esprit holdings limited *annual report 1998/99*

ESPRIT

contents

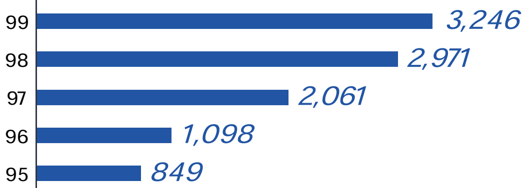
An introduction to Esprit

> Behind a global brand Esprit, lies a group of people who share much more than just the product they sell. Esprit de corps, meaning spirit of the group, is about a lifestyle brand which has energy, camaraderie, spirit and a certain jole-de-vivre. > Today, this energy has created a brand that designs, sources, distributes and markets products across more than 40 countries worldwide, reaching millions of customers. We are a public company with listings on the Hong Kong and London stock exchanges. We now have 440+ stores, 900+ franchised stores and 6,300+ wholesale customers which carry the Esprit brand. > Our extensive product range comprises women, men, kids, shoes, accessories and more recently, bodywear. To compliment the mainline clothing, we have an extensive range of licensed products ranging from timewear, eyewear, jewel and fragrance, to home products. To compliment this aspirational lifestyle, we also have Red Earth, the color cosmetic brand. > Our formula is simple – a good quality product which makes our customers look and feel good.

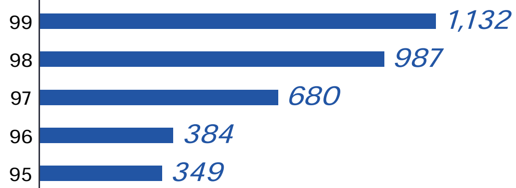
Our products

Rapid dollar volume growth in core product lines

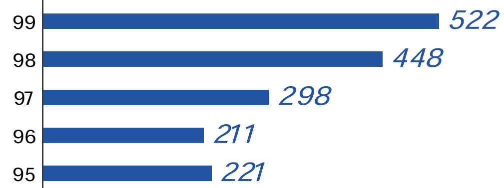
WOMEN'S WEAR (INCL. EDC)
(HK$MN)



SHOES & ACCESSORIES
(HK$MN)

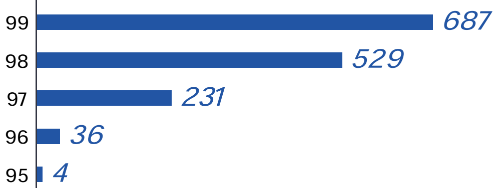


MEN'S WEAR
(HK$MN)



Extending Esprit's consumer franchise

KIDS' WEAR
(HK$MN)



RED EARTH
(HK$MN)

BODYWEAR
(HK$MN)

Bodywear launched in December 1998.

All product turnover figures were for the year ended June 30.

Our distribution channels

RETAIL

> 52% of turnover

> 440+ directly-run stores and 900+ franchised stores

WHOLESALE

> 47% of turnover

> 6,300+ customers, predominantly in Europe

LICENSING

> sold through thousands of doors in 40+ countries

SIGNIFICANT EXPANSION OF RETAIL SELLING AREA*

AS AT JUNE 30, 1999

	CORPORATE STORES		
	NO. OF STORES	SALES FOOTAGE (SQ. FT)	NO. OF FRANCHISED STORES
europe	92	300,648	600
asia pacific	354	566,687	325
total	446	867,335	925
germany	46	164,433	490
belgium	9	49,656	5
the netherlands	17	34,643	11
denmark	10	26,464	17
france	7	20,749	25
sweden	3	4,703	14
other european countries	–	–	38
australia	138	171,681	15
hong kong	43	135,462	–
taiwan	110	108,973	–
canada	32	70,491	–
singapore	18	57,221	–
malaysia	6	14,287	–
new zealand	5	4,918	18
other asian pacific countries	2	3,654	292
total	446	867,335	925
increase in sales footage (net)		153,072	

* including Esprit and Red Earth

Financial highlights

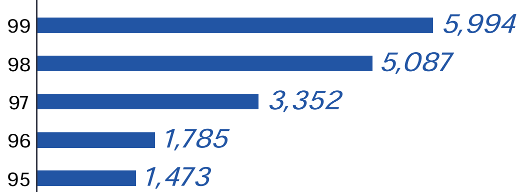
FOR THE YEAR ENDED JUNE 30	1999	1998*	1997
OPERATING RESULTS			
turnover (hk$mn)	*5,994*	*5,087*	*3,352*
operating profit (hk$mn)	*625*	*490*	*401*
net profit before exceptional item (hk$mn)	*352*	*280*	*236*
net profit after exceptional item (hk$mn)	*430*	*155*	*236*
PER SHARE DATA			
EPS before exceptional item (hk¢)	*32.1*	*25.7*	*26.1*
EPS after exceptional item (hk¢)	*39.2*	*14.2*	*26.1*
dividend per share (hk¢)	*14.5*	*3.8*	*11.5*

FOR THE YEAR ENDED JUNE 30	1999	1998*	1997
KEY STATISTICS			
net earnings as % of turnover (%)	*7.2*	*3.0*	*7.0*
shareholders' funds (hk$mn)	*1,436*	*1,163*	*1,121*
return on shareholders' equity (%)	*30.0*	*13.3*	*21.0*
current ratio (x)	*1.4*	*1.4*	*1.4*
total debt to equity ratio (%)	*116.8*	*145.8*	*165.8*
*net debt to equity ratio (%)***	*net cash*	*23.3*	*17.7*
cash position (net of overdraft) (hk$mn)	*543*	*382*	*530*
sales footage (sq ft)†	*867,335*	*714,263*	*602,735*

* *Esprit Europe's activities were reflected in the Group's accounts from January 1997 onwards*
** *net debt equals bank borrowings less cash*
† *includes Esprit and Red Earth*

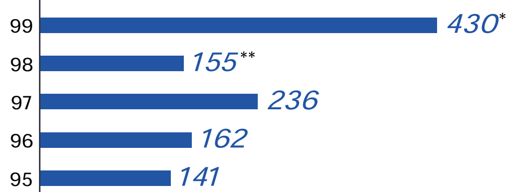
TURNOVER

(HK$MN)



NET PROFIT

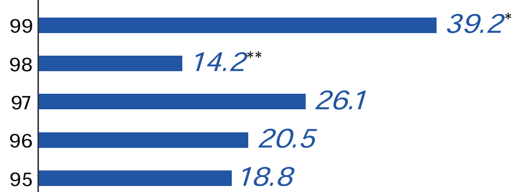
(HK$MN)



* *after exceptional gain of HK$78mn*
** *after exceptional loss of HK$125mn*

EARNINGS PER SHARE (EPS)

(HK¢)



* *32.1HK¢ when before exceptional gain of HK$78mn*
** *25.7HK¢ when before exceptional loss of HK$125mn*

PERFORMANCE HIGHLIGHTS

> *7th consecutive year of growth in turnover and operating profit since listing in Hong Kong*
> *growth in every business line*
> *growth in every product line*
> *growth in every market*

To our shareholders:

OUR 7TH STRAIGHT YEAR OF GROWTH

Esprit had a very good year in FY1998/99. Turnover increased by 18% and operating profit rose 28%. In fact, this was our seventh consecutive year of growth in turnover and operating profit since we became a public listed company in 1993.

The numbers are fine for quantifying the strong forward movement of the Group, but it is the breadth of our performance, by which I mean significant growth in virtually every part of our business – retail, wholesale and licensing, every product line, every market – that has me most excited.

HOW DID WE DO IT?

There were four elements in our successful strategy last year: trimmer and fitter operations, expanded product lines, aggressive store expansion and building market share.

Trimmer and fitter: From Europe to Asia Pacific, we moved deliberately to reduce our unit cost of goods by 7%, and we reduced our building and staff expenses each by 1% as a percentage to turnover. We're now much trimmer and fitter.

Expanded product lines: We also now have much more to offer in terms of product lines. We are well positioned to capture significant share of wholesale and retail market segments such as men's wear and kids' wear. In fact, men's and kids' wear saw sales growth of 17% and 30% respectively in the past year. The thing to remember is that we were barely a player a few years ago.

Aggressive store expansion: The Group added 153,000 sq ft of retail floor space, up 21%. We took full advantage of lower rental costs in Asia Pacific, expanding our retail sales area in the region by 28% to 566,700 sq ft. We lowered leasing costs per square foot and renewed leases at rentals as much as 30% below pre-crisis levels in Asia. Sales footage in Europe also increased 11% to 300,600 sq ft.

Building market share: In both Europe and Asia Pacific, our market share continued to grow. We also grew mind share: independent research in Germany and Belgium reveals that Esprit is one of three brands in top-of-mind recall. We met the test of adversity in Asia by building market share in a shrinking market. This was most evident in Hong Kong, where we were able to grow 5% in a market which shrank by 16% in total retail sales.

WHAT ABOUT THE FUTURE?

We intend to stay with our winning strategy. And we intend to keep the growth coming by aggressively developing and introducing new product lines, further expanding our successful European wholesale channels and riding the rebound in Asian retail.

We will sell significantly more merchandise – and more merchandise lines – as our brand continues to thrive and our products are more competitively priced. Esprit is still a very young company, so you can expect us to be active too.

We will have more wholesale channels in Europe, more floor space in Asia Pacific. Esprit's wholesale strategy has been a real winner, delivering rapid returns with relatively modest investment and risk. We will continue to add sales footage in existing markets in Europe at a constant, but somewhat lower rate when compared with Asia Pacific. Our mega-store concept – where we sell the full range of Esprit products – will play an important part in our strategy in both Europe and Asia Pacific. We will build mega-stores in larger cities. We will build satellite stores in second tier population centers. And we will build our franchise business in small cities. We will also continue to expand dramatically in Asia Pacific in terms of retail floor space.

In short, we will continue to keep our business simple and focused, following proven sales strategies in proven Esprit markets.

Michael Ying Lee Yuen *Chairman*
September 27, 1999

OPERATION MIX
YEAR ENDED JUNE 30, 1999

%	
20	*europe retail*
43	*europe wholesale*
31	*asia pacific retail*
5	*asia pacific wholesale*
1	*licensing*

Better product, better fit

Behind Esprit's sustained excellent financial performance lies our better product, better fit philosophy. In an industry where sourcing and distribution are often haphazard, and the gap between design concept, manufacturing and finished product is often large, Esprit has always kept its eyes on the ball – the creation of products which are not only superior, but also feel superior.

THE ATTITUDE BEHIND THE BRAND

It goes without saying that creativity is important in our business. Yet creativity is only half the story. What drives Esprit's success is the overall feeling our customers get from selecting Esprit. This is because we deliver not only fashion, but lifestyle, attitude, a certain way of thinking of oneself in the larger social context. Our customers feel that, with choosing Esprit, comes a relaxed and positive feeling towards life, a certain spontaneity and a sense of participating in the best contemporary trends. It is because we are selling attitude that our brand is so important.

That is the intangible part of what Esprit stands for. Fashion which is comfortable, well sewn, stylish yet accessible is the concrete part.

SIX COLLECTIONS, THOUSANDS OF STYLES

Esprit streamlines product management under various specialist divisions – Women's Casual, Women's Collection, Men, Kids, Shoes, Accessories and Bodywear. All of our

OUR BUSINESS APPROACH

> *Esprit delivers not only fashion, but lifestyle, attitude*
>
> *of the more than 10,000 designs created every year, only around 7,000 are finally produced*
>
> *from Hong Kong to Brussels, Esprit people follow a consistent positioning, image and marketing, and merchandising approach*

garment patterns, fitting and measurement, styling and fabric quality specifications undergo constant review and revision at our design laboratory in Düsseldorf, Germany. Before our 30 designers even go to work on a new Esprit pattern, our product specialists must assure themselves that the design platform is perfect. Of the more than 10,000 designs that our designers create every year, only around 7,000 are finally produced. We deliver six collections – literally thousands of styles – each year, on a tight seasonal schedule, thereby enabling wholesale customers and retail stores to offer the right product at precisely the right moment. This rigorous approach has earned Esprit products a reputation for superior value for money.

CONSISTENCY AND DISCIPLINE EXTEND TO MARKETING AND MERCHANDISING

As is the case with design and manufacturing, consistency and discipline are keys to the Esprit approach to marketing and merchandising. From Hong Kong to Brussels, Esprit people follow a consistent positioning, image and marketing, and merchandising approach. The result – Esprit means youth, vitality and contemporary lifestyle in a dozen languages and cultures. Our strong focus on the "in-store" experience – layout, furnishings and decoration, product display, music, and customer service – is unmistakably Esprit and unmistakably right for our customers, wherever they are. Be it an Esprit jacket, a Red Earth lipstick, or any of the personal and home products which is sold under the Esprit name, the message which the customer sends to him or herself and to his or her contemporaries when selecting Esprit is the same. The experience offered by our mega-stores, which sell the full range of Esprit products under a single roof, is calculated to deliver this message on many levels at the same time.

Better product, better fit is not a slogan at Esprit; it is the result of a carefully thought out approach to our business.

Products successfully expanded

Last year Esprit stressed product expansion – the growth of new and existing product lines, such as Esprit Kids, EDC and bodywear that carry the Esprit style into new garment categories – as a means of leveraging the Esprit brand to achieve growth. Indeed, all our product lines reported turnover growth.

Speed, smarts and style were the key to this kind of performance: speed in getting the product designed to fit with the changing tastes of our customers; speed in getting the design into production and to the retail and wholesale outlets before the customers come looking for them; speed in replenishing inventories of best selling items before they run out.

As a company that sources 70% of its merchandise in Asia and 30% in Europe, and sells highly time-sensitive fashion goods on four continents, smart logistics arrangement is a big part of our business. We must be able to bring "hot" items to our customers in time. Thus our managers talk a lot about "bestseller management" – we set for ourselves the target of *never be out of stock* when it comes to our best selling items. By focusing on the extra-rapid refilling of identified bestsellers, we can dramatically reduce markdowns and increase sales per square foot.

WOMEN'S WEAR

women's wear (including EDC) grew 9%

The style comes in determining, and constantly re-defining a fresh, youthful and stylish look which will be as "here and now" in Frankfurt as it is in Taipei. Or to be precise, it is style with high quality tailoring. All our garment patterns, fitting and measurement, and fabric quality specifications undergo constant review and revision at our design laboratory in Düsseldorf. This has led Esprit to extend our brand in the right direction – Esprit Kids, EDC, bodywear – at exactly the right moment.




SHOES & ACCESSORIES

sales grew 15%

MEN'S WEAR

sales increased by 17%

KIDS' WEAR

sales were up by 30%

BODYWEAR

launched in December 1998, achieved sales of HK$29 million

SALES BREAKDOWN BY PRODUCT

YEAR ENDED JUNE 30, 1999

%	
54	*women's wear (including EDC)*
19	*shoes & accessories*
11	*kids' wear*
9	*men's wear*
5	*red earth*
1	*licensing (royalty income)*
1	*others (including bodywear)*

WOMEN'S WEAR

While we develop new product lines, women's wear continued to be our largest revenue contributor. Sales were boosted by the new "Collection" line of contemporary work wear for women, and EDC, a fast response, short production cycle line for the junior market.

Women's wear (including EDC) grew 9%, accounting for over 50% of turnover. Thus while the relative contribution of women's wear to overall company performance is likely to decrease in the coming years, absolute size and growth are set to soar.

SHOES AND ACCESSORIES

Heaven is the details with accessory products, such as backpacks and handbags. By concentrating on materials, distribution channels (especially duty free outlets, airlines and mail order channels) and, above all, the myriad of design details which provide Esprit products with their unique "signature", Esprit sees continued growth in a highly competitive market.

Achieving the right price point is crucial as well, especially in the shoes business, and it is here that Esprit has had particular success, commanding the kind of prices which position us among the best of international lifestyle companies, while remaining competitive against all comers.

MEN'S WEAR AND KIDS' WEAR

Men's wear and kids' wear were among our fastest growing apparel lines last year. Under our strong push, men's sales increased by 17% and kids' sales were up by 30%. Men's and kids' sales now respectively account for 9% and 11% of Esprit's total sales, and we expect these figures to increase over the coming few years.

We attribute the success of these two lines to focused marketing – segmenting into casual and collection lines for men; baby, mini and junior lines for kids, particular attention to being able to offer European taste to kids' markets in Asia Pacific as competition is relatively weak there; and, in the men's line, strong value for money and the fostering of a distinct brand positioning for Esprit Men as a brand for men, as opposed to treating Esprit Men as an add-on for our lady customers.

RED EARTH

sales grew more than two times to HK$310 million

LICENSING – JEWELRY – EYEWEAR – TIMEWEAR

provided a royalty income of HK$68 million, up 18%

BODYWEAR

Our bodywear line, manufactured by market leader Triumph, was launched in December 1998 and has already achieved sales of HK$29 million. It too offers some attractive segmentation possibilities which we have already exploited in our basic and active underwear lines.

RED EARTH'S COLOR COSMETICS

One of the most exciting developments for Esprit in FY1998/99 was the continued rapid growth of Red Earth's color cosmetics business. Sales grew more than two times to HK$310 million or 5% of group turnover (versus 1% last year); new market rollouts in Singapore, Taiwan and Canada were highly successful. Total retail floor space reached 45,800 sq ft. Finally, Red Earth's original, and still largest operations, in Australia and New Zealand, were acquired in June 1998 and are currently under image revamp.

Red Earth's success has been particularly gratifying in that it provides Esprit with a fully established second brand with which to launch new products to existing and new Esprit customers in our existing markets. Mindful of the potent possibilities Red Earth offers, we have undertaken a significant product repositioning – emphasizing color and contemporary fun – extensively revamped product packaging and reviewed Red Earth's pricing across markets. As a result we anticipate further strong growth from this brand over the next several years.

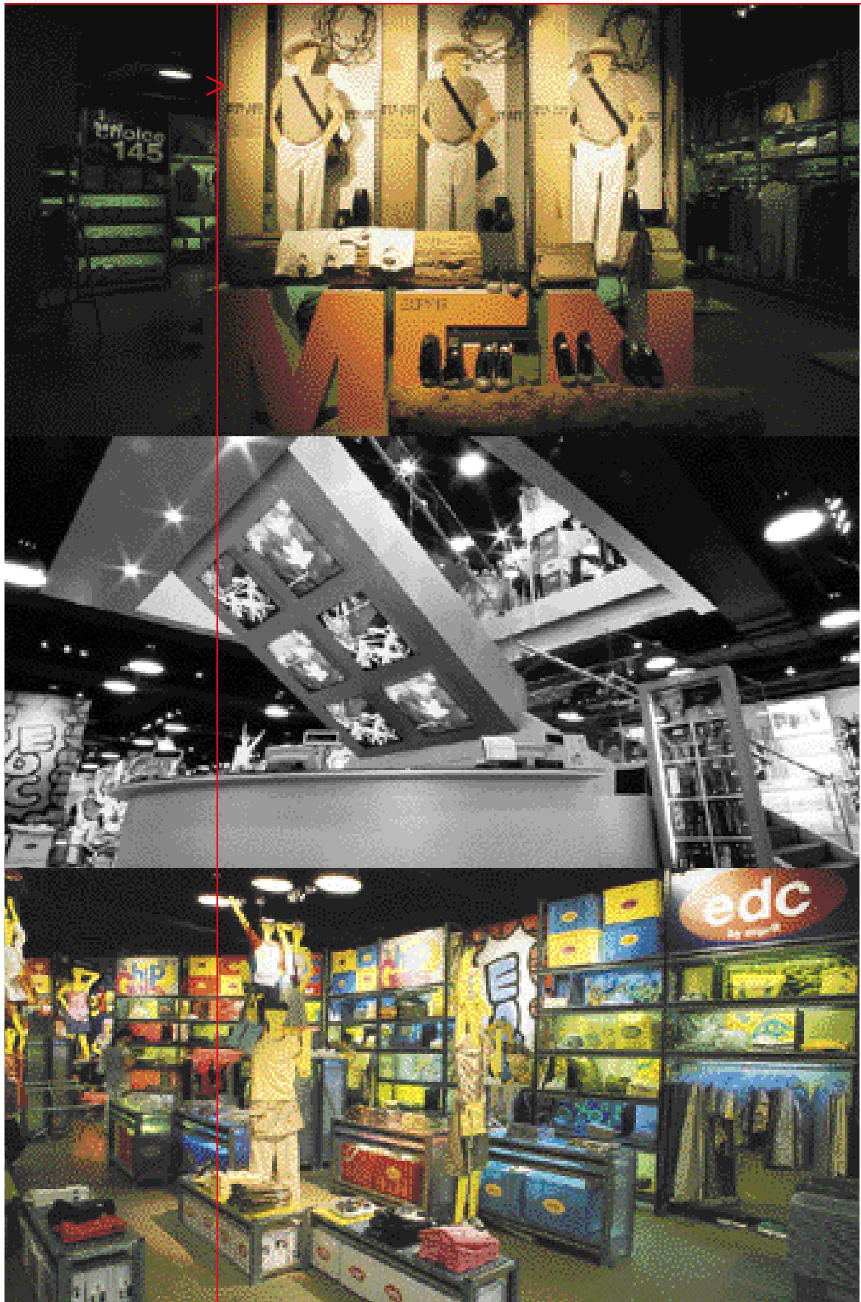
LICENSING PRODUCTS

Licensing products sold under the Esprit brand name remained a strategically important part of the Group's business last year and provided a royalty income of HK$68 million. Our four core licensing groups are eyewear, timewear, jewelry, and bed & bath. Esprit jewelry, which features silver and semi-precious stone pieces, was launched in 1998 in Germany and is now sold across the Asia Pacific region as well. Houseware (porcelain and table linen) and fragrances and cosmetics licenses were granted last year. Our first Houseware collection can now be found at European households. Esprit fragrance and cosmetics are expected to be launched in FY2000/01.

To expand the Esprit home offering, a license was granted in August 1999 to Schott Zwiesel to manufacture, distribute and market glassware under the Esprit trademark throughout most of the world.

Men's wear and kids' wear were among our fastest growing apparel lines last year. We attribute the success of these two lines to **focused marketing** *– segmenting into casual and collection lines for men; baby, mini and junior lines for kids.*

Brand successfully extended



FY1998/99 was a year of overall strong operational growth for Esprit. In consumer markets that ranged from challenging to buoyant, we tailored our approaches to maximize our potential across the board. Highlights included:

> increasing sales by 18%, despite the still recovering retail environment in many markets

> adding sales footage by 153,000 sq ft or 21%

> improving efficiency with operating cost as a percentage to turnover shed 2%

Europe – a year of solid growth

Esprit Europe grew 15% (in Deutsche Mark) when European Union saw a year-on-year GDP growth of approximately 2%. How? By further penetrating our existing markets, building market share, adding store space, extending product lines, and further exploiting our wholesale pipeline.

SALES BREAKDOWN BY MARKET

YEAR ENDED JUNE 30, 1999

%		
44	*germany*	*63% of group turnover*
12	*belgium & the netherlands*	
3	*scandinavia*	
2	*france*	
2	*austria*	

We retained a split between wholesale and retail sales at about 70/30, a mix with which we feel comfortable, given the structure of European retail distribution and the rapid return on investment which our wholesale business has yielded in Europe. Our wholesale emphasis enables us to grow sales and contribution rapidly while building our brands and minimizing our investment in bricks and mortar. Moreover, the inventory level of our wholesale business is virtually nil. At the same time, emphasis on wholesale and boutiques-in-stores helps us to grow in spite of the rigidities in European labor markets which have stymied many of our competitors.

For many, the advent of the new European currency, the Euro, signals the creation of a single European market, with greater currency transparency and competition, and a generally higher level of economic activity. We believe that all of this will come to pass over the next several years. Since the reorganization of our European operations in 1997, we have tried to stay ahead of the curve – creating uniformity in pricing across our various European markets. As a result, the launch of the Euro in 1999 created no surprises for Esprit.

Our European turnover was roughly DM850 million in FY1998/99. Our turnover goal is to reach a billion

In Germany and Belgium, independent research has shown that one in three female consumers now possesses a piece of Esprit branded goods and that Esprit is among the top three clothing brands in terms of top-of-mind awareness.

Deutsche Mark next year. We have good reason for such optimism. In Germany and Belgium, independent research has shown that one in three female consumers now possesses at least a piece of Esprit branded goods and that Esprit is among the top three clothing brands in terms of top-of-mind awareness. We anticipate that the sources of our future growth will be currently under-developed markets, such as France, under-exploited product lines and more efficient use of our resources. A good example is the penetration of the same department stores on several levels, eg, women's and men's wear and shoe departments.

GERMANY

The difficulty of cracking the German retail environment is legendary. Highly restrictive sales hours, rigid government regulations and the lack of an aggressive retail sales culture has thwarted many a would be non-German competitor. Moreover, unlike in most of our other

GERMANY

sales up by 17% and achieved a group contribution of DM98 million

BELGIUM & THE NETHERLANDS

net sales grew by 20% overall

FRANCE, SCANDINAVIA & AUSTRIA

sales jumped from DM73 million to DM93 million

European markets, retail spending has actually shrunk (from 9% to 5% of disposable income) in Germany throughout most of the 1990's. Still, we were able to grow our sales by 17%, and achieved a group contribution of DM98 million.

Esprit's German strategy has been two-fold: to create a small but highly visible retail presence, one which would build visibility and respect for our brand, and, at the same time, to build a large parallel wholesale effort, relying on the major department stores. Meanwhile, Esprit's sales footage remains modest, but is growing judiciously – by 14% last year, to 165,000 sq ft. In the third quarter of 1999, we will open a 20,000 sq ft mega-store in Stüttgart, by far the largest store in Europe.

BELGIUM & THE NETHERLANDS

Net sales grew by 20% overall, which was about average for Europe. Next year we anticipate even more growth in this area, which has considerable potential for cross-selling and other means of boosting sales per customer. Store expansion will take priority in Belgium next year, with 16,000 sq ft additional space planned, as well as additional wholesale channel growth.

FRANCE, SCANDINAVIA & AUSTRIA

After three years of modest sales growth, France, Scandinavia and Austria all took off in FY1998/99, with sales jumping from DM73 million to DM93 million. In these markets we increased sales footage, from 33,400 to 51,900 sq ft. Two new stores were opened in France and one in Scandinavia. In these markets our strategy of larger stores and better locations has paid off handsomely, as have our efforts to create a uniform positioning and pricing.

Asia Pacific – beyond toughing it out

The Asian economic crisis was neither as long nor as widespread as many feared it would be, and when a rebound began in mid-1999, it was sharper than expected. On the other hand, there is no question that the consumer recession cut very deeply for a time, particularly in Hong Kong.

SALES BREAKDOWN BY MARKET

YEAR ENDED JUNE 30, 1999

%		
13	hong kong	36% of group turnover
10	australia	
7	taiwan	
3	singapore & malaysia	
3	canada	

In our last annual report we spoke of "toughing it out" in this difficult economic environment. This meant capitalizing on lower costs while following a strategy of selective investment to increase market share in the face of declining retail sales in most markets. In other words, laying the foundations for long term growth. We aggressively added store space, increasing our Asia Pacific sales area by 28%, to 566,700 sq ft.

By early 1999 it was clear that the Asian economic crisis was not without its silver linings: we were able to reduce unit production costs by 10% in Asia where over 70% of our goods are sourced, while lowering our rental costs per square foot.

Full year sales of HK$2.2 billion were up 17% on the prior year. The result vindicated our strategy and a capital expenditure of HK$139 million committed to that end. The average value of most currencies in the region, with the notable exception of the Hong Kong dollar, devalued during the fiscal year. As our Asia Pacific results are translated into Hong Kong dollars, which remain tied to the US dollar, the currency factor masks some dramatic sales increases.

Difficult strategic decisions had to be made in Japan, where we effectively pulled out of the market, and in Korea, where we scaled back from 32 stores to a single store. Sufficient reserves were taken in the prior fiscal year so that our profit and loss account was not impacted in the current year. We intend to re-build our presence in these markets, probably in another mode of operation.

HONG KONG

Against the city's 16% drop in total retail sales, our Hong Kong operations did relatively well, increasing sales by 5% to HK$752 million. Sales margins held up for Esprit branded merchandise. Red Earth's sales increased by 56%.

It was in Hong Kong that we chose to capitalize most aggressively on lower rents – increasing our sales area by

HONG KONG

against the city's 16% drop in total retail sales, we increased our sales by 5%

TAIWAN

net sales increased by 34% in local currency terms

86% and upgrading store locations to better quality and/or higher traffic locations. Inclusive of Esprit and Red Earth, we now have 43 stores (135,000 sq ft), versus 35 stores (73,000 sq ft) a year ago.

By mid-1999 Hong Kong's recession was officially over, as economic growth turned positive after more than a year in negative territory, unemployment had fallen to 6%, regional entrepot trade was up for the first time in 16 months and consumer confidence was again on the rise. Our faith in an imminent consumer rebound in Hong Kong is such that we are now preparing for the opening of a 23,000 sq ft mega-store, an event scheduled for late 1999. Moreover, in 1999 we launched a co-branded "smart" credit card with Standard Chartered Bank. By June 1999 there were 123,000 holders of either these new cards or the Esprit Privilege Card in Hong Kong, up 62% from the same period last year. The encouraging response confirmed strong support for the Esprit brand. As the Hong Kong retail market shows increasing signs of rebounding we feel that these and other one-time investments, which entailed an actual capital expenditure of HK$54 million, were fully justified in helping Esprit to gain a larger piece of the pie.

AUSTRALIA AND TAIWAN

Australia was the star of the Asia Pacific region last year, growing sales by 72% in local currency terms, or 59% in Hong Kong dollar terms to HK$624 million.

Esprit sales alone rose 40% in local currency terms, or 30% in Hong Kong dollar terms, to HK$493 million. We opened 17 new Esprit stores in Australia, increasing total sales area by 30,000 sq ft, to 146,000 sq ft, at a capital cost of HK$27 million. Factors contributing to this

SINGAPORE & MALAYSIA

net sales increased by 19% and 26% respectively in local currency terms

CANADA

net sales were up 5% in Canadian dollar terms

outstanding performance, aside from store expansion, included: our first full year of men's wear sales, accelerated relationship marketing/customer loyalty programs and back office savings resulting from the amalgamation of Red Earth's operations. More good news in mid-1999: consumer optimism was up strongly as unemployment fell to a nine-year low and wholesale sales tax rates were reduced. Further expansion – a planned increase of 50,000 sq ft retail space in FY1999/2000 – is well justified.

Australia's contribution to operating profit was affected by the negative performance of Red Earth due to one-time provision associated with the brand's new image launch, such as the write-off of obsolete Red Earth packaging products and fixtures.

Net sales in Taiwan increased by 34% in terms of the local currency or 23% in Hong Kong dollar terms to HK$418 million. We took the opportunities presented by cheaper real estate rentals to expand aggressively in Taiwan, increasing our sales area by 68%. Esprit Kids, which began to populate the island last year, saw over 450% turnover growth to NT$200 million. The macro-economic picture has improved here and private consumption accelerated by 6% in the second quarter of 1999 when compared to the same quarter of 1998.

SINGAPORE & MALAYSIA

As a result of the regional recovery, growing visitor arrivals in Singapore are helping retail sales. Net sales in Singapore and Malaysia increased by 19% and 26% respectively when reported in local currency terms. However, these increases translated into 12% and 12% in Hong Kong dollar terms, after local currency devaluation. The highly successful Esprit co-branded credit card was launched in Singapore in April 1999 and the response was equally encouraging.

CANADA

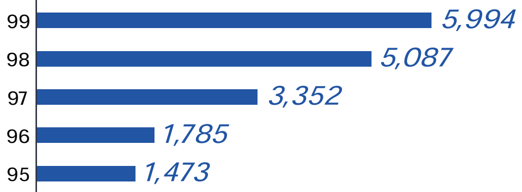
This year we were able to fully consolidate the activities of Esprit Canada, which is 75% owned by the Group, Canada is our window on North America. We have focused a great deal on recognizing wholesale operations, improving efficiency and shifting the focus to west coast where the brand is better known. Net sales went up 5% in Canadian dollar terms.

*Australia was the star of the Asia Pacific region last year, **growing sales by 72%** in local currency terms, or 59% in Hong Kong dollar terms to HK$624 million.*

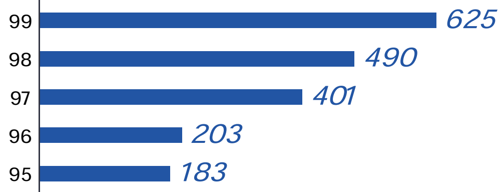
5-year key financial statistics

for the year ended June 30

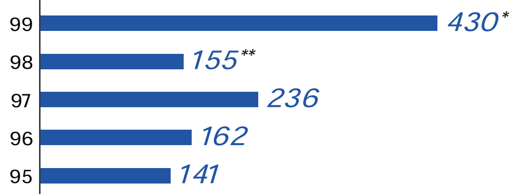
TURNOVER
(HK$MN)



OPERATING PROFIT
(HK$MN)



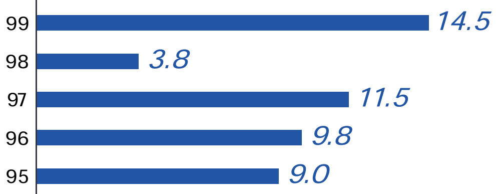
NET PROFIT
(HK$MN)



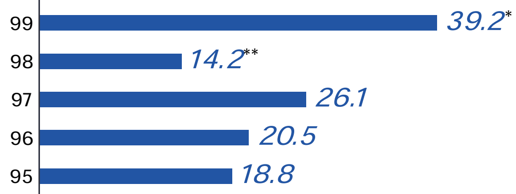
* *after exceptional gain of HK$78mn*

** *after exceptional loss of HK$125mn*

DIVIDEND PER SHARE (DPS)
(HK¢)



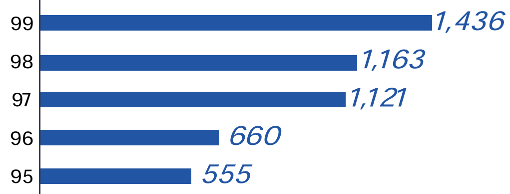
EARNINGS PER SHARE (EPS)
(HK¢)



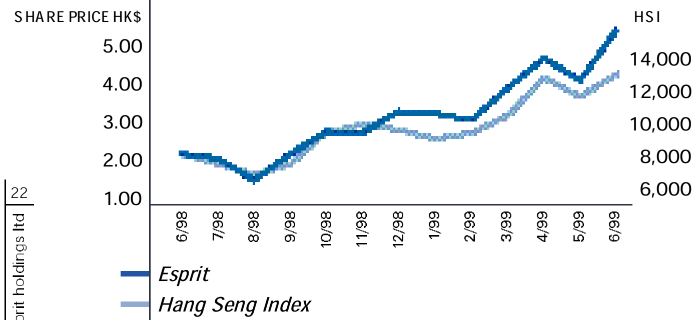
* *32.1HK¢ when before exceptional gain of HK$78mn*

** *25.7HK¢ when before exceptional loss of HK$125mn*

SHAREHOLDERS' FUNDS
(HK$MN)



ESPRIT VS HANG SENG INDEX
(MONTHLY CLOSE)



selected financial data since 1993

for the year ended June 30

	1999	1998	1997	1996	1995	1994	1993**
turnover (hk$mn)	5,994	5,087	3,352	1,785	1,473	1,145	770
operating profit (hk$mn)	625	490	401	203	183	179	106
profit attributable to shareholders (hk$mn)	430	155	236	162	141	167	79
shareholders' fund (hk$mn)	1,436	1,163	1,121	660	555	467	134
total assets (hk$mn)	3,113	2,866	2,995	1,083	855	715	274
working capital (hk$mn)	487	439	420	410	338	397	96
cash position (net of overdraft) (hk$mn)	543	382	530	271	129	233	3
total debt to equity ratio (%)	116.8	145.8	165.8	64.0	53.5	53.1	104.2
bank borrowings to equity ratio (%)	39.3	63.3	68.7	6.6	12.7	3.3	5.6
current ratio (X)	1.4	1.4	1.4	2.0	2.2	2.6	1.7
stock turnover period* (no. of days)	71	66	82	106	95	96	104
return on total assets (%)	13.8	5.4	7.9	14.9	16.5	23.4	28.8
return on shareholders' equity (%)	30.0	13.3	21.0	24.5	25.4	35.7	58.8
return on turnover (%)	7.2	3.0	7.0	9.1	9.6	14.6	10.2
earnings per share (hk¢)	39.15	14.20	26.11	20.47	18.82	23.98	n/a
dividend per share (hk¢)	14.5	3.8	11.5	9.8	9.0	8.5	n/a
no. of corporate stores	446	432	364	253	174	121	73
total controlled retail floor area (sq ft)	867,335	714,263	602,735	299,996	180,105	137,028	88,697
monthly sales per square foot (hk$)	401	387	470	633	823	798	735
capital expenditures (hk$mn)	257	181	79	60	191	55	26
no. of employee	4,471	4,257	4,377	2,619	2,345	1,988	1,483

* calculated as average finished goods for the current and the prior year over costs of goods sold

** the Company was listed on the Stock Exchange of Hong Kong in December 1993

RESULT OF OPERATIONS

TURNOVER

Growth in all markets and all product lines

The Group's turnover increased by 18% to HK$6 billion during the year. Growth was reported in all markets in local currency terms, and most significantly in Australia, Taiwan, France and Austria. Turnover in Australia and Taiwan (including Red Earth sales) grew by 72% and 34% respectively. Turnover in France and Austria grew by over 45%. Germany, our biggest market accounting for 44% of Group turnover, registered a growth of 17%. The Netherlands and Belgium, Hong Kong, Singapore and Malaysia reported growth ranging from 5% to 26%.

Growth was also reported in all product lines. Net sales under the Esprit brand accounted for 95% of the Group's total turnover. Women's wear (including EDC), accounting for over 50% of the Esprit business, grew by 9%. Other product lines, namely, kids' wear, men's wear, and shoes and accessories, reported sales growth of 30%, 17% and 15% respectively. Red Earth contributed to the remaining 5% of Group turnover or HK$310 million.

Growth was due mainly to the strength of the Esprit brand, Group's aggressive store expansion and expanded product lines. The Group has been able to sell a wider range of products in more stores than ever before.

GROSS MARGIN

Gross margin improved

Gross margin increased by 19% in absolute dollar terms and up by 0.5% as a percentage of sales from last year. The Asian economic turmoil had adversely affected the Group's gross margins in the Asian markets. On the other hand, the Group had benefited from a lower production cost in Asia where over 70% of the Group's products are manufactured. As a result, the Group was able to adopt a competitive pricing strategy. The improvement was also attributable to the expansion of Red Earth, which commands a relatively higher margin than Esprit products.

NET OPERATING EXPENSES

Reduction in building and staff expenses

Building and staff expenses accounted for over 70% of the Group's total operating expenses. The Group has significantly expanded its retail presence in Asia to take advantage of falling rental prices. Average monthly rental per square foot in the Asia Pacific region dropped by almost 19%. Net addition in sales footage for the Group was 153,000 sq ft or 21%. Total rental expenses increased by a mere 6.3% or HK$34 million.

Staff expenses decreased because more cost-effective deployment of sales staff was achieved at the mega-stores. Building and staff expenses as a percentage of net sales decreased by 1.1% and 0.8% respectively from last year.

Other operating expenses, including advertising, communications, net interest expenses and administration, remained at the same level as last year as a percentage of net sales.

The savings on building and staff expenses were partly offset by the fall in exchange gain and investment income, as well as the one-time write-off of fixed assets in Australia and other Asia Pacific markets. The write-off was associated with the renovation and remodeling of Red Earth shops to promote the brand's new image and product packaging. Full provision had also been made for Red Earth products in old packaging.

OPERATING PROFIT

Consecutive years of operating profit growth

The Group achieved an operating profit of HK$625 million, up 28% from FY1997/98. Germany was the major profit-contributor whereas Belgium and the Netherlands came second and Hong Kong, Taiwan and Esprit in Australia came third in a tie. Red Earth in Australia incurred a loss of HK$46 million, which was attributable to the full provision made on old-packaging stock, write-off of leasehold improvements and fixtures for shops to be remodeled, and compensation payment to franchisees for buying out their businesses.

PROFIT TAX

The effective tax rate was 36.5% in FY1998/99 which was 4% higher than the previous financial year. It was mainly due to the increase in the proportion of profits generated in Germany where tax rates are high.

EXCEPTIONAL ITEM

During the year, the Group made an exceptional gain of HK$78 million from the disposal of some listed investment purchased in FY1996/97.

LIQUIDITY AND SUSTAINED FINANCIAL RESOURCES

A healthy and self-sustained financial position

Cash generation across the Group remained strong with HK$705 million being generated from operating activities. The disposal of the listed investment mentioned above generated another HK$145 million. Out of this internal fund, the Group has spent a total of HK$257 million in capital expenditures, HK$134 million in bank loan repayment and HK$164 million in tax payment. The Group recorded a net inflow of HK$174 million, which raised the total cash and cash equivalents to HK$543 million as at the balance sheet date.

The Group has trade finances, short-term loans and overdraft facilities from banks totaling over HK$300 million. As at June 30, 1999, total outstanding short-term loans and bank overdrafts stood at HK$30 million. Outstanding long-term bank borrowing was HK$533 million. As such, the Group was in a net cash position.

The bank borrowing to equity ratio was below 40% and the Group has a working capital of HK$487 million. The current ratio had been maintained at a healthy level of 1.4:1 for the last three years.

During the year, in accordance with the approved Group policy, the Group continued to enter into foreign exchange forward and option contracts to reduce exposure to foreign currency exchange risks. These contracts were entered into with large reputable financial institutions, thereby minimizing the risk of credit loss. As at June 30, 1999, outstanding contracts valued at contract rates amounted to HK$1,908 million.

CAPITAL EXPENDITURES

Investing in the Group's future

Capital expenditures totaled approximately HK$257 million in FY1998/99. These expenditures resulted in a net increase in store space of 153,000 sq ft or 21%, the remodeling of certain stores and the introduction of new product packaging for Red Earth. Approximately HK$139 million was spent in Asia Pacific and HK$118 million in Europe.

For FY1999/2000, the Group has earmarked approximately HK$290 million for capital expenditure. HK$220 million will be allocated to continuous sales footage expansion. About HK$70 million will be invested in improving the Group's warehousing and distribution facilities in Europe to cope with the fast growing wholesale business there. The Group expects to fund such capital expenditures with cash flow from operations.

Financial Report

The Directors have pleasure in presenting their annual report and the audited financial statements for the year ended June 30, 1999.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of the principal subsidiaries are shown in note 27 to the financial statements. The Group is principally engaged in the design, licensing, sourcing, manufacturing, wholesale and retail distribution of high quality fashion products under the internationally known ESPRIT brand name in Europe, Asia Pacific and Canada, together with Red Earth cosmetics, skin and general body care products.

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

	TURNOVER HK$'000	CONTRIBUTION TO OPERATING PROFIT HK$'000
Analysis by principal activities		
Retail	**3,099,236**	**165,389**
Wholesale	**2,819,530**	**429,844**
Others	**75,054**	**29,366**
	5,993,820	**624,599**
Analysis by principal geographical markets		
Germany	**2,633,349**	**433,015**
Hong Kong	**751,755**	**53,576**
The Netherlands and Belgium	**705,703**	**64,968**
Australia and New Zealand*	**623,620**	**2,610**
Others**	**1,279,393**	**70,430**
	5,993,820	**624,599**

* *The turnover and contribution to operating profit in Australia and New Zealand include turnover of HK$130,689,000 and operating loss of HK$45,919,000 related to wholesale and retail distribution of Red Earth cosmetics, skin and general body care products in Australia and New Zealand.*

** *Other markets include Austria, Canada, Denmark, Finland, France, Malaysia, Singapore, South Korea, Sweden and Taiwan.*

RESULTS AND APPROPRIATIONS

The results of the Group and appropriations of the Company are set out in the consolidated profit and loss account on page 35 and in the accompanying notes to the financial statements.

Interim dividend of 3.8 cents per share, totalling HK$ 41,912,000, was paid on May 20, 1999.

The Directors recommend the payment of a final dividend of 10.7 cents per share. Details are set out in note 7 to the financial statements.

RESERVES

Movements in reserves of the Group and the Company during the year are set out in note 17 to the financial statements.

FINANCIAL SUMMARY

A summary of the results of the Group for the five financial years is set out on page 56.

A summary of the balance sheets of the Group for the five financial years is set out on page 56.

SHARE CAPITAL

Details of movements in share capital of the Company are set out in note 16 to the financial statements.

Details of the share options granted by the Company are set out in note 16 to the financial statements.

FIXED ASSETS

Details of movements in fixed assets of the Group during the year are set out in note 10 to the financial statements.

BANK LOANS AND OVERDRAFTS

Details of bank loans and overdrafts are set out in notes 14 and 20 to the financial statements.

CHARITABLE DONATIONS

During the year, the Group made charitable donations totalling HK$2,802,000.

DIRECTORS AND SERVICE CONTRACTS

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

EXECUTIVE DIRECTORS

Michael Ying Lee Yuen
Alva Chan Wai Mo (resigned on August 31, 1999)
Connie Wong Chin Tzi
Heinz Jürgen Krogner-Kornalik
Surinder Chhibber

NON-EXECUTIVE DIRECTORS

Alexander Reid Hamilton
Joyce Elena Ma
Jürgen Alfred Rudolf Friedrich
Raymond Or Ching Fai

In accordance with the Company's Bye-laws, Ms. Joyce Elena Ma and Mr. Raymond Or Ching Fai retire by rotation. Being eligible, Mr. Or offers himself for re-election while Ms. Ma will not be offering herself for re-election.

Heinz Jürgen Krogner-Kornalik has entered into a service agreement which took effect from January 9, 1995 and continues thereafter until terminated by either party giving to the other not less than 12 months' notice of termination, such notice will only take effect from or after December 31, 2000.

Save as disclosed above, none of the Directors has a service contract with the Company which is not determinable by the Company within one year without payment of compensation.

DIRECTORS AND SENIOR MANAGEMENT PROFILE

EXECUTIVE DIRECTORS

Michael Ying Lee Yuen, aged 49, is the Chairman and Chief Executive Officer of the Group. Mr. Ying has over 25 years' experience in apparel distribution and manufacturing. He is primarily responsible for the overall direction and formulation of corporate policies of the Group.

Connie Wong Chin Tzi, aged 51, is the Director of the Group's Taiwan operation. Prior to joining the Group in 1979, she worked in the Asian buying office of a major U.S. department store for over eight years. Ms. Wong received her Bachelor of Arts Degree in Business Administration from the National Taiwan University.

Heinz Jürgen Krogner-Kornalik, aged 58, is the Chief Executive Officer of the Group's Europe operation and has been with the Group since January 1995. He possesses a degree in business administration. He had been a consultant with Kurt Salmon Associates in a variety of areas, including production, organization, marketing, strategy and brand positioning as well as with several textile firms before joining the Group.

Surinder Chhibber, aged 49, is the Chief Executive Officer of the Group's Asia operation. He joined the Group in 1987 and has over 20 years' experience in the garment industry. He holds a Master of Science Degree in Engineering from the University of Hong Kong and a Master of Science Degree in Operation Research from the University of Delhi.

Alva Chan Wai Mo, aged 43, was the Chief Financial Officer of the Group and resigned on August 31, 1999.

NON-EXECUTIVE DIRECTORS

Alexander Reid Hamilton, aged 57, has been an Independent Non-executive Director of the Company since August 1995. He is also a director of CITIC Pacific Limited, COSCO Pacific Limited, COSCO International Holdings Limited and the Swank Shop Limited. He was a partner of Price Waterhouse with which he practised for 16 years.

Joyce Elena Ma, aged 58, was appointed as an Independent Non-executive Director in 1993. She is the founder and Chief Executive Officer of Joyce Boutique Holdings Limited and has over 25 years' experience in the fashion industry.

Jürgen Alfred Rudolf Friedrich, aged 61, founded the Esprit Europe operation in 1976 and was appointed as a Non-executive Director in 1997. He has over 30 years of experience in the apparel distribution business and is currently retired in Germany. He is one of the shareholders of Worldwide Thousand Limited, which is a major shareholder of the Company.

Raymond Or Ching Fai, aged 49, was appointed in 1996. Mr. Or is the Head of Corporate and Institutional Banking of The Hongkong and Shanghai Banking Corporation Limited which he joined in 1972. The Company is a long-standing client of the Hongkong Bank.

DIRECTORS AND SENIOR MANAGEMENT PROFILE *continued*

SENIOR MANAGEMENT

Andreas Kromer, aged 41, is the head of retail operations for Esprit Europe. After completing his studies in retailing at the German Polytechnic in Nagold, he worked for six years in the well-known German textile retail company, Boecker. He then assumed the position of managing director of the German department store, Cramer Meermann, until he joined the Group in 1992.

Derong Yang, aged 34, is the image director of the Group. He joined the Group in September 1994 as the creative director. His current role is to create and ensure the smooth implementation of an integrated image system throughout the operating regions of the Group. Prior to joining Esprit, he worked with a renowned French designer "Jean Charles de Castelbajac" as design director. He has received awards for excellence in his creative endeavors and is an activist in the local arts and culture scene.

Eddie Wan Tat Wah, aged 45, is the Chief Operation Officer of the Hong Kong retail operation. He has over 20 years of experience in garment trading and retail business. Mr. Wan first joined the Group in 1984 and was involved extensively in store operations and merchandising/buying in Hong Kong. He left the Group in the year 1993 to establish his own business and rejoined the Group in mid-1997.

Günter Wartenberg, aged 46, is the Chief Financial Officer of Esprit Europe Group. He joined Esprit Europe in 1991. Mr Wartenberg studied taxation and auditing before receiving his doctorate degree from the University of Cologne. He has 16 years of experience in finance and accounting and had worked with Bertelsmann AG, Henkel KgaA and Facit GmbH before joining Esprit Europe.

Joris Leeman, aged 35, is the Chief Operating Officer of Esprit Europe Group. He holds a Master degree and a Master of Business Administration degree in International Business from the European campus of Webster University, St. Louis. Before joining the Group in September 1998, he worked for 11 years for MEXX and Johnson & Johnson on Pan-European consolidation in Logistics Operations, Quality Management and European Marketing.

Melody Jensbach Harris, aged 38, is the Design Director of Esprit Women's Casual & Collection. She joined Esprit Europe in August 1998. She is an American Korean raised in the United States & graduated from Parsons School of Design in New York City with a Bachelor of Fine Arts majoring in Fashion Design. She has had 14 years' experience as Designer/Chief Designer at various market levels of the women's wear industry, she worked with Laurel, Escada, Fink Modelle from the Louis Feraud Group, Cartoon Triangle, Viventy from Bernd Berger before joining Esprit Europe.

Morris Wagenheim, aged 46, is the Managing Director of the Australian operation. He joined Esprit in 1994, after having spent the previous four years as general manager of the 150-store Sportsgirl chain in Australia. Mr. Wagenheim has spent most of his working career with the Wooltru Group in South Africa, the largest retail conglomerate in that country. His career has spanned all aspects of fashion retailing.

Nikki Ng Kwok Yin, aged 50, is the Chief Operations Officer of Red Earth Cosmetics. She joined Red Earth in March 1999 and is responsible for the sourcing, production, distribution and operational support for the worldwide markets. Before joining Red Earth, she has had 20 years' Asia Pacific experience in the cosmetics industry, encompassing marketing, distribution, operation and manufacturing, and has assumed the CEO position at Christian Dior, Max Factor, Orlane and lastly the Area VP position of Revlon for the Greater China Region, based in Shanghai China.

Shirley Chik Yee Wan, aged 39, is the Group Financial Controller of the Group. She graduated from the Hong Kong Polytechnic in 1983 and is an associate member of The Chartered Institute of Management Accountants and the Hong Kong Society of Accountants since 1987. Before joining Esprit in 1987, she worked for the Hong Kong Telecom Group and Astec International Group. In Esprit, she has experience in various positions in the Finance and Accounting Department and she assumed her current position in 1996.

Stephen Ip Sing Sing, aged 46, is the General Manager directing the Group's management information function and is also responsible for the Group's financial and accounting activities in Asia. Prior to joining the Group, he had assumed key positions in information technology area for a number of multinational companies. Mr. Ip has a Master of Business Administration degree in Finance from the University of California, Berkeley.

Steven Ko Soon How, aged 37, is the Chief Executive Officer of Red Earth International. He is responsible for the overall direction of Red Earth Group. After his university education in Canada, Mr. Ko. was with Citibank in Australia for 4 years before he co-founded the Red Earth brand in 1990. Since then, he headed the Red Earth sourcing and licensing office before being appointed as Chief Executive Officer in 1997.

Susan Wong Ping, aged 51, joined the Group in 1976 and is the General Manager responsible for the Group's sourcing and production activities for apparel, shoes & accessories including product and fabric development. She has over 25 years of experience in the garment production field. Prior to joining the Group, she held various positions in the garment manufacturing for a local apparel group.

Theresa Tsang Sui Fong, aged 43, joined the Group in 1977 and has been in charge of the human resources division since 1983. She is responsible for formulating and administrating human resources policies, recruitment, and employee compensations and benefits. She is a member of the Hong Kong Institute of Human Resource Management.

DIRECTORS AND SENIOR MANAGEMENT PROFILE *continued*

SENIOR MANAGEMENT *continued*

Thomas Grote, aged 36, is the head of wholesale operation in Europe. He completed business college in 1983 and thereafter worked at a German textile printing company for six years. He joined Esprit in 1990 as key account manager for the accessories division and was later promoted to sales manager. In 1992, he left the Group to work for In-Wear in Germany as sales manager of the men's division and was subsequently promoted to managing director. He returned to the Group in June 1996.

Vivianne Lau, aged 29, is the corporate counsel and company secretary of the Group. She is responsible for the Group's legal affairs. Prior to joining the Group in 1997, she worked for London firm Herbert Smith in Hong Kong, specialising in corporate finance and banking. She obtained her Bachelor of Laws degree from the London School of Economics.

DIRECTORS' INTERESTS IN SHARES

As at June 30, 1999, the interests of the Directors in shares of the Company as recorded in the register maintained under Section 29 of the Hong Kong Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") were as follows:

	NUMBER OF SHARES			
NAME OF DIRECTOR	PERSONAL INTERESTS	CORPORATE INTERESTS	FAMILY INTERESTS	OTHER INTERESTS
Michael Ying Lee Yuen	–	649,531,579*	–	–
Connie Wong Chin Tzi	2,041,013	–	–	–
Surinder Chhibber	4,000,000	–	–	–
Jürgen Alfred Rudolf Friedrich	1,324,000	649,531,579*	–	–

* *These shares are held by Worldwide Thousand Limited in which Mr. Michael Ying Lee Yuen and Mr. Jürgen Alfred Rudolf Friedrich have 77% and 23% interest respectively.*

Save as disclosed above, none of the Directors, chief executives or their associates had any interest in the listed securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

DIRECTORS' INTERESTS IN CONTRACTS

No contract 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 the year or at any time during the year.

ARRANGEMENT TO PURCHASE SHARES AND DEBENTURES

A Share Option Scheme (the "Scheme") was adopted by the Company on November 17, 1993 under which eligible employees of the Group, including Executive Directors of the Company, may be granted options to subscribe for shares in the Company. Details of share options exercised during the year and outstanding share options as at June 30, 1999 granted to and accepted by the Executive Directors under the Scheme, in which the Executive Directors can subscribe for shares in the Company at HK$2.640 to HK$3.096 per share, are as follows:

NAME OF DIRECTOR	GRANTED	EXERCISED	EXPIRED	AS AT 6.30.1999
Michael Ying Lee Yuen	15,000,000	–	–	**15,000,000**
Connie Wong Chin Tzi	4,000,000	1,000,000	–	**3,000,000**
Surinder Chhibber	8,000,000	1,000,000	–	**7,000,000**
Heinz-Jürgen Krogner-Kornalik	8,000,000	–	–	**8,000,000**
Alva Chan Wai Mo	6,000,000	6,000,000	–	**–**

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

Save as disclosed above, at no time during the year was the Company or its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

At June 30, 1999, the register of substantial shareholders required to be maintained under Section 16(1) of the SDI Ordinance showed that, other than the interests disclosed above in respect of the Directors, the Company was not notified of any interest which represents 10% or more of the Company's issued share capital.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold 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 although there are no restrictions against such rights under the laws of Bermuda.

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 five largest suppliers.

MANAGEMENT CONTRACTS

No contract 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.

CORPORATE GOVERNANCE

During the year, the Company was in compliance with the Code of Best Practice as set out in the Listing Rules of The Stock Exchange of Hong Kong Limited ("Listing Rules"), except that four Non-executive Directors are not appointed for a specific term but are subject to retirement by rotation at annual general meetings in accordance with the Company's Bye-laws.

GRANTING OF FINANCIAL ASSISTANCE TO NON-WHOLLY OWNED SUBSIDIARY

Under Rule 14.25(2) and 14.26 of the Listing Rules, the following transactions constitute granting of financial assistance by the Group to non-wholly owned subsidiaries:

(1) Red Earth Investment Limited ("RE Investment"), a wholly owned subsidiary of the Company, subscribed for a convertible note (the "Note") issued by Red Earth International Holdings Limited ("REI") for the amount of HK$22,013,100 on August 27, 1998. RE Investment holds approximately 60.78% interest in REI and Mr. Steven Ko ("Mr. Ko"), a director of REI, owns the remaining interest in REI of which he agreed to on a mutual term to exercise only 60% of the voting power of his shares at meetings of REI.

    Pursuant to the terms of the Note, RE Investment has an option to convert the outstanding amount of the Note or any part thereof at any time into fully paid shares ("Share") with a par value of US$1.00 each of REI at the conversion price of US$1.80 per Share. Approximately HK$10,080,000 of the proceeds from the issue of the Note was used to repay amount owing by REI to a wholly owned subsidiary of the Company. The remaining balance of the proceeds was used as working capital of REI. The Note is repayable on demand and bears interest, payable quarterly in arrears, at the prime rate for lending in Hong Kong dollars as announced or applied by The Hongkong and Shanghai Banking Corporation Limited ("Prime Rate").

(2) Esprit Distribution Limited ("EDIST"), a wholly owned subsidiary of the Company, has made available a facility of HK$10,000,000 (the "Facility") to REI. The Facility was drawn down in two installments on September 29, 1998 and October 19, 1998 respectively. The purpose of the Facility is to finance the working capital requirements of REI. The Facility bears interest, payable monthly in arrears, at the Prime Rate and is repayable in full by September 28, 2000. Mr. Ko has charged all his shareholding and interest in REI to the Company as security for the Facility.

(3) On January 4, 1999, the Company has provided a several guarantee of HK$16,500,000 regarding banking facilities ("Facilities") of HK$27,000,000 granted by The Hongkong and Shanghai Banking Corporation Limited to Red Earth Production Limited ("REP"), a company in which the Group has 60.78% interest. The remaining 39.22% interest in REP is held by Mr. Ko, a director of REP, who has also provided a personal guarantee for the Facilities. The guarantees made by the Company and Mr. Ko are in proportion to their respective interests in REP and the Facilities are for general working capital purposes.

GRANTING OF FINANCIAL ASSISTANCE TO NON-WHOLLY OWNED SUBSIDIARY *continued*

(4) Red Earth Holdings Pty. Ltd ("REA"), a 98% subsidiary of REI, has obtained certain banking facilities to the amount of A$4,504,000 ("Facilities") from ANZ Bank Limited ("ANZ"). As security for the Facilities, the Company has provided on July 28, 1998 a guarantee of up to 95% of the outstanding amount of the Facilities in favour of ANZ. Mr. Ko, the remaining shareholder of REA, has provided a guarantee in respect of 2% of the Facilities.

(5) Esprit (Holdings III) B.V. ("EBV"), a wholly owned subsidiary of the Company, has provided on October 31, 1998 funding of C$2,250,000 (approximately HK$11,554,000) to Esprit de Corp (1980) Ltd. ("Esprit Canada"), a company in which EBV has 75% interest. The remaining 25% interest in Esprit Canada is held by Mr. Lawrence Firestone, a director of Esprit Canada, who has also provided funding of C$750,000 (approximately HK$3,851,000) to Esprit Canada on the same occasion. The amounts advanced by both parties (the "Advances") were made in proportion to their respective interests in Esprit Canada and are for general working capital purposes. The Advances are non-interest bearing and are due for repayment on March 19, 2003.

AUDIT COMMITTEE

An Audit Committee was formed in late 1997, reporting to the Board of Directors. The Committee, comprising three Non-executive Directors, is dedicated to the review of matters within the purview of audit, such as financial statements and internal control, to protect the interests of the shareholders of the Company.

YEAR 2000 COMPLIANCE

The Year 2000 issue is primarily the result of computer programs using a two-digit format, as opposed to four digits, to indicate the year. Such computer systems will be unable to interpret dates beyond the year 1999, causing system failures or other computer errors, and leading to a disruption in the operation of such systems.

In 1996, the Company established an in-house taskforce to address the Year 2000 issue. The compliance program of the Company covers all of the Group's domestic and foreign branches as well as subsidiaries; it incorporates all hardware and software needs – including IT, industrial and communication equipment. To date, all work relating to critical systems has already been completed and tested. For systems provided by third parties, the Group has confirmed the Year 2000 compliance of these systems with the vendors. The Group has made enquiries regarding Year 2000 compliance of systems of its major business partners, including suppliers and customers.

Based on the assessment to date, the Company does not expect that the Year 2000 issue will have any material adverse effect on the Group's financial condition or its operations. The Company has identified that a significant disruption in the product supply chain represents the most reasonably likely worst case Year 2000 scenario. Potential sources of risk include (a) the inability of principal suppliers or logistics providers to be Year 2000-ready, which could result in delays in product deliveries from such suppliers or logistics providers and (b) disruption of the distribution channel, including ports, transportation vendors and the Company's own distribution centers as a result of general failure of systems and necessary infrastructure such as electricity supply. The Company is preparing plans to flow inventory around an assumed period of disruption to the supply chain, which could include accelerating selected critical products to reduce the impact of significant failure. As 95% of the Year 2000 compliance project is through the use of in-house programming resources and replacement of hardware and software which is part of the Group's ongoing upgrading program, there is no significant financial impact arising from Year 2000 compliance.

AUDITORS

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment. PricewaterhouseCoopers replaced Price Waterhouse in financial year 1999 following their merger with Coopers & Lybrand.

On behalf of the board

Surinder Chhibber
Executive Director

Hong Kong, September 27, 1999

AUDITORS' REPORT TO THE SHAREHOLDERS OF ESPRIT HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

We have audited the financial statements set out on pages 35 to 55 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion, the financial statements give a true and fair view, in all material respects, of the state of affairs of the Company and the Group as at June 30, 1999 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, September 27, 1999

consolidated profit and loss account

for the year ended June 30, 1999

	NOTES	1999 HK$'000	1998 HK$'000
Turnover		**5,993,820**	5,087,206
Operating profit	2	**624,599**	489,587
Exceptional Item	4	**77,662**	(125,300)
		702,261	364,287
Share of Results of Associated Companies		**1,146**	(17,616)
Profit before Taxation		**703,407**	346,671
Taxation	5	**(228,381)**	(153,916)
Profit after Taxation		**475,026**	192,755
Minority Interests		**(44,999)**	(37,656)
Profit Attributable to Shareholders	6	**430,027**	155,099
Dividends	7	**(160,845)**	(41,517)
Retained Profit for the Year		**269,182**	113,582
Earnings Per Share	8		
– Basic		**39.15 cents**	14.20 cents
– Fully Diluted		**38.90 cents**	14.04 cents

consolidated balance sheet

at June 30, 1999

	NOTES	1999 HK$'000	1998 HK$'000
Trademarks	9	**762,792**	783,133
Fixed Assets	10	**484,457**	403,099
Other Investments	11	**33,789**	93,158
Associated Companies	13	**52,714**	43,200
Net Current Assets	14	**486,916**	438,669
		1,820,668	1,761,259
Financed by:			
Share Capital	16	**110,862**	109,255
Reserves	17	**1,324,650**	1,053,810
Shareholders' Funds		**1,435,512**	1,163,065
Minority Interests	18	**1,045**	7,518
Obligations under Finance Leases	19	**2,388**	8,773
Long Term Bank Loan	20	**380,201**	532,537
Deferred Taxation	21	**1,522**	49,366
		1,820,668	1,761,259

Michael Ying Lee Yuen
Chairman

Surinder Chhibber
Executive Director

balance sheet

at June 30, 1999

	NOTES	1999 HK$'000	1998 HK$'000
Subsidiaries	12	**2,346,834**	2,280,264
Net Current Assets	14	**1,633**	4,333
		2,348,467	2,284,597
Financed by:			
Share Capital	16	**110,862**	109,255
Reserves	17	**1,857,404**	1,642,805
Shareholders' Funds		**1,968,266**	1,752,060
Long Term Bank Loan	20	**380,201**	532,537
		2,348,467	2,284,597

Michael Ying Lee Yuen
Chairman

Surinder Chhibber
Executive Director

consolidated cash flow statement

for the year ended June 30, 1999

	NOTES	1999 HK$'000	1998 HK$'000
Net Cash Inflow from Operating Activities	22(A)	**704,852**	401,552
Returns on Investments and Servicing of Finance			
Interest received		**16,253**	19,764
Interest paid		**(55,163)**	(49,238)
Finance charges on finance leases		**(844)**	(144)
Income from long term listed investments		**1,683**	6,594
Dividends paid		**(28,458)**	(127,282)
Dividends paid to a minority shareholder of a subsidiary		**(54,866)**	(42,517)
Net Cash Outflow from Returns on Investments and Servicing of Finance		**(121,395)**	(192,823)
Taxation			
Hong Kong profits tax paid		**(17,211)**	(27,237)
Overseas tax paid		**(146,668)**	(128,123)
Tax Paid		**(163,879)**	(155,360)
Investing Activities			
Purchase of subsidiaries		–	(35,825)
Expenditure for terminating overseas operation		**(22,782)**	–
Loan to an associated company		–	(49,000)
Purchase of other investments		**(8,256)**	(28,731)
Purchase of fixed assets		**(256,593)**	(180,829)
Proceeds from disposal of fixed assets		**5,404**	124,477
Proceeds from disposal of other investments		**145,325**	39,216
Proceeds from disposal of shareholding in a subsidiary		–	1,363
Net Cash Outflow from Investing Activities		**(136,902)**	(129,329)

table continued

	NOTES	1999 HK$'000	1998 HK$'000
Net Cash Inflow/(Outflow) before Financing		**282,676**	(75,960)
Financing			
Net proceeds on issue of shares for cash		**33,108**	11,862
Loan from a minority shareholder of a subsidiary		**3,851**	–
Repayment of obligations under finance leases		**(12,221)**	(3,222)
Repayment of bank loans		**(133,670)**	(60,488)
Net Cash Outflow from Financing	22(B)	**(108,932)**	(51,848)
Increase/(Decrease) in Cash and Cash Equivalents		**173,744**	(127,808)
Cash and Cash Equivalents at Beginning of Year	22(C)	**382,337**	530,212
Effect of Change in Exchange Rates		**(13,149)**	(20,067)
Cash and Cash Equivalents at end of Year	22(C)	**542,932**	382,337

1. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial statements, which conform with Hong Kong Statements of Standard Accounting Practices issued by the Hong Kong Society of Accountants and accounting principles generally accepted in Hong Kong, are as follows:

(A) BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to June 30.

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

The Group accounts also include the Group's share of post acquisition profits less losses, and reserves, of its associated companies.

(B) TURNOVER

Turnover represents the invoiced sales to, royalties and commission income from third party customers.

(C) REVENUE RECOGNITION

Sales of goods are recognised when goods are delivered and title has been passed to customers.

Royalty income is recognised on an accrual basis in accordance with the substance of the licensing agreement.

Commission income is recognised upon service rendered.

Interest income is recognised on time proportion basis on the principals outstanding and the rates applicable.

Income from investments, including gains and losses on sales of investments, interest and dividend income, are recognised on an accrual basis.

(D) TRADEMARKS

Trademarks are stated at cost and amortized by equal annual installments over their estimated economic life of 40 years. The cost of acquisition is the fair market value at the time of acquisition determined by an independent valuer.

(E) GOODWILL AND RESERVE ON ACQUISITION

Goodwill/reserve arising on acquisition represents the excess/shortfall of purchase consideration over the fair values ascribed to the net assets of subsidiaries acquired and is taken directly to reserves in the year of acquisition.

(F) SUBSIDIARIES

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors. Investment in subsidiaries are stated at cost less provision for permanent diminution in value.

(G) ASSOCIATED COMPANIES

An associated company is a company, other than a subsidiary, in which the Group has a long term equity investment, and over which the Group is in a position to exercise significant influence in management, including participation in commercial and financial policy decisions.

The consolidated profit and loss account includes the Group's share of the results of associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies.

(H) DEPRECIATION AND AMORTIZATION

Fixed assets are stated at cost less accumulated depreciation.

Freehold land is not amortized. Leasehold land is amortized over the remaining period of the lease.

Improvements to leasehold properties occupied by the Group under operating leases are amortized over a period of the shorter of five years and the estimated useful life on a straight-line basis.

Depreciation on other fixed assets is provided to write off the cost of fixed assets over their estimated useful lives, using the straight-line method after taking into account their estimated residual values, at the following annual rates:

Buildings	$3\frac{1}{3}$ – 5%
Plant and machinery	30%
Furniture and office equipment	10 – $33\frac{1}{3}$%
Motor vehicles and launch	30%

Assets held under finance leases are depreciated over their estimated useful lives on the same basis as owned assets.

1. PRINCIPAL ACCOUNTING POLICIES *continued*

(H) DEPRECIATION AND AMORTIZATION *continued*

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives.

The carrying amounts of fixed assets are reviewed regularly to assess whether their recoverable amounts have declined below their carrying amounts. Expected future cash flows have not been discounted in determining the recoverable amounts.

Gain or losses arising from the retirement or disposal of fixed assets are determined as the difference between the estimated net disposal proceeds and the carrying amount of the assets and are recognised as income or expense in the profit and loss account.

(I) LEASED ASSETS

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the Group. Assets held under finance leases are capitalized at their fair value at the date of acquisition. The principal portions of the corresponding lease commitments are shown as obligations to the lessor. Finance charges are debited to the profit and loss account in proportion to the capital balances outstanding.

All other leases are classified as operating leases and the annual rentals payable under operating leases are charged to the profit and loss account on a straight line basis over the terms of the respective leases.

(J) OTHER INVESTMENTS

Investments held for the long term are stated at cost less provision for permanent diminution in value.

(K) STOCKS AND WORK IN PROGRESS

Stocks are stated at the lower of cost and net realizable value. Cost, which comprises the direct cost of materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the stocks to their present location and condition, is calculated using the weighted average cost method. Net realizable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(L) FOREIGN CURRENCIES

Each operating entity records its transactions in the currency of the jurisdiction in which it operates, termed its "functional currency". Transactions in foreign currencies are translated into the respective functional currencies at the approximate rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the respective functional currencies at the approximate rates ruling on the balance sheet date. Profits or losses arising on exchange are dealt with in the profit and loss account.

On consolidation, the balance sheets of subsidiaries and associated companies expressed in foreign currencies are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date and the results of subsidiaries and associated companies at the average rates of exchange prevailing during the year. Exchange differences arising are dealt with as movements in reserves.

(M) FOREIGN EXCHANGE CONTRACTS

Foreign exchange contracts and options are entered into to protect the Group from the impact of foreign currency fluctuation. According to Group policy, within a predetermined risk limit, the Group may over or under hedge certain percentage of anticipated foreign exchange exposure. Transactions designated as hedges are valued on an equivalent basis to the assets, liabilities or net positions that they are hedging. Any gain or loss is recognized in the profit and loss account on the same basis as that arising from the related assets, liabilities or positions. All over hedge transactions are marked to market and the gains or losses are recognised in the profit and loss account. No gain or loss is recognised in relation to foreign exchange contracts which are entered into to hedge future commitments until the transaction occurs. Premium on options is amortized over the option period.

(N) DEFERRED TAXATION

Deferred taxation is provided, using the liability method, on all significant timing differences, other than those which are not expected to crystallize in the foreseeable future. Deferred tax assets are not recognized unless the related benefits are expected to crystallize in the foreseeable future.

(O) CASH AND CASH EQUIVALENTS

Cash represents cash in hand and deposits repayable on demand with any bank or other financial institution. Cash includes cash in hand and deposits denominated in foreign currencies.

Cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance.

2. OPERATING PROFIT

	1999 HK$'000	1998 HK$'000
Operating profit is stated after crediting and charging the following:		
Crediting		
Commission income	**5,141**	15,434
Exchange gain	**16,086**	46,837
Income from long term listed investment	**1,683**	13,543
Interest income		
– from listed investment	**1,605**	1,537
– on bank deposits	**14,803**	18,205
Profit on disposal of fixed assets	–	14,609
Provision for unlisted investment written back	–	7,749
Royalty income	**68,444**	58,008
Sales of goods	**5,920,235**	5,013,764
Charging		
Auditors' remuneration	**7,804**	7,512
Cost of goods sold	**2,911,681**	2,496,902
Depreciation and amortization		
– Owned assets	**143,056**	133,490
– Assets held under finance leases	**3,057**	1,468
– Trademarks	**20,341**	20,341
Finance lease charges	**844**	144
Interest on short term bank loans, overdrafts and other loans wholly repayable within five years	**47,288**	56,860
Loss on disposal of fixed assets	**16,354**	–
Operating lease rental expenses		
– Land and buildings	**574,324**	540,064
– Others	**5,083**	13,527
Provision for doubtful debts	**6,071**	10,741
Provision for estimated loss for terminating overseas operations	–	16,108

3. DIRECTORS' EMOLUMENTS

	1999 HK$'000	1998 HK$'000
Fees*		
– Non-executive Directors	**620**	620
Salaries, housing and other allowances, benefits in kind		
– Executive Directors	**18,564**	20,136
Bonuses		
– Executive Directors	**2,023**	10,709
Benefit from share options exercised		
– Executive Directors	**8,448**	–
Compensation for loss of office		
– Executive Directors	–	2,809
	29,655	34,274

* *The amount includes directors' fees of HK$320,000 (1998: HK$320,000) paid to Independent Non-executive Directors.*

The emoluments were paid to the Directors as follows:

	NUMBER OF DIRECTORS	
EMOLUMENTS BAND	**1999**	**1998**
Nil – HK$1,000,000	**4**	4
HK$2,500,001 – HK$3,000,000	**1**	1
HK$4,000,001 – HK$4,500,000	**1**	1
HK$5,000,001 – HK$5,500,000	**1**	–
HK$5,500,001 – HK$6,000,000	–	1
HK$6,000,001 – HK$6,500,000	–	2
HK$7,500,001 – HK$8,000,000	**1**	1
HK$9,000,001 – HK$9,500,000	**1**	–
	9	10

3. DIRECTORS' EMOLUMENTS *continued*

The Directors' emoluments presented above include the emoluments of the four *(1998: four)* highest paid individuals in the Group.

Details of emoluments paid to the other one individual *(1998: one)* who is not a director but whose emoluments were among the five highest paid individuals in the Group are as follows:

	1999 HK$'000	1998 HK$'000
Salaries, housing and other allowances, benefits in kind	**2,143**	959
Bonuses	**357**	1,075
Benefit from share options exercised	**960**	–
Compensation for loss of office	–	6,528
	3,460	8,562

	NUMBER OF INDIVIDUAL	
EMOLUMENTS BAND	1999	1998
HK$3,000,001 – HK$3,500,000	**1**	–
HK$8,500,001 – HK$9,000,000	–	1
	1	1

4. EXCEPTIONAL ITEM

The amount represents the profit on disposal of listed investment held for long term. In 1998, the amount represented the provision for diminution in value of listed investment held for long term *(note 11)*.

5. TAXATION

	1999 HK$'000	1998 HK$'000
Company and its subsidiaries:		
Hong Kong profits tax	**33,774**	25,136
Overseas taxation net of overprovision for prior years of HK$14,813,000 *(1998: HK$55,619,000)*	**243,973**	131,127
Deferred taxation *(note 21)*	**(49,366)**	(2,266)
	228,381	153,997
Associated companies – overseas taxation	–	(81)
	228,381	153,916

Hong Kong profits tax has been provided at the rate of 16% *(1998: 16%)* on the estimated assessable profit for the year.

Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the countries in which the Group operates.

	GROUP	
	1999 HK$'000	1998 HK$'000
Deferred taxation for the year has not been (credited)/charged amounts to:		
Accelerated depreciation allowances	**1,510**	1,014
Tax losses	**(32,309)**	(5,605)
Other timing differences	**1,974**	409
	(28,825)	(4,182)

6. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the financial statements of the Company to the extent of HK$330,489,000 *(1998: HK$189,497,000)*.

7. DIVIDENDS

	1999 HK$'000	1998 HK$'000
Interim dividend paid of 3.8 cents *(1998: 3.8 cents)* per share	**41,912**	41,517
Proposed final dividend of 10.7 cents *(1998: nil)* per share	**118,933**	–
	160,845	41,517

The amount provided for the 1999 proposed final dividend is based on 1,111,521,567 shares in issue as at September 27, 1999.

8. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to shareholders of HK$430,027,000 *(1998: HK$155,099,000)* and on the weighted average number of shares in issue during the year of 1,098,272,077 *(1998: 1,092,379,912)*.

The calculation of fully diluted earnings per share is based on the profit attributable to shareholders of HK$430,027,000 *(1998: HK$155,099,000)*, and on the weighted average number of shares in issue during the year of 1,098,272,077 *(1998: 1,092,379,912)* plus the weighted average number of 7,092,995 shares *(1998: 12,159,236 shares)* deemed to be issued at no consideration on the assumption that all outstanding share options granted under the Share Option Scheme had been exercised at July 1, 1998.

9. TRADEMARKS

	GROUP	
	1999 HK$'000	1998 HK$'000
At July 1	**783,133**	803,474
Less: Amortization	**(20,341)**	(20,341)
At June 30	**762,792**	783,133

10. FIXED ASSETS

Group

	FREEHOLD LAND OUTSIDE HONG KONG HK$'000	LONG TERM LEASEHOLD LAND IN HONG KONG HK$'000	BUILDINGS HK$'000	LEASEHOLD IMPROVEMENTS AND FIXTURES HK$'000	PLANT AND MACHINERY HK$'000	FURNITURE AND OFFICE EQUIPMENT HK$'000	MOTOR VEHICLES AND LAUNCH HK$'000	TOTAL HK$'000
Cost								
At July 1, 1998	23,280	25,931	66,004	699,431	15,367	422,201	12,504	1,264,718
Exchange translation	(465)	–	(986)	(19,420)	(275)	(13,516)	(624)	(35,286)
Reclassifications	–	–	–	(21,254)	(968)	22,222	–	–
Additions	–	–	–	192,994	294	60,691	3,435	257,414
Disposals	–	–	–	(82,940)	(4,776)	(68,999)	(3,321)	(160,036)
At June 30, 1999	**22,815**	**25,931**	**65,018**	**768,811**	**9,642**	**422,599**	**11,994**	**1,326,810**
Depreciation								
At July 1, 1998	–	1,496	11,291	479,611	14,018	348,140	7,063	861,619
Exchange translation	–	–	(338)	(13,910)	(243)	(12,185)	(425)	(27,101)
Reclassifications	–	–	–	(13,080)	(843)	13,923	–	–
Charge for the year	–	499	2,398	96,809	711	43,889	1,807	146,113
Disposals	–	–	–	(75,287)	(4,776)	(56,604)	(1,611)	(138,278)
At June 30, 1999	–	**1,995**	**13,351**	**474,143**	**8,867**	**337,163**	**6,834**	**842,353**
Net book values								
At June 30, 1999	**22,815**	**23,936**	**51,667**	**294,668**	**775**	**85,436**	**5,160**	**484,457**
At June 30, 1998	23,280	24,435	54,713	219,820	1,349	74,061	5,441	403,099

At June 30, 1999, the net book value of furniture and office equipment includes an amount of HK$6,887,000 *(1998: HK$12,417,000)* in respect of assets held under finance leases.

At June 30, 1999, the net book value of freehold land and building outside Hong Kong of HK$35,548,000 are pledged as security of short term bank loan *(1998: Nil)*.

11. OTHER INVESTMENTS

	GROUP 1999 HK$'000	1998 HK$'000
Investments listed in Hong Kong, at cost	**20,075**	208,397
Provision *(note 4)*	–	(125,300)
	20,075	83,097
Unlisted investments, at cost	**13,714**	10,061
	33,789	93,158
Market value of listed investments	**18,400**	79,690

12. SUBSIDIARIES

	COMPANY 1999 HK$'000	1998 HK$'000
Unlisted shares, at Directors' valuation	**216,677**	216,677
Loans to subsidiaries	**1,621,930**	1,621,930
Amounts due from subsidiaries	**668,455**	501,571
	2,507,062	2,340,178
Amounts due to subsidiaries	**(160,228)**	(59,914)
	2,346,834	2,280,264

The Directors' valuation of the investment in subsidiaries is based on the underlying net assets of the subsidiaries acquired by the Company under the Group's reorganization which became effective on November 17, 1993.

Except for a loan to a subsidiary of US$170 million (approximately HK$1,314.1 million) which carries interest at 2% over London Interbank Offer Rate and is wholly repayable on January 10, 2002, the remaining loan balance is interest free and has no fixed terms of repayment.

Details of the Company's principal subsidiaries at June 30, 1999 are set out in note 27 to the financial statements.

13. ASSOCIATED COMPANIES

	GROUP 1999 HK$'000	1998 HK$'000
Share of net assets/(liabilities)	**3,714**	(5,800)
Loan to an associated company	**49,000**	49,000
	52,714	43,200
Unlisted shares, at cost	**1,411**	8,252

The loan to an associated company is unsecured, non-interest bearing and has no fixed terms of repayment.

The following is a list of associated companies:

NAME	PLACE OF INCORPORATION	PRINCIPAL ACTIVITIES	EQUITY INTEREST HELD INDIRECTLY
Esmido Fashions Limited	Thailand	Retail distribution of fashion products	24%
Tactical Solutions Incorporated	British Virgin Islands	Investment holding	49%

14. NET CURRENT ASSETS

	GROUP		COMPANY	
	1999 HK$'000	1998 HK$'000	**1999 HK$'000**	1998 HK$'000
Current Assets				
Stocks and work in progress *(note 15)*	**657,095**	517,416	–	–
Debtors, deposits and prepayments	**524,978**	526,292	**12**	–
Amounts due from associated companies	**23,982**	35,180	–	–
Dividend receivable	–	–	**287,103**	166,539
Short-term bank deposits	**285,285**	191,826	–	–
Bank balances and cash	**287,680**	272,887	**5,224**	480
	1,779,020	1,543,601	**292,339**	167,019
Current Liabilities				
Creditors and accrued charges	**611,673**	618,746	**2,982**	33,128
Proposed dividend	**118,933**	–	**118,933**	–
Taxation	**375,574**	275,490	**15,547**	8,320
Obligations under finance leases – due within one year *(note 19)*	**2,647**	7,082	–	–
Long term bank loan – due within one year *(note 20)*	**153,244**	121,238	**153,244**	121,238
Secured short-term bank loan	**11,710**	–	–	–
Unsecured short-term bank loans	**6,024**	45,206	–	–
Bank overdrafts	**12,299**	37,170	–	–
	1,292,104	1,104,932	**290,706**	162,686
	486,916	438,669	**1,633**	4,333

15. STOCKS AND WORK IN PROGRESS

	GROUP	
	1999 HK$'000	1998 HK$'000
Raw materials	**1,648**	12,096
Work in progress	**3,094**	5,694
Finished goods	**643,267**	486,515
Consumables	**9,086**	13,111
	657,095	517,416

16. SHARE CAPITAL

	1999 HK$'000	1998 HK$'000
Authorised:		
2,000,000,000 shares of HK$0.10 each	**200,000**	200,000

	NUMBER OF SHARES OF HK$0.10 EACH '000	**NOMINAL VALUE HK$'000**
Issued and fully paid:		
Balance at July 1, 1998	1,092,546	109,255
Issue of scrip dividend shares *(note (a))*	3,550	355
Exercise of share options *(note (b))*	12,526	1,252
Balance at June 30, 1999	**1,108,622**	**110,862**

16. SHARE CAPITAL *continued*

(a) At the directors' meeting of the Company held on March 12, 1999, the directors of the Company declared an interim dividend for the six months ended December 31, 1998 of HK$0.038 per ordinary shares of HK$0.10 each to the shareholders of the Company. Shareholders may elect to receive fully paid new shares ("Scrip Dividend Shares") in lieu of cash ("Scrip Dividend Scheme"). For the purpose of calculating the number of Scrip Dividend Shares to be allotted, the market value of the Scrip Dividend Shares has been set at HK$3.79 per share, which is equivalent to the average closing prices of the shares on the Stock Exchange for the five consecutive trading days immediately preceding and including April 16, 1999. Under the Scrip Dividend Scheme, 1999 interim dividend of HK$13,454,000 was settled by the issue of 3,550,000 Scrip Dividend Shares at a premium of HK$3.69 each.

(b) During the year, 10,026,000 and 2,500,000 ordinary shares of HK$0.10 were issued at a premium of HK$2.54 and HK$2.556 each respectively in relation to share options exercised by employees and Directors under the Scheme (defined in (c) below).

(c) On November 17, 1993, the Company adopted a Share Option Scheme (the "Scheme") pursuant to which the Directors may grant options to eligible employees, including Executive Directors of the Company, to subscribe for shares in the Company. In accordance with the terms of the Scheme, the number of shares in respect of which options may be granted under the Scheme shall not exceed 10% of the issued share capital of the Company from time to time.

Each share option granted under the Scheme entitles the holder to subscribe for one share of HK$0.10 each at a predetermined price. Options granted were divided into four to eight equal fractional installments. The first date of exercise between each installment shall occur at intervals of six calendar months and expiring on the fifth anniversary of the first date of exercise of each installment or 10 years from the date of adoption of the Scheme, whichever is the earlier. The exercisable date for the first installment shall occur six months after the date of grant. At June 30, 1999, there were 62,850,000 options outstanding which allowed the eligible employees to subscribe for shares in the Company at the price from HK$2.640 to HK$3.096 per share. Details of outstanding share options as of June 30, 1999 are as follows:

DATE OF SHARE OPTIONS GRANTED	NUMBER OF OUTSTANDING SHARE OPTIONS GRANTED AS AT JUNE 30, 1999	SUBSCRIPTION PRICE PER SHARE
January 20, 1994	5,000,000	HK$2.640
December 13, 1995	3,000,000	HK$2.640
July 5, 1996	1,600,000	HK$2.640
July 30, 1996	1,000,000	HK$2.640
January 23, 1997	250,000	HK$2.656
January 27, 1997	2,000,000	HK$2.656
January 28, 1997	17,000,000	HK$2.656
February 26, 1997	1,000,000	HK$2.656
March 13, 1997	1,500,000	HK$2.940
April 17, 1997	1,000,000	HK$2.940
April 28, 1997	1,000,000	HK$2.940
May 15, 1997	4,000,000	HK$2.944
May 26, 1997	15,000,000	HK$3.096
June 17, 1997	1,500,000	HK$2.940
January 13, 1999	2,000,000	HK$2.720
January 14, 1999	1,000,000	HK$2.872
January 29, 1999	2,000,000	HK$2.872
February 17, 1999	2,000,000	HK$2.720
March 16, 1999	1,000,000	HK$2.640
	62,850,000	

17. RESERVES

Group

	SHARE PREMIUM HK$'000	CONTRIBUTED SURPLUS HK$'000	TRANSLATION RESERVE HK$'000	RETAINED PROFIT HK$'000	TOTAL HK$'000
Balance at July 1, 1998	936,782	6,602	(71,571)	181,997	1,053,810
Premium arising from issue of scrip dividend shares *(notes 16(a))*	13,099	–	–	–	13,099
Premium arising from issues of shares *(notes 16(b))*	31,856	–	–	–	31,856
Goodwill on acquisition of subsidiaries	–	–	–	(459)	(459)
Exchange translation	–	–	(42,838)	–	(42,838)
Profit for the year retained by:					
Company and its subsidiaries	–	–	–	268,036	268,036
Associated companies	–	–	–	1,146	1,146
Balance at June 30, 1999	**981,737**	**6,602**	**(114,409)**	**450,720**	**1,324,650**
Attributable to:					
Company and its subsidiaries	981,737	6,602	(112,344)	446,399	1,322,394
Associated companies	–	–	(2,065)	4,321	2,256
	981,737	6,602	(114,409)	450,720	1,324,650

Company

	SHARE PREMIUM HK$'000	CONTRIBUTED SURPLUS HK$'000	RETAINED PROFIT HK$'000	TOTAL HK$'000
Balance at July 1, 1998	936,782	473,968	232,055	1,642,805
Premium arising from issue of scrip dividend shares *(notes 16(a))*	13,099	–	–	13,099
Premium arising from issues of shares *(notes 16(b))*	31,856	–	–	31,856
Profit for the year	–	–	330,489	330,489
Dividends *(note 7)*	–	–	(160,845)	(160,845)
Balance at June 30, 1999	**981,737**	**473,968**	**401,699**	**1,857,404**

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 November 17, 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 January 10, 1997. Contributed surplus is available for distribution to shareholders under the laws in Bermuda.

Distributable reserve of the Company at June 30, 1999 amounted to HK$875,667,000 *(1998: HK$706,023,000)*.

18. MINORITY INTERESTS

Included in the amount is a loan of HK$9,201,000 *(1998: HK$5,274,000)* from a minority shareholder of a subsidiary, which is unsecured, non-interest bearing and repayable in full on March 19, 2003.

19. OBLIGATIONS UNDER FINANCE LEASES

	GROUP	
	1999 HK$'000	1998 HK$'000
The maturity of the obligations is as follows:		
Within one year	**2,647**	7,082
In the second year	**1,545**	5,639
In the third to fifth years inclusive	**843**	3,134
	5,035	15,855
Amount due within one year included under current liabilities *(note 14)*	**(2,647)**	(7,082)
	2,388	8,773

20. LONG TERM BANK LOAN

	GROUP		COMPANY	
	1999 HK$'000	1998 HK$'000	**1999 HK$'000**	1998 HK$'000
Secured bank loan				
– wholly repayable within 5 years	**533,445**	653,775	**533,445**	653,775
Amount due within one year included under current liabilities *(note 14)*	**(153,244)**	(121,238)	**(153,244)**	(121,238)
	380,201	532,537	**380,201**	532,537
The maturity of the long term bank loan is as follows:				
– within one year	**153,244**	121,238	**153,244**	121,238
– in the second year	**279,331**	152,984	**279,331**	152,984
– in the third to fifth years inclusive	**100,870**	379,553	**100,870**	379,553
	533,445	653,775	**533,445**	653,775

The bank loan of HK$ 533,445,000 *(1998: HK$653,775,000)* is secured by the share capital of certain subsidiaries of the Company. In addition, there are unconditional and irrevocable continuing joint and several guarantees by these subsidiaries for the outstanding loan amount which are supported by charges over their respective assets, revenues and undertakings. The lender of the bank loan has agreed that these charges will be released when the necessary documentation for such releases is executed by the relevant parties, which is expected to be before end of November 1999.

21. DEFERRED TAXATION

	GROUP	
	1999 HK$'000	1998 HK$'000
At July 1	**49,366**	54,167
Transfer to profit and loss account *(note 5)*	**(49,366)**	(2,266)
Exchange translation	**1,522**	(2,535)
At June 30	**1,522**	49,366
Provided in the accounts in respect of:		
Accelerated depreciation allowances	**84**	84
Other timing differences	**1,438**	49,282
	1,522	49,366

The potential assets for deferred taxation for which no provision has been made in the financial statements amount to:

	GROUP	
	1999 HK$'000	1998 HK$'000
Accelerated depreciation allowances	**17,525**	19,035
Tax losses	**56,504**	23,982
Other timing differences	**563**	2,750
	74,592	45,767

22. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(A) RECONCILIATION OF PROFIT BEFORE TAXATION AND EXCEPTIONAL ITEM TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	1999 HK$'000	1998 HK$'000
Profit before taxation and exceptional item	**625,745**	471,971
Interest income	**(16,408)**	(19,742)
Interest expense	**47,288**	56,860
Finance charges on obligations under finance leases	**844**	144
Amortization of trademarks	**20,341**	20,341
Depreciation	**146,113**	134,958
Loss/(profit) on disposal of fixed assets	**16,354**	(14,609)
Loss on disposal of interests in an associated company	**605**	–
Profit on partial disposal of interests in a subsidiary	–	(363)
Income from long term listed investments	**(1,683)**	(13,543)
Provisions for estimated loss for terminating overseas operations	–	16,108
Share of results of associated companies	**(1,146)**	17,616
Provision for unlisted investment written back	–	(7,749)
Increase in stocks and work in progress	**(139,679)**	(7,393)
Decrease/(increase) in debtors, deposits and prepayments	**1,467**	(37,475)
Decrease/(increase) in amounts due from associated companies	**11,198**	(32,751)
Increase in amounts due from related companies	–	(8,527)
Increase/(decrease) in creditors and accrued charges	**14,802**	(135,677)
Effect of foreign exchange rate changes	**(20,989)**	(38,617)
	704,852	401,552

22. NOTES TO CONSOLIDATED CASH FLOW STATEMENT *continued*

(B) ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	SHARE CAPITAL (INCLUDING SHARE PREMIUM) HK$'000	MINORITY INTERESTS HK$'000	LONG TERM BANK LOAN HK$'000	OBLIGATIONS UNDER FINANCE LEASES HK$'000
Balance at July 1, 1998	1,046,037	7,518	653,775	15,855
Cash inflow/(outflow) from financing	33,108	3,851	(133,670)	(12,221)
Issue of scrip dividend shares *(note 16(a))*	13,454	–	–	–
Share of goodwill on increase in interest in subsidiaries	–	(296)	–	–
Share of exchange reserve	–	(1,048)	–	–
Increase in interest in subsidiaries	–	1,034	–	–
Inception of new finance leases	–	–	–	821
Share of net profit attributable to minority shareholders	–	44,999	–	–
Dividend paid	–	(54,866)	–	–
Exchange difference	–	(147)	13,340	580
Balance at June 30, 1999	**1,092,599**	**1,045**	**533,445**	**5,035**

(C) ANALYSIS OF THE BALANCE OF CASH AND CASH EQUIVALENTS

	1999 HK$'000	1998 HK$'000
Short-term bank deposits	**285,285**	191,826
Bank balances and cash	**287,680**	272,887
Short-term bank loans	**(17,734)**	(45,206)
Bank overdrafts	**(12,299)**	(37,170)
	542,932	382,337

23. CONTINGENT LIABILITIES

	COMPANY	
	1999 HK$'000	1998 HK$'000
Guarantees given to banks in respect of banking facilities granted to subsidiaries	**1,282,512**	1,233,693

24. OPERATING LEASE COMMITMENTS

	GROUP	
	1999 HK$'000	1998 HK$'000
Operating lease commitments at June 30 payable in the next twelve months, analysed according to the period in which the lease expires, are as follows:		
Land and buildings		
– expiring in the first year	**40,587**	39,855
– expiring in the second to fifth years inclusive	**370,772**	288,953
– expiring beyond five years	**101,992**	102,813
	513,351	431,621
Other equipment		
– expiring in the first year	**1,848**	4,474
– expiring in the second to fifth years inclusive	**8,242**	7,483
– expiring beyond five years	–	317
	523,441	443,895

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

The company did not have any operating lease commitments at June 30, 1999 *(1998: Nil)*.

25. COMMITMENTS

(A) CAPITAL COMMITMENTS

	GROUP	
	1999 HK$'000	1998 HK$'000
Contracted but not provided for	**45,000**	3,212
Authorised but not contracted for	**31,929**	18,934
	76,929	22,146

The Company did not have any significant capital commitments at June 30, 1999 *(1998: Nil)*.

(B) FOREIGN EXCHANGE CONTRACTS

At June 30, the notional amounts of the Group's foreign exchange contracts are as follows:

	GROUP	
	1999 HK$'000	1998 HK$'000
Forward contracts	**1,280,650**	2,905,571
Option contracts	**627,146**	464,760
	1,907,796	3,370,331

Foreign exchange contracts, which include forward and options, are entered into primarily to protect the Group from the impact of currency fluctuation during the normal course of business.

26. RELATED PARTY TRANSACTIONS

In addition to directors' emoluments disclosed in note 3, in the ordinary course of business and on normal commercial terms, the Group entered into transactions with the related companies during the year. Details relating to these related party transactions are as follows:

	1999 HK$'000	1998 HK$'000
Transactions with Associated Companies		
Sales of finished goods	**123,440**	68,719
Royalty received	**1,586**	–
Interest received	**362**	–

The related party transactions disclosed above do not constitute connected transactions as defined under the Listing Rules.

27. PRINCIPAL SUBSIDIARIES

The following are the principal subsidiaries which the Company indirectly held, 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.

NAME OF SUBSIDIARY	PLACE OF INCORPORATION/ REGISTRATION/OPERATION	ATTRIBUTABLE EQUITY INTEREST TO THE GROUP	ISSUED AND FULLY PAID SHARE CAPITAL/ REGISTERED CAPITAL *(note a)*	PRINCIPAL ACTIVITIES
Aromatic Beauty Products Pty Limited	Australia	59.6%	A$2	Wholesale distribution of cosmetics and skin and general body care products
Esprit Asia (Distribution) Limited	Hong Kong	100%	HK$9,000	Investment holding
Esprit Belgie Retail N.V.	Belgium	100%	BEF47,500,000	Retail distribution of apparel and accessories
Esprit Belgie Wholesale N.V.	Belgium	100%	BEF2,500,000	Wholesale distribution of apparel and accessories
Esprit Benelux Wholesale B.V.	Netherlands	100%	NLG250,000	Wholesale distribution of apparel and accessories
Esprit China Distribution Limited	British Virgin Islands	100%	US$100	Investment holding
Esprit Corporate Services Limited	British Virgin Islands	100%	US$100	Investment holding
Esprit de Corp (1980) Ltd.	Canada	75%	CAD1,000,100	Distribution of apparel and accessories
Esprit de Corp Denmark A/S	Denmark	100%	DKK10,000,000	Distribution of apparel and accessories
Esprit de Corp (Far East) Limited	Hong Kong	100%	HK$1,200,000	Sourcing of apparel and accessories
Esprit de Corp France S.A.	France	100%	FRF10,000,000	Distribution of apparel and accessories
Esprit de Corp GmbH	Germany	100%	DM32,000,000	Wholesale distribution of apparel and accessories
Esprit de Corp (Malaysia) Sdn Bhd.	Malaysia	100%	MYR500,000	Retail distribution of apparel and accessories
Esprit de Corp (Worldwide) Limited	Hong Kong	100%	HK$1,000	Sourcing of apparel
Esprit Design & Product Development GmbH	Germany	100%	DM500,000	Design of apparel and accessories

27. PRINCIPAL SUBSIDIARIES *continued*

NAME OF SUBSIDIARY	PLACE OF INCORPORATION/ REGISTRATION/OPERATION	ATTRIBUTABLE EQUITY INTEREST TO THE GROUP	ISSUED AND FULLY PAID SHARE CAPITAL/ REGISTERED CAPITAL *(note a)*	PRINCIPAL ACTIVITIES
Esprit Distribution Ltd.	Hong Kong	100%	HK$10,000	Wholesale distribution of apparel and accessories
Esprit Europe Services GmbH	Germany	100%	DM4,889,575	Wholesale distribution of apparel and accessories
Esprit Far East Limited	British Virgin Islands	100%	US$7,708	Investment holding
Esprit Far East (Investments III) Ltd.	British Virgin Islands	100%	US$100	Investment holding
Esprit Handelsgesellschart MbH	Austria	100%	ATS500,000	Wholesale distribution of apparel and accessories
Esprit Holdings GmbH	Germany	100%	DM10,000,000	Europe corporate management
Esprit Image & Product Development Limited	United Kingdom	100%	GBP2	Group image direction and wholesale distribution of apparel and accessories
Esprit International	California, U.S.A. (limited partnership)	63%	–	Licensing of trademark
Esprit Nederland Retail B.V.	Netherlands	100%	NLG250,000	Retail distribution of apparel and accessories
Esprit Retail GmbH	Germany	100%	DM9,000,000	Retail distribution of apparel and accessories
Esprit Retail (Hong Kong) Limited	Hong Kong	100%	HK$10,000	Retail distribution of apparel and accessories
Esprit Retail Pte Ltd.	Singapore	100%	S$3,000,000	Retail distribution of apparel and accessories
Esprit Retail Pty Ltd.	Australia	100%	A$200,000	Retail distribution of apparel and accessories
Esprit Retail (Taiwan) Limited	Hong Kong	100%	HK$9,000	Retail distribution of apparel and accessories
Esprit Singapore Pte Limited	Singapore	100%	S$100,000	Manufacturing and sourcing of apparel
Esprit Sweden AB	Sweden	100%	SEK200,000	Distribution of apparel and accessories
Esprit Thailand Distribution Limited	British Virgin Islands	100%	US$100	Investment holding

27. PRINCIPAL SUBSIDIARIES *continued*

NAME OF SUBSIDIARY	PLACE OF INCORPORATION/ REGISTRATION/OPERATION	ATTRIBUTABLE EQUITY INTEREST TO THE GROUP	ISSUED AND FULLY PAID SHARE CAPITAL/ REGISTERED CAPITAL *(note a)*	PRINCIPAL ACTIVITIES
Garments, Accessories and Cosmetics Esprit Retail (Macau) Limitada	Macau	100%	MOP100,000	Retail distribution of apparel and accessories
Red Earth (Hong Kong) Limited	Hong Kong	92%	HK$10,000	Retail distribution of cosmetics and skin and general body care products
Red Earth (Korea) Limited	Republic of Korea	100%	Won 5,300,000,000	Retail distribution of apparel and accessories
Red Earth Licensing Limited	British Virgin Islands	60.8%	US$100	Licensing of trademark
Red Earth New Zealand Limited	New Zealand	59.6%	NZ$100	Retail distribution of cosmetics and skin and general body care products
Red Earth Production Limited	Hong Kong	60.8%	HK$10,000	Wholesale distribution of cosmetics and skin and general body care products
Red Earth Pty Limited	Australia	59.6%	A$100	Retail distribution of cosmetics and skin and general body care products
Red Earth (Taiwan) Limited	Hong Kong	100%	HK$2	Retail distribution of cosmetics and skin and general body care products
Red Earth Trading Pty Limited	Australia	59.6%	A$2	Wholesale distribution of cosmetics and skin and general body care products
Shenzhen Shihe Dress Co. Ltd.	The People's Republic of China	100%	US$1 million registered capital	Manufacturing of apparel
Sijun Fashion Design (Shenzhen) Company Limited	The People's Republic of China	100%	US$700,000 registered capital	Sample development

Notes:

(a) All are ordinary share capital unless otherwise stated.

(b) None of the subsidiaries had any loan capital subsisting at June 30, 1999 or at any time during the year.

(c) Except for Red Earth (Taiwan) Limited and Esprit Retail (Taiwan) Limited which operate principally in Taiwan, all subsidiaries operate principally in their place of incorporation.

Results

	1999 HK$'000	1998 HK$'000	1997 HK$'000	1996 HK$'000	1995 HK$'000
Turnover	**5,993,820**	5,087,206	3,351,742	1,785,330	1,473,251
Operating profit	**624,599**	489,587	400,889	203,399	183,142
Exceptional item	**77,662**	(125,300)	–	–	–
	702,261	364,287	400,889	203,399	183,142
Share of results of associated companies	**1,146**	(17,616)	1,053	1,339	1,708
Profit before taxation	**703,407**	346,671	401,942	204,738	184,850
Taxation	**(228,381)**	(153,916)	(144,000)	(44,244)	(43,608)
Profit after taxation	**475,026**	192,755	257,942	160,494	141,242
Minority interests	**(44,999)**	(37,656)	(22,411)	1,310	33
Profit attributable to shareholders	**430,027**	155,099	235,531	161,804	141,275
Dividends	**160,845**	41,517	125,309	82,637	67,792

Balance Sheets

	1999 HK$'000	1998 HK$'000	1997 HK$'000	1996 HK$'000	1995 HK$'000
Trademarks	**762,792**	783,133	803,474	–	–
Fixed assets	**484,457**	403,099	463,098	226,549	217,627
Other investments	**33,789**	93,158	214,263	20,000	20,000
Associated companies	**52,714**	43,200	12,828	5,246	4,442
Net current assets	**486,916**	438,669	419,635	409,735	338,394
	1,820,668	1,761,259	1,913,298	661,530	580,463
Financed by:					
Share capital	**110,862**	109,255	108,806	80,987	75,087
Reserve	**1,324,650**	1,053,810	1,012,137	578,605	480,304
Shareholders' fund	**1,435,512**	1,163,065	1,120,943	659,592	555,391
Minority interests	**1,045**	7,518	14,989	1,329	2,717
Obligations under finance leases	**2,388**	8,773	320	609	2,436
Long term bank loan	**380,201**	532,537	722,879	–	19,919
Deferred taxation	**1,522**	49,366	54,167	–	–
	1,820,668	1,761,259	1,913,298	661,530	580,463

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Esprit Holdings Limited (the "Company") will be held at the Annapurna Room, Pacific Place Conference Centre, Level 5, One Pacific Place, 88 Queensway, Hong Kong on Friday, November 26, 1999 at 4:30 pm for the following purposes:

1. To receive and consider the audited Financial Statements and the Report of the Directors and of the Auditors of the Group for the year ended June 30, 1999.

2. To declare a final dividend in respect of the year ended June 30, 1999.

3. To elect Directors and to authorize the Board of Directors to fix their remuneration and to appoint additional Directors either to fill a casual vacancy on the Board or as an addition to the Board in accordance with Bye-Law 86(2) of the Bye-Laws of the Company.

4. To appoint Auditors and to authorize the Board of Directors to fix their remuneration.

5. As special business, to consider and , if thought fit, pass the following resolution as an Ordinary Resolution:

   "**THAT**:

   (a) subject to paragraph (c), the exercise by the Directors of the Company during the Relevant Period (as defined below) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options (including bonds, warrants and debentures convertible into shares of the Company) which might require the exercise of such powers be and is generally and unconditionally approved;

   (b) the approval in paragraph (a) shall authorize the Directors of the Company during the Relevant Period to make or grant offers, agreements and options (including bonds, warrants and debentures convertible into shares of the Company) which might require the exercise of such power after the end of the Relevant Period;

   (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an agreement, offer, option or otherwise) by the Directors of the Company pursuant to the approval in paragraph (a), otherwise than pursuant to (i) a Rights Issue (as defined below); (ii) the exercise of options granted or to be granted under any share option scheme adopted by the Company, (iii) an issue of shares upon the exercise of rights of subscription or conversion under the terms of any warrants of the Company or any securities which are convertible into shares of the Company or (iv) any scrip dividend or similar arrangement providing for the allotment of share in lieu of the whole or part of a dividend on shares of the Company in accordance with the Bye-laws of the Company, shall not exceed the aggregate of (aa) 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue on the date of this Resolution and (bb) (if Directors of the Company are so authorized by a separate Ordinary Resolution of the shareholders of the Company) the nominal amount of share capital of the Company repurchased by the Company subsequent to the passing of and as permitted by resolution No.6 as set out below (up to a maximum equivalent to 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue on the date of this Resolution), and the said approval shall be limited accordingly; and

   (d) for the purpose of this Resolution:

   "Relevant Period" means the period from the passing of this Resolution until whichever is the earlier of :

   (i) the conclusion of the next Annual General Meeting of the Company;

   (ii) the expiration of the period within which the next Annual General Meeting of the Company is required by the Companies Act 1981 of Bermuda (as amended) to be held; and

   (iii) the revocation or variation of the authority given under this Resolution by Ordinary Resolution of the shareholders in general meeting.

   "Rights Issue" means an offer of shares open for a period fixed by the Directors of the Company to holders of shares on the register on a fixed record date in proportion to their then holdings of such shares (subject to such exclusion or other arrangements as the Directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognized regulatory body or any stock exchange in any territory outside Hong Kong)."

6. As special business, to consider and, if thought fit, passing the following resolution as an Ordinary Resolution:

   "**THAT**:

   (a) subject to paragraph (b) below, the exercise by the Directors of the Company during the Relevant Period of all the powers of the Company to purchase shares of the Company be generally and unconditionally approved;

(b) the aggregate nominal amount of shares which may be purchased on The Stock Exchange of Hong Kong Limited or any other stock exchange be recognized for this purpose by the Securities and Futures Commission of Hong Kong and The Stock Exchange of Hong Kong Limited under the Hong Kong Code on Share Repurchases pursuant to the approval in paragraph (a) above shall not exceed 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue on the date of this Resolution, and the said approval shall be limited accordingly; and

(c) for the purpose of this Resolution:

"Relevant Period" means the period from the passing of this Resolution until whichever is the earlier of:

(aa) the conclusion of the next Annual General Meeting of the Company;

(bb) the expiration of the period within which the next Annual General Meeting of the Company is required by the Companies Act 1981 of Bermuda (as amended) to be held; and

(cc) the revocation or variation of the authority given under this Resolution by Ordinary Resolution of the shareholders in general meeting."

7. As special business, to consider and , if thought fit, to pass the following resolution as an Ordinary Resolution:

"**THAT** conditional upon Resolution No.6 in the notice convening this meeting being passed, the aggregate nominal amount of shares in the issued share capital of the Company which are repurchased by the Company under the authority granted to the Directors as mentioned in the Resolution No.6 above shall be added to the aggregate nominal amount of share capital that may be allotted or agreed conditionally or unconditionally to be allotted and issued by the Directors of the Company pursuant to Resolution No.5 in the notice convening this meeting."

8. As special business, to consider and if thought fit, to pass the following resolution as a Special Resolution:

"That the Bye-Laws of the Company be amended as follows:

(a) by inserting the following at the end of Bye-Law 20(2):

"provided that the Company shall not levy such fee for so long as the shares of the Company are listed on the London Stock Exchange ("LSE") and the Company is required by the listing rules of the LSE not to levy such fee with regard to the issuance of share certificates in respect of a transfer of such shares, and no waiver has been obtained from the LSE regarding such requirements"

(b) by inserting the following at the end of Bye-Law 49(a):

"provided that the Company shall not levy such fee for so long as the shares of the Company are listed on the London Stock Exchange ("LSE") and the Company is required by the listing rules of the LSE not to levy such fee with regard to the transfer of such shares, and no waiver has been obtained from the LSE regarding such requirements"

9. To transact any other ordinary business.

By Order of the Board

Surinder Chhibber
Executive Director

Hong Kong, October 20, 1999

Notes:

1. Any member entitled to attend and vote at the meeting is entitled to appoint one proxy to attend, and in the event of a poll, vote in his stead. A proxy need not be a member of the Company.

2. In order to be valid, a proxy form, together with the power of attorney (if any) or other authority (if any) under which it is signed or a notarially certified copy of such power or authority, must be lodged with the head office of the Company at 10th floor, 11 Yuk Yat Street, Tokwawan, Kowloon, Hong Kong not less than 48 hours before the time fixed for holding the meeting.

corporate structure

as at June 30, 1999

* *Joint venture business with China Resources Enterprise, Limited*

corporate information

EXECUTIVE DIRECTORS
Michael Ying Lee Yuen *Chairman*
Heinz Jürgen Krogner-Kornalik
Surinder Chhibber
Connie Wong Chin Tzi

NON-EXECUTIVE DIRECTORS
Alexander Reid Hamilton
Joyce Elena Ma
Jürgen Alfred Rudolf Friedrich
Raymond Or Ching Fai

COMPANY SECRETARY
Vivianne Lau

AUTHORIZED REPRESENTATIVES
Michael Ying Lee Yuen
Surinder Chhibber

PRINCIPAL BANKER
The Hongkong and Shanghai Banking Corporation Limited
1 Queen's Road Central, Hong Kong

AUDITORS
PricewaterhouseCoopers Certified Public Accountants
22/F, Prince's Building, Central, Hong Kong

COMMON SHARE
The common share of Esprit Holdings Limited is listed for trading on the Stock Exchange of Hong Kong Limited (code: 0330) and the London Stock Exchange (ticker: EPT LI)

HONG KONG SHARE REGISTRAR
Secretaries Limited
5/F, Wing On Centre, 111 Connaught Road, Central, Hong Kong

REGISTERED OFFICE
Clarendon House
Church Street, Hamilton HM 11 Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS
10/F, 11 Yuk Yat Street, Tokwawan, Kowloon, Hong Kong
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