


ESPRIT

esprit holdings ltd annual report 1996/97

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today, you own an altogether different, multiregional, vastly enlarged and vertically integrated company which does not simply sell the esprit brand but which controls the esprit brand – a vital distinction and a strategy which sets out to maximize the potential of the group.

history of a global brand



In 1968, Doug and Susie Tompkins and friend Jane Tise form Plain Jane Dress Company in San Francisco, USA. The company is later renamed Esprit de Corp. (Esprit US).

71

Doug and Susie Tompkins meet Michael Ying, who begins to source for Esprit.

74

Michael Ying founds Impulse Trading Co. (predecessor of Esprit Far East Group) in

Hong Kong, in which the Tompkins subsequently become shareholders.

76

With Jürgen Friedrich, a founding partner, Esprit Europe is established in Düsseldorf, Germany, in response to keen demand in Europe for Esprit's quintessential American style.

79

The new stencil-style Esprit logo, featuring the triple-bar E, is created and in time becomes one of the world's most recognized and memorable trademarks.

80s

Esprit distribution network, expanding internationally, by now found in countries from Canada to Chile to Switzerland, New Zealand and the Philippines. In 1981, Esprit begins aggressive expansion of wholesale distribution all over Asia. Throughout the decade, Esprit grows from strength to strength: Esprit stores, shop-in-shops and counters

open in major cities worldwide, their unostentatious, innovative design and displays further building the brand's image. Kids' wear and men's wear are launched as well as footwear and accessories.



tribution business is listed on The Stock Exchange of Hong Kong as Esprit Asia Holdings Ltd. Esprit Europe, Esprit US, Esprit Sourcing and Esprit International remain privately held by different shareholders.

83

The world's first Esprit freestanding retail store opens in Hong Kong. Esprit International is established to manage and develop the Esprit trademark worldwide.

87

The first Esprit retail stores in Taiwan, the Netherlands, Belgium and Denmark open.

90

Doug Tompkins sells a portion of his shareholdings in the Esprit business.

94

The first Esprit retail store in Japan opens.

95

Esprit's Australian operation is injected into Esprit Asia Holdings Ltd.



89

"Esprit, the Comprehensive Design Principle" is published in Japan. It remains a standard reference for designers, artists and marketers around the world. The first retail stores in Britain and Sweden open.

91

France's first Esprit retail store opens.

96

Michael Ying, together with Jürgen Friedrich, forms Worldwide Thousand Ltd (WTL), which acquires Esprit Europe, Esprit Sourcing, 63% of Esprit International, 5% of Esprit US and 10% of Esprit Japan. Independent US investors control 95% of Esprit US.

85

Retail operations begin in Singapore.

90s

Esprit redefines cause-related marketing and continues to build its reputation for socially- and environmentally-concerned business and manufacturing practices.

92

Esprit Far East Group acquires majority shareholdings of the European operation. Retail operations in China established.

93

Esprit Far East Group takes over franchised operation in South Korea. Asian dis-

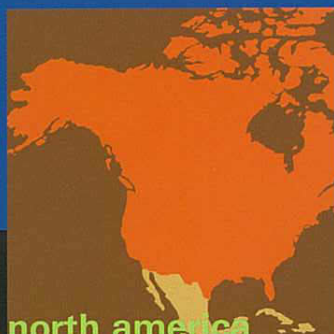
86

Esprit's European design center in Düsseldorf is built, and Germany's first Esprit retail store opens.

WTL sells its privately-held Esprit businesses to Esprit Asia Holdings Ltd., which is then renamed Esprit Holdings Ltd.

97

global network



north america

over 40
countries

over 6,500
sales outlets



europa



latin america

Esprit Distribution Channels in Europe

As of June 30, 1997

	directly managed stores	controlled retail floor area (sq ft)	franchised stores
germany	38	134,217	317
the netherlands	18	33,993	1
belgium	18	43,870	1
denmark	10	15,640	27
sweden	4	6,587	—
norway	5	3,918	—
united kingdom	23	27,534	—
france	6	10,829	15
austria	—	—	12
other european countries	—	—	35

 Territories in which the Group operates.



canada



australia &
new zealand

over 3,700
wholesale
customers



asia



middle east

around
600,000 sq ft
controlled
retail area

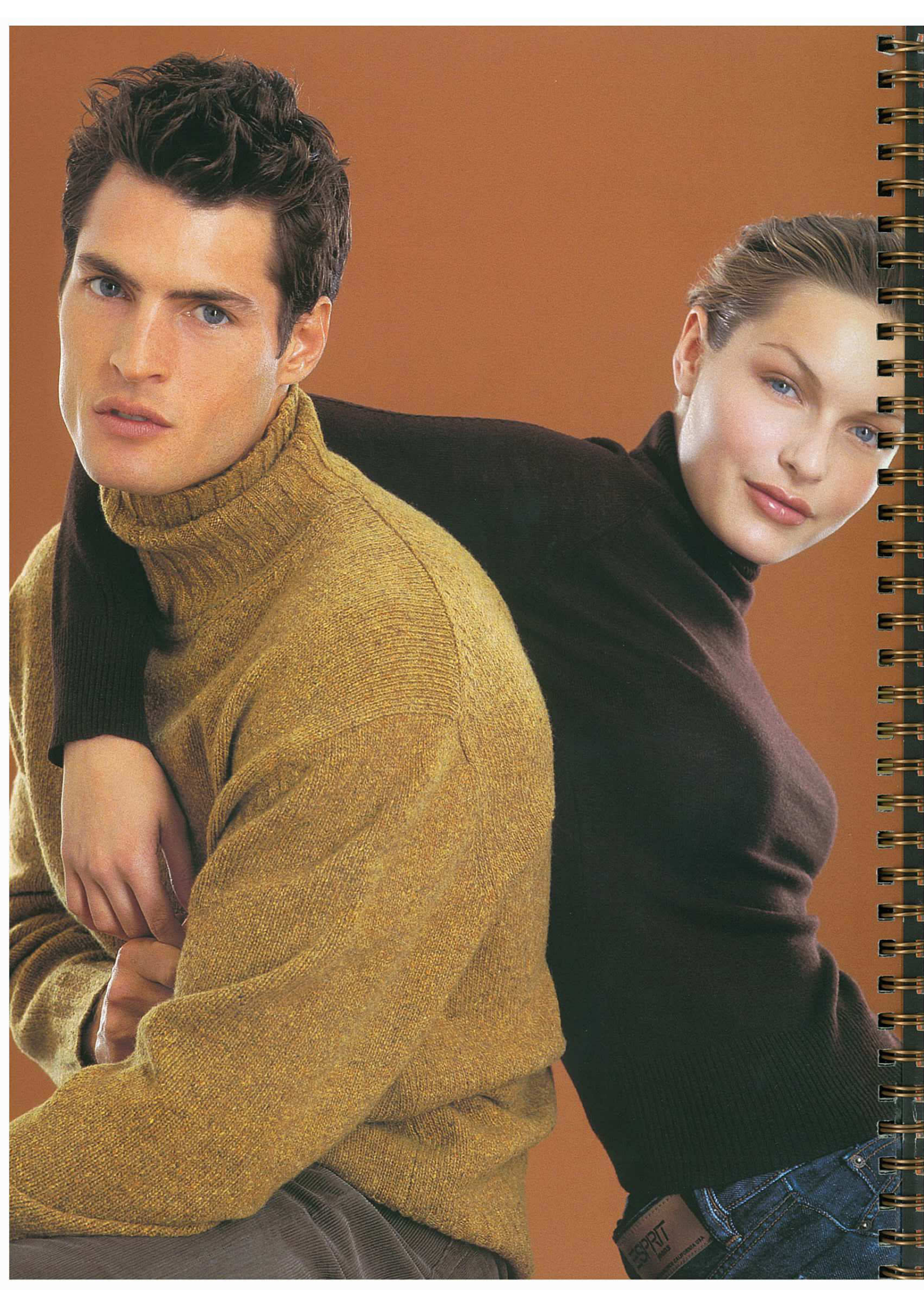
Esprit Distribution Channels in Asia

As of June 30, 1997

	directly managed stores	controlled retail floor area (sq ft)	franchised stores
hong kong*	23	58,054	—
australia	62	93,114	—
taiwan	55	49,406	—
singapore	10	46,427	—
south korea	36	20,681	1
china	26	32,030	82
japan	17	14,407	1
malaysia	6	10,002	—
other asian/middle east countries	—	—	130

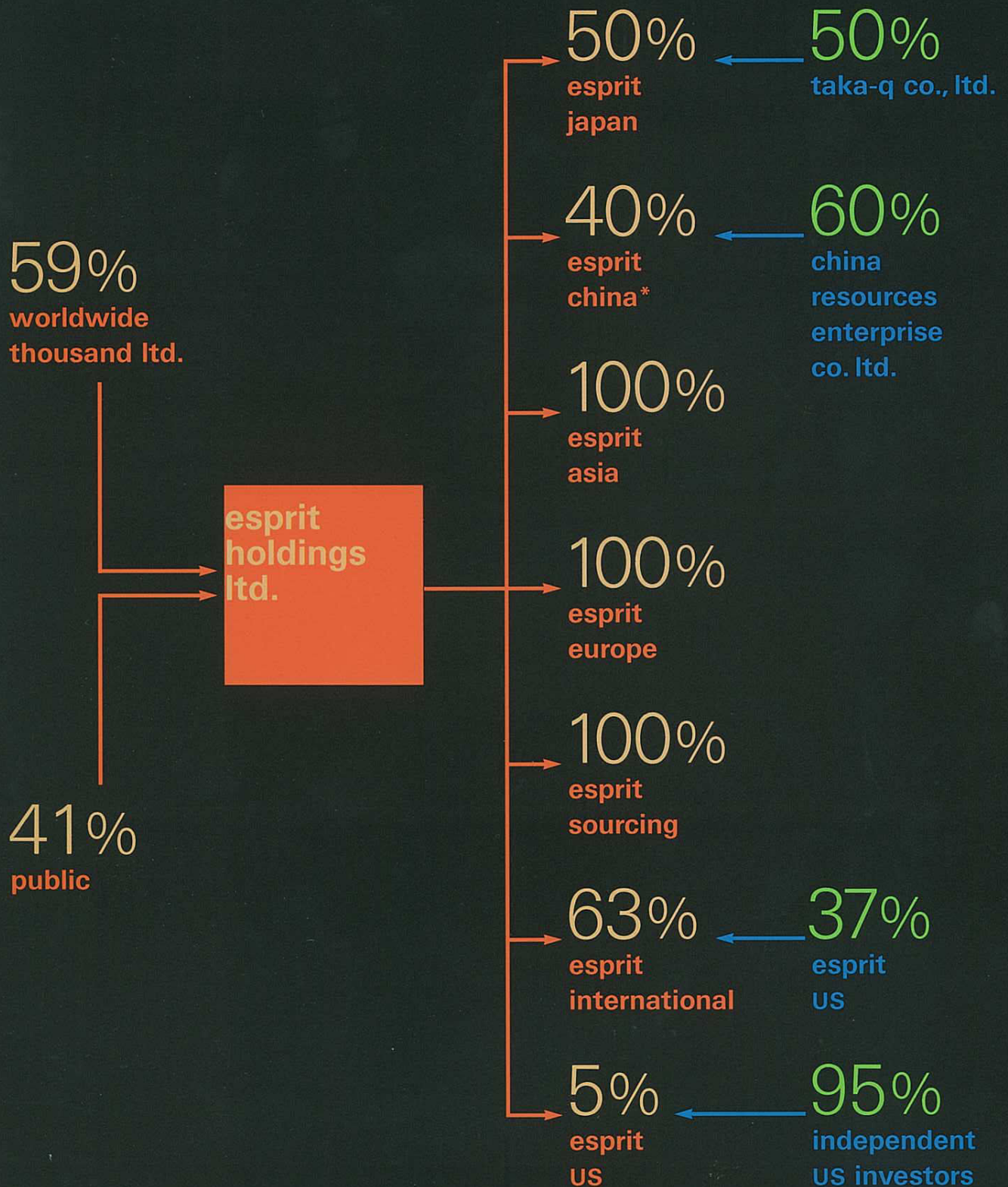
*In addition, Hong Kong operation includes 7 Red Earth stores with total retail floor area of 2,026 sq ft.

Esprit global network includes 51 franchised stores in Canada, New Zealand and Latin America.



corporate structure

as of october 8, 1997



* pending

corporate information

executive directors	Michael Ying Lee Yuen <i>Chairman</i> Enrique Danilo Arrata Meneses Alva Chan Wai Mo 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	Alva Chan Wai Mo, F.H.K.S.A
authorized representatives	Michael Ying Lee Yuen Alva Chan Wai Mo
principal banker	The Hongkong and Shanghai Banking Corporation Limited 1 Queen's Road Central, Hong Kong
auditors	Price Waterhouse Certified Public Accountants 22/F, Prince's Building, Central, Hong Kong
hong kong share registrar	Secretaries Limited 5/F, Wing On Centre, 111 Connaught Road Central, Hong Kong
registered office	Clarendon House Church Street, Hamilton HK 11 Bermuda
head office and principal place of business	10/F, 11 Yuk Yat Street, Tokwawan Kowloon, Hong Kong

financial highlights

for the year ended June 30

	1997	1996	1995	1994	1993
turnover (hk\$m)	3,351.7	1,785.3	1,473.2	1,144.9	769.7
operation mix (%)					
retail	65.2	90.7	90.5	91.0	89.4
wholesale	33.5	9.3	9.5	9.0	10.6
others	1.3	-	-	-	-
geographical mix (%)					
germany	29.1	-	-	-	-
china (including hong kong)	23.5	38.7	46.0	56.3	59.8
australia	10.6	12.9	-	-	-
taiwan	8.8	16.9	20.5	16.0	16.5
the netherlands & belgium	7.9	-	-	-	-
south korea	5.0	13.5	14.5	9.5	6.2
singapore	5.0	11.5	17.0	18.2	17.5
other european countries	6.0	-	-	-	-
other asian countries	3.1	6.5	2.0	-	-
other countries	1.0	-	-	-	-
product mix (%)					
women's wear	61.5	61.5	57.6	63.4	72.6
footwear & accessories	20.3	21.5	23.7	19.5	11.7
men's wear	8.9	11.8	15.0	11.9	8.2
kids' wear	6.9	2.0	0.3	1.9	3.8
body care	1.3	2.2	2.3	2.0	1.3
bed & bath	0.6	1.0	1.1	1.3	2.4
others	0.5	-	-	-	-
operating profit (hk\$m)	400.9	203.4	183.1	205.8	105.9
profit attributable to shareholders (hk\$m)	235.5	161.8	141.3	167.4	78.9
shareholders' funds (hk\$m)	1,120.9	659.6	555.4	467.1	134.2
working capital (hk\$m)	419.6	409.7	338.4	397.1	95.8
current ratio	1.4	2.0	2.2	2.6	1.7
total debt to equity ratio (%)	165.8	64.0	53.5	53.1	104.2
bank borrowings to equity ratio (%)	68.7	6.6	12.7	3.3	5.6
return on shareholders' equity (%)	21.0	24.5	25.4	35.7	58.8

operation highlights

	1997	1996	1995	1994	1993
number of directly controlled stores	364	253	174	121	73
sales footage (sq ft)	602,735	299,996	180,105	137,028	88,697
sales per sq ft (hk\$)	470	633	823	798	735
number of employees	4,377	2,619	2,345	1,988	1,483



bigger is better

A year ago, I wrote in this space that our company was "a truly regional operation selling one of the world's best recognized lifestyle brands."

Today, it is a global, vastly enlarged and vertically integrated company which does not simply sell the Esprit brand but which controls the Esprit brand — an important distinction. We changed the name of the company to Esprit Holdings Limited, reflecting the multiregional scope of our business.



In January
this year,
we acquired
the Esprit Far
East Group,
comprising:

A year from now we will undoubtedly have grown even larger, more efficient and more profitable. Next year will, incidentally, mark the Esprit brand's thirtieth birthday – a brand which feels and looks brand-new. Doug and Susie Tompkins, this brand's remarkable parents, always did say Esprit was about attitude, not age.

- 100% of Esprit Europe, with annual sales two-thirds greater than Esprit Asia's. Annual turnover in Germany alone surpasses our turnover in Asia.
- 100% of Esprit Sourcing, which provides turnkey sourcing services to Esprit Asia, Esprit Europe and a number of Esprit licensees.
- 63% of Esprit International – a controlling stake in a global licensing and brand-franchising business with thrilling growth prospects.
- 10% – that is, the interest not already held by our company prior to the acquisition – of Esprit Japan; we subsequently redeveloped the business by forming a joint venture with the Japanese distribution group Taka-Q Co., Ltd. and now hold 50% of the Japan operation.
- 5% of Esprit US, which holds the remaining 37% interest in Esprit International, effectively giving us another 1.85% of the licensing business.

Although it has been just one year since our last annual report to shareholders, we have, as a result of the acquisition and subsequent activities and developments, moved light years forward.

We've gone:

- from 380 sales outlets in 18 countries to over 6,500 outlets – 220 freestanding stores, 411 department store counters and 5,500 "doors" in boutiques and specialty stores in over 40 countries, plus numerous doors through which licensed Esprit products are sold;
- from revenues of approximately HK\$1.8 billion in FY1995/96 to approximately HK\$3.4 billion in FY1996/97;
- from operating profit of approximately HK\$203 million to approximately HK\$401 million;
- from profit attributable to shareholders of approximately HK\$162 million to approximately HK\$236 million;
- from earnings per share of HK20.47 cents to HK26.11 cents.

The Esprit Far East Group's after-tax profit in FY1996/97 exceeded the HK\$187 million guaranteed to shareholders in our December 20, 1996 circular.

In FY1997/98, our group results will reflect a full year's contribution from our newly-acquired businesses, as well as the cost and tax savings to be gained from merging and streamlining our operations and the elimination of now-redundant activities.

Warren Buffett, perhaps the wisest of all investors, once said, "Price is what you pay; value is what you get."

The price we paid was right and the value we have gotten is tremendous:

- At the time of the acquisition, shares in the company were trading at a P/E ratio of 14.6X; the prospective P/E ratio of the businesses being acquired was 9.8X. We paid for the acquisition mainly in cash (US\$198.2 million) and partly in shares issued at HK\$3.35 each (US\$39.8 million). The cash portion of the acquisition was predominantly funded by a five-year term bank loan of US\$170 million.
- We went from a debt-to-equity ratio of 3.0X, following the completion in January 1997 of the acquisition, to less than 1.0X following a 19.98% share placement to institutional investors in April 1997, the proceeds of which went to pay down US\$80 million in bank debt.
- With the merging of Esprit Europe, Esprit Sourcing and Esprit International with our existing business, we have achieved a new level of synergy between our various businesses and functions, and have introduced greater efficiency and profitability into the Esprit worldwide network of businesses.
- As a vertically integrated design, distribution and licensing company we are participating in the growing profitability of the Esprit business around much of the world, and we are unlocking that business' full value.

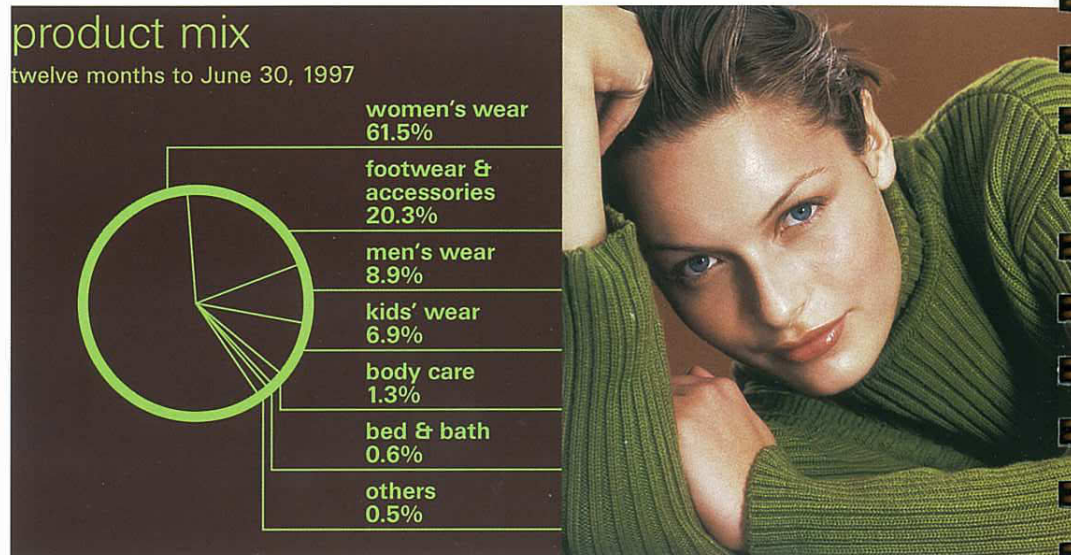
Esprit International is an important and bottom-line-positive acquisition. Capital expenditure is negligible. Licensing immeasurably enhances awareness of the Esprit brand, and whets retailers' appetites for Esprit product. With 18 sales territories licensed, numerous new markets beckon. Product licensees commit advertising and promotion budgets roughly equal to their royalty payments. And product-licensing opportunities and earnings potential are virtually unlimited: Esprit timewear, eyewear, bed & bath products and jewelry are just beginning to make their mark internationally, and licensing deals for major categories such as fragrances, cosmetics and homewares are being negotiated.

I mentioned synergy and cost savings. We have come a long way:

- By being global and vertically integrated, we will enjoy considerable savings by eliminating costly duplications of effort, headcount, time, equipment and real estate in the areas of product development, sourcing and design, image, warehousing, MIS, finance and administration.
- We have progressed from operating with 12 separate country strategies in Europe to just one strategy, modelled after the highly successful one deployed in Germany, the Netherlands and Belgium.



- Instead of operating image and advertising & promotion departments spread over Asia, Europe and the US, we have established a single central image team based very advantageously in London and responsible for raising the standards of and standardizing advertising, displays, point-of-sale materials and promotional campaigns worldwide. I am certain of our image team's ability to propel Esprit into the highest ranks of global lifestyle brands.
- We have gone from sourcing offices spread throughout the world to two, located in Hong Kong and Düsseldorf. With the merger of our European and Asian operations and the development of an international fashion line, manufacturing orders are going to be far more effectively coordinated and consolidated across regions. This will in turn give us substantial cost savings through bulk purchasing of materials on better terms, and will allow us to shift our sourcing to lowest-cost countries and cultivate strategic vendor relationships.
- We have moved from four warehouses in continental Europe and the United Kingdom to one very capacious and very efficient central warehouse located in Germany;



- And we have gone from three design studios to one design team operating out of Europe, responsible for creating six collections for one international line a year and for leading our product development efforts.

The world is not getting smaller, contrary to popular thinking. We are moving faster, closing the distance between "here" and "there" through modern management and careful nurturing of a priceless brand. We are getting bigger, and bigger is better.

Michael Ying Lee Yuen *Chairman*

October 8, 1997

group results

The Group's financial results represent a full-year's contribution from operations previously grouped under Esprit Asia Holdings Limited with the additional contributions from those businesses comprising Esprit Far East Group, which the Group acquired in January 1997, approximately at midpoint in the financial year ending June 30, 1997.

Profit attributable to shareholders rose 46% to approximately HK\$236 million. Group turnover, of which 56% was generated in Asia, 43% in Europe and 1% in other markets, increased 88% to approximately HK\$3.4 billion. Just under two thirds of Group turnover was derived from retail operations, slightly more than one third from wholesale operations and the balance from our licensing and sourcing businesses. Operating profit grew 97% to over HK\$400 million.

Earnings per share amounted to HK26.11 cents, up 28%, and the Board has recommended a final dividend of HK7.85 cents per share, which would bring our total annual dividend to HK11.5 cents per share. While the January 1997 acquisition increased our debt level by over HK\$1.3 billion, this was substantially reduced following the placement of 19.98% in new shares to institutions in April 1997. The Group's gearing has been reduced to less than 70%; despite the share capital of the Group having been enlarged 19.98%, there has been no dilution in earnings per share, which surpassed the estimate of HK25 cents given in our December 20, 1996 circular to shareholders.

turnover
(hk\$m)



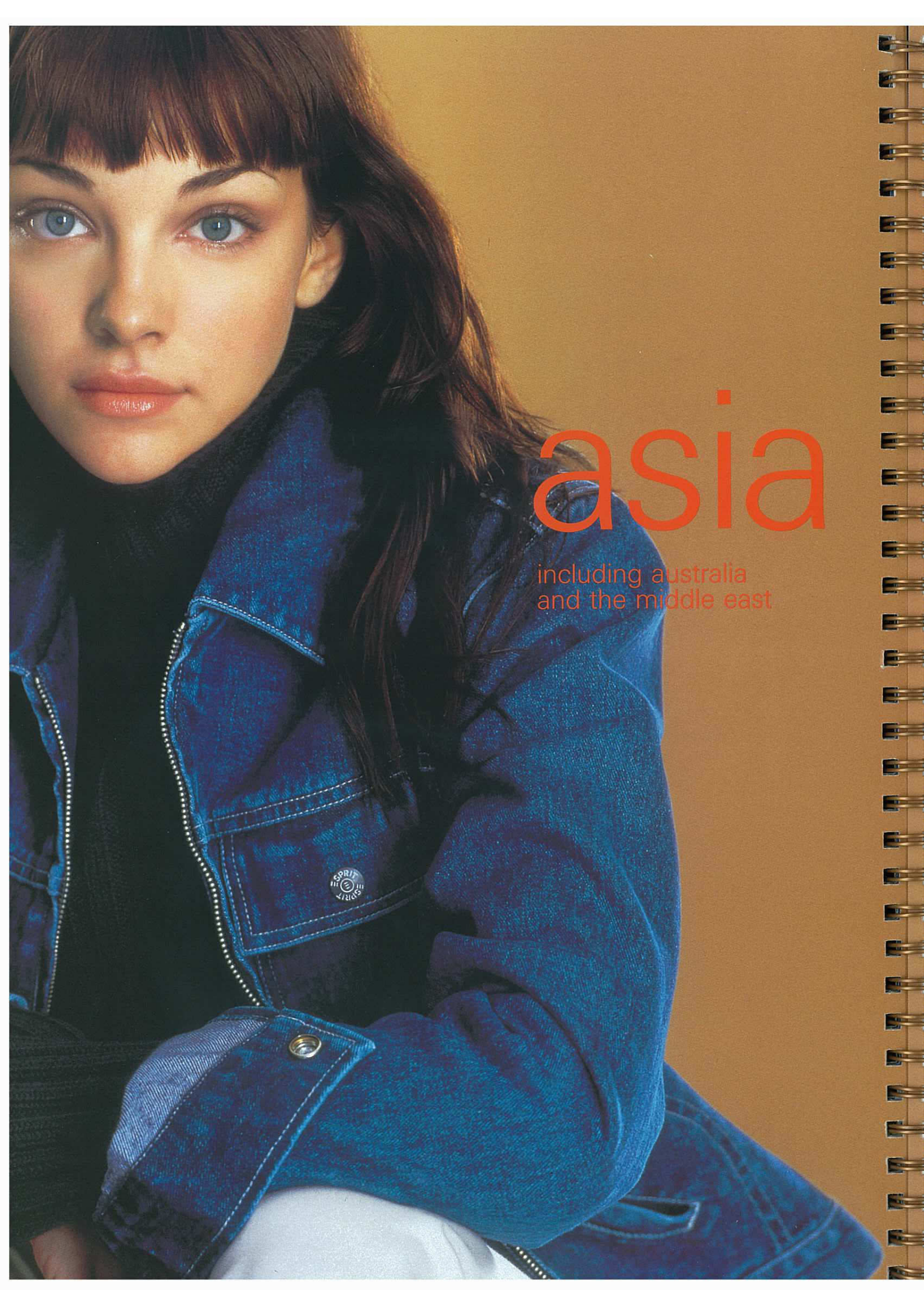
operating profit
(hk\$m)



profit attributable to shareholders
(hk\$m)



■ exceptional item of HK\$26.9 m

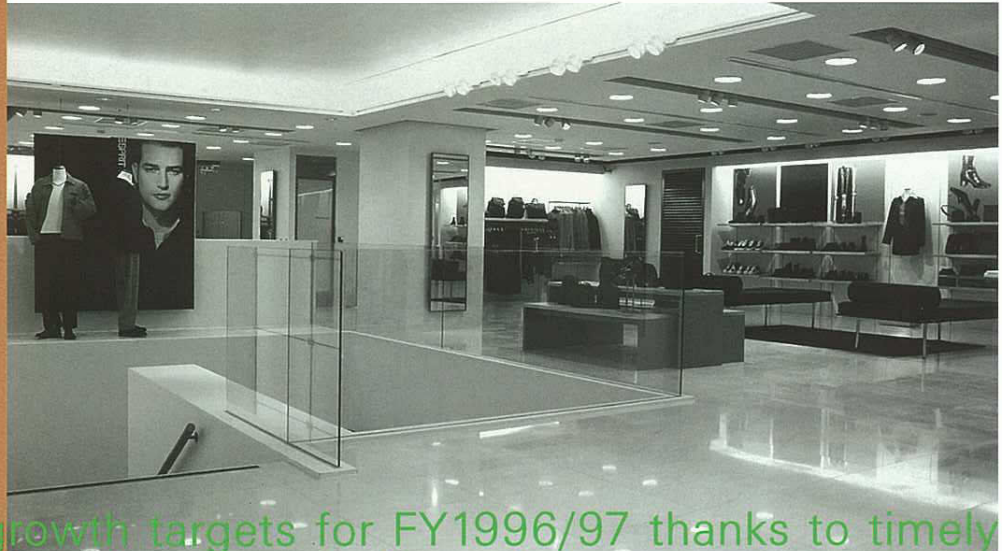


asia

including australia
and the middle east



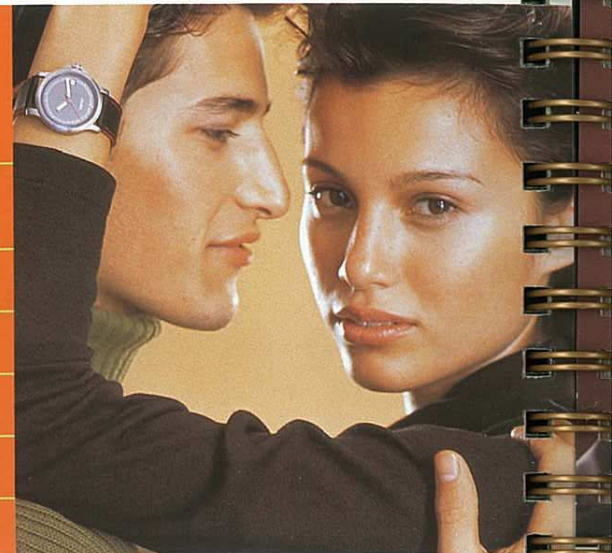
operations review and outlook



We met our growth targets for FY1996/97 thanks to timely implementation of cost controls and strong management. We were not over-aggressive in seeking growth in Asia in FY1996/97; after successfully consolidating, we are back on a faster growth track going into FY1997/98, with plans to substantially strengthen our retail presence throughout the region. We are lean and, once again, mean.

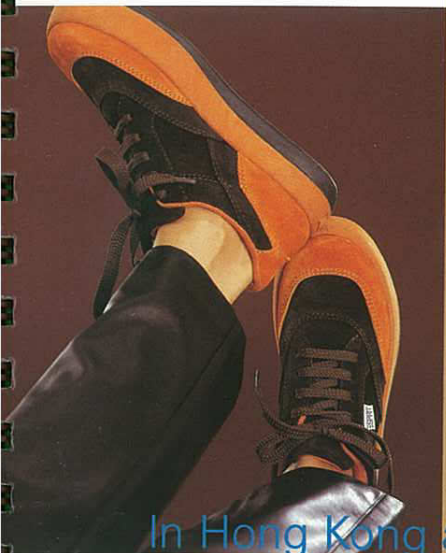
Although each of our markets in the region is at a different stage of development, our performance during the past year was more inconsistent from country to country than we would have liked: on the one hand, satisfactory contributions from Taiwan, Singapore, Malaysia, Hong Kong, China and Australia; on the other, operating losses in South Korea and Japan.

During the past year, we underperformed in countries which, due to their size, complexity and other unforeseeable challenges, present formidable barriers to companies going it alone. We are better disposed to be marketers and brand-builders especially now that we are brand-owners in all markets, except the US market. We are going forward in China and Japan through strategic partnerships with leading local companies.

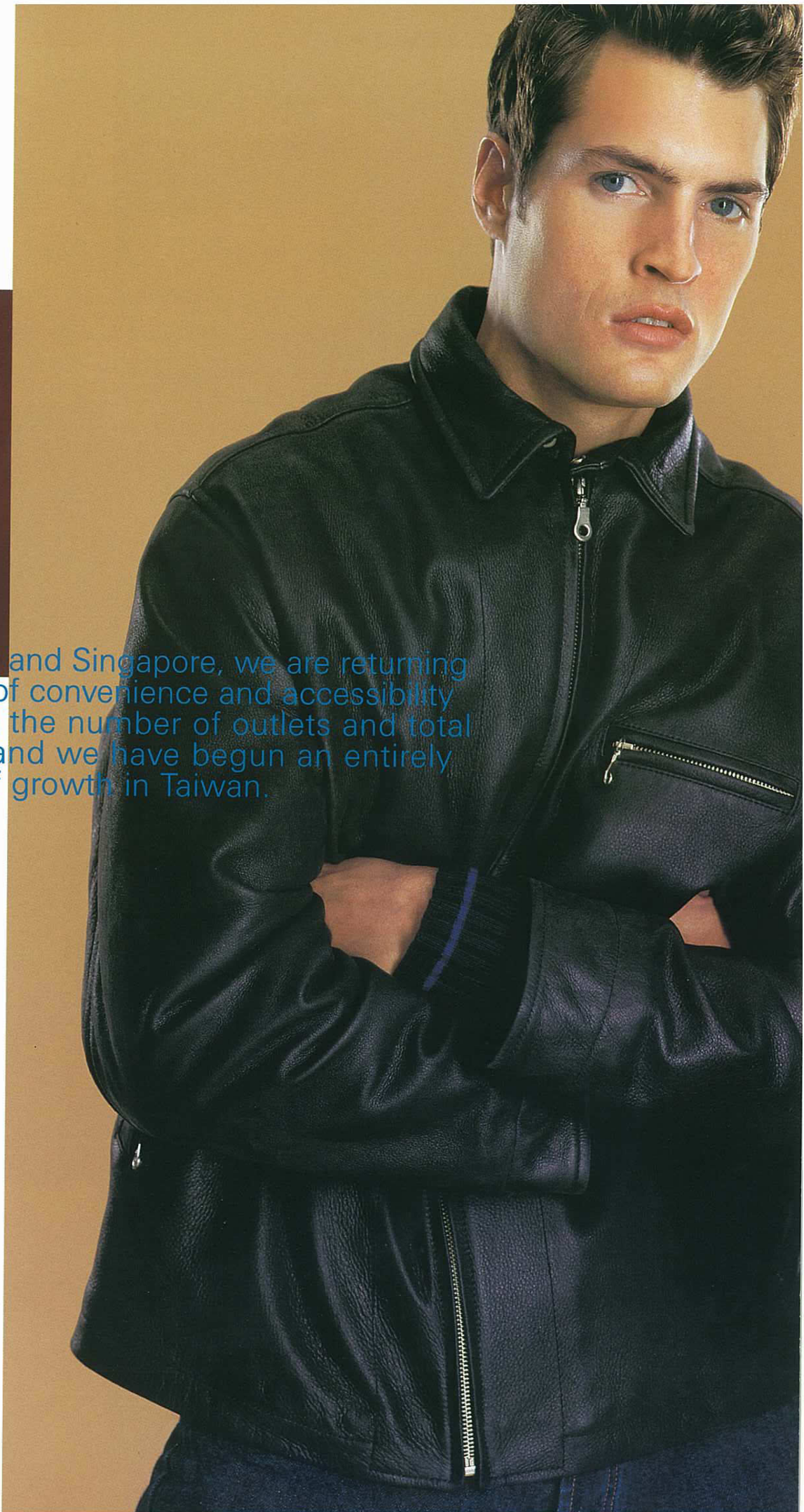


Now that we have restructured our operations and are forming joint ventures in Japan and China, we can clearly make out the future shape and size of our businesses there. There is no reason that we cannot grow these businesses substantially over the next several years.

Our new 50-50 partner in Japan, Taka-Q Co., Ltd., which is listed on the Tokyo and Osaka stock exchanges, is an established men's apparel distributor with a nationwide distribution network. Esprit and Taka-Q have each contributed ¥100 million in initial working capital. Esprit Japan plans to establish approximately 100 retail outlets by the year 2000, with an expected turnover within three years of approximately ¥10 billion and a total investment of ¥800 million. Plans call for approximately 40% of the joint venture's income to be generated through sales to franchised stores, 20% through counters and shop-in-shops in department and specialty stores and 20% through directly-operated stores. Esprit Holdings will provide merchandise, display and point-of-sale systems and image, with Taka-Q assuming management of all distribution and operations. Esprit Japan will seek out domestic product-licensing opportunities in conjunction with Esprit International's global licensing program.



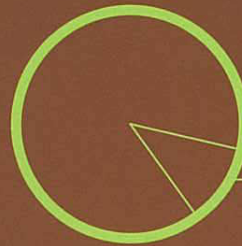
In Hong Kong and Singapore, we are returning to a strategy of convenience and accessibility by increasing the number of outlets and total selling area, and we have begun an entirely new phase of growth in Taiwan.





sales mix in asia

twelve months to June 30, 1997



retail 88.5%

wholesale 11.5%

geographical mix in asia

twelve months to June 30, 1997



hong kong 37.0%

taiwan 15.8%

south korea 8.9%

china 4.9%

singapore 9.0%

japan 3.7%

malaysia 1.8%

australia 18.9%

We have decided to take the joint venture route in China in order to attain a critical size in a rapidly expanding market where size is critical and to establish reliable distribution channels and a consistent brand image while maximizing the returns on our capital investment. We intend to form a 40-60 partnership with China Resources Enterprise Company Limited (CRE), the listed, Hong Kong subsidiary of state-owned China Resources Holdings Company Limited. We will contribute 40% of the joint venture's HK\$300 million initial working capital. The future joint venture plans to open 100 new outlets before 1999.

In CRE, we have found an internationally respected and domestically influential partner who enjoys one of the most extensive consumer-product distribution networks in China, and whose operating expertise complements Esprit's own strengths. The Esprit brand is already well established in China's major cities. We will focus on brand-building, marketing and merchandising, while CRE will concentrate its efforts on site selection and retail operations.

Turnover and Contribution by Markets in Asia

	turnover hk\$ million	contribution hk\$ million
china (including hong kong)	786.0	125.1
australia	353.9	37.0
taiwan	295.4	53.5
south korea	167.7	(3.8)
singapore	168.1	15.2
other asian countries	104.0	(29.4)
total	1,875.1	197.6

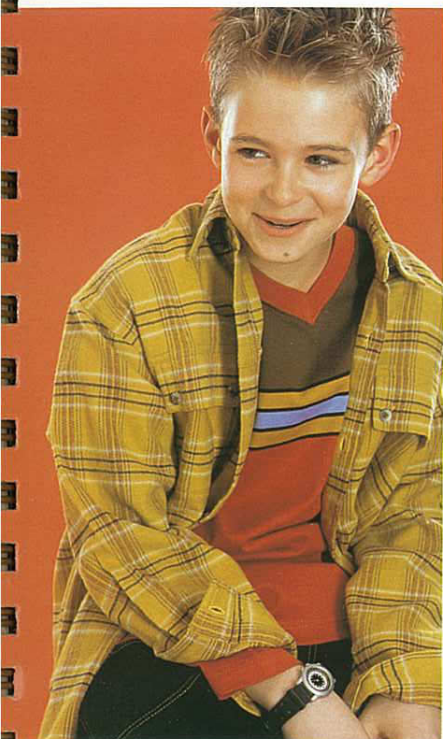
In South Korea, our performance was hampered by the country's domestic economic problems as well as poor management. A new country manager has been put in place and unprofitable outlets have been closed; we consolidated our portfolio, going from 59 outlets at the start of FY1996/97 to 36 at the close of the financial year. Esprit continues to be one of the best-recognized foreign apparel brands in South Korea.



There is no reason that we cannot grow our Japan and China businesses substantially over the next several years.

We have begun an entirely new phase of growth in Taiwan; following a period of consolidation in light of the country's economic and political uncertainties, we opened two mega-stores – 6,500 square feet and 4,000 square feet in size – in Taipei in October and November 1996. As indicated in last year's report to shareholders, we have been quick to take advantage of vacancies in prime retail locations during the prolonged economic downturn. We are beginning to benefit from this strategy as consumer confidence and spending rise. We are seeking locations for additional, large Esprit stores in Taichung and Kaohsiung while continuing to develop our wholesale and franchise distribution channels. We expect total turnover in Taiwan to continue to grow in FY1997/98.

In both Hong Kong and Singapore, we are returning to a strategy of convenience and accessibility by increasing the number of outlets and total selling area, and selecting and stocking locations based on carefully-targetted customer profiles.



In Malaysia, we posted a 27% increase in turnover. The outlook for FY1997/98 is for slower growth due to the troubled outlook for the domestic economy and a scarcity of suitable retail locations.

Our Australia operation, reporting its first full year of results under the Group's ownership, continued to post a gain in turnover. After increasing retail floor space by 9% in FY1995/96, Esprit Australia closed the year with an 11% increase in selling area to 93,114 square feet. At the same time, Esprit Australia has commenced a strong new push into wholesale distribution in response to growing demand for the widening range of Esprit products from the country's major department stores. The program will be launched in Spring/Summer 1998. Our expanded wholesale business could add significantly to annual sales growth from FY1998/99 onwards. Men's wear was introduced in Australia in FY1996/97 in a limited number of outlets and will be rolled out to additional outlets in FY1997/98. Esprit Kids, introduced in 1990, is now distributed in 32 outlets, up from 25 in FY1995/96.

Retail sales in our franchise markets in southeast Asia and the Middle East experienced satisfactory growth; with a strengthened brand identity and a new focus on marketing and licensing, we intend to provide greater and more systematic support to franchisees and wholesale customers in these markets and we should see sales to them continue to increase significantly.

Red Earth, the Australian line of natural beauty care and cosmetics products distributed by Esprit Asia in Hong Kong since 1992, performed well and is expected to make an increasingly significant contribution to Group earnings in future. A strategic repositioning of the brand at lower price points has proven successful, with sales doubling in FY1996/97. An expanded choice of Red Earth cosmetics colors contributed to the improved results. We plan to penetrate additional regional markets, including Taiwan, China and Japan, beginning in FY1997/98, primarily through wholesale distribution channels and franchisees. Japan represents a vast and still expanding cosmetics market, while Taiwan and particularly China, less developed markets, present major growth opportunities for the Red Earth brand.

A photograph of a man with dark hair and light eyes, wearing a tan ribbed turtleneck sweater under a dark navy blue jacket. He is looking slightly to the left of the camera. The word "europe" is written in a light green, lowercase, sans-serif font across the center of the image, partially overlapping the turtleneck and the jacket. The background is a solid, muted brown color. On the right side of the image, there is a vertical metal spiral binding, suggesting the image is a page from a notebook or a spiral-bound book.

europe

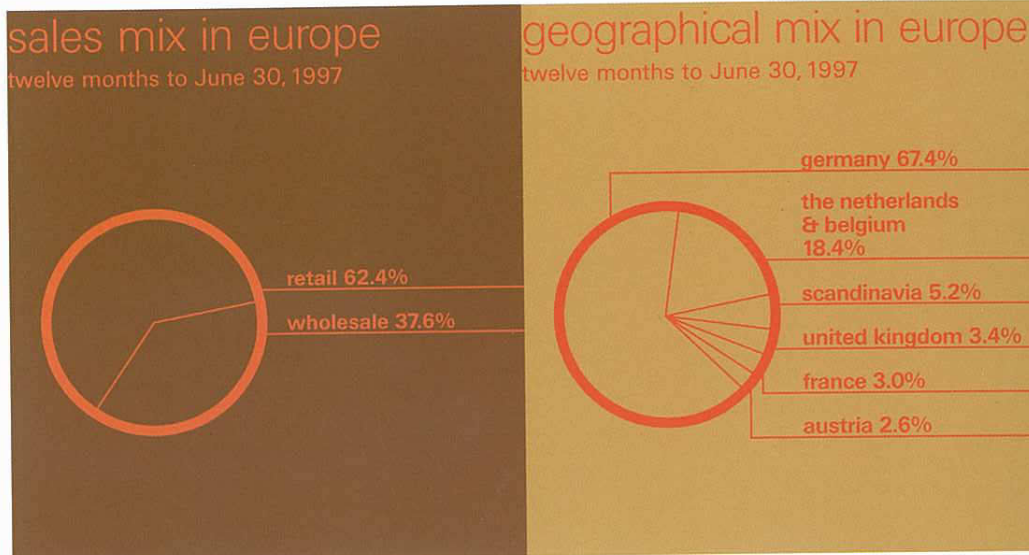


The European Union today is home to nearly 400 million people with considerable disposable income who will shortly be able to trade freely, using a single currency, and who will create exciting new economic and cultural synergies. Esprit is preparing for a customs-free, consumer-friendlier and ever more brand-aware and value-conscious Europe by streamlining its own infrastructure and unifying operations and resources. Esprit Europe has the human as well as financial and technical resources to realize its goals: a young, committed and highly motivated management team.

Esprit has been established in Europe for more than two decades. As measured by combined annual wholesale and retail turnover, Europe is Esprit's largest regional market in the world.

Europe is a huge, profitable market with tremendous scope for growth both within existing markets and in unentered or recently entered markets such as the Eastern bloc and southern European countries.

The Netherlands and Belgium, which account for approximately 20% of turnover in Europe, reported better-than-expected earnings in FY1996/97 due to strong retail sales growth; Scandinavia was profitable following a loss in the previous year.



Germany, Esprit Europe's largest business by far, turned in better-than-budgeted profit in FY1996/97 and is set to grow substantially over the next two years, with rapid growth of wholesale distribution in eastern Germany and with clothing retail sales expected to rise by about 5% this year after falling an aggregate 20% in value in the first half of the '90s.

Our Britain, France and Austria businesses are each projected to grow more than 20%; Italy, Spain, Portugal, Greece, Hungary, Poland and the Czech Republic are new Esprit markets, with very substantial long-term earnings potential.

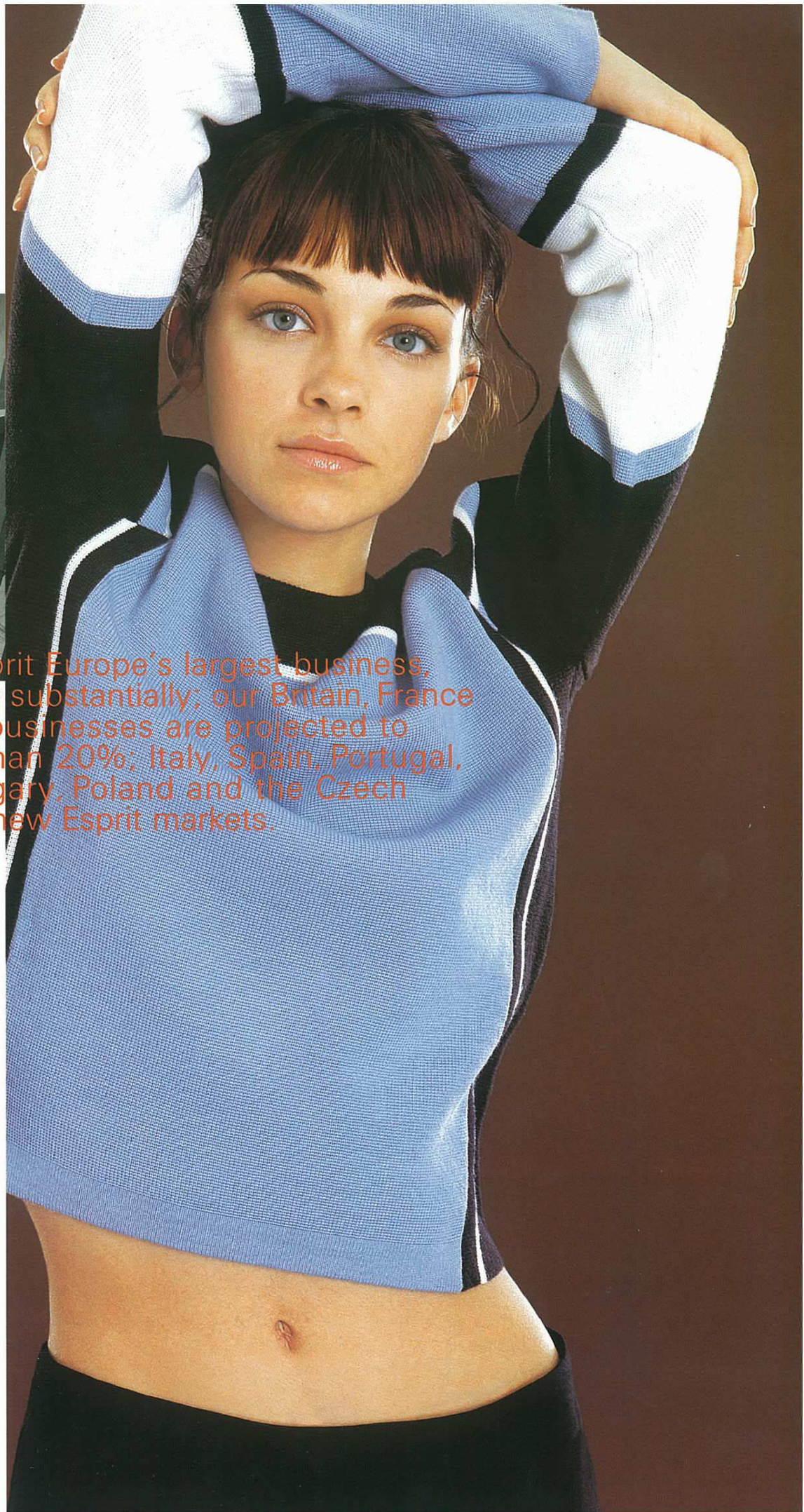
Turnover and Contribution by Markets in Europe

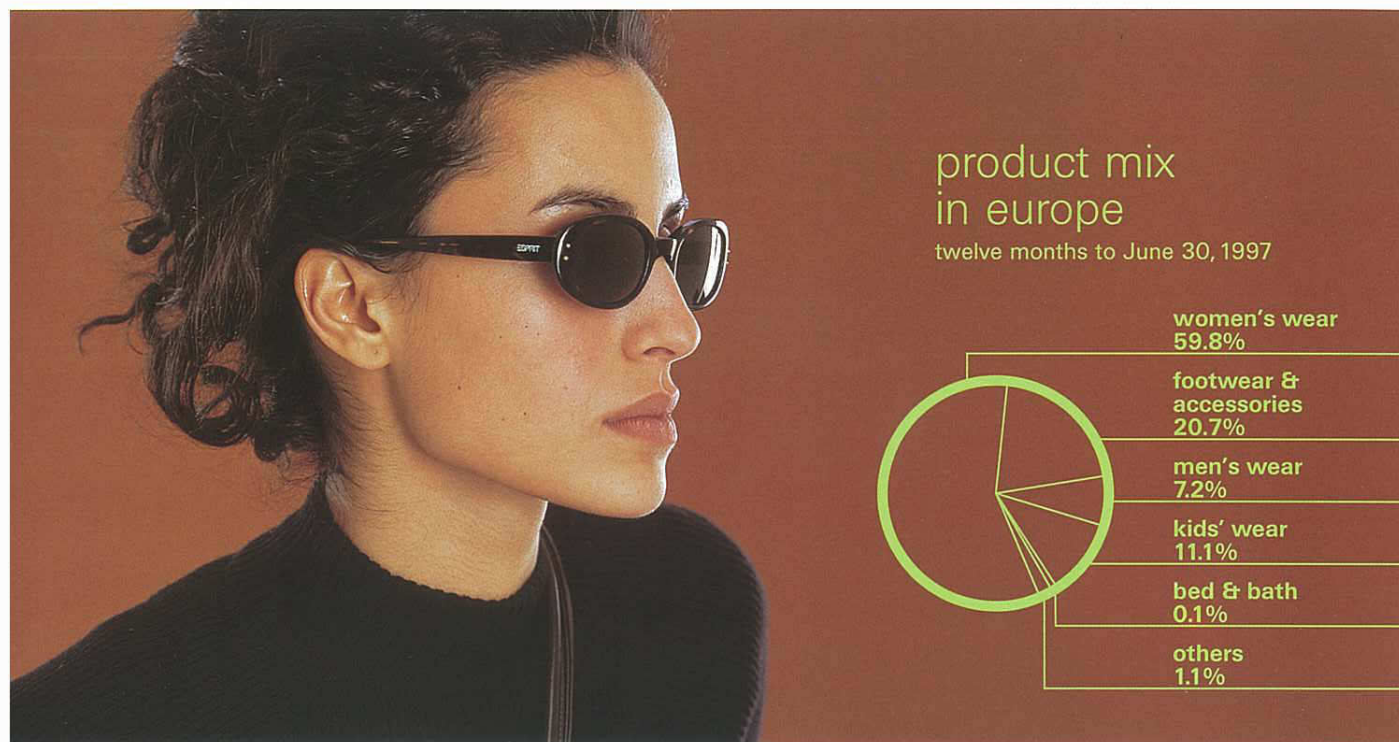
	turnover hk\$ million	contribution hk\$ million
germany	973.7	149.6
the netherlands & belgium	266.3	29.0
scandinavia	74.9	1.7
other european countries	129.0	(1.1)
total	1,443.9	179.2

Esprit sales are growing faster than the industry average in the mature European markets. Although the core of our customer base is 20-35 years old, we are not seen as exclusive to a particular age group. In terms of awareness, we are among the top three women's fashion brands in Germany.



Germany, Esprit Europe's largest business, is set to grow substantially; our Britain, France and Austria businesses are projected to grow more than 20%; Italy, Spain, Portugal, Greece, Hungary, Poland and the Czech Republic are new Esprit markets.





We have only established limited retail distribution in Britain. In order to succeed in Britain, expected to be one of our greatest growth markets in the medium term, we will require a strong British-based partner on the order of those we have joined with in China and Japan. Despite a consumer economic boom in Britain – fueled by a strong pound, appreciating house prices and widely-disbursed windfalls from building society and insurance company flotations – retailers are hard pressed to earn satisfactory profits; retail rents are astronomical in London and excessive in other cities, and a correction in the property market is a requisite to our making a major investment there.

Our immediate tasks in Europe are clear. In FY1996/97, Germany generated over 73% of our wholesale turnover and 59% of retail turnover in Europe – and over 29% of the Group's total turnover. Women's wear accounted for over 55% of total turnover in Europe while men's wear accounted for less than 10%. Healthy as our European business is, we need to diversify geographically and by product line: we need to lessen our dependence on the German market, increase the ratio of

retail to wholesale turnover in the region, focus on our serious under-representation in Britain and France, and strengthen and more aggressively market our men's wear line across the region.

We also intend to grow the Esprit Kids business; with new sourcing, we will be able to bring prices in Europe down by as much as 15% and substantially increase sales volume. With the right pricing and merchandise mix, we envision Esprit Kids becoming Europe's market leader in casual children's wear.

Esprit International – Licensing

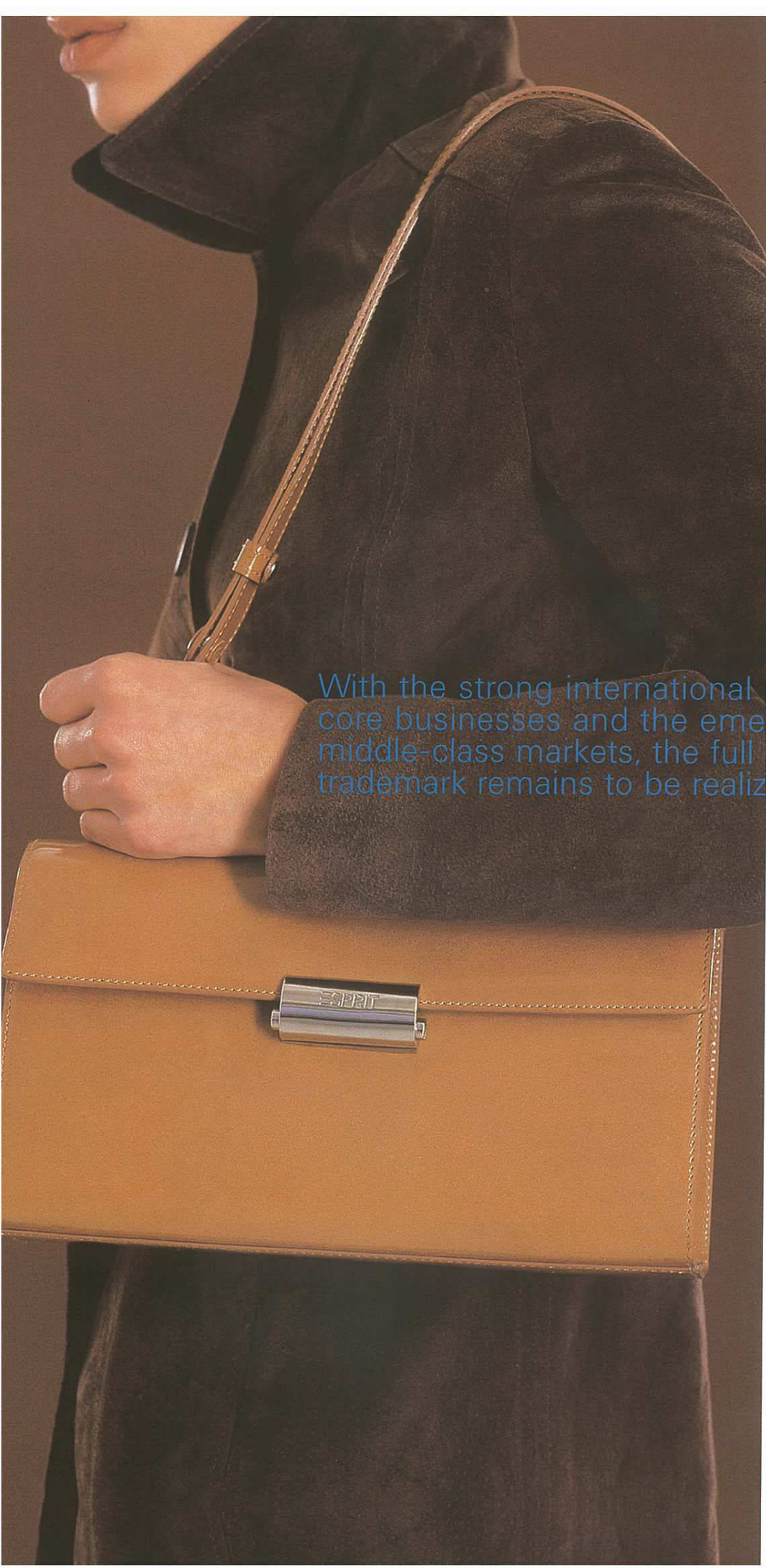
Esprit International ("EI"), a US partnership, was formed to realize the potential worldwide value of the Esprit trademark. Currently, EI manages 18 territory and eight product licenses with a total retail value of over HK\$2.7 billion and which contributed over HK\$33 million in royalty income to the Group in FY1996/97.

With the strong international growth of Esprit's core fashion and accessories businesses and the emergence of vast new middle-class consumer markets in Asia in the past decade, the full value of the Esprit trademark remains to be realized by the Group.

The product licensing business is currently dominated by sales of timewear and eyewear, manufactured and distributed by Eganq International Holdings and Charmant Inc. respectively and which in FY1996/97 together accounted for roughly 80% of licensees' annual sales and over 80% of the royalties paid to EI.

Esprit-brand watches are sold in 100 styles at prices ranging from US\$45 to US\$150 through 4,800 outlets worldwide, with five new European markets to be entered in FY1997/98. Both the US, where there is limited distribution, and Asia, for which product styling has to be fine-tuned, remain largely undeveloped and are high-growth markets for Esprit timewear.

Ophthalmic eyeglass frames and sunglasses are sold in 30 styles at prices ranging from US\$70 to US\$125. With sunglasses representing just 18% of total Esprit eyewear sales, this sub-category has substantial growth potential in its own right; pending new manufacturing arrangements and strengthened marketing, sunglasses sales should grow significantly in FY1997/98. Distribution of Esprit eyewear is being extended to China, Mexico and Italy in FY1997/98.



With the strong international growth of Esprit's core businesses and the emergence of new middle-class markets, the full value of the Esprit trademark remains to be realized by the Group.





Bed and bath products, manufactured and distributed through about 700 outlets in Europe and Asia, account for approximately 19% of product licensee sales. Bed and bath product sales are expected to increase substantially in FY1997/98 with expanded distribution, expanded product offerings in Europe, tailored product designs for the Japanese market and plans to license distribution in South Korea, China, Australia and the US.

In July 1997, EI granted a global license to Egana to design, manufacture, distribute and market precious, semi-precious fashion and costume jewelry. The new line will be introduced in Europe and in Asia in Spring 1998 and in the US in Fall 1998. It will be distributed through department stores, specialty stores and other outlets. By the year 2000, annual retail sales of Esprit jewelry are projected at US\$20 million.

Sourcing

The acquisition of Esprit Far East Group's sourcing capability completes our development into a fully vertically-integrated operation and further sharpens our competitive edge in terms of speed of response to market trends, pricing and speed of delivery. Esprit Sourcing provides turnkey sourcing services to Esprit Asia, Esprit Europe and various Esprit International licensees. These services include fabric research, fabric selection and print development, supervision of production, quality control and final inspection of finished goods, and shipment coordination.

Image

Responsibility for the direction of Esprit's worldwide image activities – comprising visual merchandising, store and packaging design, advertising and promotion – was shifted to Esprit Asia in FY1995/96. With the acquisition of Esprit Europe and Esprit International, Esprit's central image department was expanded and relocated from Hong Kong to London to facilitate access to international creative resources in North America and Europe.

The past year was marked by a variety of successful multiregional promotional campaigns and advertising developments.

For the FY1996/97 Winter season, Esprit teamed up with ski manufacturer Rossignol and the French Alpine ski resort of Courchevel for a cooperative promotion offering Esprit Privilege Card holders a chance to win limited-edition Esprit snowboards made of 100% recycled materials, and week-long skiing trips. Nine countries in Asia and Europe participated in the promotion, which in Britain and Hong Kong incorporated an unique campaign benefitting hospitalized children.

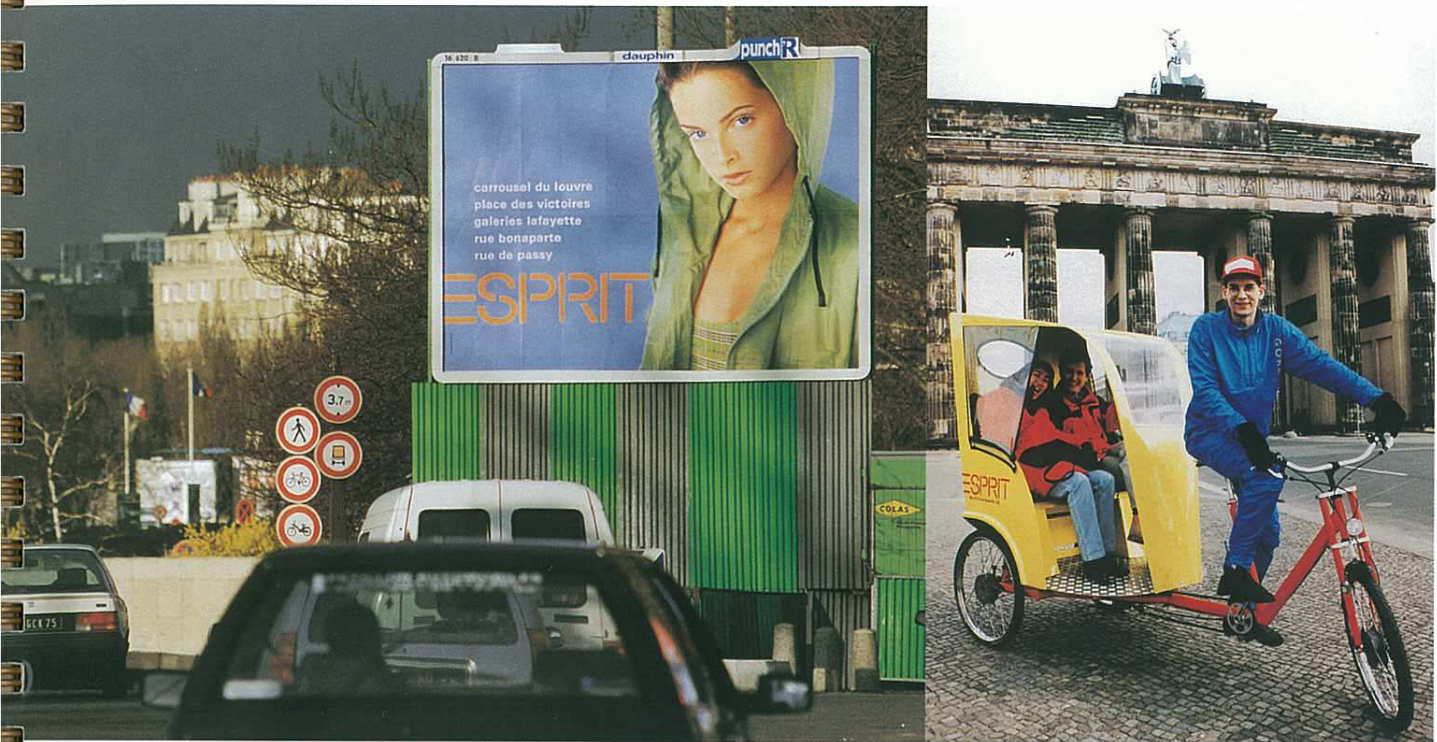
In Germany, Esprit's Spring/Summer 1997 print advertising was named best campaign in Maxi magazine's Zielgruppen-Favorit Image-Motiv awards. Esprit also initiated highway billboard and taxi advertising campaigns in Germany, creating an unprecedentedly high new level of visibility for the brand in high-traffic locations.

For Spring/Summer 1998, Esprit packaging, garment labels and hangtags, hangers, presentation systems and shopping bags are being redesigned according to new global graphics standards and branding policies. The new design will be simple, impactful and distinguish product categories by color and finish, and reinforce Esprit's youthful, upbeat and energetic identity.

MIS

The merging and streamlining of our Asian and European operations and the acquisition of Esprit Far East Group's sourcing operation and Esprit International licensing business obviously created a corresponding need to enhance our MIS capabilities.

This process is well underway: internal communications networks have been reconfigured, and new, globally applicable retail management information software is in development. A new intranet system enables our wholesale customers and licensees worldwide to place orders via a secure website managed from Hong Kong.



Summing Up

With the acquisition of Esprit Far East Group, a continued strong presence in Asia, aggressive expansion through joint ventures in some of the world's largest and most important markets, the development of new product lines, the application of advanced technology, and a strengthened global management team, the Group has the momentum needed for sustained long-term growth.

In the coming financial year and in the medium term, we look forward to a healthy rate of income and profit growth resulting from increased retail and wholesale distribution including continued investment in new mega-stores, growing royalties from licensing, expansion of the Red Earth business, and the operating synergies and cost- and tax-savings brought about by the acquisition of Esprit Far East Group. Sales in our long- and recently-established Asian and European markets are projected to increase satisfactorily; our joint ventures in Japan and China are expected to make significant contributions to earnings, as are the several recently-entered markets in eastern and southern Europe.

financial report

Report of the Directors

The Directors have pleasure in presenting their annual report and the audited financial statements for the year ended June 30, 1997.

Change of Name

On May 16, 1997, the company changed its name from Esprit Asia Holdings Limited to Esprit Holdings Limited.

Principal Activities

The Company is an investment holding company. The activities of the subsidiaries are shown in note 26 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 and Australia, together with Red Earth cosmetics, skin and general body care products.

The turnover and contribution by principal activities and geographical market are as follows:

	Turnover HK\$'000	Contribution HK\$'000
Analysis by principal activities		
Retail	2,184,977	224,508
Wholesales	1,124,572	154,706
Others	42,193	21,675
	3,351,742	400,889
Analysis by principal markets		
China (including Hong Kong)	786,000	125,110
Taiwan	295,434	53,481
Singapore and Malaysia	202,380	19,365
South Korea and Japan	237,401	(37,331)
Australia	353,887	37,006
Germany	973,673	149,647
The Netherlands and Belgium	266,336	29,038
Scandinavia, France and Austria	155,054	9,092
United Kingdom	48,814	(8,579)
Others	32,763	24,060
	3,351,742	400,889

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 43 and in the accompanying notes to the financial statements.

Interim dividend of 3.65 cents per share, totalling HK\$39,544,000, was paid on May 1, 1997.

The Directors recommend the payment of a final dividend of 7.85 cents per share. Details are set out in note 6 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 66.

A summary of the balance sheets of the Group for the four financial years is set out on page 66.

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 during the year 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 9 to the financial statements.

Liquidity and financial resources

The Group raised approximately HK\$939 million, net of related expenses, through the issue of new shares during the year for the acquisition of Esprit Far East Group (EFE Group) in January 1997 and for the partial repayment of a bank loan in April 1997.

The Group has managed to maintain a relatively low debt to equity ratio. The principal source of finance continues to be funds generated from operations, supplemented by bank finance. With increased unsecured banking facilities available to the Group, the Directors believe that the Group should have sufficient funds to meet its capital commitments and working capital requirements in the years to come.

Details of bank loans and overdrafts are set out in notes 13, 18 and 19 to the financial statements.

Charitable Donations

During the year, the Group made charitable donations totalling HK\$541,077.

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	
Enrique Danilo Arrata Meneses	(appointed on January 6, 1997)
Alva Chan Wai Mo	
Heinz Jürgen Krogner-Kornalik	(appointed on January 6, 1997)
Surinder Chhibber	
Connie Wong Chin Tzi	
Ada Wong Suk Kwan	(resigned on May 15, 1997)

Non-executive Directors

Alexander Reid Hamilton	
Joyce Elena Ma	
Jürgen Alfred Rudolf Friedrich	(appointed on January 6, 1997)
Raymond Or Ching Fai	
Debra Belisle Ryker	(resigned on December 11, 1996)
Donald Stanton LaVigne	(resigned on December 11, 1996)

In accordance with the Company's Bye-laws, Mr. Enrique Danilo Arrata Meneses, Mr. Alva Chan Wai Mo, Mr. Heinz Jürgen Krogner-Kornalik, Mr. Surinder Chhibber and Mr Jürgen Alfred Rudolf Friedrich retire by rotation and, being eligible, offer themselves for re-election.

Mr. Alexander Reid Hamilton and Mr. Raymond Or Ching Fai were appointed for a three year term expiring on August 29, 1998 and March 1, 1999 respectively.

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 47, 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 Esprit Global Network.

Enrique Danilo Arrata Meneses, aged 51, is the Chief Operation Officer of the Group. He joined the Group in 1993 with the responsibility for managing the restructuring of the Europe's business operations and information systems. Mr. Arrata received a Bachelor of Economics degree from Catholic University of Ecuador and is a Certified Public Accountant of Ecuador. Before joining the Group, he worked in Citibank N. A. for 18 years, where he gained broad experience in managing overall operational, marketing and financial aspects of multinational organizations in diverse environments.

Alva Chan Wai Mo, aged 41, is the Chief Financial Officer of the Group. His past experience includes being the Chief Financial Officer of the Asia operation and the General Manager of the South Korea operation. He graduated from the State University of New York with a Master of Business Administration Degree. He qualified as a Certified Public Accountant in the U.S.A. in 1982 and is a fellow of the Hong Kong Society of Accountant.

Heinz Jürgen Krogener-Kornalik, aged 56, is the President 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 47, is the President 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.

Connie Wong Chin Tzi, aged 49, is the Director of the Group's Taiwan and South Korea operation. Prior to joining the Group in 1979, she worked for 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.

Non-executive Directors

Alexander Reid Hamilton, aged 56, 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 56, was appointed as an Independent Non-executive Director in 1993, is the founder and managing director of Joyce Boutique Holdings Limited and has over 25 years' experience in the fashion industry.

Jürgen Alfred Rudolf Friedrich, aged 59, 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 47, was appointed in 1996, is the Head of Corporate and Institutional Banking of The Hongkong and Shanghai Banking Corporation Limited of which he joined in 1972. The Company is a long-standing client of the Hongkong Bank.

Senior Management

Andreas Kromer, aged 39, 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 for the German department store, Cramer Meermann, until he joined the Group in 1992.

Benny Frisbaek, aged 47, has been the country manager of Scandinavia since 1991. He possesses a Bachelor Degree in Commerce. Before he joined the Group in 1990, he had worked for numerous European apparel companies.

Birgit Kelley, aged 54, had been the managing director of Esprit International since January 1985. She had been a marketing and advertising director for Swensen's Ice Cream Franchised Shops where she launched the Swensen brand in the US. Prior to joining Esprit International, she was a principal partner in a privately owned marketing company.

Directors and Senior Management Profile *continued*

Senior Management *continued*

Connie Wu Hong Yee, aged 39, is the General Manager of the wholesale operation. Before joining the Group in 1993, she worked for multinational trading house with responsibility for developing China trade. Ms. Wu graduated from Nanjing Institute of Technology in 1982 with a Bachelor Degree in Architecture.

Eddie Wan Tat Wah, aged 43, is the Chief Operation Officer of China and Hong Kong business. He has over 20 years of experience in garment trading and retail business. Eddie first joined the Group in 1984 and was extensively involved in store operations and merchandizing/buying in Hong Kong. He left the Group in the year 1993 to establish his own business and rejoined the Group in mid-1997.

Derong Yang, aged 32, 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 Esprit Global Network, including Europe, Asia-Pacific, Middle East, Australia and South America. Prior to joining Esprit, he had worked with a renown 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.

Morris Wagenheim, aged 44, is the Managing Director of 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 retailing conglomerate in that country. His career has spanned all aspects of fashion retailing. He has been instrumental in building Esprit Australia into a profitable, fully integrated retail operation with store throughout all states in Australia.

Nando Van Maarseveen, aged 58, is the head of wholesale operation for Esprit Europe. He studied at the MAVO in The Netherlands and began his career in the textile industry in 1962 with Peek & Cloppenburg, where he held the positions of buyer, head buyer and buying manager. He had been the wholesale director of the Dutch jeans company before joining the Group in 1982.

Patrice Boydron, aged 33, is the country manager of both the French and the British operations. He has been instrumental in reducing operating expenses and streamlining administrative functions, setting a basis for future growth in both markets. Before he joined Esprit in 1989, he had worked for an Italian high-fashion design company, Marithè et Francois Girbaud. He studied economics at Biarritz.

Pieter Ary Bakker, aged 44, is the head of accessories division. He has been with the Group since 1985, where he established the accessories division. Before he joined Esprit, he was a designer for a Dutch fashion company. He obtained his degree at the Royal Academy of Arts in Rotterdam. Currently, he is a member of the International Trend Forecast Group.

Theresa Tsang Sui Fong, aged 41, joined the Group in 1977 and is the head of the personnel division since 1983. She is responsible for formulating and administrating human resources policies, training programs, recruitment, and employee compensations and benefits. She is a member of the Hong Kong Institute of Human Resource Management.

Thomas Grote, aged 34, is the head of wholesale operation in Germany. 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.

Stephen Ip Sing Sing, aged 44, is the head of Management Information System. He is responsible for directing the application of information technology covering the Group's activities in sourcing, retailing, wholesale and distribution. He has a Master of Business Administration degree in Finance from the University of California, Berkeley. Prior to joining the Group, he had six years experience in setting up and managing MIS activities for multinational companies in the electronics and consumer product sectors.

Susan Wong Ping, aged 50, 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.

Directors' Interests in Shares

As at June 30, 1997, 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:

Name of Director	Number of shares			
	Personal interests	Corporate interests	Family interests	Other interests
Michael Ying Lee Yuen	-	642,263,579*	-	-
Alva Chan Wai Mo	1,216,000	-	-	-
Connie Wong Chin Tzi	1,440,000	-	-	-
Surinder Chhibber	1,056,000	-	-	-
Jürgen Alfred Rudolf Friedrich	-	642,263,579*	-	-

* 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

Prior to the acquisition of Esprit Far East Limited ("EFE") on January 10, 1997, Mr. Michael Ying Lee Yuen held a 50% interest in EFE, the ultimate holding company of the Group. Mr. Michael Ying Lee Yuen also holds interests in Red Earth International Holdings Limited ("Red Earth") and indirect interests in Esprit de Corp. (1980) Ltee ("Esprit Canada"). During the year, the Group entered into transactions with these related companies all of which have been reviewed and confirmed by Directors of the Company, not connected with any member of the EFE and its subsidiaries ("EFE Group"), Esprit Canada, Red Earth and its subsidiaries ("Red Earth Group"), to have been conducted on normal commercial terms and in the ordinary course of business. Details relating to these connected transactions are set out in note 25 to the financial statements.

A special general meeting held on January 6, 1997 approved the acquisition of the EFE Group from Worldwide Thousand Limited ("WTL"), which is owned by Mr. Michael Ying Lee Yuen and Jürgen Alfred Rudolf Friedrich, for a consideration of US\$238 million (approximately HK\$1,839.7 million). WTL originally owned approximately 68% of the issued share capital of the Company and 100% of EFE. After the acquisition, WTL owned approximately 71% of the Company.

For the period from January 10, 1997 (date of acquisition of EFE Group) to June 30, 1997, consultancy fee of HK\$2,908,000 was paid by the Group to New Focus Limited which is wholly owned by Mr. Michael Ying Lee Yuen.

Save as disclosed above, no contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of 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 ranging from HK\$2.640 to HK\$3.096 per share. Details of outstanding share options as at June 30, 1997 granted to the Executive Directors and accepted by Executive Directors under the Scheme are as follows:

Name	Granted	Exercised	Expired	As at 6.30.1997
Michael Ying Lee Yuen	15,000,000	-	-	15,000,000
Alva Chan Wai Mo	6,000,000	-	-	6,000,000
Connie Wong Chin Tzi	4,000,000	-	-	4,000,000
Surinder Chhibber	8,000,000	-	-	8,000,000
Heinz Jürgen Krogner-Kornalik	8,000,000	-	-	8,000,000
Enrique Danilo Arrata Meneses	6,000,000	-	-	6,000,000

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

Save as disclosed above, at no time during the year was the Company, its subsidiaries, its fellow subsidiaries or its ultimate holding company 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, 1997, the register of substantial shareholders required to be maintained under Section 16(1) of the SDI Ordinance shown 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 provision 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 contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

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.

Auditors

In 1995, Price Waterhouse was appointed auditors of the Company to fill the vacancy in office created by the resignation of Deloitte Touche Tohmatsu and to act as auditors of the Company since then.

Price Waterhouse retire and, being eligible, offer themselves for re-appointment.

On behalf of the board



Alva Chan Wai Mo

Director

Hong Kong, October 8, 1997

Report of the Auditors

AUDITORS' REPORT TO THE SHAREHOLDERS OF ESPRIT HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 43 to 65 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, 1997 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.



Price Waterhouse

Certified Public Accountants

Hong Kong, October 8, 1997

Consolidated Profit and Loss Account

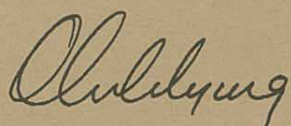
For the year ended June 30, 1997

	Notes	1997 HK\$'000	1996 HK\$'000
Turnover		3,351,742	1,785,330
Operating Profit	2	400,889	203,399
Share of Profit of Associated Companies		1,053	1,339
Profit before Taxation		401,942	204,738
Taxation	4	(144,000)	(44,244)
Profit after Taxation		257,942	160,494
Minority Interests		(22,411)	1,310
Profit Attributable to Shareholders	5	235,531	161,804
Dividends	6	(125,309)	(82,637)
Retained Profit for the Year		110,222	79,167
Earnings Per Share	7	26.11 cents	20.47 cents

Consolidated Balance Sheet

At June 30, 1997

	Notes	1997 HK\$'000	1996 HK\$'000
Trademarks	8	803,474	-
Fixed Assets	9	463,098	226,549
Other Investments	10	214,263	20,000
Associated Companies	12	12,828	5,246
Net Current Assets	13	419,635	409,735
		1,913,298	661,530
Financed by:			
Share Capital	16	108,806	80,987
Reserves	17	1,012,137	578,605
Shareholders' Funds		1,120,943	659,592
Minority Interests		14,989	1,329
Obligations under Finance Leases	18	320	609
Long Term Bank Loans	19	722,879	-
Deferred Taxation	20	54,167	-
		1,913,298	661,530



Michael Ying Lee Yuen
Director

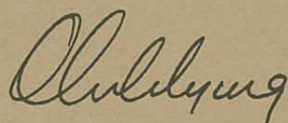


Alva Chan Wai Mo
Director

Balance Sheet

At June 30, 1997

	Notes	1997 HK\$'000	1996 HK\$'000
Subsidiaries	11	2,242,096	654,249
Net Current Assets/(Liabilities)	13	47,532	(9,339)
		2,289,628	644,910
Financed by :			
Share Capital	16	108,806	80,987
Reserves	17	1,483,412	563,923
Shareholders' Funds		1,592,218	644,910
Long Term Bank Loans	19	697,410	-
		2,289,628	644,910



Michael Ying Lee Yuen
Director



Alva Chan Wai Mo
Director

Consolidated Cash Flow Statement

For the year ended June 30, 1997

	Notes	1997 HK\$'000	1996 HK\$'000
Net Cash Inflow from Operating Activities	21(a)	410,346	237,450
Returns on Investments and Servicing of Finance			
Interest received		26,008	12,981
Interest paid		(53,048)	(3,156)
Finance charges on finance leases		(215)	(230)
Income from listed short term investments		13,008	5,971
Dividends paid		(92,996)	(74,407)
Dividends paid to a minority shareholder		(23,178)	-
Net Cash Outflow from Returns on Investments and Servicing of Finance		(130,421)	(58,841)
Taxation			
Hong Kong profits tax paid		(23,174)	(34,143)
Overseas tax paid		(52,670)	(15,483)
Tax Paid		(75,844)	(49,626)
Investing Activities			
Purchase of subsidiaries	21(d)	(950,800)	(56,508)
Settlement of deferred payment for a subsidiary acquired last year		(114,044)	-
Investment in an associated company		(6,845)	-
Purchase of other investments		(193,463)	-
Purchase of fixed assets		(79,303)	(59,617)
Proceeds from disposal of fixed assets		12,070	2,284
Net Cash Outflow from Investing Activities		(1,332,385)	(113,841)
Net Cash (Outflow)/Inflow before Financing		(1,128,304)	15,142
Financing			
Net proceeds on issue of shares for cash		631,497	156,498
Loans from banks		1,315,800	-
Repayment of obligations under finance leases		(2,214)	(1,649)
Repayment of bank loans		(633,826)	(22,105)
Net Cash Inflow from Financing	21(b)	1,311,257	132,744
Increase in Cash and Cash Equivalents		182,953	147,886
Cash and Cash Equivalents at Beginning of Year	21(e)	346,555	198,599
Effect of Change in Exchange Rates		704	70
Cash and Cash Equivalents at end of Year	21(e)	530,212	346,555

Notes to the Financial Statements

For the year ended June 30, 1997

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 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 each year.

The consolidated profit and loss account includes the Group's share of results of associated companies, using the equity method of accounting, for the year. The investments in the associated companies in the consolidated balance sheet represent the Group's share of net assets, other than goodwill, of its associated companies.

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

(b) Turnover

Turnover represents the net amounts received and receivable for goods sold by the Group to outside customers, royalties, commission received and receivable from third party licensees of the Group during the year.

(c) 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.

(d) 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.

(e) Subsidiary

A company is a subsidiary if more than 50% of the issued voting capital is held for the long term.

(f) 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.

(g) Depreciation and amortization

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 three years, or the remaining period of the lease where this is a shorter period, 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 expected useful lives on the same basis as owned assets.

1. Principal Accounting Policies *continued*

(h) 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. The finance costs which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the profit and loss account on an actuarial basis over the period of the respective leases.

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.

(i) Investments

Investments held for the long term are stated at cost less provision for permanent diminution in value. Investments held for the short term are stated at the lower of cost and market value on an investment portfolio basis.

(j) 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 calculated as the actual or estimated selling price less the related costs of marketing, selling and distribution.

(k) 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 and 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 at the rates of exchange ruling at the balance sheet date and the result 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.

(l) 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.

(m) Related companies

Related companies are companies in which a director or a substantial shareholder of the Company has a significant direct or indirect beneficial interest.

(n) 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.

1. Principal Accounting Policies *continued*

(o) Revenue recognition

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

Royalty income and commission income are recognised on the accruals basis.

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

Income from short term investments, including gains and losses on sales of investments and interest and dividend income, are recognised on the accruals basis.

2. Operating Profit

	1997 HK\$'000	1996 HK\$'000
Operating profit is stated after crediting and charging the following:		
Crediting		
Commission income	8,123	-
Royalty income	32,477	-
Interest income		
- from listed investment	1,400	1,400
- on bank deposits	23,088	12,297
Income from listed short term investments	13,008	5,971
Provision for doubtful debts written back	4,251	-
Charging		
Auditors' remuneration	4,183	2,100
Depreciation and amortization		
- Owned assets	109,911	60,875
- Assets held under finance leases	805	1,011
- Trademarks	10,171	-
Finance lease charges	215	230
Interest on short term bank loans, overdrafts and other loans wholly repayable within five years	44,458	3,360
Interest on long term bank loans not wholly repayable within five years	1,052	-
Interest paid to a related company (<i>note 25</i>)	2,608	4,978
Operating lease rental expenses		
- Land and buildings	488,370	408,673
- Others	7,094	-
Royalties paid to a related company (<i>note 25</i>)	25,797	48,305

3. Directors' Emoluments

	1997 HK\$'000	1996 HK\$'000
Fees		
- Non-executive Directors	562	484
Salaries, housing and other allowances, benefits in kind		
- Executive Directors	16,351	7,180
Bonuses		
- Executive Directors	6,880	6,519
	23,793	14,183

3. Directors' Emoluments *continued*

The emoluments were paid to the Directors as follows:

Emoluments Band	Number of Directors	
	1997	1996
Nil – HK\$1,000,000	6	6
HK\$1,500,001 – HK\$2,000,000	1	2
HK\$2,000,001 – HK\$2,500,000	2	3
HK\$2,500,001 – HK\$3,000,000	1	–
HK\$3,000,001 – HK\$3,500,000	1	1
HK\$4,500,001 – HK\$5,000,000	1	–
HK\$6,000,001 – HK\$6,500,000	1	–
	13	12

The Directors' emoluments presented above include the emoluments of the three (1996: four) highest paid individuals in the Group.

Details of emoluments paid to the other two (1996: one) individuals who are not directors but whose emoluments were among the five highest paid individuals in the Group are as follows:

	1997 HK\$'000	1996 HK\$'000
Salaries, housing and other allowances, benefits in kind	8,202	1,380
Bonuses	2,451	1,190
	10,653	2,570

Emoluments Band	Number of Individuals	
	1997	1996
HK\$2,500,001 – HK\$3,000,000	–	1
HK\$5,000,001 – HK\$5,500,000	2	–
	2	1

4. Taxation

	1997 HK\$'000	1996 HK\$'000
Company and its subsidiaries:		
Hong Kong profits tax	23,566	30,830
Overseas taxation	103,118	13,012
Deferred taxation (<i>note 20</i>)	17,000	–
	143,684	43,842
Associated companies – overseas taxation	316	402
	144,000	44,244

Hong Kong profits tax has been provided at the rate of 16.5% (1996: 16.5%) 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.

4. Taxation *continued*

	Group	
	1997	1996
	HK\$'000	HK\$'000
Deferred taxation charge/(credit) for the year has not been provided in respect of the following:		
Accelerated depreciation allowances	137	(7,861)
Tax losses	9,081	(3,663)
Other timing differences	3,538	(575)
	12,756	(12,099)

5. Profit Attributable to Shareholders

The profit attributable to shareholders is dealt with in the financial statements of the Company to the extent of HK\$133,291,000 (1996: HK\$43,454,000).

6. Dividends

	1997	1996
	HK\$'000	HK\$'000
Interim dividend paid of 3.65 cents (1996: 3.2 cents) per share	32,959	25,886
Proposed final dividend of 7.85 cents (1996: 6.6 cents) per share	85,765	53,451
	118,724	79,337
Alignment of 1997 interim dividend on 180,410,000 new shares issued (1996: 1995 final dividend on 55,000,000 new shares issued)	6,585	3,300
	125,309	82,637

The amount provided for the 1997 proposed final dividend is based on 1,092,545,579 shares (1996: 809,870,000 shares) in issue as at October 8, 1997.

7. Earnings Per Share

The calculation of earnings per share is based on the profit attributable to shareholders of HK\$235,531,000 (1996: HK\$161,804,000) and on the weighted average number of shares in issue during the year of 902,005,456 (1996: 790,380,000).

Fully diluted earnings per share is not presented as the exercise of the outstanding share options of the Company would not have a material diluting effect on the 1997 earnings per share.

8. Trademarks

	Group	
	1997	1996
	HK\$'000	HK\$'000
Acquisition of subsidiaries	813,645	-
Less: Amortization	(10,171)	-
	803,474	-

9. 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, 1996	23,224	25,931	62,658	210,798	4,915	83,345	4,513	415,384
Exchange translation	(1,597)	-	(4,120)	(52,554)	(686)	(29,406)	(601)	(88,964)
Acquisition of Subsidiaries	21,873	-	61,862	598,908	11,298	325,172	7,808	1,026,921
Additions	-	-	-	61,731	878	15,433	1,261	79,303
Disposals	-	-	-	(67,760)	(2,166)	(14,281)	(2,509)	(86,716)
At June 30, 1997	43,500	25,931	120,400	751,123	14,239	380,263	10,472	1,345,928
Depreciation								
At July 1, 1996	-	499	3,233	128,539	4,008	49,765	2,791	188,835
Exchange translation	-	-	(1,711)	(37,479)	(656)	(23,783)	(441)	(64,070)
Acquisition of Subsidiaries	-	-	19,704	421,632	10,226	262,894	6,008	720,464
Charge for the year	-	498	3,529	70,257	973	33,987	1,472	110,716
Disposals	-	-	-	(57,030)	(1,961)	(11,769)	(2,355)	(73,115)
At June 30, 1997	-	997	24,755	525,919	12,590	311,094	7,475	882,830
Net book values								
At June 30, 1997	43,500	24,934	95,645	225,204	1,649	69,169	2,997	463,098
At June 30, 1996	23,224	25,432	59,425	82,259	907	33,580	1,722	226,549

At June 30, 1997, the net book value of furniture and office equipment includes an amount of HK\$911,000 (1996: HK\$1,104,000) in respect of assets held under finance leases.

At June 30, 1997, freehold land outside Hong Kong and buildings with net book value of HK\$ 50,308,000 have been pledged to secure bank loans of the Group.

10. Other Investments

	Group	
	1997 HK\$'000	1996 HK\$'000
Investment listed in Hong Kong, at cost	211,908	20,000
Unlisted investments, at cost	10,104	-
Provision for unlisted investments	(7,749)	-
	214,263	20,000
Market value of listed investments	229,397	18,000

11. Subsidiaries

	Company	
	1997 HK\$'000	1996 HK\$'000
Unlisted shares, at Directors' valuation	216,677	216,677
Loans to subsidiaries	1,621,930	-
Amounts due from subsidiaries	503,219	437,572
	2,341,826	654,249
Amounts due to subsidiaries	(99,730)	-
	2,242,096	654,249

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 Offered 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 subsidiaries at June 30, 1997 are set out in note 26 to the financial statements.

12. Associated Companies

	Group	
	1997 HK\$'000	1996 HK\$'000
Share of net assets	12,828	5,246
Unlisted shares, at cost	8,264	1,411

The following is a list of associated companies:

Name	Place of incorporation	Principal activities	Group equity interest
Esmido Fashions Limited	Thailand	Retail distribution of fashion products	24%
Esprit Japan Company Limited	Japan	Retail distribution of fashion products	50%

Esprit Japan Company Limited was incorporated on June 23, 1997 and has not yet commenced business as of June 30, 1997.

13. Net Current Assets/(Liabilities)

	Group		Company	
	1997 HK\$'000	1996 HK\$'000	1997 HK\$'000	1996 HK\$'000
Current Assets				
Stock and work in progress (<i>note 14</i>)	469,574	214,290	-	-
Debtors, deposits and prepayments	447,340	223,372	-	-
Amounts due from related companies (<i>note 15</i>)	11,831	14,126	-	-
Dividend receivable	-	-	131,750	45,000
Short-term investments	-	75,971	-	-
Short-term bank deposits	337,789	257,188	-	-
Bank balances and cash	234,489	46,384	4,225	8
	1,501,023	831,331	135,975	45,008
Current Liabilities				
Creditors and accrued charges	656,552	134,110	2,678	896
Amounts due to related companies	-	145,423	-	-
Dividend payable	85,765	53,451	85,765	53,451
Taxation	290,285	43,450	-	-
Obligations under finance leases				
- due within one year (<i>note 18</i>)	1,397	1,599	-	-
Long term bank loans				
- due within one year (<i>note 19</i>)	5,323	10,575	-	-
Short-term bank loans	38,659	29,838	-	-
Bank overdrafts	3,407	3,150	-	-
	1,081,388	421,596	88,443	54,347
Net Current Assets/(Liabilities)	419,635	409,735	47,532	(9,339)

Analysis of short-term investments managed by fund managers:

Listed in Hong Kong, at cost	-	15,430	-	-
Listed overseas, at cost	-	58,981	-	-
Cash held by fund managers	-	1,560	-	-
	-	75,971	-	-
Market value of listed investments	-	77,735	-	-
Cash held by fund managers	-	1,560	-	-
	-	79,295	-	-

14. Stocks and Work in Progress

	Group	
	1997 HK\$'000	1996 HK\$'000
Raw materials	27,029	10,690
Work in progress	10,923	2,484
Finished goods	418,953	194,171
Consumables	12,669	6,945
	469,574	214,290

15. Amounts Due from Related Companies

Particulars of the amounts due from the related companies are as follows:

Name of borrower	Balance as at 30.6.1997 HK\$'000	Balance as at 1.7.1996 HK\$'000	Maximum amount during year HK\$'000
Red Earth International Holdings Limited and its subsidiaries ("Red Earth group")	342	813	1,051
Esprit de Corp. (1980) Ltee	11,489	81	12,759
Esprit Far East Limited and its subsidiaries	-	13,232	43,113
	11,831	14,126	

The amounts due from Red Earth group are unsecured, interest free and repayable on commercial terms. The amounts due from Esprit de Corp. (1980) Ltee are secured by all its share capital, interest bearing at 1% over USD prime rate and are to be fully repaid on October 16, 1997.

16. Share Capital

	1997 HK\$'000	1996 HK\$'000
Authorized:		
1,300,000,000 shares of HK\$0.10 each <i>(note (a))</i>	130,000	100,000
	Number of shares of HK\$0.10 each '000	Nominal value HK\$'000
Issued and fully paid:		
Balance at July 1, 1996	809,870	80,987
Issue of shares <i>(note (b))</i>	91,890	9,189
Placement of new shares <i>(note (c))</i>	180,410	18,041
Exercise of share options <i>(note (d))</i>	5,886	589
Balance at June 30, 1997	1,088,056	108,806

(a) By a special resolution passed on January 6, 1997, the authorized ordinary share capital of the Company was increased from HK\$100,000,000 to HK\$ 130,000,000 by the creation of 300,000,000 shares of HK\$0.10 each.

(b) On January 10, 1997, 91,889,579 ordinary shares of HK\$0.10 were issued to WTL as consideration of HK\$307,830,000 for the exchange of share capital of EFE. Pursuant to Section 40(1) of the Company Act 1981 of Bermuda, the excess value of the share acquired over the nominal value of shares issued were credited to contributed surplus of the Company.

(c) On April 10, 1997, there was a placement of 180,410,000 ordinary shares of HK\$0.10 at a premium of HK\$3.4 each to repay part of a bank loan.

16. Share Capital *continued*

- (d) During the year, 5,886,000 ordinary shares of HK\$0.10 were issued at a premium of HK\$2.54 each in relation to share options exercised by employees under the Company's Share Option Scheme.
- (e) 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 Share Option Scheme, the number of shares in respect of which options may be granted under the Share Option Scheme shall not exceed 20% of the issued share capital of the Company from time to time.

Each Share Option entitles the holder to subscribe for one share of HK\$0.10 each at a predetermined price. Options granted were divided into eight equal fractional installments. The first date of exercise between each installment shall occur at interval 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 this Scheme, whichever is the earlier. The exercisable date for the first installment shall occur six months after the date of grant. At June 30, 1997 there were 95,618,000 options outstanding which allow 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, 1997 are as follows:

Date of share options granted	Number of outstanding share options granted as at June 30, 1997	Subscription price per share
January 20, 1994	16,928,000	HK\$2.640
December 13, 1995	3,000,000	HK\$2.640
July 5, 1996	6,876,000	HK\$2.640
July 10, 1996	1,500,000	HK\$2.640
July 30, 1996	1,000,000	HK\$2.640
August 19, 1996	1,314,000	HK\$2.640
January 23, 1997	3,000,000	HK\$2.656
January 27, 1997	2,000,000	HK\$2.656
January 28, 1997	24,000,000	HK\$2.656
February 16, 1997	2,000,000	HK\$2.656
February 17, 1997	2,000,000	HK\$2.656
February 26, 1997	1,000,000	HK\$2.656
March 5, 1997	1,000,000	HK\$2.940
March 13, 1997	1,500,000	HK\$2.940
April 12, 1997	1,000,000	HK\$2.940
April 17, 1997	1,000,000	HK\$2.940
April 28, 1997	1,000,000	HK\$2.940
May 2, 1997	3,000,000	HK\$2.656
May 15, 1997	4,000,000	HK\$2.944
May 26, 1997	15,000,000	HK\$3.096
May 27, 1997	2,000,000	HK\$2.852
June 17, 1997	1,500,000	HK\$2.940
	95,618,000	

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, 1996	312,503	6,602	7,250	252,250	578,605
Premium arising from issues of shares (notes 16(c) & (d))	628,344	-	-	-	628,344
Excess of value of shares acquired over nominal value of shares issued (note 16(b))	-	298,641	-	-	298,641
Expenses in connection with the issue of shares	(15,478)	-	-	-	(15,478)
Goodwill on acquisition of EFE Group	-	(298,641)	-	(271,453)	(570,094)
Exchange translation	-	-	(18,103)	-	(18,103)
Profit for the year retained by:					
Company and its subsidiaries	-	-	-	109,485	109,485
Associated companies	-	-	-	737	737
Balance at June 30, 1997	925,369	6,602	(10,853)	91,019	1,012,137
Attributable to:					
Company and its subsidiaries	925,369	6,602	(10,760)	86,355	1,007,566
Associated companies	-	-	(93)	4,664	4,571
	925,369	6,602	(10,853)	91,019	1,012,137

Company

	Share premium HK\$'000	Contributed surplus HK\$'000	Retained profit HK\$'000	Total HK\$'000	
Balance at July 1, 1996		312,503	175,327	76,093	563,923
Premium arising from issues of shares (notes 16(c) & (d))		628,344	-	-	628,344
Excess of value of shares acquired over nominal value of shares issued (note 16(b))		-	298,641	-	298,641
Expenses in connection with issue of shares		(15,478)	-	-	(15,478)
Profit for the year		-	-	133,291	133,291
Dividends (note 6)		-	-	(125,309)	(125,309)
Balance at June 30, 1997		925,369	473,968	84,075	1,483,412

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 EFE group 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, 1997 amounted to HK\$558,043,000 (1996: HK\$251,420,000).

18. Obligations under Finance Leases

	Group	
	1997 HK\$'000	1996 HK\$'000
The maturity of the obligations is as follows:		
Within one year	1,397	1,599
In the second year	320	609
	1,717	2,208
<i>Less: amount shown under current liabilities (note 13)</i>	(1,397)	(1,599)
	320	609

19. Long Term Bank Loans

	Group		Company	
	1997 HK\$'000	1996 HK\$'000	1997 HK\$'000	1996 HK\$'000
Secured				
- wholly repayable within 5 years	701,102	-	697,410	-
- not wholly repayable within 5 years	27,100	-	-	-
Unsecured	-	10,575	-	-
	728,202	10,575	697,410	-
Amount due within one year included under current liabilities (<i>note 13</i>)	(5,323)	(10,575)	-	-
	722,879	-	697,410	-

The maturity of the long term bank loans is as follows:

- within one year	5,323	10,575	-	-
- in the second year	218,604	-	216,972	-
- in the third to fifth years inclusive	485,334	-	480,438	-
- in more than five years	18,941	-	-	-
	728,202	10,575	697,410	-

The bank loan of HK\$697,410,000 is secured by the share capital of certain subsidiaries of the Company. In addition, there are unconditional and irrevocable continuing joint and several guarantees of these subsidiaries for the outstanding loan amount which are supported by charges over their respective assets, revenues and undertakings.

20. Deferred Taxation

	Group	
	1997 HK\$'000	1996 HK\$'000
Transfer from profit and loss account (<i>note 4</i>)	17,000	-
Acquisition of subsidiaries	41,603	-
Exchange translation	(4,436)	-
At June 30,1997	54,167	-
Provided in the accounts in respect of:		
Accelerated depreciation allowances	56	-
Other timing differences	54,111	-
	54,167	-

20. Deferred Taxation *continued*

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

	Group	
	1997 HK\$'000	1996 HK\$'000
Accelerated depreciation allowances	(6,603)	(6,740)
Tax losses	–	(9,081)
Other timing differences	(2,376)	(5,914)
	(8,979)	(21,735)

21. Notes to Consolidated Cash Flow Statement

(a) Reconciliation of profit before taxation to net cash inflow from operating activities

	1997 HK\$'000	1996 HK\$'000
Profit before taxation	401,942	204,738
Interest income	(24,488)	(13,697)
Interest expenses	48,118	8,338
Finance charges on obligations under finance leases	215	230
Amortization of trademarks	10,171	–
Depreciation	110,716	61,886
Loss on disposal of fixed assets	1,531	3,106
Income from listed short term investments	(13,008)	(5,971)
Share of profit of associated companies	(1,053)	(1,339)
Decrease in stocks and work in progress	46,800	6,948
Decrease/(increase) in debtors, deposits and prepayments	19,623	(34,240)
(Increase)/decrease in amounts due from related companies	(21,472)	2,921
(Decrease)/increase in creditors and accrued charges	(142,118)	2,062
(Decrease)/increase in amounts due to related companies	(11,736)	338
Effect of foreign exchange rate changes	(14,895)	2,130
	410,346	237,450

(b) Analysis of changes in financing during the year

	Share capital (including share premium and contributed surplus) HK\$'000	Minority interests HK\$'000	Bank loans HK\$'000	Obligations under finance leases HK\$'000
Balance at July 1, 1996	393,490	1,329	10,575	2,208
Cash inflow/(outflow) from financing	631,497	–	681,974	(2,214)
Shares issued for non-cash consideration	307,829	–	–	–
Amount written off against goodwill	(298,641)	–	–	–
Subsidiaries acquired during the year	–	14,383	39,020	1,813
Share of net profit attributable to minority shareholders	–	22,411	–	–
Dividend paid	–	(23,178)	–	–
Exchange difference	–	44	(3,367)	(90)
Balance at June 30, 1997	1,034,175	14,989	728,202	1,717

21. Notes to Consolidated Cash Flow Statement *continued*

(c) Purchases of subsidiaries

	1997 HK\$'000
Net assets acquired	
Fixed assets	306,457
Trademarks	813,645
Investments	4,674
Stocks	302,084
Debtors, deposits and prepayments	267,183
Bank balances and cash	620,967
Creditors and accrued charges	(697,101)
Taxation	(211,587)
Bank overdrafts	(2,400)
Loans and finance leases	(40,833)
Deferred taxation	(41,603)
Minority shareholders' interests	(14,383)
	1,307,103
Goodwill	570,094
	1,877,197
Satisfied by:	
Shares allotted	307,830
Cash paid	1,569,367
	1,877,197

The subsidiaries acquired during the year contributed HK\$243,315,000 to the Group's net operating cash flows and paid HK\$18,347,000 in respect of the net returns on investments and servicing of finance, paid HK\$44,186,000 in respect of taxation and utilised HK\$412,942,000 for investing activities.

(d) Analysis of net outflow of cash and cash equivalents in respect of the purchase of subsidiaries

	HK\$'000
Cash paid	1,569,367
Bank balances and cash acquired	(620,967)
Bank overdrafts of acquired subsidiaries	2,400
Net outflow of cash and cash equivalents in respect of the purchase of subsidiaries	950,800

(e) Analysis of the balance of cash and cash equivalents

	1997 HK\$'000	1996 HK\$'000
Short-term investments	–	75,971
Short-term bank deposits	337,789	257,188
Bank balances and cash	234,489	46,384
Short-term bank loans	(38,659)	(29,838)
Bank overdrafts	(3,407)	(3,150)
	530,212	346,555

22. Contingent Liabilities

	Company	
	1997	1996
	HK\$'000	HK\$'000
Guarantees given to banks in respect of banking facilities granted to subsidiaries	372,040	230,625

23. Operating Lease Commitments

	Group	
	1997	1996
	HK\$'000	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	45,777	29,673
- expiring in the second to fifth years inclusive	249,335	152,132
- expiring beyond five years	62,376	13,497
	357,488	195,302
Other equipment		
- expiring in the first year	1,679	-
- expiring in the second to fifth years inclusive	10,334	102
	369,501	195,404

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, 1997 (1996: Nil).

24. Capital Commitments

	Group	
	1997	1996
	HK\$'000	HK\$'000
Authorized but not contracted for	12,134	1,646

The Company did not have any significant capital commitments at June 30, 1997 (1996: Nil).

25. Connected Transactions

Prior to December 11, 1996, Esprit Far East Limited ("EFE"), which was 50% held by Mr. Michael Ying Lee Yuen ("MY") and 50% by another two shareholders, was a 68% shareholder of the Company. Together with EFE and its subsidiaries ("EFE Group"), Esprit de Corp. and Esprit de Corp. (1980) Ltee ("Esprit Canada"), which were having common shareholders as EFE, are collectively known as the "Esprit Global Network". In addition to Esprit Global Network, MY also holds an interest in Red Earth International Holdings Limited ("Red Earth").

On December 11, 1996, there was a Reorganisation of EFE Group where Worldwide Thousand Limited ("WTL"), a company owned by MY and Mr. Jürgen Alfred Rudolf Friedrich ("JF"), purchased from the other two shareholders their entire interests in EFE. With a subsequent distribution in specie by EFE its entire interest in the Company after the Reorganisation, WTL became the 68% shareholder of the Company and 100% shareholder of EFE Group.

25. Connected Transactions *continued*

A special general meeting held on January 6, 1997 has approved the following acquisition transactions with WTL and JF as described below.

The first Acquisition was for the Company to acquire from WTL the entire issued share capital of EFE for a consideration of US\$210.3 million (approximately HK\$1,625.8 million) which comprises a cash payment of US\$170.5 million (approximately HK\$1,318.0 million). The remaining balance, being US\$39.8 million (approximately HK\$307.8 million), was settled by allotment and issuance of 91,889,579 fully paid shares of the Company at HK\$3.35 per share to WTL. HK\$3.35 per share represented the market closing price on December 10, 1996, the day immediately prior to December 11, 1996 on which the Directors of the Company, WTL and MY entered into the Acquisition Agreement.

The second Acquisition was for the Company to acquire from JF of shares representing a 12.5% interest in Esprit de Corp. GmbH, being the balance of the interest in EDCG not owned by EFE, for a cash consideration of US\$27.7 million (approximately HK\$213.9 million).

The two Acquisitions were completed on January 10, 1997.

In addition to the above, the Group also paid a consultancy fee to New Focus Limited which is wholly owned by a director of the Company.

In the ordinary course of business and on normal commercial terms the Group enters into transactions with the related companies as described above. Details relating to these connected transactions Prior to and After the Acquisitions are as follows:

Prior to the Acquisitions

	1997			1996		
	EFE group HK\$'000	Other Esprit Global Network companies HK\$'000	Red Earth group HK\$'000	EFE group HK\$'000	Other Esprit Global Network companies HK\$'000	Red Earth group HK\$'000
Buying commission income	(1,970)	(314)	-	(3,304)	(268)	(1,537)
Handling fees	6,585	-	-	12,839	-	-
Interest expense	2,608	-	-	4,978	-	-
Interest income	(162)	-	-	-	-	(24)
Purchase of finished goods	17,346	-	10,753	27,000	81	12,088
Royalties expense	25,797	-	-	48,305	-	(138)
Share of management expenses	4,180	-	-	9,985	-	-
Transfer of fabrics	(3,848)	-	-	(10,854)	-	-

After the Acquisitions

	1997		
	New Focus HK\$'000	Esprit Canada HK\$'000	Red Earth group HK\$'000
Buying commission income	-	(948)	-
Consultancy fee expense	2,908	-	-
Interest income	-	(730)	-
Purchase of finished goods	-	-	3,676
Sale of finished goods	-	(224)	-
Royalties income	-	(3,978)	-
Material handling and storage income	-	(48)	-

26. Subsidiaries

Details of the Company's subsidiaries at June 30, 1997 are as follows:

Name of subsidiary	Place of incorporation/ registration/ operation	Attributable equity interest to the Group	Issued and fully paid share capital/ registered capital <i>(note b)</i>	Principal activities
Esprit Far East (Distribution) Limited <i>(note (a))</i>	British Virgin Islands	100%	US\$500	Investment holding
Esprit Advertising Pte Ltd	Singapore	100%	S\$20,000	Advertising
Esprit Asia (Distribution) Limited	Hong Kong	100%	HK\$9,000	Investment holding
Esprit Asia Image Limited	Hong Kong	100%	HK\$10,000	Dormant
Esprit Asia (L) Limited	Labuan	100%	HK\$10,000	Dormant
Esprit Asia Management Services Limited	British Virgin Islands	100%	US\$100	Dormant
Esprit Asia (Merchandising & Design) Limited	Hong Kong	100%	HK\$10,000	Dormant
Esprit Distribution Ltd (formerly Esprit Asia Production Ltd)	Hong Kong	100%	HK\$10,000	Wholesale distribution of apparel and accessories
Esprit Australia Distribution Limited	British Virgin Islands	100%	A\$100	Investment holding
Esprit de Corp (Australia) Pty Limited	Australia	100%	Ordinary A\$300,000 Redeemable non-participating preference shares A\$4,400,000	Dormant
Esprit de Corp (Malaysia) Sdn Bhd.	Malaysia	100%	MYR500,000	Retail distribution of apparel and accessories
Esprit Japan (Distribution) Limited	British Virgin Islands	100%	US\$500	Investment holding
Esprit Retail (Hong Kong) Limited	Hong Kong	100%	HK\$10,000	Retail distribution of apparel, accessories and bed and bath products
Esprit Retail (Japan) Limited	Japan	100%	JPY200,000,000	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 Thailand Distribution Limited	British Virgin Islands	100%	US\$100	Investment holding
Red Earth (Asia) Limited	Hong Kong	100%	HK\$6,000	Wholesale distribution of cosmetics and skin and general body care products

26. Subsidiaries *continued*

Name of subsidiary	Place of incorporation/ registration/ operation	Attributable equity interest to the Group	Issued and fully paid share capital/ registered capital <i>(note b)</i>	Principal activities
Red Earth (Hong Kong) Limited	Hong Kong	100%	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 Limited	British Virgin Islands	100%	US\$100	Investment holding
Red Earth (Taiwan) Limited	Hong Kong	100%	HK\$2	Garment buying agent
Shanghai Shile Trading Limited	The People's Republic of China	90%	RMB600,000 registered capital	Wholesale and retail distribution of apparel and accessories
Shenzhen Shihe Dress Co. Ltd.	The People's Republic of China	100%	US\$1 million registered Capital	Manufacturing of apparel
Weyhill Proprietary Ltd	Australia	100%	A\$2	Investment holding
Esprit Far East Limited	British Virgin Islands	100%	US\$7,708	Investment holding
Esprit Financial Service Limited	British Virgin Islands	100%	US\$100	Dormant
Esprit Image Limited	United Kingdom	100%	GBP2	Dormant
Esprit Far East (Sourcing) Limited sub-group				
Esprit de Corp (Far East) Limited	Hong Kong	100%	HK\$1,200,000	Sourcing of apparel
Esprit de Corp (Singapore) Pte Limited	Singapore	100%	S\$100,000	Sourcing of apparel
Esprit Far East (Sourcing) Limited	British Virgin Islands	100%	US\$100	Investment holding
Esprit de Corp (Taiwan) Limited	Hong Kong	100%	HK\$9,200	Dormant
Esprit de Corp (Worldwide) Limited	Hong Kong	100%	HK\$1,000	Sourcing of apparel
Esprit Shoes & Accessories Limited	British Virgin Islands	100%	US\$100	Sourcing of accessories
Index Fashion Company Limited	Hong Kong	100%	HK\$10,000	Sourcing of apparel
Sijun Fashion Design (Shenzhen) Company Limited	The People's Republic of China	100%	US\$700,000 registered capital	Design services
Esprit Far East (Manufacturing) Limited sub-group				
Dozenway Limited	Hong Kong	100%	HK\$6,000	Dormant
Esprit Far East (Manufacturing) Limited	British Virgin Islands	100%	US\$100	Investment holding
Esprit Manufacturing (Hong Kong) Limited	Hong Kong	100%	HK\$10,000	Manufacturing of apparel
Esprit Manufacturing Pte Limited	Singapore	100%	S\$100,000	Manufacturing of apparel
Esprit Far East (Investments) Limited sub-group				
Burginhall 746 Limited	United Kingdom	100%	GBP100	Dormant
EFE (Investments II) N.V.	Antilles	100%	Preferred A US\$6,000 Common B US\$10,101	Investment holding

26. Subsidiaries *continued*

Name of subsidiary	Place of incorporation/ registration/ operation	Attributable equity interest to the Group	Issued and fully paid share capital/ registered capital <i>(note b)</i>	Principal activities
Esprit A/S	Norway	100%	NOR5,705,000	Distribution of apparel and accessories
Esprit Belgie Retail N.V.	Belgium	100%	BEF47,500,000	Retail distribution of apparel and accessories
Esprit Belgie Wholesales N.V.	Belgium	100%	BEF2,500,000	Wholesales agent
Esprit Benelux B.V.	Netherlands	100%	DFL300,000	Distribution of apparel and accessories
Esprit de Corp GmbH	Germany	100%	DM32,000,000	Design and distribution of apparel and accessories
Esprit de Corp Denmark A/S	Denmark	100%	DKK1,000,000	Distribution of apparel and accessories
Esprit de Corp France S.A.	France	100%	FRF10,000,000	Distribution of apparel and accessories
Esprit Europe Holdings B.V.	Netherlands	100%	DFL54,839,000	Investment holding
Esprit Far East (Investments) Limited	British Virgin Islands	100%	US\$100	Investment holding
Esprit Handelsgesellschaft MbH	Austria	100%	ATS500,000	Distribution of apparel and accessories
Esprit Holdings B.V.	Netherlands	100%	DFL3,000,000	Investment holding
Esprit (Holdings II) B.V.	Netherlands	100%	DFL914,000	Investment holding
Esprit Holdings GmbH	Germany	100%	DM10,000,000	Investment holding
Esprit International	California, U.S.A. (limited partnership)	63%	–	Trademark holding Licensing of trademark
Esprit Retail GmbH	Germany	100%	DM9,000,000	Retail distribution of apparel and accessories
Esprit Sweden AB	Sweden	100%	SEK200,000	Distribution of apparel and accessories
Esprit (U.K.) Limited	United Kingdom	100%	GBP10,100,000	Retail distribution of apparel and accessories
Esprit Europe Services GmbH	Germany	100%	DM500,000	Dormant

Notes:

(a) *Directly held by the Company*

(b) *All are ordinary share capital unless otherwise stated.*

(c) *None of the subsidiaries had any loan capital subsisting at June 30, 1997 or at any time during the year.*

(d) *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.*

Financial Summary

Results	1997 HK\$'000	1996 HK\$'000	1995 HK\$'000	1994 HK\$'000	1993 HK\$'000
Turnover	3,351,742	1,785,330	1,473,251	1,144,919	769,723
Operating Profit					
Operating profit	400,889	203,399	183,142	178,932	105,862
Exceptional item	-	-	-	26,892	-
	400,889	203,399	183,142	205,824	105,862
Share of Profit of Associated Companies	1,053	1,339	1,708	858	942
Profit before Taxation	401,942	204,738	184,850	206,682	106,804
Taxation	(144,000)	(44,244)	(43,608)	(39,322)	(27,917)
Profit after Taxation	257,942	160,494	141,242	167,360	78,887
Minority Interests	(22,411)	1,310	33	-	-
Profit Attributable to Shareholders	235,531	161,804	141,275	167,360	78,887
Dividends	125,309	82,637	67,792	63,750	30,000
Balance Sheets					
	1997 HK\$'000	1996 HK\$'000	1995 HK\$'000	1994 HK\$'000	
Trademarks	803,474	-	-	-	
Fixed assets	463,098	226,549	217,627	68,484	
Other investments	214,263	20,000	20,000	-	
Associated companies	12,828	5,246	4,442	3,381	
Net current assets	419,635	409,735	338,394	397,114	
	1,913,298	661,530	580,463	468,979	
Financed by:					
Share capital	108,806	80,987	75,087	75,000	
Reserves	1,012,137	578,605	480,304	392,086	
Shareholders' funds	1,120,943	659,592	555,391	467,086	
Minority interests	14,989	1,329	2,717	53	
Obligations under finance leases	320	609	2,436	1,840	
Deferred taxation	54,167	-	-	-	
Long term bank loans	722,879	-	19,919	-	
	1,913,298	661,530	580,463	468,979	

Note:

Esprit Holdings Limited (the "Company"), formerly known as Esprit Asia Holdings Limited, was incorporated in Bermuda under the Companies Act 1981 of Bermuda (as amended) on November 16, 1993 and became the holding company of the Esprit group of companies (collectively referred to as the "Group") as a result of a group reorganization on November 17, 1993.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Esprit Holdings Limited ("the Company") will be held at the Ivy Room, 10th Floor, Mandarin Oriental Hotel, 5 Connaught Road Central, Hong Kong on Friday, December 12, 1997 at 4:30 p.m. 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, 1997.
2. To declare a final dividend in respect of the year ended June 30, 1997.
3. To elect Directors and to authorize the Board of Directors to fix their remuneration.
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 the authorized share capital of the Company be and is hereby increased from HK\$130,000,000 to HK\$200,000,000 by the creation of an additional 700,000,000 new shares of HK\$0.10 each, such new shares ranking *pari passu* with the existing shares in the capital of the Company in all aspects."
6. 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 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 which might require the exercise of such powers be and it 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 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 option or otherwise) by the Directors of the Company pursuant to the approval in paragraph (a), otherwise than pursuant to (i) a Rights Issue; (ii) the exercise of options granted under any share option scheme adopted by the Company or (iii) any scrip dividend or similar arrangement providing for the allotment of shares 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 plus (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 resolution 7 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 ordinary 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)."

7. 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."

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

"THAT conditional upon resolution numbered 7 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 said resolution numbered 7 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 the resolution numbered 6 in the notice convening this meeting."

9. To transact any other ordinary business.

By Order of the Board



Alva Chan Wai Mo
Director

Hong Kong, October 8, 1997

Notes:

- 1. Any member entitled to attend and vote at the meeting is entitled to appoint one or more proxies 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.