 18%). Cash flows beyond the seven-year period are extrapolated using a steady growth rate of **3%** (2015: 3%) which does not exceed the long term average growth rate in China market. Based on the goodwill impairment assessment, there was no impairment of goodwill for the year ended 30 June 2016 (2015: impairment charge of HK$2,512 million).

The estimated recoverable amount of the China business approximates its carrying value, consequently any adverse change in key assumptions would, in isolation, cause a further impairment loss to be recognized. If the forecast sales growth in the financial budget covering the seven-year period used in the calculation had been lower by 1% point, the Group would have recognized a further impairment against goodwill of **HK$71 million**. If the post-tax discount rate used in the calculation had been higher by 1% point, the Group would have recognized a further impairment against goodwill of **HK$105 million**.

(c) Impairment of property, plant and equipment

In accordance with IAS 36 "Impairment of Assets", the Group assesses annually whether property, plant and equipment have any indication of impairment. The Group estimates the recoverable amount of the asset if any such indication exists. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. The value in use calculation involves estimating the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and applying the appropriate discount rate to those future cash flows. The estimation of future cash flows and selection of discount rate require the use of judgments and estimates.

(d) Net realizable value of inventories

In accordance with IAS 2 "Inventories", the Group estimates annually the net realizable value of inventories. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. These estimates are based on the current market condition and the historical experience of selling products of similar nature. It could change significantly as a result of changes in customer taste and competitor actions in response to changes in market conditions. Management reassesses these estimates at the end of each reporting period.

4. Critical accounting estimates and judgments (continued)

(e) Income and other taxes

The Group is subject to income and other taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income and other taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes, as current liabilities, liabilities for anticipated tax audit issues based on estimates of whether additional taxes will eventually be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income and other taxes and deferred tax provisions in the period in which such determination is made.

(f) Provision for store closures and leases

The provision for store closures and leases of the Group consists of provisions for store closures and onerous leases for loss-making stores, compensation to staff and other related costs in connection with the announced store closures and provision for onerous contracts for loss-making stores.

The Group recognizes and measures a provision for store closures and leases for loss-making stores as a provision for onerous contract. In accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets", an onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfill it.

The Group recognizes a provision for store closures and leases based on the estimated unavoidable costs of meeting all leases and other obligations under the retail stores, net of economic benefits expected to be received from the stores, if any. The Group estimates the provision based on the amount of compensation payment agreed with the landlord as a result of early termination of leases, unfulfilled lease obligations, and economic benefits estimated to be received from fulfilling the lease contracts. Management also consults with retail agencies for certain locations in respect of the current market trends. The Group also estimates the provision based on past experience of payout ratio of the total compensation to the landlords. Estimates differ depending on the current rent, location, lease exit terms and management's assessment of when the lease term can be terminated early and expected benefits to be received from fulfilling the leases. Except for stores which termination contracts have already been agreed with the landlords, the settlement of these contracts may be different from the Group's estimation subject to the negotiation with the landlords and the economic benefits estimated to be received.

The Group recognizes a provision for compensation to staff when the Group has a detailed formal plan for store closures and has communicated the plan to the employees affected by it. The Group recognizes a provision for other related costs when obligations for direct expenditures necessarily entailed by the plan for store closures and not associated with the ongoing activities of the Group arise.

5. Revenue and segment information

The Group is principally engaged in retail and wholesale distribution and licensing of quality fashion and non-apparel products designed under its own internationally-known Esprit brand name in Germany, Rest of Europe*, Asia Pacific and via e-shop platform.

	2016 HK$ million	2015 HK$ million Restated
Revenue from external customers		
Germany	**6,057**	6,683
Rest of Europe	**4,939**	5,586
Asia Pacific	**2,487**	3,117
e-shop	**4,153**	3,884
Licensing and others	**152**	151
	17,788	19,421

Operating segments are reported in a manner consistent with the internal management reports provided to the chief operating decision-maker. The chief operating decision-maker who is responsible for assessing performance and allocating resources for the reporting segments has been identified as the Executive Directors of the Group. The Group has been undergoing transformation in the past few years that the management and reporting structures have been reorganized. Currently, the chief operating decision-maker determines that the operating segments are Germany, Rest of Europe, Asia Pacific and global e-shop which are consistent with the latest management organization and reporting structures. Corporate services, sourcing and licensing activities are also determined as a separate operating segment. In addition, within the regions, the chief operating decision-maker also reviews the business in the retail and wholesale channel perspective which are also operating segments. The e-shops in Germany, Rest of Europe and Asia Pacific are aggregated into one reporting segment under global e-shop. Accordingly, the segment reporting presentation has been changed with comparative figures reclassified in accordance with the current year's presentation to enable comparisons to be made.

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

* The Rest of Europe region includes our business in America and the Middle East.

5. Revenue and segment information (continued)

	For the year ended 30 June 2016					
	Germany HK$ million	Rest of Europe HK$ million	Asia Pacific HK$ million	e-shop HK$ million	Corporate services, sourcing, licensing and others HK$ million	Group HK$ million
Total revenue						
Retail	3,079	2,440	2,306	4,153	–	11,978
Wholesale	2,978	2,499	181	–	–	5,658
Licensing and others	–	–	–	–	15,072	15,072
Total	6,057	4,939	2,487	4,153	15,072	32,708
Inter-segment revenue	–	–	–	–	(14,920)	(14,920)
Revenue from external customers						
Retail	3,079	2,440	2,306	4,153	–	11,978
Wholesale	2,978	2,499	181	–	–	5,658
Licensing and others	–	–	–	–	152	152
Total	6,057	4,939	2,487	4,153	152	17,788
Segment results						
Retail	(366)	(150)	(667)	1,058	11	(114)
Wholesale	608	67	(13)	–	29	691
Licensing and others	–	–	–	–	(1,173)	(1,173)
EBIT/(LBIT)	242	(83)	(680)	1,058	(1,133)	(596)
Interest income						40
Finance costs						(29)
Loss before taxation						(585)
Capital expenditure						
Retail	46	29	75	3	4	157
Wholesale	9	8	4	–	4	25
Licensing and others	1	1	3	13	62	80
Total	56	38	82	16	70	262
Depreciation						
Retail	93	81	73	1	13	261
Wholesale	13	16	7	–	3	39
Licensing and others	–	–	–	–	291	291
Total	106	97	80	1	307	591
Impairment of property, plant and equipment						
Retail	6	22	31	–	–	59
Licensing and others	–	–	–	–	48	48
Total	6	22	31	–	48	107
Additional provision for store closures and leases, net						
Retail	(52)	(102)	200	–	–	46
Wholesale	–	(16)	–	–	–	(16)
Licensing and others	–	(6)	–	–	162	156
Total	(52)	(124)	200	–	162	186
Gain on disposal of subsidiaries						
Others	–	–	–	–	(731)	(731)
Total	–	–	–	–	(731)	(731)

5. Revenue and segment information (continued)

	Germany HK$ million	Rest of Europe HK$ million	Asia Pacific HK$ million	e-shop HK$ million	Corporate services, sourcing, licensing and others HK$ million	Group HK$ million
					For the year ended 30 June 2015	Restated
Total revenue						
Retail	3,186	2,551	2,804	3,884	–	12,425
Wholesale	3,497	3,035	313	–	–	6,845
Licensing and others	–	–	–	–	17,653	17,653
Total	6,683	5,586	3,117	3,884	17,653	36,923
Inter-segment revenue	–	–	–	–	(17,502)	(17,502)
Revenue from external customers						
Retail	3,186	2,551	2,804	3,884	–	12,425
Wholesale	3,497	3,035	313	–	–	6,845
Licensing and others	–	–	–	–	151	151
Total	6,683	5,586	3,117	3,884	151	19,421
Segment results						
Retail	(635)	(570)	(315)	946	(1)	(575)
Wholesale	611	(75)	42	–	30	608
Licensing and others	–	–	–	–	(1,204)	(1,204)
Total	(24)	(645)	(273)	946	(1,175)	(1,171)
Impairment of goodwill (Note)						
Retail	–	–	(1,324)	–	–	(1,324)
Wholesale	–	–	(1,188)	–	–	(1,188)
Total	–	–	(2,512)	–	–	(2,512)
EBIT/(LBIT)	(24)	(645)	(2,785)	946	(1,175)	(3,683)
Interest income						45
Finance costs						(29)
Loss before taxation						(3,667)
Capital expenditure						
Retail	47	43	96	2	1	189
Wholesale	14	19	12	–	–	45
Licensing and others	3	11	8	1	92	115
Total	64	73	116	3	93	349
Depreciation						
Retail	122	110	100	1	9	342
Wholesale	17	24	12	–	–	53
Licensing and others	–	–	–	–	318	318
Total	139	134	112	1	327	713
Impairment of property, plant and equipment						
Retail	54	107	8	–	–	169
Wholesale	–	2	–	–	–	2
Total	54	109	8	–	–	171
Additional provision for store closures and leases, net						
Retail	81	179	–	–	–	260
Wholesale	–	16	–	–	–	16
Licensing and others	–	6	–	–	–	6
Total	81	201	–	–	–	282

Note: An impairment charge of HK$2,512 million for the China goodwill was recognized for the year ended 30 June 2015 (Note 4(b)).

5. Revenue and segment information (continued)

Revenue from external customers is attributed to the following countries based on the location in which the sales originated:

	2016 HK$ million	2015 HK$ million Restated
Germany (Note 1)	**6,057**	6,683
Rest of Europe		
Benelux	**1,542**	1,862
France	**866**	979
Switzerland	**734**	771
Austria	**629**	680
Sweden	**233**	252
Spain	**202**	213
Finland	**201**	255
Italy	**123**	131
United Kingdom	**96**	153
Denmark	**68**	84
Poland	**65**	11
Others (Notes 1, 2)	**180**	195
	4,939	5,586
Asia Pacific		
China	**1,048**	1,419
Hong Kong	**331**	386
Australia and New Zealand	**304**	358
Singapore	**253**	300
Malaysia	**191**	239
Taiwan	**186**	200
Macau	**102**	132
Others (Note 3)	**72**	83
	2,487	3,117
e-shop		
Germany	**2,480**	2,400
Benelux	**568**	537
France	**262**	242
Switzerland	**250**	239
Austria	**203**	184
China	**134**	81
United Kingdom	**55**	50
Denmark	**43**	39
Finland	**32**	29
Sweden	**29**	17
Australia and New Zealand	**20**	17
Spain	**14**	10
Others	**63**	39
	4,153	3,884
Licensing and others		
Rest of Europe (Note 4)	**130**	137
Germany	**22**	14
	152	151
	17,788	19,421

Note 1: For the year ended 30 June 2016, Germany wholesale revenue from other European countries mainly Slovenia, Bosnia-Herzegovina and Romania, has been re-grouped from others under Rest of Europe to Germany. Comparative figures have been restated accordingly.

Note 2: Others under Rest of Europe include revenue from other countries mainly Chile, Colombia and the Middle East.

Note 3: Others under Asia Pacific include wholesale revenue from other countries mainly Thailand and the Philippines.

Note 4: Revenue from Rest of Europe represents licensing income that comes from Asia Pacific, Europe other than Germany, America and the Middle East.

Non-current assets other than deferred tax assets and financial instruments are located in the following countries:

	2016 HK$ million	2015 HK$ million
Hong Kong	**42**	248
Germany	**1,703**	2,052
Other countries (Note)	**3,335**	3,583
	5,080	5,883

Note: Non-current assets located in other countries include intangible assets of **HK$2,902 million** (2015: HK$3,031 million) (Note 13).

During the year, the revenue from the Group's largest customer amounted to less than 10% of the Group's total revenue (2015: less than 10%).

6. Operating loss (LBIT)

	2016 HK$ million	2015 HK$ million
LBIT is arrived at after charging and (crediting) the following:		
Staff costs (Note a)	**3,480**	3,562
Auditor's remuneration	**15**	14
Depreciation	**591**	713
Amortization of customer relationships	**62**	65
Impairment of goodwill	**-**	2,512
Impairment of property, plant and equipment (Note b)	**107**	171
Gain on disposal of subsidiaries (Note 27)	**(731)**	-
Additional provision for store closures and leases, net (Note c)	**186**	282
Loss/(gain) on disposal of property, plant and equipment	**16**	(15)
Occupancy costs		
– operating lease charge (including variable rental of **HK$264 million** (2015: HK$340 million))	**2,199**	2,516
– other occupancy costs	**594**	644
Cash flow hedges:		
– ineffective portion transferred from equity to exchange gains on forward foreign exchange contracts	**(22)**	(19)
– ineffective portion recognized in exchange gains on forward foreign exchange contracts not qualifying for hedge accounting	**(3)**	(5)
Fair value hedges:		
– exchange loss on hedged items	**6**	1
Other net exchange (gains)/losses	**(131)**	49
Additional/(write-back of) provision for obsolete inventories, net	**45**	(266)
Provision for impairment of trade debtors, net	**98**	134

6. Operating loss (LBIT) (continued)

Note a: During the year, the Group executed staff reduction plans to reduce overhead costs. This triggered one-off related costs totaling **HK$462 million** which was recognized under staff costs for the current financial year.

Note b: During the year, an impairment of **HK$48 million** in relation to the IT applications of Esprit Kids division was recognized because of the license agreement with Groupe Zannier to effectively develop the Esprit Kids business.

Note c: During the year, the Group recognized a net additional provision of **HK$186 million**, including a provision of **HK$198 million** for store closures and onerous leases in relation to loss-making stores in Asia Pacific, an additional provision of **HK$162 million** in connection with an agreement to sublet store space on 34th Street, New York, and partially offset by a net write-back of provision of **HK$174 million** for store closures and onerous leases made in prior years primarily due to improvement in retail performance in Europe.

7. Finance costs

	2016 HK$ million	2015 HK$ million
Interest on bank loan	**–**	1
Imputed interest on financial assets and financial liabilities	**29**	28
	29	29

8. Taxation

	2016 HK$ million	2015 HK$ million
Current tax		
Hong Kong profits tax		
Provision for current year	**2**	2
Over-provision for prior years	**(404)**	–
Overseas taxation		
Provision for current year	**53**	127
(Over)/under-provision for prior years	**(52)**	49
	(401)	178
Deferred tax (Note 22)		
Current year net credit	**(204)**	(150)
Effect of changes in tax rates	**(1)**	1
Taxation ((credit)/charge)	**(606)**	29

Hong Kong profits tax is calculated at **16.5%** (2015: 16.5%) on the estimated assessable profit for the year, net of tax losses carried forward, if applicable.

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

The tax on the Group's profit before taxation differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the Group's subsidiaries. The effective tax rate was **103.7%** (2015: -0.8%).

	2016 HK$ million	2015 HK$ million
Loss before taxation	**(585)**	(3,667)
Tax calculated at applicable tax rates	**(213)**	20
Expenses not deductible for tax purposes	**55**	40
Non-taxable income	**(130)**	(13)
Utilization of previously unrecognized tax losses	**(8)**	(1)
Tax effect of tax losses not recognized	**251**	59
(Over)/under-provision for prior years, net	**(456)**	49
Tax effect on deferred tax balances due to changes in income tax rates	**(1)**	1
Temporary differences not recognized	**(10)**	(8)
Tax on undistributed earnings	**(89)**	(45)
Recognition of previously unrecognized tax losses	**(5)**	(73)
Taxation ((credit)/charge)	**(606)**	29

The Inland Revenue Department of Hong Kong ("IRD") initiated tax inquiries for the years of assessment 2006/2007 to 2008/2009 concerning taxability of income generated by subsidiaries engaged in the distribution operation of the Group. Notices of assessment for additional tax in an aggregate sum of approximately HK$1,664 million were issued to the Group for the years under review and objections were properly lodged with the IRD by the Group. The IRD agreed to hold over the tax claim subject to the purchase of tax reserve certificates (the "TRCs") of approximately HK$319 million for those years of assessments. These TRCs were purchased by the Group in prior years. During the current year, the Group concluded the tax inquiries with the IRD. The Group received favorable revised notices of tax assessment and a corresponding cash refund in the aggregate amount of approximately HK$134 million. Based on the conclusion of the tax inquiries, a write-back of unutilized tax provision of approximately HK$409 million was recognized in the income statement.

In June 2014, a subsidiary of the Group in Germany received a letter from the tax authority in relation to a dispute on a value-added-tax ("VAT") matter involving payment of interests totaling approximately HK$780 million, to which the subsidiary had lodged objection. Based on the advice from the Group's tax advisor, the Board of Directors considers that the payment of interests is unlikely, and therefore no additional provision has been made.

9. Dividends

	2016 HK$ million	2015 HK$ million
No interim dividend (2015: HK$0.015 per share)	–	29
No proposed final dividend (2015: Nil)	–	–
	–	29

The Board of Directors does not recommend the distribution of a final dividend for the year ended 30 June 2016 (2015: nil).

10. Earnings/(loss) per share

Basic

Basic earnings or loss per share is calculated by dividing the profit or loss attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the year less shares held for Share Award Scheme.

	2016	2015
Profit/(loss) attributable to shareholders of the Company (HK$ million)	21	(3,696)
Weighted average number of ordinary shares in issue less shares held for Share Award Scheme (million)	1,944	1,943
Basic earnings/(loss) per share (HK$ per share)	0.01	(1.90)

Diluted

Diluted earnings or loss per share is calculated based on the profit or loss attributable to shareholders of the Company, and the weighted average number of shares in issue during the year less shares held for Share Award Scheme after adjusting for the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares granted under the Company's share option schemes and share award scheme. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares for the year) based on the monetary value of the subscription rights attached to the outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options and the vesting of awarded shares.

	2016	2015
Profit/(loss) attributable to shareholders of the Company (HK$ million)	21	(3,696)
Weighted average number of ordinary shares in issue less shares held for Share Award Scheme (million)	1,944	1,943
Adjustments for share options and awarded shares (million)	–	1
Weighted average number of ordinary shares for diluted earnings per share (million)	1,944	1,944
Diluted earnings/(loss) per share (HK$ per share)	0.01	(1.90)

Diluted loss per share for the year ended 30 June 2015 was the same as the basic loss per share since the share options had anti-dilutive effect.

11. Staff costs (including directors' emoluments)

	2016 HK$ million	2015 HK$ million
Salaries and wages	2,537	2,754
Social security costs and other staff costs	841	656
Pensions costs of defined contribution plans	76	89
Employee share-based compensation benefits	26	63
	3,480	3,562

Note: During the year, the Group executed staff reduction plans to reduce overhead costs. This triggered one-off related costs totaling **HK$462 million** which was recognized under staff costs for the current financial year.

Defined contribution retirement schemes

The Group principally participates in defined contribution plans. In Hong Kong, the Group participates in the Mandatory Provident Fund Scheme operated by HSBC Provident Fund Trustee (Hong Kong) Limited. Contributions at a fixed rate of 5% of the employee's relevant income, subject to a cap of monthly relevant income of HK$30,000 per employee, are made to the scheme and are vested immediately. The Group also operates several defined contribution retirement plans for its overseas subsidiaries and pays contributions to publicly or privately administered pension plans on a mandatory, contractual or voluntary basis. Contributions to the schemes by the Group and employees are calculated at fixed percentages of employees' basic salaries or at agreed fixed amounts.

Under the defined contribution scheme in some countries, where employees leave the scheme prior to the full vesting of the employer's contributions, the amount of forfeited contributions is used to reduce the contributions payable by the Group. During the year, the Group did not have any contributions forfeited in accordance with the schemes' rules (2015: nil) which have been applied towards the contributions payable by the Group.

12. Directors' and senior management's emoluments

(a) Directors' emoluments

Name of Director	Fees[7] HK$'000	Basic salaries, allowance and benefits in kind HK$'000	Bonuses[9] HK$'000	Employee share-based compensation benefits HK$'000	Provident fund contributions/ retirement benefit costs HK$'000	2016 Total emoluments HK$'000
Jose Manuel **MARTINEZ GUTIERREZ**[5]	–	13,290 (EUR1,542,311)	2,154 (EUR250,000)	6,242 (EUR724,448)	18 (EUR2,089)	21,704 (EUR2,518,848)
Thomas **TANG** Wing Yung[6]	–	8,092	–	3,186	18	11,296
Raymond **OR** Ching Fai[2,4]	2,150	–	–	–	–	2,150
Paul **CHENG** Ming Fun[2,4,5]	1,465	–	–	–	–	1,465
Jürgen Alfred Rudolf **FRIEDRICH**[1,5]	565	–	–	–	–	565
José María **CASTELLANO RIOS**[2,3,6,8]	655	–	–	–	–	655
Alexander Reid **HAMILTON**[2,3,4]	735	–	–	–	–	735
Carmelo **LEE** Ka Sze[2,4,5,6]	800	–	–	–	–	800
Norbert Adolf **PLATT**[2,3,5]	665	–	–	–	–	665
Total for the year 2016	**7,035**	**21,382**	**2,154**	**9,428**	**36**	**40,035**

Name of Director	Fees[7] HK$'000	Basic salaries, allowance and benefits in kind HK$'000	Bonuses[9] HK$'000	Employee share-based compensation benefits HK$'000	Provident fund contributions/ retirement benefit costs HK$'000	2015 Total emoluments HK$'000
Jose Manuel **MARTINEZ GUTIERREZ**[5]	–	14,371 (EUR1,541,324)	13,986 (EUR1,500,000)	6,631 (EUR711,174)	100 (EUR10,723)	35,088 (EUR3,763,221)
Thomas **TANG** Wing Yung	–	8,087	1,739	3,368	18	13,212
Raymond **OR** Ching Fai[2,4]	2,150	–	–	1,097	–	3,247
Paul **CHENG** Ming Fun[2,4,5]	1,465	–	–	683	–	2,148
Jürgen Alfred Rudolf **FRIEDRICH**[1,3,5]	608	–	–	268	–	876
José María **CASTELLANO RIOS**[2,3,8]	332	–	–	–	–	332
Alexander Reid **HAMILTON**[2,3,4]	735	–	–	268	–	1,003
Carmelo **LEE** Ka Sze[2,4,5]	650	–	–	244	–	894
Norbert Adolf **PLATT**[2,3,5]	665	–	–	268	–	933
Total for the year 2015	6,605	22,458	15,725	12,827	118	57,733

1 Non-executive Director
2 Independent Non-executive Director
3 Members of the Audit Committee
(a) From 1 July 2014 to 3 December 2014 – Mr Alexander Reid HAMILTON (Chairman), Mr Jürgen Alfred Rudolf FRIEDRICH and Mr Norbert Adolf PLATT
(b) From 4 December 2014 to 30 June 2016 – Mr Alexander Reid HAMILTON (Chairman), Dr José María CASTELLANO RIOS and Mr Norbert Adolf PLATT
4 Members of the Nomination Committee
5 Members of the Remuneration Committee
6 Members of the Risk Management Committee
7 The amount includes directors' fees of **HK$6.5 million** (2015: HK$6.0 million) paid to Independent Non-executive Directors
8 Dr José María CASTELLANO RIOS was appointed as Independent Non-executive Director with effect from 4 December 2014
9 During the current year, there was no discretionary bonus to the directors (2015: HK$1.7 million)

12. Directors' and senior management's emoluments (continued)

(a) Directors' emoluments (continued)

Directors' retirement benefits
No retirement benefits were provided to or receivable by any director during the year (2015: Nil).

Directors' termination benefits
No termination benefits were provided to or receivable by any director during the year as compensation for the early termination of appointment (2015: Nil).

Consideration provided to third parties for making available directors' services
No consideration was provided to or receivable by third parties for making available directors' services during the year (2015: Nil).

Information about loans, quasi-loans and other dealings in favor of directors, controlled bodies corporate by and connected entities with such directors
There are no loans, quasi-loans or other dealings in favor of the directors, their controlled bodies corporate and connected entities during the year (2015: Nil).

Directors' material interests in transactions, arrangements or contracts
No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included **two** (2015: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining **three** (2015: three) individuals during the year are as follow:

	2016 HK$'000	2015 HK$'000
Salaries, housing and other allowances and benefits in kind	20,579	35,683
Bonuses	1,909	12,060
Employee share-based compensation benefits	7,533	10,654
Pensions costs of defined contribution plans	337	1,284
	30,358	59,681

The emoluments fell within the following bands:

Emoluments band	Number of individuals 2016	2015
HK$7,000,001 – HK$ 7,500,000	1	–
HK$7,500,001 – HK$ 8,000,000	1	–
HK$15,500,001 – HK$ 16,000,000	1	–
HK$16,000,001 – HK$ 16,500,000	-	1
HK$19,500,001 – HK$ 20,000,000	-	1
HK$23,500,001 – HK$ 24,000,000	-	1

13. Intangible assets

	Trademarks HK$ million	Goodwill HK$ million	Customer relationships HK$ million	Total HK$ million
Cost				
At 1 July 2015	1,943	5,272	646	7,861
Exchange translation	(1)	(334)	(41)	(376)
At 30 June 2016	1,942	4,938	605	7,485
Amortization and impairment				
At 1 July 2015	-	4,482	348	4,830
Exchange translation	-	(285)	(24)	(309)
Amortization charge	-	-	62	62
At 30 June 2016	-	4,197	386	4,583
Net book value				
At 30 June 2016	1,942	741	219	2,902
Cost				
At 1 July 2014	2,003	5,273	646	7,922
Exchange translation	(60)	(1)	-	(61)
At 30 June 2015	1,943	5,272	646	7,861
Amortization and impairment				
At 1 July 2014	-	1,969	283	2,252
Exchange translation	-	1	-	1
Amortization charge	-	-	65	65
Impairment charge (Note 4(b))	-	2,512	-	2,512
At 30 June 2015	-	4,482	348	4,830
Net book value				
At 30 June 2015	1,943	790	298	3,031

Trademarks

The trademarks are considered to have an indefinite useful life and were tested for impairment at 30 June 2016, as described in note 4(a). The recoverable amount of the Esprit trademarks as at 30 June 2016 was higher than their carrying amount.

Goodwill

The goodwill arising from the business combinations during the year ended 30 June 2010 was allocated to the Group's CGUs identified according to operating segment. An operating segment-level summary of the goodwill allocation as at 30 June 2016 is presented below:

	2016				2015		
	e-shop HK$ million	Retail (excluding e-shop) HK$ million	Wholesale HK$ million	Total HK$ million	Retail HK$ million	Wholesale HK$ million	Total HK$ million
China (Note)	504	36	115	655	577	123	700
Finland	-	-	34	34	-	34	34
Total	504	36	149	689	577	157	734

Note: The comparative figures are not restated as the information is not available and the cost to develop it would be excessive. Based on the goodwill impairment assessment, there was no impairment of China goodwill for the year ended 30 June 2016 (2015: impairment charge of HK$2,512 million).

14. Property, plant and equipment

	Freehold land outside Hong Kong HK$ million	Leasehold land in Hong Kong HK$ million	Buildings HK$ million	Leasehold improvements and fixtures HK$ million	Plant and machinery HK$ million	Furniture and office equipment HK$ million	Motor vehicles HK$ million	Construction in progress HK $ million	Total HK$ million
Cost									
At 1 July 2015	24	196	322	3,631	430	3,667	43	19	8,332
Exchange translation	(1)	-	(3)	(64)	(4)	(40)	-	(1)	(113)
Additions	-	-	-	144	-	81	12	25	262
Transfer	-	-	-	3	-	3	-	(6)	-
Disposals	(3)	-	(27)	(517)	-	(383)	(16)	-	(946)
Disposal of subsidiaries (Note 27)	-	(170)	(103)	-	-	-	-	-	(273)
At 30 June 2016	20	26	189	3,197	426	3,328	39	37	7,262
Depreciation and impairment									
At 1 July 2015	-	53	120	2,818	104	2,371	31	-	5,497
Exchange translation	-	-	(2)	(49)	(1)	(27)	-	-	(79)
Depreciation charge for the year	-	3	8	215	34	324	7	-	591
Impairment charge	-	-	1	50	-	56	-	-	107
Disposals	-	-	(27)	(502)	-	(378)	(14)	-	(921)
Disposal of subsidiaries (Note 27)	-	(45)	(47)	-	-	-	-	-	(92)
At 30 June 2016	-	11	53	2,532	137	2,346	24	-	5,103
Net book value									
At 30 June 2016	20	15	136	665	289	982	15	37	2,159

	Freehold land outside Hong Kong HK$ million	Leasehold land in Hong Kong HK$ million	Buildings HK$ million	Leasehold improvements and fixtures HK$ million	Plant and machinery HK$ million	Furniture and office equipment HK$ million	Motor vehicles HK$ million	Construction in progress HK$ million	Total HK$ million
Cost									
At 1 July 2014	25	196	393	4,454	523	4,306	54	49	10,000
Exchange translation	(1)	-	(38)	(640)	(92)	(690)	(9)	(10)	(1,480)
Additions	-	-	-	189	-	138	6	16	349
Transfer	-	-	-	6	-	25	-	(31)	-
Acquisition of businesses	-	-	-	9	-	8	-	-	17
Disposals	-	-	(33)	(387)	(1)	(120)	(8)	(5)	(554)
At 30 June 2015	24	196	322	3,631	430	3,667	43	19	8,332
Depreciation and impairment									
At 1 July 2014	-	48	146	3,221	86	2,492	35	-	6,028
Exchange translation	-	-	(9)	(455)	(18)	(393)	(6)	-	(881)
Depreciation charge for the year	-	5	15	282	37	365	9	-	713
Impairment charge	-	-	-	147	-	24	-	-	171
Disposals	-	-	(32)	(377)	(1)	(117)	(7)	-	(534)
At 30 June 2015	-	53	120	2,818	104	2,371	31	-	5,497
Net book value									
At 30 June 2015	24	143	202	813	326	1,296	12	19	2,835

The leasehold land in Hong Kong is held on medium-term (10 to 50 years) leases and is held under finance leases.

15. Investment properties

	2016 HK$ million	2015 HK$ million
At 1 July	**17**	16
Change in fair value of investment properties	**2**	1
At 30 June	**19**	17

The investment properties represent certain medium-term leasehold land and buildings located in the People's Republic of China. An independent professional valuer, American Appraisal China Limited, valued the properties at 30 June 2016 on an open market value basis at **HK$19 million** (2015: HK$17 million).

The fair values of the investment properties have been generally derived using the sales comparison approach. Sales prices of comparable properties in close proximity are adjusted for differences in key attributes such as property size. The most significant input into this valuation approach is price per square meter.

The following table presents the carrying value of investment properties measured at fair value according to the levels of the fair value hierarchy defined in IFRS 13 "Fair Value Measurement", with the fair value of each asset and liability categorized based on the lowest level of input that is significant to that fair value measurement.

	Level 1 HK$ million	Level 2 HK$ million	Level 3 HK$ million	Total HK$ million
Recurring fair value measurements:				
Assets				
Investment properties in PRC				
For the year ended 30 June 2016	**-**	**19**	**-**	**19**
For the year ended 30 June 2015	-	17	-	17

During the year, there were no transfers between Level 1 and Level 2.

The Group's policy is to recognize transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

16. Inventories

	2016 HK$ million	2015 HK$ million
Finished goods	**2,673**	2,864
Consumables	**71**	105
Raw materials	**1**	-
	2,745	2,969

17. Debtors, deposits and prepayments

	2016 HK$ million	2015 HK$ million
Trade debtors	**1,487**	1,741
Less: provision for impairment of trade debtors	**(229)**	(298)
	1,258	1,443
Deposits	**166**	188
Prepayments	**188**	221
Other debtors and receivables	**179**	396
	1,791	2,248
Non-current portion of deposits	**(125)**	(150)
Non-current portion of prepayments	**(67)**	(74)
Non-current portion of other debtors and receivables	**(28)**	(16)
Current portion	**1,571**	2,008
Maximum exposure to credit risk	**1,603**	2,027

The aging analysis by invoice date* of trade debtors net of provision for impairment is as follows:

	2016 HK$ million	2015 HK$ million
0 – 30 days	**839**	916
31 – 60 days	**157**	171
61 – 90 days	**80**	117
Over 90 days	**182**	239
	1,258	1,443

* The amendment to paragraph 4(2) in Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") specifies that the aging analysis should normally be presented on the basis of the invoice date. The Group presented the aging analysis by due date in prior financial years. The Group has changed to present the aging analysis by invoice date. Comparative figures were presented accordingly.

As of 30 June 2016, trade debtors net of provision for impairment of **HK$317 million** (30 June 2015: HK$326 million) were past due but not impaired. The aging analysis of these trade debtors is as follows:

	2016 HK$ million	2015 HK$ million
1 – 30 days	**148**	93
31 – 60 days	**31**	46
61 – 90 days	**15**	25
Over 90 days	**123**	162
Amount past due but not impaired	**317**	326

The carrying amounts of debtors, deposits and prepayments approximate their fair values.

There is no concentration of credit risk with respect to trade debtors as the Group has a large number of internationally dispersed customers.

Concerning trade debtors that are neither impaired nor past due, there were no indications at the date of the statement of financial position that defaults in payment obligations will occur as these relate to a number of independent customers for whom there is no recent history of default.

17. Debtors, deposits and prepayments (continued)

Movements in provision for impairment of trade debtors are as follows:

	2016 HK$ million	2015 HK$ million
At 1 July	**298**	436
Provision for impairment of trade debtors	**137**	185
Bad debts written off	**(164)**	(199)
Unused amounts reversed	**(39)**	(51)
Exchange translation	**(3)**	(73)
At 30 June	**229**	298

The individually impaired receivables mainly relate to wholesalers which have unexpected liquidity problems.

18. Cash, bank balances and deposits

Cash, bank balances and deposits include the following for the purposes of the consolidated statement of cash flows:

	2016 HK$ million	2015 HK$ million
Bank balances and cash	**2,856**	2,602
Bank deposits with maturities within three months	**629**	1,086
Bank deposits with maturities of more than three months	**1,856**	1,329
	5,341	5,017

Included in bank deposits with maturities of more than three months as at 30 June 2016, **HK$286 million** are pledged as a security to a bank for granting the bank facility to the Group.

The maximum exposure to credit risk as at 30 June 2016 is the carrying amount of bank balances and bank deposits.

The effective interest rate on cash, bank balances and deposits for the year was determined to be **0.8%** (2015: 0.6%) per annum.

19. Share capital

	Number of shares of HK$0.10 each million	HK$ million
Authorized:		
At 30 June 2015 and 30 June 2016	**3,000**	**300**

	Number of shares of HK$0.10 each million	Nominal value HK$ million
Issued and fully paid:		
At 1 July 2015 and 30 June 2016	**1,944**	**194**
At 1 July 2014	1,942	194
Exercise of share options (Note (a))	–	–
Issue of scrip shares (Note (b))	2	–
At 30 June 2015	1,944	194

Notes:

(a) Exercise of share options

During the year, no share option was exercised (2015: 315,000 ordinary shares of HK$0.10 each were issued in respect of the share options exercised under the 2009 Share Option Scheme (defined in note (c) below) at exercise price of HK$8.76 each (representing a premium of HK$8.66 each)).

(b) Issue of scrip shares

On 3 December 2014, the shareholders approved a final dividend of HK$0.04 per share for the year ended 30 June 2014. The shareholders were provided with an option to receive the final dividend in form of new fully paid shares in lieu of cash. On 27 January 2015, 669,872 ordinary shares were issued in respect of the final dividend.

On 25 February 2015, the Board of Directors declared an interim dividend of HK$0.015 per share for the six months ended 31 December 2014. The shareholders were provided with an option to receive the interim dividend in form of new fully paid shares in lieu of cash. On 28 April 2015, 714,210 ordinary shares were issued in respect of the interim dividend.

(c) Share options

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, notwithstanding that the share options which were granted and remained outstanding and/or committed as of that date continued to follow the provisions of the 2001 Share Option Scheme and the Listing Rules.

The Company adopted a new share option scheme on 10 December 2009 (the "2009 Share Option Scheme").

Information on the Schemes

The following is a summary of the 2001 Share Option Scheme and the 2009 Share Option Scheme (collectively the "Schemes") disclosed in accordance with the Listing Rules.

Purpose of the Schemes

The Schemes are share incentive schemes and are established to recognize and acknowledge the contributions that eligible persons have made or may make to the Group.

The Schemes provide eligible persons with an opportunity to have a personal stake in the Company with a view to:

(i) motivating eligible persons to optimize their performance and efficiency for the benefit of the Group; and

(ii) attracting and retaining or otherwise maintaining ongoing business relationships with eligible persons whose contributions are or will be beneficial to the long term growth of the Group.

19. Share capital (continued)

Participants of the Schemes

The Board of Directors may at its discretion grant share options to:

(i) any director, employee, consultant, customer, supplier, agent, partner or adviser of or contractor to the Group or a company in which the Group holds an interest or a subsidiary of such company ("Affiliate"); or

(ii) the trustee of any trust the beneficiary of which or any discretionary trust the discretionary objects of which include any director, employee, consultant, customer, supplier, agent, partner or adviser of or contractor to the Group or an Affiliate; or

(iii) a company beneficially owned by any director, employee, consultant, customer, supplier, agent, partner, adviser of or contractor to the Group or an Affiliate.

Total number of shares available for issue under the Schemes and percentage of issued share capital as at 30 June 2016

The total number of shares available for issue upon exercise of all outstanding share options already granted under the Schemes is 58,705,000 shares (2001 Share Option Scheme: 1,155,000 shares and 2009 Share Option Scheme: 57,550,000 shares), representing 3.02% of the issued share capital of the Company as at 30 June 2016.

The maximum number of shares available for issue upon exercise of share options not yet granted under the Schemes is 45,657,693 shares (2001 Share Option Scheme: Nil and 2009 Share Option Scheme: 45,657,693 shares), representing 2.35% of the issued share capital of the Company as at 30 June 2016.

Maximum entitlement of each participant under the Schemes

The maximum entitlement of each participant under the Schemes shall not exceed any limits that may be imposed under the Listing Rules from time to time as amended and in force.

In accordance with the current Listing Rules, no share options may be granted to any eligible persons which, if exercised in full, would result in the total number of shares issued and to be issued upon exercise of the share options already granted or to be granted to such eligible person under the Schemes or any other schemes of the Company (including exercised, canceled and outstanding share options) in the 12-month period up to and including the date of such new grant exceeding 1% of the issued share capital of the Company at the date of such new grant. Any grant of further share options above this limit is subject to certain requirements as stipulated in the Listing Rules.

The period within which the shares must be taken up under a share option under the Schemes

A share option is exercisable, subject to certain restrictions contained in the Schemes and the terms on which the share option is granted at any time during the applicable share option period which may be determined by the Board of Directors but which shall in no event be more than 10 years from the date of grant of the share option.

The minimum period for which a share option must be held before it can be exercised under the Schemes

There is no general requirement on the minimum period for which a share option must be held or the performance targets which must be achieved before a share option can be exercised under the Schemes. At the time of granting a share option, however, the Board of Directors may, on a case by case basis, make such grant subject to such conditions, restrictions or limitations in relation thereto, including the minimum period for which the share option must be held and/or the performance targets to be achieved, additional to those expressly set forth in the Schemes as the Board of Directors may in its absolute discretion determine.

The amount payable on application or acceptance of the share option and the period within which payments or calls must or may be made or loans for such purposes must be repaid under the Schemes

There is no amount payable on application or acceptance of the share option and the period within which payments or calls must or may be made or loans for such purposes must be repaid.

The basis of determining the subscription price under the Schemes

The price per share at which a grantee may subscribe for shares upon the exercise of a share option is determined by the Board of Directors and shall not be less than the highest of:

(i) the closing price of the Company's shares as stated in the daily quotation sheet of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date of grant of the relevant share option, which must be a Business Day (as defined in the Listing Rules);

(ii) an amount equivalent to the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five Business Days immediately preceding the date of grant of the relevant share option; and

(iii) the nominal value of the Company's shares.

The remaining life of the 2001 Share Option Scheme

On 10 December 2009, the shareholders approved at the annual general meeting of the Company the termination of the 2001 Share Option Scheme and no further share options may be granted to eligible person under the 2001 Share Option Scheme with effect thereof, save and except the share options which were committed prior to such date continued to follow the provisions of the 2001 Share Option Scheme and the Listing Rules.

Details of the share options movement during the year and outstanding share options as at 30 June 2016 under the 2001 Share Option Scheme are as follows:

	Number of share options	
	2016	2015
At 1 July	**4,610,000**	7,795,000
Lapsed during the year	**(2,165,000)**	(2,885,000)
Forfeited during the year	**(1,290,000)**	(300,000)
At 30 June (Note (i))	**1,155,000**	4,610,000

19. Share capital (continued)

The remaining life of the 2001 Share Option Scheme (continued)

Notes:

(i) Share options outstanding at the end of the year have the following terms:

Expiry date	Exercise price HK$	Number of share options outstanding as at 30 June 2016	2015
Employees and consultants			
9 December 2015 *	53.74	**–**	920,000
11 December 2015 *	53.90	**–**	555,000
4 February 2016 *	57.70	**–**	600,000
5 February 2016 *	55.46	**–**	300,000
9 December 2016 *	37.92	**300,000**	552,000
9 December 2016 **	37.92	**–**	138,000
13 December 2016 *	38.10	**255,000**	444,000
13 December 2016 **	38.10	**–**	111,000
11 February 2017 *	40.40	**300,000**	240,000
11 February 2017 **	40.40	**–**	60,000
9 December 2017 *	11.09	**240,000**	414,000
9 December 2017 **	11.09	**60,000**	276,000
		1,155,000	4,610,000

* The share options listed above are vested as of the respective dates of the statement of financial position.

** The share options listed above are not vested as of the respective dates of the statement of financial position.

The remaining life of the 2009 Share Option Scheme

Share options may be granted to eligible persons under the 2009 Share Option Scheme for the period until 9 December 2019.

Details of the share options movement during the year and outstanding share options as at 30 June 2016 under the 2009 Share Option Scheme are as follows:

	Number of share options 2016	2015
At 1 July	**63,020,000**	58,010,000
Granted during the year (Note (i))	**10,725,000**	11,825,000
Exercised during the year	**–**	(315,000)
Lapsed during the year	**(425,000)**	(2,000,000)
Forfeited during the year	**(15,770,000)**	(4,500,000)
At 30 June (Note (ii))	**57,550,000**	63,020,000

Notes:

(i) Details of share options granted during the year ended 30 June 2016 are as follows:

Exercise period	Exercise price HK$	Number of share options
13 October 2018 – 12 October 2025	**6.55**	**8,840,000**
13 October 2019 – 12 October 2025	**6.55**	**680,000**
13 October 2020 – 12 October 2025	**6.55**	**680,000**
13 October 2018 – 12 October 2025	**8.07**	**125,000**
03 May 2019 – 02 May 2026	**6.82**	**240,000**
03 May 2020 – 02 May 2026	**6.82**	**80,000**
03 May 2021 – 02 May 2026	**6.82**	**80,000**
		10,725,000

(ii) Share options outstanding at the end of the year have the following terms:

Expiry date	Exercise price HK$	Number of share options outstanding as at 30 June 2016	2015
Directors			
11 March 2023 *	10.04	**4,500,000**	–
11 March 2023 **	10.04	**2,800,000**	7,300,000
4 November 2023 **	14.18	**700,000**	700,000
30 June 2024 *	11.00	**1,160,000**	1,160,000
31 October 2024 **	10.124	**700,000**	700,000
Employees and consultants			
19 April 2016 *	62.21	**–**	800,000
1 February 2017* (Note 1)	8.76	**300,000**	–
1 February 2017* (Note 2)	10.04	**45,000**	–
1 February 2017* (Note 3)	12.32	**150,000**	–
1 February 2017* (Note 4)	14.18	**150,000**	–
19 April 2017 *	34.71	**–**	480,000
19 April 2017 **	34.71	**–**	120,000
10 May 2018 *	14.78	**–**	360,000
10 May 2018 **	14.78	**–**	240,000
27 September 2020 *	43.00	**2,080,000**	2,830,000
17 May 2021 *	30.90	**–**	800,000
17 May 2021 **	30.90	**–**	200,000
16 September 2021 *	18.17	**–**	600,000
16 September 2021 **	18.17	**–**	400,000
27 September 2021 *	8.76	**5,175,000**	7,700,000
12 December 2022 *	12.32	**3,365,000**	–
12 December 2022 **	12.32	**–**	4,840,000
11 March 2023 *	10.04	**4,929,000**	–
11 March 2023 **	10.04	**3,246,000**	11,240,000
4 November 2023 **	14.18	**8,800,000**	10,675,000
21 March 2024 **	13.592	**500,000**	850,000
30 June 2024 **	11.00	**300,000**	350,000
31 October 2024 *	10.124	**100,000**	100,000
31 October 2024 **	10.124	**8,275,000**	10,575,000
13 October 2025 **	6.55	**9,750,000**	–
13 October 2025 **	8.07	**125,000**	–
3 May 2026 **	6.82	**400,000**	–
		57,550,000	63,020,000

* The share options listed above are vested as of the respective dates of the statement of financial position.

** The share options listed above are not vested as of the respective dates of the statement of financial position.

Note 1: With effect from 23 February 2016, the exercise period of 300,000 share options at exercise price of HK$8.76 was changed from the period of 27 September 2014 to 26 September 2021 to the period of 27 September 2014 to 31 January 2017.

Note 2: With effect from 23 February 2016, the exercise period of 45,000 share options at exercise price of HK$10.04 was changed from the period of 11 March 2016 to 10 March 2023 to the period of 11 March 2016 to 31 January 2017.

Note 3: With effect from 23 February 2016, the exercise period of 150,000 share options at exercise price of HK$12.32 was changed from the period of 12 December 2015 to 11 December 2022 to the period of 12 December 2015 to 31 January 2017.

Note 4: With effect from 23 February 2016, the exercise period of 150,000 share options at exercise price of HK$14.18 was changed from the period of 4 November 2016 to 3 November 2023 to the period of 4 November 2016 to 31 January 2017.

19. Share capital (continued)

The remaining life of the 2009 Share Option Scheme (continued)

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

Date of grant	Share option value[1] HK$	Share price at the date of grant[2] HK$	Exercise price HK$	Expected volatility[3]	Annual risk-free interest rate[4]	Life of share option[5]	Dividend yield[6]
The 2009 Share Option Scheme							
13 October 2015	2.40 – 2.92	6.55	6.55	47.36% – 48.84%	0.78% – 1.12%	4 – 6 years	0.28%
23 December 2015	2.72	8.07	8.07	44.15%	0.86%	3.8 years	0.28%
3 May 2016	2.27 – 3.00	6.68	6.82	44.09% – 51.07%	0.95% – 1.09%	4 – 6 years	0.28%

1. Since the share 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. The share price at the date of grant disclosed is the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the relevant share option; where the date of grant of the relevant share option did not fall on a Business Day (as defined in the Listing Rules), the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet immediately preceding the date of grant was disclosed.

3. As stated in IFRS 2, the issuer can use either (i) implied volatilities obtained from market information; or (ii) historical volatilities as expected volatility input to the Binomial option pricing model. For share options granted under the 2009 Share Option Scheme, Esprit has estimated volatility based on the historical stock prices over the period corresponding to the expected life preceding the date of grant, expressed as an annualized rate and based on daily price changes.

4. 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 share option life.

5. The expected share option life was determined by reference to historical data of share option holders' behavior.

6. For share options granted under the 2009 Share Option Scheme, dividend yield was based on the average dividend yield (including special dividend) for the three years preceding the year of grant.

(d) Awarded shares

The Board of Directors has adopted the Employees' Share Award Scheme (the "Share Award Scheme") on 17 March 2016. The purpose of the Share Award Scheme is to incentivize and retain selected senior management of the Group.

Pursuant to the rules relating to the Share Award Scheme (the "Scheme Rules"), the Board of Directors shall select any employees of the Group (the "Selected Employees") for participation in the Share Award Scheme and determine the awarded sums or the number of awarded shares. The Company has appointed an independent trustee for the administration of the Share Award Scheme. The trustee shall purchase the required number of shares from the market out of cash paid or to be paid by the Company out of the Company's funds to the trustee. The trustee shall hold such shares on trust for the relevant Selected Employees until they are vested and delivered in accordance with the Scheme Rules and the conditions of the award of such awarded shares (if any).

As at 30 June 2016, the following awarded shares were offered to Selected Employees under the Share Award Scheme:

Date of grant	Number of awarded shares granted	Fair value per share HK$	Vesting date
29 April 2016	3,383,572	6.8	13 October 2017

The fair value of the awarded shares was calculated based on the market price of the Company's shares at the grant date.

Details of the awarded shares movement during the year and outstanding awarded shares as at 30 June 2016 under the Share Award Scheme are as follows:

	Number of awarded shares	
	2016	2015
At 1 July	**–**	–
Granted during the year	**3,383,572**	–
At 30 June	**3,383,572**	–

During the year ended 30 June 2016, the trustee purchased a total of **3,383,600** shares of the Company on the Stock Exchange. The total amount paid to purchase the shares was **HK$23 million**.

20. Creditors and accrued charges

	2016 HK$ million	2015 HK$ million
Trade creditors	**1,021**	1,501
Accruals	**1,827**	1,496
Other creditors and payables	**647**	675
	3,495	3,672

The aging analysis by invoice date* of trade creditors is as follows:

	2016 HK$ million	2015 HK$ million
0 – 30 days	**681**	1,032
31 – 60 days	**203**	302
61 – 90 days	**80**	107
Over 90 days	**57**	60
	1,021	1,501

* The amendment to paragraph 4(2) in Appendix 16 of the Listing Rules specifies that the aging analysis should normally be presented on the basis of the invoice date. The Group presented the aging analysis by due date in prior financial years. The Group has changed to present the aging analysis by invoice date. Comparative figures were presented accordingly.

The carrying amounts of creditors and accrued charges approximate their fair values.

21. Provision for store closures and leases

Movements in provision for store closures and leases are as follows:

	2016 HK$ million	2015 HK$ million
At 1 July	**557**	508
Additional provision for store closures and leases, net	**186**	282
Amounts used during the year	**(130)**	(169)
Exchange translation	**(9)**	(64)
At 30 June	**604**	557

The provision for store closures and leases was made in connection with the store closures and provision for onerous leases for loss-making stores.

During the year, the Group recognized a net additional provision of **HK$186 million**, including a provision of **HK$198 million** for store closures and onerous leases in relation to loss-making stores in Asia Pacific, an additional provision of **HK$162 million** in connection with an agreement to sublet store space on 34th Street, New York, and partially offset by a net write-back of provision of **HK$174 million** for store closures and onerous leases made in prior years primarily due to improvement in retail performance in Europe.

As at 30 June 2016, the provision expected to be settled within twelve months after the date of the statement of financial position is **HK$145 million** (2015: HK$98 million) and the provision expected to be settled more than twelve months after the date of the statement of financial position is **HK$459 million** (2015: HK$459 million).

22. Deferred taxation

The following are the deferred tax assets/(liabilities) recognized and movements thereon during the year:

The Group:

	Accelerated accounting/ tax depreciation HK$ million	Cash flow hedges HK$ million	Elimination of unrealized profits HK$ million	Intangible assets HK$ million	Tax losses HK$ million	Withholding tax on undistributed earnings HK$ million	Other deferred tax assets HK$ million	Other deferred tax liabilities HK$ million	Total HK$ million
At 1 July 2014	119	-	27	(350)	227	(236)	247	(79)	(45)
(Charged)/credited to income statement	21	-	23	15	45	45	32	(31)	150
Changes in tax rates	-	-	-	-	(1)	-	-	-	(1)
Exchange difference recognized in equity	(16)	-	(6)	18	(32)	-	(32)	14	(54)
At 30 June 2015	**124**	**-**	**44**	**(317)**	**239**	**(191)**	**247**	**(96)**	**50**
(Charged)/credited to income statement	**(19)**	**-**	**(14)**	**15**	**175**	**89**	**(44)**	**2**	**204**
Changes in tax rates	**-**	**-**	**-**	**1**	**-**	**-**	**-**	**-**	**1**
Credited to other comprehensive income	**-**	**11**	**-**	**-**	**-**	**-**	**-**	**-**	**11**
Exchange difference recognized in equity	**(1)**	**-**	**-**	**5**	**(5)**	**-**	**(5)**	**1**	**(5)**
At 30 June 2016	**104**	**11**	**30**	**(296)**	**409**	**(102)**	**198**	**(93)**	**261**

22. Deferred taxation (continued)

Deferred tax assets and liabilities are netted off when the taxes relate to the same tax authority and where offsetting is legally enforceable. The following amounts, determined after appropriate offsetting, are shown separately on the consolidated statement of financial position:

	2016 HK$ million	2015 HK$ million
Deferred tax assets	**745**	649
Deferred tax liabilities	**484**	599

At 30 June 2016, the Group had unused tax losses of approximately **HK$3,787 million** (2015: HK$2,234 million) available for offset against future taxable profits. A deferred tax asset has been recognized in respect of approximately **HK$1,458 million** (2015: HK$918 million) of such losses. No deferred tax asset has been recognized in respect of the remaining losses of approximately **HK$2,329 million** (2015: HK$1,316 million). Included in unrecognized tax losses are losses of approximately **HK$556 million** (2015: HK$72 million) that will expire in the next one to ten years. Other losses may be carried forward indefinitely.

Deferred income tax liabilities of **HK$12 million** (2015: HK$17 million) have not been recognized for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries. Such amounts are permanently reinvested.

23. Notes to consolidated statement of cash flows

Reconciliation of loss before taxation to cash (used in)/generated from operations:

	2016 HK$ million	2015 HK$ million
Loss before taxation	**(585)**	(3,667)
Adjustments for:		
Interest income	**(40)**	(45)
Finance costs	**29**	29
Depreciation	**591**	713
Impairment of property, plant and equipment	**107**	171
Impairment of goodwill	**-**	2,512
Loss/(gain) on disposal of property, plant and equipment	**16**	(15)
Gain on disposal of subsidiaries	**(731)**	-
Additional provision for store closures and leases, net	**186**	282
Increase in fair value of investment properties	**(2)**	(1)
Employee share-based compensation benefits	**26**	63
Amortization of customer relationships	**62**	65
	(341)	107
Changes in working capital:		
Decrease in inventories	**224**	294
Decrease in debtors, deposits and prepayments	**296**	954
Decrease in creditors and accrued charges	**(378)**	(675)
Effect of foreign exchange rate changes	**(195)**	(423)
Cash (used in)/generated from operations	**(394)**	257

In the consolidated statement of cash flows, proceeds from disposal of property, plant and equipment comprised:

	2016 HK$ million	2015 HK$ million
Net book value	**25**	20
(Loss)/gain on disposal of property, plant and equipment	**(16)**	15
Proceeds from disposal of property, plant and equipment	**9**	35

24. Operating lease commitments

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

	2016 HK$ million	2015 HK$ million
Land and buildings		
– within one year	**1,881**	2,082
– in the second to fifth year inclusive	**4,567**	5,379
– after the fifth year	**1,441**	1,927
	7,889	9,388
Other equipment		
– within one year	**9**	13
– in the second to fifth year inclusive	**6**	15
	15	28
	7,904	9,416

The operating lease rentals of certain retail outlets are based on the higher of a minimum guaranteed rental or a sales level based rental. The minimum guaranteed rental has been used to arrive at the above commitments.

The total future minimum lease receipts under non-cancelable subleases in respect of land and buildings at 30 June 2016 are **HK$195 million** (2015: HK$159 million).

25. Capital commitments

	2016 HK$ million	2015 HK$ million
Property, plant and equipment		
– Contracted but not provided for	**42**	49

26. Derivative financial instruments

The Group enters into forward foreign exchange 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 30 June 2016, the fair values of the forward foreign exchange contracts included in other receivables and other payables are as follows:

	2016		2015	
	Assets HK$ million	**Liabilities HK$ million**	Assets HK$ million	Liabilities HK$ million
Forward foreign exchange contracts Cash flow hedges	**28**	**66**	189	23

The fair values of the forward foreign exchange contracts have been determined by using observable forward exchange rates from market for equivalent instruments at the date of the statement of financial position.

The following table presents the carrying value of derivative financial instruments measured at fair value according to the levels of the fair value hierarchy defined in IFRS 13 "Fair Value Measurement", with the fair value of each asset and liability categorized based on the lowest level of input that is significant to that fair value measurement.

	At 30 June 2016			
	Level 1 HK$ million	**Level 2 HK$ million**	**Level 3 HK$ million**	**Total HK$ million**
Recurring fair value measurements:				
Assets				
Derivative financial instruments:				
- Forward foreign exchange contracts	**-**	**28**	**-**	**28**
Recurring fair value measurements:				
Liabilities				
Derivative financial instruments:				
- Forward foreign exchange contracts	**-**	**66**	**-**	**66**

	At 30 June 2015			
	Level 1 HK$ million	Level 2 HK$ million	Level 3 HK$ million	Total HK$ million
Recurring fair value measurements:				
Assets				
Derivative financial instruments:				
- Forward foreign exchange contracts	-	189	-	189
Recurring fair value measurements:				
Liabilities				
Derivative financial instruments:				
- Forward foreign exchange contracts	-	23	-	23

During the year, there were no transfers between Level 1 and Level 2.

The Group's policy is to recognize transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

At the date of the statement of financial position, the total notional amount of outstanding forward foreign exchange contracts to which the Group has committed is as follows:

	2016 HK$ million	2015 HK$ million
Forward foreign exchange contracts	**4,136**	5,165

Gains and losses in equity on forward foreign exchange contracts as of 30 June 2016 will be released to the consolidated income statement at various dates between one month to one year from the date of the statement of financial position, to match the recognition of the hedged items in the consolidated income statement.

The ineffective portion recognized in the consolidated income statement that arises from cash flow hedges amounts to a gain of **HK$25 million** (2015: gain of HK$24 million).

27. Disposal of subsidiaries

On 21 March 2016, the Group completed the disposal of six of its wholly-owned subsidiaries, which owned the Hong Kong office properties of the Group to independent third parties. On completion of the disposal, the Group is leasing back majority of the properties with an aggregate rent of approximately HK$2.4 million per month for the first three years and an aggregate rent of approximately HK$2.9 million per month for the next three years. The Company agreed to guarantee certain obligations under the sales and purchase agreement and the leases.

	2016 HK$ million
The net assets as at the date of disposal were as follows:	
Property, plant and equipment	181
Debtors, deposits and prepayment	1
Net assets disposed of	182
Cash consideration received	919
Net assets disposed of	(182)
Expenses incurred for disposal	(6)
Gain on disposal of subsidiaries	731
Analysis of net cash inflow arising on disposal:	
Cash consideration received	919
Expenses incurred for disposal	(6)
	913

28. Related party transactions

Other than the above and the key management compensation as set out in note 12, the Group had no material related party transactions during the year.

29. Statement of financial position and reserve movement of the Company

Statement of financial position of the Company

		At 30 June	
	Notes	2016 HK$ million	2015 HK$ million
Non-current assets			
Investments in subsidiaries, unlisted and at cost		1,280	1,263
Current assets			
Amounts due from subsidiaries		10,395	10,459
Tax receivable		-	1
Cash, bank balances and deposits		6	4
		10,401	10,464
Current liabilities			
Amounts due to subsidiaries		12	18
Accrued charges		11	8
		23	26
Net current assets		10,378	10,438
Total assets less current liabilities		11,658	11,701
Equity			
Share capital	19	194	194
Reserves	(a)	11,464	11,507
Total equity		11,658	11,701

Approved by the Board of Directors on 20 September 2016.

JOSE MANUEL
MARTINEZ GUTIERREZ
Executive Director

THOMAS
TANG WING YUNG
Executive Director

29. Statement of financial position and reserve movement of the Company (continued)

Reserve movement of the Company

	Share premium HK$ million	Shares held for Share Award Scheme HK$ million	Employee share-based payment reserve HK$ million	Contributed surplus HK$ million	Retained profits HK$ million	Total HK$ million
At 1 July 2015	**8,220**	**–**	**836**	**474**	**1,977**	**11,507**
Loss attributable to shareholders	**–**	**–**	**–**	**–**	**(46)**	**(46)**
Employee share-based compensation benefits	**–**	**–**	**26**	**–**	**–**	**26**
Purchase of shares for Share Award Scheme	**–**	**(23)**	**–**	**–**	**–**	**(23)**
At 30 June 2016	**8,220**	**(23)**	**862**	**474**	**1,931**	**11,464**
Representing:						
Proposed final dividend						**–**
Balance after proposed final dividend						**11,464**
At 30 June 2016						**11,464**
At 1 July 2014	8,204	–	774	474	2,138	11,590
Loss attributable to shareholders	–	–	–	–	(54)	(54)
Issue of shares	3	–	–	–	–	3
Employee share option benefits	–	–	63	–	–	63
2013/14 final dividend paid	6	–	–	–	(78)	(72)
2014/15 interim dividend paid	6	–	–	–	(29)	(23)
Transfer of reserve upon exercise of share options	1	–	(1)	–	–	–
At 30 June 2015	8,220	–	836	474	1,977	11,507
Representing:						
Proposed final dividend						–
Balance after proposed final dividend						11,507
At 30 June 2015						11,507

The contributed surplus of the Company represents the difference between the underlying net tangible assets of the subsidiaries acquired by the Company and the nominal amount of the share capital issued by the Company arising from the Group reorganization which became effective on 17 November 1993 and the excess of the value of the shares acquired over the nominal value of the shares issued for the acquisition of Esprit Far East Limited and its subsidiaries on 10 January 1997.

Contributed surplus is available for distribution to shareholders under the laws of Bermuda. Distributable reserves of the Company at 30 June 2016 amounted to **HK$3,267 million** (2015: HK$3,287 million).

30. Principal subsidiaries

The following are the principal subsidiaries as at 30 June 2016 which, in the opinion of the Directors, principally affect the results and net operating assets of the Group. To give details of other subsidiaries would in the opinion of the Directors result in particulars of excessive length. None of the subsidiaries had issued any debt securities at the end of the year.

Name of subsidiary	Place of incorporation/ operation	Attributable equity interest to the Group (Note a)	Issued and fully paid share capital/ registered capital (Note b)	Principal activities
Esprit Belgie Retail N.V.	Belgium	100%	EUR1,200,000	Retail distribution of apparel and accessories
Esprit Belgie Wholesale N.V.	Belgium	100%	EUR100,000	Wholesale distribution of apparel and accessories
Esprit Capital Limited	British Virgin Islands/ Hong Kong	100%	USD1	Investment
Esprit Card Services GmbH	Germany	100%	EUR25,000	Issuance, accounting of and service in connection with GiftCard, as provided to certain European group subsidiaries and distribution partners in Europe
Esprit China Distribution Limited	British Virgin Islands/ Hong Kong	100%	USD100	Investment holding
Esprit Corporate Services Limited	British Virgin Islands/ Hong Kong	100%	USD100	Financial services
Esprit de Corp Danmark A/S	Denmark	100%	DKK12,000,000	Wholesale and retail distribution of apparel and accessories
Esprit de Corp (Far East) Limited	Hong Kong	100%	HKD1,200,000	Sourcing of apparel and accessories
Esprit de Corp. France SAS	France	100%	EUR63,373,350	Wholesale and retail distribution of apparel and accessories
Esprit de Corp (Malaysia) Sdn. Bhd.	Malaysia	100%	MYR5,000,000	Retail distribution of apparel and accessories
Esprit de Corp. (Spain) S.L.	Spain	100%	EUR10,000	Wholesale distribution of apparel and accessories
Esprit Design & Product Development GmbH	Germany	100%	EUR100,000	Provision of services to the worldwide Esprit group in relation to the development of designs, styles and prototypes for the sales line of Esprit products
Esprit Europe B.V.	The Netherlands	100%	EUR1,500,000	Investment holding, wholesale and retail distribution of apparel and accessories, and licensing of trademarks
Esprit Europe GmbH	Germany	100%	EUR5,112,919	Management and control function; render of services to Esprit group

30. Principal subsidiaries (continued)

Name of subsidiary	Place of incorporation/ operation	Attributable equity interest to the Group (Note a)	Issued and fully paid share capital/ registered capital (Note b)	Principal activities
Esprit Europe Services GmbH	Germany	100%	EUR2,700,000	Sourcing, purchase and sale of merchandise, distribution of merchandise and other logistic functions, including customs dealing and quality control; holding and licensing of trademarks
Esprit GB Limited	United Kingdom	100%	GBP150,001	Wholesale and retail distribution of apparel and accessories
Esprit Global Image GmbH	Germany	100%	EUR25,000	Design and image directions; conceptualization and development of global uniform image; conceptualization and development of global image direction within product development
Esprit Global Limited	British Virgin Islands/ Hong Kong	100%	USD500	Investment holding
Esprit Handelsgesellschaft mbH	Austria	100%	EUR100,000	Wholesale and retail distribution of apparel and accessories
Esprit (Hong Kong) Limited	Hong Kong	100%	HKD1	Management and control function; render of services to Esprit group
Esprit International (limited partnership)	United States	100%	N/A	Holding and licensing of trademarks
Esprit International (GP) Inc.	United States	100%	USD1,000	General partner of Esprit International (limited partnership)
Esprit IP Limited	British Virgin Islands/ Hong Kong	100%	USD1	Holding and licensing of trademarks
Esprit Ireland Distribution Ltd.	Republic of Ireland	100%	EUR1	Wholesale distribution of apparel and accessories
Esprit Italy Distribution S.R.L.	Italy	100%	EUR12,750	Wholesale distribution of apparel and accessories
Esprit Luxembourg S.à r.l.	Luxembourg	100%	EUR250,000	Retail distribution of apparel and accessories
Esprit Macao Commercial Offshore Limited	Macau	100%	MOP3,000,000	Wholesale distribution of apparel and accessories
Esprit (Norway) A/S	Norway	100%	NOK16,000,000	Wholesale and retail distribution of apparel and accessories
Esprit Poland Retail SP Z O.O.	Poland	100%	PLN 5,147,200	Retail distribution of apparel and accessories

30. Principal subsidiaries (continued)

Name of subsidiary	Place of incorporation/ operation	Attributable equity interest to the Group (Note a)	Issued and fully paid share capital/ registered capital (Note b)	Principal activities
Esprit Regional Services Limited	British Virgin Islands/ Hong Kong	100%	USD1	Provision of services
Esprit Retail B.V. & Co. KG (limited partnership)	Germany	100%	EUR5,000,000	Retail and e-commerce distribution of apparel and accessories
Esprit Retail (Hong Kong) Limited	Hong Kong	100%	HKD10,000	Retail distribution of apparel and accessories
Esprit (Retail) Proprietary Limited	Australia	100%	AUD200,000	Wholesale and retail distribution of apparel and accessories
Esprit Retail Pte Ltd	Singapore	100%	SGD3,000,000	Retail distribution of apparel and accessories
Esprit Retail (Taiwan) Limited	Hong Kong/Taiwan	100%	HKD9,000	Retail distribution of apparel and accessories
Esprit Sweden AB	Sweden	100%	SEK500,000	Wholesale and retail distribution of apparel and accessories
Esprit Swiss Treasury Limited	British Virgin Islands/ Hong Kong	100%	USD1	Financial services
Esprit Switzerland Distribution AG	Switzerland	100%	CHF100,000	Wholesale distribution of apparel and accessories
Esprit Switzerland Retail AG	Switzerland	100%	CHF500,000	Retail distribution of apparel and accessories
Esprit Wholesale GmbH	Germany	100%	EUR5,000,000	Wholesale distribution of apparel and accessories
Garment, Acessories and Cosmetics Esprit Retail (Macau) Limited	Macau	100%	MOP100,000	Retail distribution of apparel and accessories
Glory Raise Limited	British Virgin Islands	100%	USD1	Investment holding
Million Success Resources Limited	Hong Kong	100%	HKD2	Investment holding
Sijun Fashion (Shenzhen) Co., Ltd.	The People's Republic of China (Note c)	100%	USD1,600,000	Sample development
Solution Services Limited	British Virgin Islands	100%	USD1	Property investment

30. Principal subsidiaries (continued)

Name of subsidiary	Place of incorporation/ operation	Attributable equity interest to the Group (Note a)	Issued and fully paid share capital/ registered capital (Note b)	Principal activities
思環貿易（上海）有限公司	The People's Republic of China (Note c)	100%	USD28,000,000	Wholesale distribution of apparel and accessories
普思埃商業（上海）有限公司	The People's Republic of China (Note c)	100%	USD7,900,000	Retail distribution of apparel and accessories
創捷商業（上海）有限公司	The People's Republic of China (Note c)	100%	USD1,800,000	Retail distribution of apparel and accessories
成都潤捷商業有限公司	The People's Republic of China (Note c)	100%	USD1,200,000	Retail distribution of apparel and accessories
創和捷商貿（北京）有限公司	The People's Republic of China (Note c)	100%	USD5,000,000	Retail distribution of apparel and accessories
特力普思埃貿易（大連）有限公司	The People's Republic of China (Note c)	100%	USD800,000	Retail distribution of apparel and accessories
廣州特力普思埃商業有限公司	The People's Republic of China (Note c)	100%	USD2,500,000	Retail distribution of apparel and accessories
上海進捷商貿有限公司	The People's Republic of China (Note c)	100%	USD1,000,000	Wholesale distribution of apparel and accessories
重慶埃斯普利特商業有限公司	The People's Republic of China (Note c)	100%	USD1,200,000	Retail distribution of apparel and accessories
捷煦電子商務（上海）有限公司	The People's Republic of China (Note c)	100%	USD1,500,000	Retail distribution of apparel and accessories via e-commerce

Notes:

(a) All subsidiaries were held indirectly by the Company, except Esprit Global Limited.

(b) All are ordinary share capital unless otherwise stated.

(c) Wholly foreign owned enterprise.

(d) Consolidation of a structured entity

Due to the implementation of the Share Award Scheme of the Company mentioned in Note 19(d), the Company has set up a trust ("Share Award Scheme Trust"), and its particulars are as follows:

Structured entity	Principal activities
Share Award Scheme Trust	Administering and holding the Company's shares purchased under the Share Award Scheme which is set up for the benefits of Selected Employees of the Share Award Scheme

08
TEN-YEAR FINANCIAL SUMMARY

Consolidated statement of financial position items

	As at 30 June 2016 HK$ million	As at 30 June 2015 HK$ million	As at 30 June 2014 HK$ million	As at 30 June 2013 HK$ million
Intangible assets	**2,902**	3,031	5,670	5,763
Property, plant and equipment	**2,159**	2,835	3,972	4,363
Investment properties	**19**	17	16	15
Other investments	**7**	7	7	7
Investments in associates	**–**	–	–	–
Debtors, deposits and prepayments	**220**	240	312	384
Deferred tax assets	**745**	649	615	697
Net current assets	**5,829**	5,718	6,979	6,158
	11,881	12,497	17,571	17,387
Equity				
Share capital	**194**	194	194	194
Reserves	**11,203**	11,704	16,717	16,402
Total equity	**11,397**	11,898	16,911	16,596
Non-current liabilities				
Bank loans	**–**	–	–	–
Deferred tax liabilities	**484**	599	660	791
	484	599	660	791
	11,881	12,497	17,571	17,387

Consolidated income statement items

	Year ended 30 June 2016 HK$ million	Year ended 30 June 2015 HK$ million	Year ended 30 June 2014 HK$ million	Year ended 30 June 2013 HK$ million
Revenue	**17,788**	19,421	24,227	25,902
Operating (loss)/profit ((LBIT)/EBIT)	**(596)**	(3,683)	361	(4,170)
Interest income	**40**	45	55	51
Finance costs	**(29)**	(29)	(37)	(30)
Share of results of associates	**–**	–	–	–
Gain on measuring equity interest in the associated companies held before the business combination	**–**	–	–	–
(Loss)/profit before taxation	**(585)**	(3,667)	379	(4,149)
Taxation (credit/(charge))	**606**	(29)	(169)	(239)
Profit/(loss) attributable to shareholders of the Company	**21**	(3,696)	210	(4,388)

As at 30 June 2012 HK$ million	As at 30 June 2011 HK$ million	As at 30 June 2010 HK$ million	As at 30 June 2009 HK$ million	As at 30 June 2008 HK$ million	As at 30 June 2007 HK$ million
7,613	7,672	7,345	2,061	2,121	2,057
4,489	4,415	3,976	4,398	3,570	2,705
13	13	12	–	–	–
7	8	7	7	7	7
–	–	–	522	583	406
402	502	440	559	569	–
549	808	532	408	510	396
4,348	5,225	6,662	6,745	8,972	6,888
17,421	18,643	18,974	14,700	16,332	12,459
129	129	129	125	124	123
15,477	16,104	15,943	14,284	15,820	11,958
15,606	16,233	16,072	14,409	15,944	12,081
1,040	1,560	2,080	–	–	–
775	850	822	291	388	378
1,815	2,410	2,902	291	388	378
17,421	18,643	18,974	14,700	16,332	12,459

Year ended 30 June 2012 HK$ million	Year ended 30 June 2011 HK$ million	Year ended 30 June 2010 HK$ million	Year ended 30 June 2009 HK$ million	Year ended 30 June 2008 HK$ million	Year ended 30 June 2007 HK$ million
30,165	33,767	33,734	34,485	37,227	29,640
1,171	692	3,786	5,729	7,721	6,259
28	45	33	87	190	149
(37)	(27)	(12)	–	–	–
–	–	81	161	145	130
–	–	1,586	–	–	–
1,162	710	5,474	5,977	8,056	6,538
(289)	(631)	(1,248)	(1,232)	(1,606)	(1,358)
873	79	4,226	4,745	6,450	5,180

Financial summary

Year ended 30 June	2016	2015	2014	2013
Per share data (HK$)				
Earnings/(loss) per share – basic ^^	**0.01**	(1.90)	0.11	(2.50)
Dividend per share				
– Regular dividend	**-**	0.015	0.07	-
– Special dividend	**-**	-	-	-
Total	**-**	0.015	0.07	-
Key statistics (HK$ million)				
Total equity	**11,397**	11,898	16,911	16,596
Net current assets ^	**5,829**	5,718	6,979	6,158
Cash position (net of overdraft)	**5,341**	5,017	6,031	5,171
Net cash (outflow)/inflow from operating activities	**(312)**	(72)	1,418	(757)
Term loans	**-**	-	260	520
Retail data				
Number of directly managed stores #	**761**	890	905	1,026
Directly managed selling space # (sqm)	**291,572**	327,345	330,233	351,473
Comparable store sales growth (including e-shop)	**8.1%**	-7.0%	-4.1%	-3.3%
Wholesale data				
Number of controlled-space POS #^^^	**6,333**	7,680	8,131	9,249
Controlled-space sales area #^^^ (sqm)	**357,086**	419,359	488,870	566,776
Other data				
Capital expenditure (HK$ million)	**262**	349	375	919
Number of employees ##	**8,306**	9,179	9,626	10,732
Key ratios				
Return on shareholders' equity (ROE) ###	**0.2%**	-25.7%	1.3%	-27.3%
Return on total assets (ROA) *	**0.1%**	-18.2%	0.9%	-18.7%
Net debt to equity **	**net cash**	net cash	net cash	net cash
Current ratio ^ (times)	**2.4**	2.2	2.2	2.1
Inventory turnover *** (days)	**115**	104	90	100
Operating profit/(loss) before depreciation and amortization margin	**0.4%**	-14.9%	5.2%	-12.5%
Operating (loss)/profit margin	**-3.3%**	-19.0%	1.5%	-16.1%
(Loss)/profit before taxation margin	**-3.3%**	-18.9%	1.6%	-16.0%
Net profit/(loss) margin	**0.1%**	-19.0%	0.9%	-16.9%

Include Esprit, Red Earth stores and salon
After converting the part-time positions into full-time positions based on working hours
Calculated based on net earnings as a percentage of average shareholders' equity
* Calculated based on net earnings as a percentage of average total assets
** Net debt refers to all interest bearing borrowings less cash and cash equivalents
*** Calculated as average inventory (excluding consumables) over average daily cost of goods sold
^ Comparative figures relating to net current assets in respect of financial years prior to FY09/10 were restated as a result of the adoption of IAS 17 (Amendments) and due to the reclassification of deposits and prepayments in FY09/10
^^ Earnings per share – basic for the year ended 30 June 2012 was adjusted in FY12/13 to reflect the effect of a rights issue of the Company
Earnings per share – basic for the year ended 30 June 2009 was restated in FY09/10 to account for approximately 31 million scrip shares issued on 15 January 2010. The basic earnings per share was restated as the scrip shares were treated as if the issue had occurred as at 1 July 2008
^^^ 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 as at 30 June 2010 in FY10/11

2012	2011	2010	2009	2008	2007
0.60	0.06	3.35	3.72	5.21	4.22
0.41	1.00	1.41	1.52	2.10	1.70
–	–	–	1.33	2.10	1.48
0.41	1.00	1.41	2.85	4.20	3.18
15,606	16,233	16,072	14,409	15,944	12,081
4,348	5,225	6,662	6,745	8,972	6,888
3,171	4,794	6,748	4,840	6,521	5,232
730	1,835	5,412	5,272	5,970	5,881
1,682	2,080	2,600	–	–	–
1,069	1,146	1,128	804	700	607
363,295	398,829	388,291	314,966	273,801	239,400
-4.1%	-1.1%	-2.4%	3.5%	6.9%	19.8%
10,827	11,706	12,289	14,067	14,590	13,369
654,093	704,393	722,825	808,605	746,655	629,967
1,420	1,436	1,509	2,011	1,352	615
12,455	14,192	14,172	10,766	10,541	9,617
5.5%	0.5%	27.7%	31.3%	46.0%	48.9%
3.4%	0.3%	19.1%	22.8%	33.1%	34.7%
net cash	net cash	net cash	net cash	net cash	net cash
1.7	1.6	2.2	2.4	2.6	2.5
100	76	63	65	54	55
6.4%	4.7%	14.0%	18.9%	22.8%	23.1%
3.9%	2.0%	11.2%	16.6%	20.7%	21.1%
3.9%	2.1%	16.2%	17.3%	21.6%	22.1%
2.9%	0.2%	12.5%	13.8%	17.3%	17.5%

09
GLOSSARY OF TERMS

09 Glossary of terms

A

ADR
American Depositary Receipt

C

Capex
Capital expenditure

Comparable store (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 its total net sales area has been changed by less than 10% within the current reporting period

Comp-store sales growth
Local currency year-on-year change in sales generated by comparable stores

Controlled wholesale space
POS which Esprit wholesale management team has control over the look and feel such as Esprit brand name logo, visual merchandising, etc. Includes franchise stores, shop-in-stores and identity corners with wholesale partners

D

Directly managed retail stores
Standalone stores, concession counters mainly in department stores and off-price outlets fully managed by Esprit

E

e-shop
On-line store

EBIT/LBIT
Earnings before interest and tax/Loss before interest and tax

EPS
Earnings per share

F

Franchise stores
Standalone stores or concession counters in department stores managed by wholesale partners which closely resemble our own directly managed retail stores. Esprit provides initial setup support and a wide range of on-going support services to ensure consistency with directly managed retail stores

I

Identity corners
Controlled wholesale space mainly in multi-label retailers offering a limited range of Esprit products. Esprit has limited involvement in store appearance

Inventory turnover days
Calculated as average inventory (excluding consumables) over average daily cost of goods sold

L

LCY
Local currency

O

Off-price outlets
Situated in the vicinity of major markets. Offer prior season products at a more competitive price and product collection exclusively made for outlets

P

POS
Point-of-sales

R

Retail sales
Direct sale of merchandise to end consumers via directly managed retail stores or e-shops

S

Shop-in-stores
Controlled wholesale space in department stores managed by wholesale partners. Esprit provides initial setup support and a wide range of on-going support services to ensure consistency with directly managed retail stores

Sqm
Square meters

W

Wholesale sales
Sales of merchandise to third party wholesale partners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