

esprit asia holdings ltd annual report 1995/96

ESPRIT

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## CORPORATE INFORMATION

### **Executive Directors**

Michael Ying Lee Yuen  
*Chairman*

Alva Chan Wai Mo

Connie Wong Chin Tzi

Surinder Chhibber

Ada Wong Suk Kwan

### **Non-executive Directors**

Alexander Reid Hamilton

Joyce Elena Ma

Raymond Or Ching Fai

Debra Belisle Ryker

Donald Stanton LaVigne

### **Company Secretary**

Alva Chan Wai Mo, F.H.K.S.A.

### **Authorized Representatives**

Alva Chan Wai Mo

Ada Wong Suk Kwan

### **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

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 HM 11 Bermuda

### **Head Office and Principal Place of Business**

11 Yuk Yat Street

10/F, Tokwawan

Kowloon, Hong Kong

## FINANCIAL HIGHLIGHTS

For the year ended June 30, 1996

	1996	1995	1994	1993	1992
<b>Turnover (HK\$m)</b>	<b>1,785.3</b>	1,473.2	1,144.9	769.7	485.5
<b>Operation mix (%)</b>					
Retail	<b>90.7</b>	90.5	91.0	89.4	84.3
Wholesale	<b>9.3</b>	9.5	9.0	10.6	15.7
<b>Geographic mix – Retail (%)</b>					
Hong Kong	<b>33.3</b>	41.6	53.5	59.1	60.5
Singapore	<b>11.5</b>	17.0	18.2	17.5	24.0
Taiwan	<b>16.9</b>	20.5	16.0	16.5	15.5
South Korea	<b>13.5</b>	14.5	9.5	6.2	N/A
China	<b>5.4</b>	4.4	2.8	0.7	N/A
Japan	<b>4.8</b>	1.6	N/A	N/A	N/A
Malaysia	<b>1.7</b>	0.4	N/A	N/A	N/A
Australia	<b>12.9</b>	N/A	N/A	N/A	N/A
<b>Product Mix – Retail (%)</b>					
Women's wear	<b>61.5</b>	57.6	63.4	72.6	82.9
Men's wear	<b>11.8</b>	15.0	11.9	8.2	1.9
Footwear & accessories	<b>21.5</b>	23.7	19.5	11.7	9.3
Kids' wear	<b>2.0</b>	0.3	1.9	3.8	4.9
Bed & bath	<b>1.0</b>	1.1	1.3	2.4	1.0
Body care	<b>2.2</b>	2.3	2.0	1.3	0.0
<b>Operating profit (HK\$m)</b>	<b>203.4</b>	183.1	205.8	105.9	57.3
<b>Profit attributable to shareholders (HK\$m)</b>	<b>161.8</b>	141.3	167.4	78.9	45.8
Shareholders' funds (HK\$m)	<b>659.6</b>	555.4	467.1	134.2	N/A
Working capital (HK\$m)	<b>409.7</b>	338.4	397.1	95.8	N/A
Current ratio	<b>2.0</b>	2.2	2.6	1.7	N/A
Total debt to equity ratio (%)	<b>64.0</b>	53.5	53.1	104.2	N/A
Bank borrowings to equity ratio (%)	<b>6.6</b>	12.7	3.3	5.6	N/A
<b>Return on shareholders' equity (%)</b>	<b>24.5</b>	25.4	35.7	58.8	N/A

## OPERATION HIGHLIGHTS

	1996	1995	1994	1993	1992
Number of stores	<b>253</b>	174	121	73	36
Sales footage (sq.ft)	<b>299,996</b>	180,105	137,028	88,697	64,351
Sales per sq.ft	<b>633</b>	823	798	735	623
Number of employees	<b>2,619</b>	2,345	1,988	1,483	1,156



# the right stuff

Financially, 1995/96 was not an unimpressive year: operating profit up 11.1% compared with 2.4% in 1994/95; profit attributable to shareholders up 14.5% compared with a 15.6% decrease. Turnover growth slowed, to a still-respectable 21.2%, as a result of the acute recession in Singapore and sluggish consumer spending in Hong Kong, and as we shifted gears in our driver markets, closing underperforming or undersized outlets and opening or seeking locations for larger, more productive stores with room for a broader product mix.

We revamped our retail operations in several developing as well as established markets where corrections were due in the areas of shop size and location, headcount, operating costs and merchandise mix. We increased floor space while reducing total headcount, relying on better trained and motivated sales staff to maintain our high service standards.

We did not, however, cut corners in visual merchandising, shop construction, advertising and promotion or customer loyalty programs. In every one of our markets we are becoming better and more widely known as an international brand and better understood and respected as a company.

We have set ourselves a breathless pace of growth. We have to stay ahead of Asia's economic curve and ahead of the competitive pack. A decade ago (around the time Esprit, already a recognized brand, went into the retail business), Asia's regional GDP was roughly one fifth that of the United States'. It is now roughly one third. Much of that wealth is being created and spread around by a small proportion of the region's total population, concentrated in perhaps fifteen or twenty major urban markets. For the foreseeable future, Esprit Asia is better positioned than any specialty retailer to be in the right places at the right times with the right stuff — with the right people to orchestrate profitable growth and to build brand awareness and loyalty. I believe that we have the strongest and surest management team in our industry.

Esprit Asia is a truly regional operation selling one of the world's best-recognized lifestyle brands. Today, we operate, directly and through franchise partners, 138 freestanding stores and 250 department store counters with a total floor space of

404,974 square feet in eighteen countries with a combined population of 1.81 billion (I am including Australia, whose retail business we very wisely acquired in December 1995). Tens of millions of young, upwardly mobile men and women form our primary target segment of the market. There is room for dramatic growth of our business within this key segment of the market, and enormous room for this segment itself to grow. In 1995/96, the retail value of Esprit products sold in Asia amounted to HK\$2.0 billion.

In discussing our operation and forming an understanding of its prospects, it is important that we do not draw too sharp a distinction between our directly operated and franchise markets (the ultimate customer is not, of course, aware of any such distinction); the latter group includes some of the fastest-growing and most rapidly industrializing countries in Asia, notably Indonesia, Thailand and the Philippines, and we cannot overestimate their potential contribution to the Group's long-term vitality and profitability. Esprit Asia's management team is directly and closely involved in the development of all of its markets and in building an ever wider base of loyal customers. We and our franchise partners promote and sell a single, unique and highly-respected brand of well-made, affordable products in a uniform, consistently creative and winning manner.

We have embarked on a three-year program to develop our products, image and markets. We are committed to:

- **growing our city workwear line to become an increasingly substantial component of our women's wear business.**
- **growing our men's wear business to become a major stand-alone category.**
- **identifying strong, committed partners who will enable us to fully grasp licensing and distribution opportunities for our footwear and accessories lines in key markets such as Japan and South Korea.**
- **refocusing on our Kids' business; imported branded children's wear represents an enormous, untapped market for Esprit Asia.**
- **adopting a more aggressive, franchise-driven expansion strategy in China.**

In Hong Kong, where retail turnover this year was down slightly, and Singapore, where turnover fell 17%, we are going to focus on further reducing operating costs as a percentage of turnover and improving our sell-through. We will continue to pursue sales



and profit growth by reconfiguring our product mix and consolidating our floor space in new, high-impact flagship stores. With per capita sales in Hong Kong comparable to that of a US\$3 billion brand in the United States, real further growth can only come from our higher-value lines and from winning merchandising strategies. The right stuff.

We will continue to manage our Malaysian business from Singapore, avoiding duplication of resources and spreading Singapore's high administrative costs.

In Taiwan and South Korea, we will step up investment in freestanding flagship stores in the major cities, establish franchise operations in secondary markets and slow down our expansion in department stores in an effort to improve operating margins.

In Japan, we will also establish a number of flagship stores to drive home the Esprit lifestyle image among the region's most sophisticated and brand-conscious consumers. We will develop a nationwide franchise network in order to speed up penetration of the Japanese market while minimizing our investment in store construction and operation.

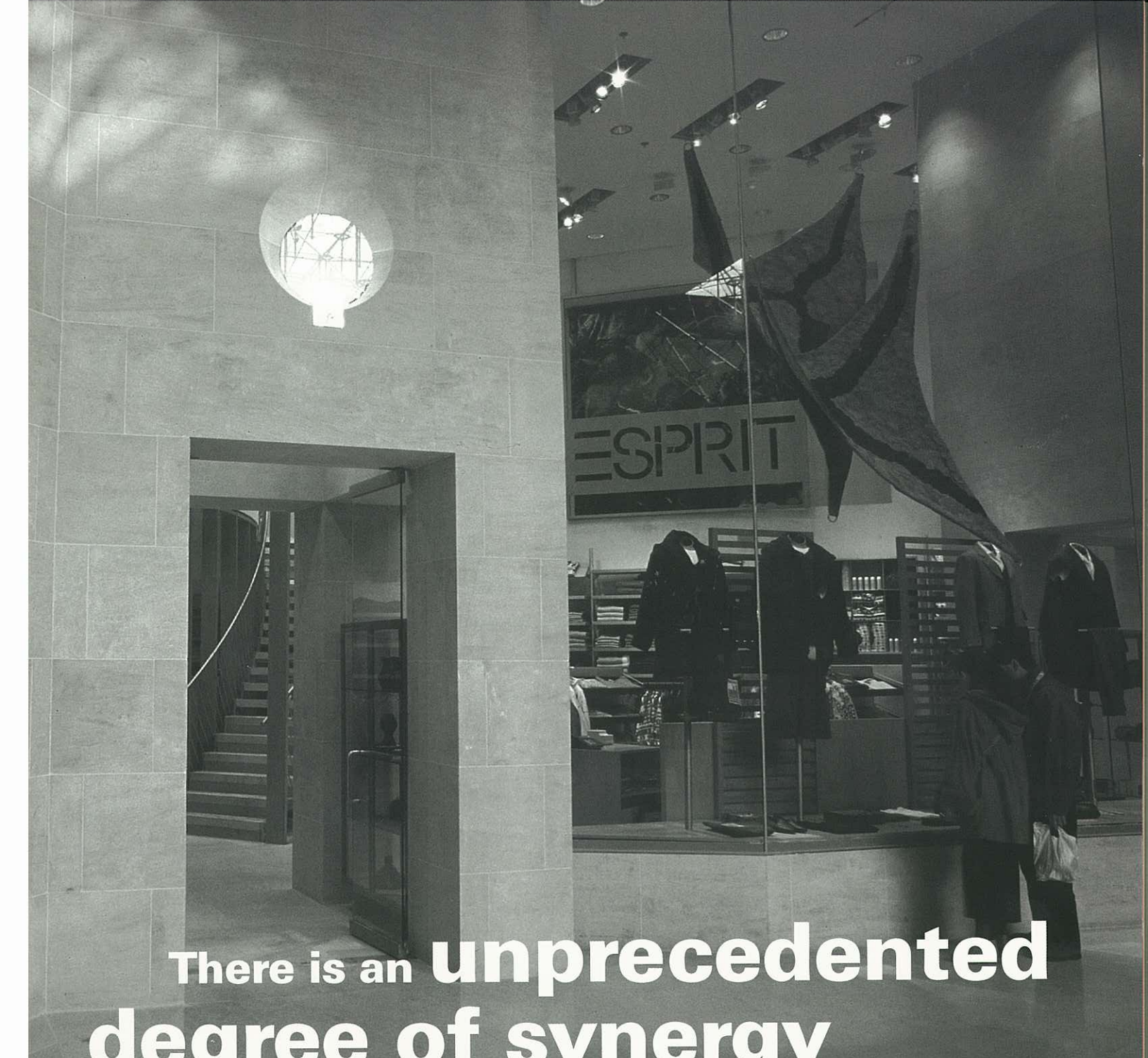
In China, we have already established Esprit as the leading international fashion brand in Beijing and Shanghai, helping us achieve 50% growth in national sales. We will be more aggressive in our development of a countrywide network of directly operated and franchised operations and in promoting the Esprit lifestyle.

By 1996/97, Australia could, in terms of business volume, rival Taiwan and South Korea, our second and third largest markets. With just seven months' reportable contribution, Australia accounted for nearly 13% of Group retail turnover. Australia is primed for strong growth between now and the Olympic Games in the year 2000.

We turned around the Red Earth business this year. Now profitable in Hong Kong, the brand is strong enough to be taken regional.

We expect our retail operations, given improving economic conditions and having the benefit of measures being taken to develop our products and markets, will post further improved profits in 1996/97. Taiwan and Hong Kong are experiencing momentous China-linked economic growth, which spells recovery for their retail sectors. We have faith in Singapore's competitiveness and the abilities of its leadership to guide the country's economy forward. Japan's economy is rebounding; Malaysia's, South Korea's and China's economies are steadily expanding, and our customer bases there are reaching a critical size. We are at the middle if not the beginning of the Australia success story.





There is an **unprecedented degree of synergy**

**between Esprit operations**

**around the world.**





The story does not end with Asia. Esprit is a global brand, conceived in America more than 25 years ago and strongly influenced in merchandising and marketing by Europe in the decades since. Asia's key manufacturing role expanded in the 1980s to retailing and in recent years to every other aspect of the business and company culture worldwide. Today, there is an unprecedented degree of synergy between our various regional operations, a synergy which will increasingly benefit Esprit Asia in the years to come.

In closing, I would like to welcome Mr. Raymond Or to our Board as a Non-executive Director. Mr. Or, Senior Executive Corporate Banking at HongkongBank, replaces his colleague Mr. James Connal Scotland Rankin. The Board is grateful for Mr. Rankin's valuable contributions and advice reflecting his many years of commercial experience in southeast Asia. I would also like to thank Mrs. Joyce Ma and Mr. Alexander Hamilton for the expert counsel which they provided during the year, and the Board looks forward to their continuing support.

Last but not least, I extend the Board's deepest appreciation to our managers and employees — you have once again displayed the right stuff — and to the many other stakeholders in our business.



Michael Ying Lee Yuen *Chairman*

September 19, 1996

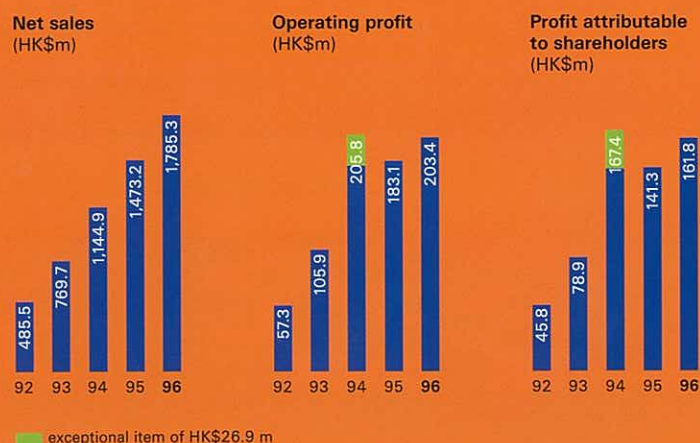
# group results

**Group Net Sales and Profit** Group net sales increased 21.2% to HK\$1,785.3 million, with floor space growing 66.6% from 180,105 to 299,996 square feet and the number of retail outlets to 253. Operating profit increased 11.1% to HK\$203.4 million. Group profit attributable to shareholders rose 14.6% to HK\$161.8 million.

**Group Operating Costs** Group operating costs as a percentage of sales have remained constant at 57.8% of net sales. Operating costs as a percentage of sales decreased in Hong Kong, China, Japan, Malaysia and Australia.

Group rental costs as a percentage of sales increased slightly to 23%. Group retail staff costs and Group advertising and promotion expenses as a percentage of sales remained even at 8.2% and 1.5% respectively.

The Group's taxation rate for 1995/96 amounted to 21.6%, a decrease of 2.0%.





# retail operations

**Product Merchandising and Development** For more than two decades, Esprit has been synonymous with youthful energy and a healthy, active lifestyle, with a product mix of casual, sporty and active wear. A merchandising evolution is underway with sales of both city casual and city workwear expanding in tandem; we are targeting young, upwardly mobile men and women — college students, graduates and professionals — in their early twenties to mid thirties, who subscribe to the Esprit lifestyle but whose lives have taken on a new dimension with new responsibilities. This key segment of the adult market is especially knowledgeable about international fashion and lifestyle trends, is well travelled and is enjoying greater purchasing power on the back of their countries' rapid economic development. And they seek solid value for money.

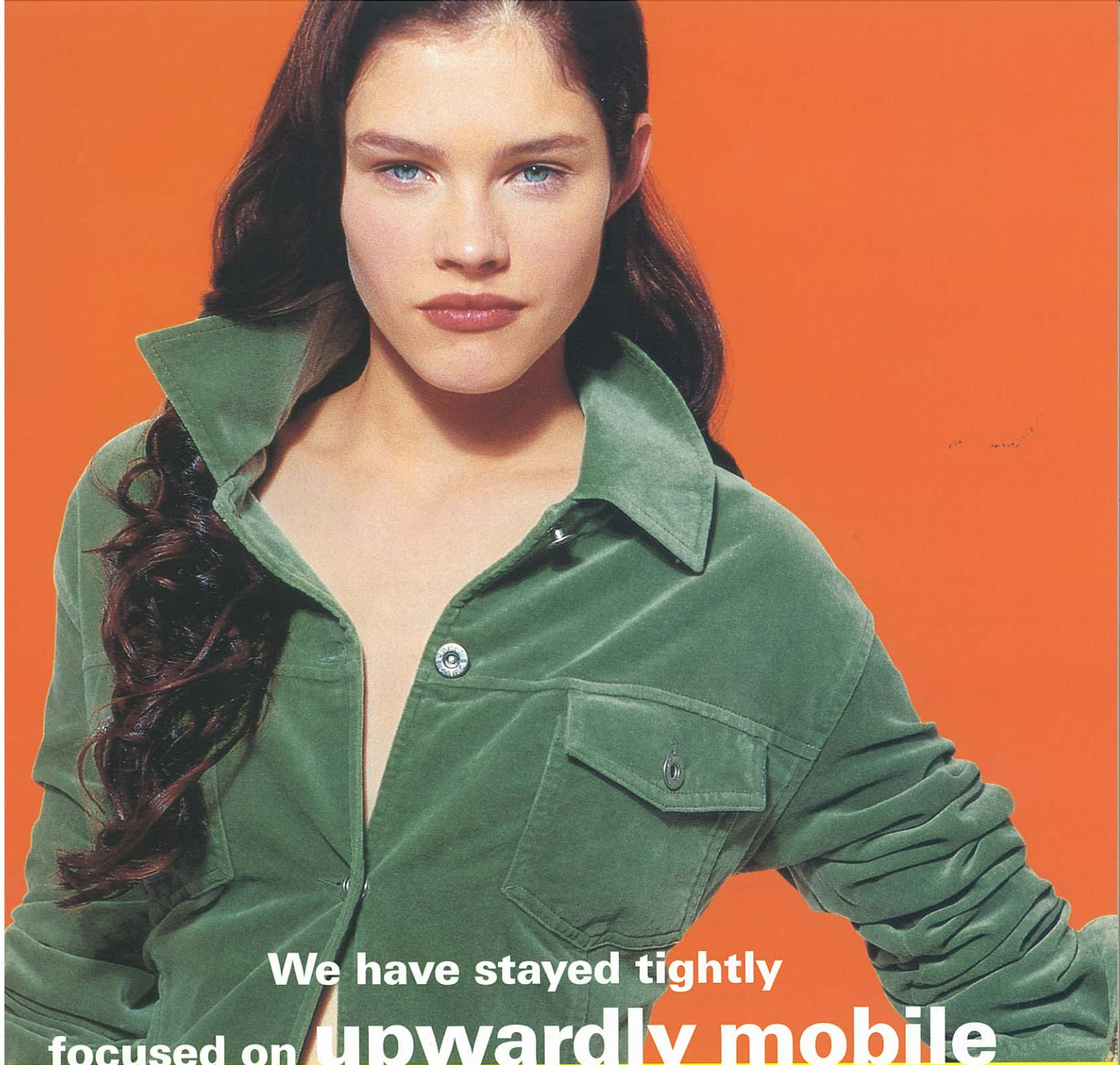
Our women's wear business was built on casual, sporty wovens and knits in natural fabrics sold at attractive price points. Our city workwear line will fuel strong new growth in women's wear sales; it offers a wide selection of softly tailored jackets, skirts, suits and blouses featuring higher quality fabrics and construction.

Esprit's diversification into other product categories has stimulated new growth of our business in established markets and enhanced our brand-building efforts in newer markets. The evolution from casual and sporty to city work styles, restricted thus far to women's wear, will gradually encompass other product categories such as men's wear and footwear and generate substantial new growth in those categories.

Men's wear was introduced in 1988 and today generates 11.8% of total sales in Asia. We now offer four seasonal collections, each featuring some 120 styles — compared with about 200 for each of the four seasonal women's collections — derived mainly from Esprit's European line. Our men's wear line is clearly developing a strong identity and identifiable, loyal customer base; we envision men's wear to become a stand-alone category within a relatively short period of time.

Footwear and accessories, which five years ago represented 10.4% of sales, now accounts for 21.5% of sales. In the footwear category, we have developed a full line for women — who account for 80% of our footwear sales — and selected styles for men.





We have stayed tightly  
focused on **upwardly mobile**

women and men in their  
early twenties to mid thirties.





Sales of these categories have increased almost ten-fold over the past five years, and the Group is seeking regional licensing and distribution opportunities to develop their full potential.

Esprit Kids offers a full range of casual and play apparel for children. In Hong Kong, Esprit Kids is distributed through a franchisee in department stores. In Singapore and Australia, Esprit Kids continues to be sold in directly-operated Esprit shops. In Spring 1996, Esprit Korea launched sales of the Kids line with five dedicated department store counters, and Esprit Taiwan introduced the line with two department store counters.

Esprit Bed & Bath, which comprises an extensive collection of premium-quality bedding and bath textiles, is distributed both through directly-operated retail and wholesale channels throughout the region. We intend to continue broadening distribution through both channels.

**Sourcing and Distribution** Esprit Asia's vertically integrated retail operation has given the Group an especially sharp competitive advantage over other international fashion brands in the market. Our regional garment sourcing operations are based in Hong Kong. More than 90% of the garments sold in our major categories are manufactured in Asia and of these more than half are produced in China; our own 80,000 square-foot manufacturing plant in the special economic zone of Shenzhen makes nearly 15% of all Esprit merchandise sold in the region.

Fabrications continue to be upgraded in keeping with the growing importance of city workwear. Third-party manufacturing sources continue to be diversified, enabling the Group to fulfill speed reorders for fast-selling items and produce and market new styles between the main fashion seasons.

With factories delivering finished goods directly to our retail and franchise markets — we eliminated centralized warehousing and distribution in 1994 — shipping costs and times continue to be improved.

**MIS** Our retail management system, operated on the IBM AS400 platform, is one of the first and among the most sophisticated employed in the region's retail sector. It provides a competitive advantage and enables the Group to continuously reengineer its



business processes and improve operating efficiency. The system links all offices and retail outlets in the region. The management information data collected and analyzed through the system supports decision-making in all areas of operation from ordering, pricing and distribution to cost and inventory control. New emphasis is being placed on the development of a lower-cost, Intranet-based distributed processing environment.

**Visual Merchandising, Store Design, Advertising and Promotion** Esprit Asia's success in establishing and sustaining an international brand image is largely due to a well integrated image system.

Window and in-store displays are changed frequently, motivating customers to regularly revisit stores and inviting new customers to enter. Advertising continues to be targeted to Esprit's key segment of young urban professionals and restricted to high-visibility outdoor media in high-traffic locations and selected print media.

A display concept and customer promotion to support the launch of the Summer 1996 collection provided a strong example of Esprit Asia's innovative approach to visual marketing. For Summer 1996 – a collection inspired by the glamour and freedom of the Cote d'Azur in the 1950's – Esprit teamed up with Diamondback, a leading bicycle maker which shares Esprit's modern, healthy lifestyle esthetic.

Esprit Asia conceived two innovative promotional campaigns which were kicked off in Hong Kong and subsequently sent on tour to other Esprit Asia markets including the Philippines, Japan, Singapore, Thailand and Australia as well as Germany and the United Kingdom. In June 1995, Esprit Hong Kong mounted an exhibition at its Times Square store entitled "all walks of life", a display of shoes from around the world which carried strong cultural and historical significance.

In January 1996, Esprit Hong Kong collaborated with the Hong Kong Fringe Club, an influential local arts organization. Over a two-week period, the Esprit store at Times Square exhibited 16 original works by eleven local artists, all based on the idea of the classic white shirt. The exhibit generated massive publicity for Esprit while supporting an important cultural initiative.





With nearly 15 years of retail experience, Esprit Asia has assumed global responsibility for the direction of all image activities. This is part of a company-wide effort to pool creative and management resources in order to ensure the absolute integrity of the Esprit brand worldwide.

Store design and construction in the region continued to be directed by a team based in Hong Kong. This team ensures that all freestanding stores and counters, in all retail and franchise markets, are built to

Esprit guidelines and specifications and incorporate the brand's fresh and modern architectural style. Store fixtures and systems designed by Esprit in Germany are modified in Hong Kong for regional applications.

**People** The Group employed a total of 2,619 people as of year end, an increase of 11.7%. Two thirds of staff were employed in retail and sales positions and approximately one quarter in manufacturing. The total number of retail staff increased 17.6% to 1,741.

Staff development and training remain a high priority; training programs are carried out in-house for front-line sales staff as well as sales support staff. However, greater emphasis is being given to training in the field as opposed to classroom education.

# retail markets

## hong kong

Esprit Hong Kong generated 31.3% of Group retail sales, with floor space at year end totalling 57,003 square feet.

1995 GDP Growth 4.7%

Population 6.3 million

Per Capita Income (ppp) US\$23,892

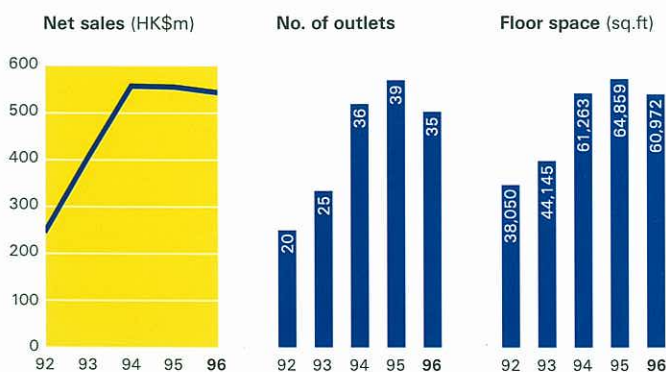
The Territory's retail sector continued to be subject to the fallout of political uncertainty, weak overseas demand for Hong Kong exports and a resulting decline in GDP growth. Consumption remained weak as a result of slower income growth and despite a gradual rise in property values and the number of property transactions; the so-called "feel good" factor has yet to return and translate into solid and steady confidence. An increase in competition from foreign fashion brands aggravated the slowdown in retail sales.

Nonetheless, Esprit Hong Kong has maintained its store productivity levels and enhanced its profitability. The operation has strengthened its visual merchandising and store displays, offered a wider range of products, upgraded product quality and made continuous improvements to customer service. The result has been higher sell-through and gross margins, and lower year-end stock levels.

Esprit Hong Kong is also consolidating its retail portfolio within larger, customer-friendlier flagship stores which will provide greater convenience by offering a full range of Esprit products — including women's and men's wear, footwear and accessories — under one roof. During the past year, several underperforming outlets were closed or scaled down; a 2,500 square-foot shop was opened at Sun Plaza in Tsimshatsui.

In 1996/97, greater emphasis will be placed on customer-loyalty programs and on

direct communications with customers promoting new product lines, notably city workwear. These activities will be aimed primarily at Esprit Privilege Card holders with a view to increasing spending per customer.





**1995 GDP Growth 8.9%**

**Population 3.1 million**

**Per Capita Income (ppp) US\$23,565**

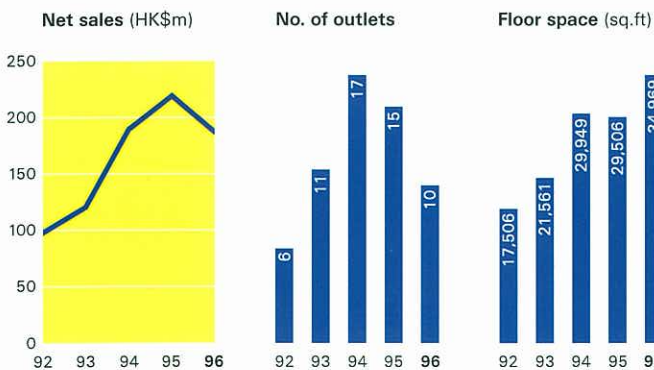
## singapore

A two-year recession in the retail sector has affected the performance of Esprit's Singapore operation, which nevertheless is well positioned to ride out the downturn and benefit from an eventual upturn. The recession has been caused by high rents, an acute oversupply of retail space (some 40 department stores and malls occupy a 2-kilometer downtown shopping district), weak local demand, a strong Singapore dollar, declining tourist spending and competition from neighboring southeast Asian countries where downtown and suburban shopping mall development has proliferated.

Esprit Singapore increased total floor space 18.5% to 34,969 square feet, while reducing the total number of local retail outlets from 15 to 10, by successfully adopting the Group's regionwide strategy of opening larger stores which can carry the full range of Esprit products and communicate a stronger brand image. Smaller shops and underperforming suburban outlets were closed, while a 10,000 square-foot store was opened in June 1996. In November 1996, another 10,000 square-foot store will be opened adjacent to the popular Planet Hollywood restaurant. Esprit's 13,000 square-foot flagship store on Orchard Road remains a beacon to local and visiting shoppers and performed well during the past year.

Esprit Singapore has at the same time negotiated more favorable rentals and expects its new, larger stores will be in a position to generate improved margins.

Esprit Singapore boasts a strong and highly experienced management team which provides invaluable support to the Malaysia retail operation and to our franchise operations in other southeast Asian markets.





**Esprit Asia has assumed  
global responsibility for**

**visual merchandising.**





**1995 GDP Growth 9.6%**

**Population 20.6 million**

**Per Capita Income (ppp) US\$9,470**

## malaysia

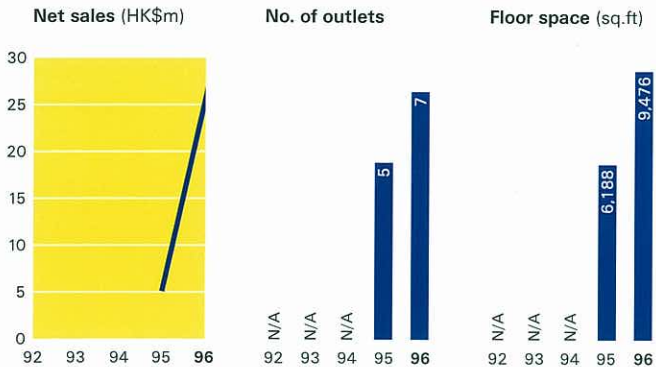
Esprit established direct retail operations in Malaysia in March 1995. As Esprit products were sold through a franchise partner for the ten preceding years, and given the country's proximity to Singapore, awareness of the Esprit brand is notably high, reflected in the operation's substantial first full-year contribution – 1.7% – to Group retail sales.

Malaysia, like Singapore, is experiencing oversupply in retail floor space.

With the availability of new retail and mixed-use commercial developments, Esprit is capitalizing on unprecedented opportunities to establish stores in suitable prime locations. At year-end, Esprit operated seven outlets totaling 9,476 square feet, an increase of 53.1%.

In view of the country's remarkable economic growth – per capita income has doubled since 1988, domestic demand for consumer goods, locally made and

imported automobiles and housing units is booming, and services now account for 44% of GDP versus manufacturing's 33% – the Group expects to see steady growth in its Malaysia operation.



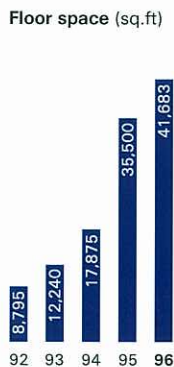
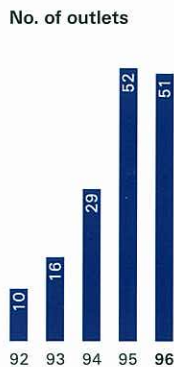
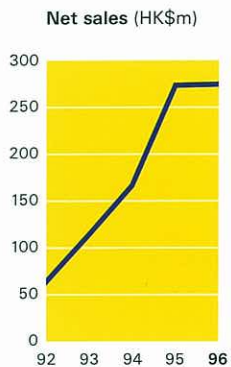
## taiwan

Esprit Taiwan increased sales slightly despite the adverse effects on the retail economy of recent political events. Significant progress is being made in developing awareness of the Esprit brand through aggressive advertising and promotion and investment in new flagship stores. Taiwan contributed 16.9% of Group retail sales, with total floor space increasing 17.4% to 41,683 square feet. As in Hong Kong, Singapore and South Korea, Esprit Taiwan is consolidating its retail portfolio within larger stores, including new 6,500 and 4,000 square-foot stores opening in October and November 1996. The downturn in Taiwan's retail economy has forced a number of retailers to vacate desirable locations, particularly in prime Taipei districts, and Esprit Taiwan has been quick to take advantage of their availability. The cities of Taichung and Kaohsiung will increasingly be the focus of expansion activity.

**1995 GDP Growth 6.4%**

**Population 21.6 million**

**Per Capita Income (ppp) US\$14,295**



Locations continue to be selectively sought for men's wear and footwear and accessories outlets as well as additional outlets for the core women's apparel line.

Our Taiwan operation is seeking franchising opportunities in secondary markets outside the major cities. Plans also call for franchising of Esprit Kids from Fall 1997. Bed & Bath was introduced in 1994/95 and is distributed wholesale to department stores around the country.

The purchase in 1994/95 of a 44,000 square-foot warehouse and headquarters facility has enabled the operation to steadily reduce building expenses as a percentage of sales.

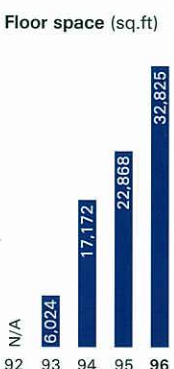
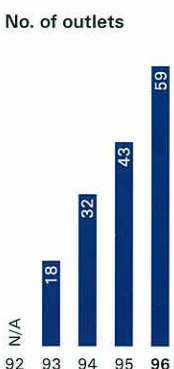
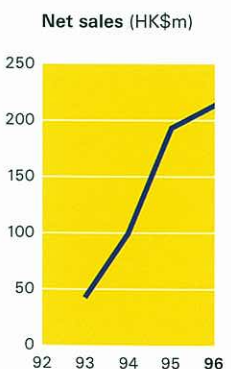
## south korea

**1995 GDP Growth 9.0%**  
**Population 44.8 million**  
**Per Capita Income (ppp) US\$11,750**

Retail sales increased 13.6% to HK\$219.4 million, on target with projections, reflecting higher-quality store and counter locations, an improved national distribution infrastructure and further strengthening of the brand's image through aggressive advertising and effective visual merchandising. South Korea contributed 13.5% of Group retail sales. An additional 16 stores were opened during the past year, bringing the total number of outlets to 59.

Sales of men's wear and footwear and accessories, introduced in Spring 1994, grew 45.8% and 19.9% respectively, compared with 5.2% growth in sales of women's wear.

Esprit continues to be among the top five performing brands in leading South Korean department stores. The percentage of floor space managed by Esprit outside the capital, Seoul, increased 87.5% to 12,891 square feet.



Operating costs in South Korea remain among the highest in Asia. A 5% rise in operating costs as a percentage of net sales was partially due to new pension fund regulations.



With the South Korean consumer economy experiencing explosive growth, and with the loosening of restrictions on foreign investment in the retail sector inducing a flow of foreign brands into the country, it is imperative that Esprit captures a critical mass of customers in its target segment of the market and creates a high degree of brand loyalty. The Group remains focused on rapidly establishing a nationwide retail presence and the necessary operational support.

**china** Total China sales grew 50% to HK\$88.2 million. Despite sharply rising wages, overall operating costs as a percentage of sales declined. China contributed 5.4% of Group retail sales.

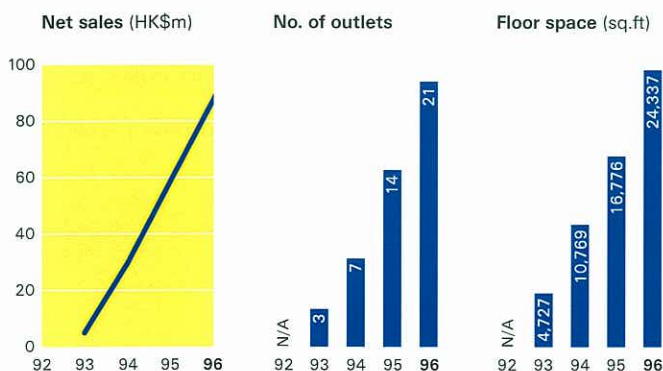
The Group has succeeded in the first phase of its China business strategy: to attain leadership in the all-important Shanghai market, which we entered in late 1992 and where we have since opened 12 directly-managed outlets, including a 2,000 square-foot flagship store on Nanjing West Road.

We are well along in developing a direct operating presence in China's other major cities – including Beijing, where we acquired the retail operation from our licensee in 1994/95, and Dalian, where we operate four outlets, three of which were opened in 1995/96. As of year-end, Esprit directly managed 21 shops in four cities.

We are also expanding rapidly through franchises in secondary markets including Chengdu, Guangzhou, Hangzhou, Harbin, Nanjing, Shenyang, Wenzhou, Wuhan and Xian. As of year-end, 30 franchised Esprit outlets were in operation nationwide.

Separate management teams have been established for directly-managed and franchised operations. At the same time, our wholesale and franchise retail management systems have been unified with a view to ensuring consistency of the brand's image, irrespective of the channel of distribution, and to create greater economies of scale for Esprit China's administrative and marketing functions.

**1995 GDP Growth 10.2%**  
**Population 1,215.5 million**  
**Per Capita Income (ppp) US\$2,935**





A woman with blonde hair and blue eyes, wearing a grey wool coat and a matching scarf, is the central focus of the advertisement. She is set against a solid orange background. The text is overlaid on the lower portion of the image, with the words 'larger stores' in a significantly larger font than the rest of the text.

In each of our markets  
we are opening **larger stores**  
carrying the full range of Esprit products.





Esprit has not been alone in pursuing the China market. Although we are experiencing keen competition from Hong Kong-based and foreign brands, Esprit has clearly prevailed in its market segment, having established high and early awareness of the brand in Shanghai and Beijing, having established a solid and visually appealing presence in many major department stores and having built a valuable and growing mailing list of 15,000 Chinese Esprit Privilege Card holders. Lifting sales for Esprit and other specialty retailers is a rise in urban incomes, controlled inflation and the growing number of foreign-invested joint ventures around the country, with respective growth in white-collar employment.

Beginning in early 1997, a larger number of wholesale accounts will carry and distribute a wider range of products outside the core lines of women's casual wear and logo items. The Group will seek additional franchise partners having adequate financial resources and the commitment to promoting the Esprit brand in their markets.

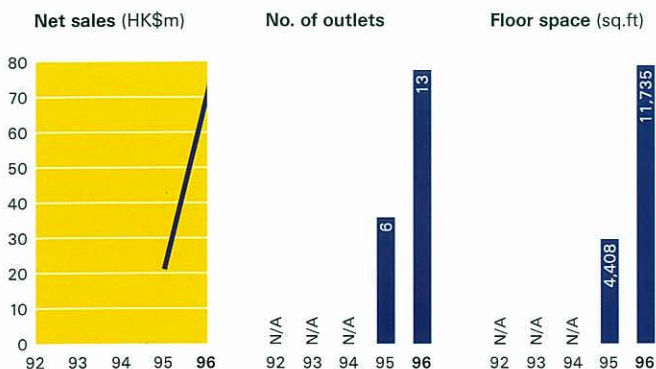
## japan

Japan's economy is showing its first signs of sustainable growth in five years. GDP is growing once again albeit slowly and the falling value of the yen is sparking a recovery in export manufacturing. A recession in the retail sector has reduced rents and deregulation has facilitated foreign retail operations.

Our Japan retail operation contributed 4.8% of Group retail sales, a 264% increase. However, a lack of economies of scale resulted in a loss for 1995/96. During the year, we opened seven department store counters, resulting in a 166% increase in floor space.

**1995 GDP Growth 0.9%**  
**Population 125.7 million**  
**Per Capita Income (ppp) US\$22,200**

We remain focused on creating demand for our higher-value city workwear line for women. In order to gradually reduce our investment in new stores and renovations and to step up our rate of market penetration, we will be placing greater emphasis on franchise and





wholesale distribution. At the same time, we will continue to open counters in selected, high-profile department stores and intend to establish flagship stores in key cities to significantly heighten awareness of the Esprit brand and our full range of products.

We continue to seek suitable local partners for licensed manufacturing and national distribution of handbags and footwear, two categories with historically strong demand and enormous growth potential in Japan.

**1995 GDP Growth 3.5%**

**Population 18.3 million**

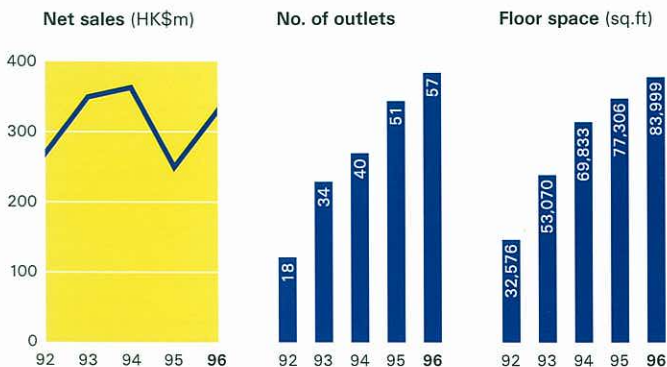
**Per Capita Income (ppp) US\$19,960**

## australia

The Group acquired Esprit Australia from Esprit Far East group in December 1995. Esprit Australia was founded in 1981 as a wholesale business, which it gradually phased out and discontinued entirely upon its acquisition by the Group. At the time of the acquisition, Esprit Australia operated a total of 53 retail outlets in the states of Victoria, New South Wales, Queensland and Western Australia, comprising free-standing stores and counters in leading department store chains such as David Jones and A'Herns. Four new stores were opened since the acquisition, bringing the total number of Esprit outlets in the country to 57 and total floor space to 83,999 square feet.

The merger with Esprit Asia has resulted in significant economies of scale and operational synergies. Previously, merchandise was bought off various Esprit companies' lines, while items were sourced both from the Group and third parties. The Group is integrating Australia's product design, merchandising, visual merchandising and sourcing activities with its own.

Men's wear, projected to be a major new growth category based on sales trends elsewhere in the region, will be introduced in 1997/98. Esprit Kids, introduced in 1990, is sold in 25 Esprit outlets. As in other markets, Esprit Australia will place increasing emphasis on







women's city casual and city workwear. Esprit Intimates, Eyewear and Timewear serve to strengthen the brand image and enhance sales of core apparel and accessories lines.

Improvements are underway in all fundamental areas of operation: product ranges are being broadened in all major outlets; customer service is being strengthened; stock controls are being tightened with purchasing tailored to each area's and outlet's demographics and customer shopping patterns.

Preparations for the Olympic Games in 2000, and increasing participation by Australia in Asia's fast-growing economy should spur domestic output and demand. Australia is expected to become and remain one of Esprit Asia's largest and most profitable retail markets. The Esprit outdoors-oriented lifestyle image is immensely appealing to the Australian consumer, and Esprit is one of the most recognized fashion brands in the country; a strong foundation for growth of the business is firmly in place.

**red earth** The Australian line of natural health and beauty care products, distributed by Esprit Asia since 1992 at retail in Hong Kong, and on a wholesale basis in Japan and Thailand, contributed a first-time profit to the Group.

The turnaround in Red Earth's performance was in large part due to the highly successful launch of a lipstick line in December 1995. A full cosmetics line was subsequently launched in July 1996 and a new line of skincare products was launched in August 1996.

The Group will gradually extend retail distribution of the brand into the region. The new Red Earth cosmetics line will be introduced in Taiwan, Singapore and South Korea in 1996/97.

# franchise markets

## thailand

1995 GDP Growth 8.6%

Population 61.2 million

Per Capita Income (ppp) US\$7,535

## indonesia

1995 GDP Growth 8.1%

Population 197.6 million

Per Capita Income (ppp) US\$3,705

## the philippines

1995 GDP Growth 4.8%

Population 68.9 million

Per Capita Income (ppp) US\$2,935

Group sales to exclusive franchisees in ten countries — Thailand, Macau, Indonesia, the Philippines, Guam, Saipan, Israel, Kuwait, Saudi Arabia and United Arab Emirates — totaled HK\$166.3 million, representing 9.3% of Group turnover, compared with 9.5% in 1994/95. Sales to each market increased an average 7.6%.

Economic trends in our largest wholesale markets indicate strong sales growth will continue. With a per capita GDP nearly on a par with Malaysia's and credit card spending per cardholder among the highest in the region — with much of that expenditure going to fashion — Thailand represents a golden opportunity for long-term growth.

In Indonesia, rising consumer demand, especially among Jakarta's growing number of middle-class families, is fueling a heady increase in retail space, which is projected to increase by a third in 1996. 70% of the space coming on stream in 1996 is committed as is much of the space in retail developments opening in 1997.

The Philippines is experiencing a resurgence of foreign investment and domestic economic expansion; inflation has been kept in check, middle-class housing construction is booming and the challenge of generating sufficient electrical power has been met.

The steady growth in sales across the board despite uneven performances and economic conditions in individual franchise markets underscores the Group's greatest operating strengths and our ability to successfully transfer retail management expertise to our franchisees. Our franchisees are important business partners, as they contribute

market knowledge and the local resources required to build a substantial presence for the Esprit brand. During the year, we worked with our partners to broaden their product mix, upgrade the quality and value of merchandise, maintain high standards in store design and visual merchandising, upgrade management information and staff training systems and increase consumer awareness of the Esprit brand. Inventory levels and costs were also tightly controlled.

	No. of outlets	Floor space (sq.ft)
Thailand	41	27,719
Macau	3	3,409
Indonesia	41	33,232
The Philippines	16	17,880
Guam and Saipan	8	6,930
Israel	10	4,736
Kuwait	1	2,088
Saudi Arabia	4	6,674
United Arab Emirates	3	2,309



# 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, 1996.

### 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 retail and wholesale distribution of high quality fashion products under the internationally known ESPRIT brand name, together with Red Earth cosmetics and skin and general body care products.

The turnover and contribution by geographical market are as follows:

	Turnover HK\$'000	Contribution HK\$'000
Hong Kong	703,703	165,247
Singapore	187,170	18,276
Taiwan	274,294	10,877
South Korea	219,369	(4,496)
China	88,240	6,338
Japan	76,956	(13,510)
Malaysia	26,951	1,232
Australia	208,647	19,435
	1,785,330	203,399

### 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 34 and in the accompanying notes to the financial statements.

Interim dividend of 3.2 cents per share, totalling HK\$25,886,000, was paid on May 15, 1996.

The Directors recommend the payment of a final dividend of 6.6 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 54.

A summary of the balance sheets of the Group for the three financial years is set out on page 54.

### 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 8 to the financial statements.

### Liquidity and financial resources

The Group raised approximately HK\$145.94 million, net of related expenses, through the issue of 55,000,000 new shares during the year for the acquisition of Esprit Australia Distribution Limited and its subsidiaries ("Esprit Australia group").

Despite the need to finance its continued growth, 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 12, 18 and 19 to the financial statements.



### Charitable Donations

During the year, the Group made charitable donations totalling HK\$725,000.

### Directors and Service Contracts

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

#### Executive Directors:

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Michael Ying Lee Yuen	
Alva Chan Wai Mo	
Connie Wong Chin Tzi	
Surinder Chhibber	
Ada Wong Suk Kwan	(appointed on August 8, 1995)
Eugene Lee	(resigned on March 15, 1996)

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#### Non-executive Directors:

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Joyce Elena Ma	
Debra Belisle Ryker	
Donald Stanton LaVigne	
Alexander Reid Hamilton	(appointed on August 29, 1995)
Raymond Or Ching Fai	(appointed on March 1, 1996)
James Connal Scotland Rankin	(resigned on March 15, 1996)

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In accordance with the Company's Bye-laws, Ms. Ada Wong Suk Kwan, Mr. Donald Stanton LaVigne and Mr. Raymond Or Ching Fai retire by rotation and, being eligible, offer themselves for re-election.

Each of Mr. Michael Ying Lee Yuen, Mr. Alva Chan Wai Mo, Ms. Connie Wong Chin Tzi and Mr. Surinder Chhibber has entered into a service agreement with the Company, which is for an initial term of three years commencing on November 17, 1993 and with termination rights thereafter by either party to each agreement on six months notice expiring on or after November 17, 1996.

Mrs. Joyce Elena Ma, Ms. Debra Belisle Ryker and Mr. Donald Stanton LaVigne were appointed for a three year term expiring on November 16, 1996. 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.

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 46, is the Chairman, CEO and founder of the Group and the Chairman and founder of Esprit Far East group. Mr. Ying has over 25 years' experience in apparel distribution and manufacturing. He is primarily responsible for the overall direction and formulation of corporate policies of the Group and the Esprit Global Network.

**Alva CHAN Wai Mo**, aged 40, is the Executive Director of the Group. He previously served as the Group's Chief Financial Officer and as Country General Manager of its 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. in 1982 and is a fellow of the Hong Kong Society of Accountants.

**Connie WONG Chin Tzi**, aged 48, is the Director of the Group's Taiwan 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 B.A. degree in Business Administration from National Taiwan University.

**Surinder CHHIBBER**, aged 46, is the Director of the Group's Singapore and Malaysia operations. He joined the Group in 1987 and has over 20 year's 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 Operational Research from the University of Delhi.



## Directors and Senior Management Profile continued

### Executive Directors continued

**Ada WONG Suk Kwan**, aged 39, is the Director of the Group's Hong Kong operation. Ms. Wong joined the Group in 1984 and has since been extensively involved in store operations and merchandising/buying in Hong Kong. She was also responsible for expanding the Taiwan retail market from 1989 to 1991.

### Non-executive Directors

**Joyce Elena MA**, aged 55, is the Chief Executive Officer and the founder of JOYCE Boutique Holdings Limited. Mrs. Ma has over 25 years' experience in the fashion industry. Mrs. Ma, born in Shanghai, is the recipient of numerous fashion industry honours including the Cavaliere del Lavoro (Italy, 1976), Chevalier de l'Ordre de la Couronne (Belgium, 1994), the Italian Fashion Hall Of Fame (1995), and Ufficiale dell'Ordine al Merito della Repubblica Italiana (Italy, 1995).

**Debra Belisle RYKER**, aged 44, is a board member of Esprit Far East Limited. She is also a Director and the Chief Financial Officer of Douglas R. Tompkins Private Foundations, which support environmental and worldwide ecological issues. Ms. Ryker was the Chief Financial Officer of Esprit USA for over eight years. She is qualified as a Certified Public Accountant in the United States.

**Donald Stanton LAVIGNE**, aged 31, is a Director of Esprit USA and Esprit Europe. From 1989 to 1994, Mr. LaVigne was with Hambrecht & Quist Incorporated, an investment banking and venture capital firm based in San Francisco. He holds a Bachelor Degree from Harvard University.

**Alexander Reid HAMILTON**, aged 55, has been a Non-executive Director of the Group since August 1995. He was a partner in Price Waterhouse with which he practiced for 16 years. He is a Non-executive Director and advisor to a number of Hong Kong companies.

**Raymond OR Ching Fai**, aged 36, joined The Hong Kong and Shanghai Banking Corporation Limited in 1972 and worked in a variety of positions in the Personnel, Securities, and Retail Banking functions. He joined the Corporate Banking division in 1980, working as a Credit Manager. In 1983, he was made Manager Wayfoong House and was appointed District Manager Kwun Tong in 1985. He returned to the Corporate Banking division in 1988 and was promoted to Senior Executive Corporate Banking in August 1994.

### Senior Management

**Annie MAK Chi Ling**, aged 44, is the General Manager responsible for the production operations of the Group. Ms. Mak has over 20 years' garment industry experience. She joined the Group in 1982. Previously, she worked for a variety of garment trading companies in Asia and Europe.

**Margaret LEUNG Fun Hoi**, aged 46, is responsible for the Group's Men's and Kids' lines. She joined the Group in 1983 and was responsible for the Kids' line and the U.S. line from 1988 to 1994. She was appointed to head up the Group's franchise business in February 1994 and subsequently the Hong Kong retail operation in September 1994. She holds an LL.B. and a P.C.L.L. from the University of Hong Kong.

**Gym TAN**, aged 36, is the Fashion Director of the Group. On joining the Group in 1985, she was responsible for its Singapore retail operation. In 1989, she transferred to the Group's head office in Hong Kong to direct regional merchandising and buying. Prior to joining the Group, she worked for a large department store chain in Singapore, with responsibility for the merchandising and distribution of Esprit products. She has a Bachelor of Arts Honours Degree from the National University of Singapore.

**Connie WU Hong Yee**, aged 39, is the General Manager of the Group's retail operation in the People's Republic of China. Before joining the Group in March 1993, Ms. Wu worked as a manager for a 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.

**Morris WAGENHEIM**, aged 43, is the Managing Director of Esprit Australia. Mr. Wagenheim 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 stores throughout all states in Australia.



**Directors and Senior Management Profile** *continued*

**Yosik JU**, aged 46, is General Manager of Esprit Korea (Red Earth Korea Ltd.) which he joined in 1995. Mr. Ju, a well-known professional business manager in Korea's fashion industry, was born in Korea and studied international trading in Seoul. Starting his career in the fashion industry as a manufacturer and exporter in 1975, Mr. Ju moved to the U.S. in 1978 and started a garment import business. He also operated and owned five retail stores in the New York metropolitan area. He returned to Korea in 1987 and launched Polo, Benetton and Emporio Armani in the Korea market; these subsequently became among the most successful foreign brands in Korea.

**Fumie YAMAMOTO**, aged 49, is the Managing Director of Esprit Retail Japan, which she joined in May 1996. Born in Japan and educated in the U.S., Ms. Yamamoto has diverse sales experience in the apparel industry both in Hong Kong and Japan. Her most recent position before joining Esprit was with Laura Ashley, where she held positions in the merchandising and international departments. Before that, she managed and operated a trading company and beauty salon operation in Hong Kong for more than ten years.

**Joe WONG Ka Keung**, aged 32, is the Finance Director of the Group, which he joined in 1996. He received his Master of Business Administration Degree from Strathclyde University, Scotland, and is a Chartered Management Accountant as well as Chartered Company Secretary with Fellow status. He is also a Fellow of the Hong Kong Society of Accountants and Associate Member of the Taxation Institute of Hong Kong. Mr. Wong has over five years' senior executive experience in the fashion and cosmetics industries.

**Directors' Interests in Shares**

As at June 30, 1996, 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	—	550,374,000*	—	—
Alva Chan Wai Mo	1,536,000	—	—	—
Connie Wong Chin Tzi	1,540,000	—	—	—
Surinder Chhibber	1,540,000	—	—	—

\* These shares are held by Esprit Far East Limited, in which Mr. Michael Ying Lee Yuen has a 50% interest.

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

Mr. Michael Ying Lee Yuen holds a 50% interest in Esprit Far East Limited ("EFE") the ultimate holding company of the Group, and indirect interests in Esprit de Corp., Esprit de Corp. (1980) Ltee and their respective subsidiaries and associated companies known collectively together with EFE and its subsidiaries ("EFE group") as the "Esprit Global Network". Mr. Michael Ying Lee Yuen also holds interests in Red Earth International Holdings Limited ("Red Earth"). 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 group, Red Earth and its subsidiaries ("Red Earth group") or the Esprit Global Network, 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 November 22, 1995 has approved the Group's acquisition from EFE group the entire issued share capital of Esprit Australia group, together with the right to receive repayment of a loan of A\$1.95 million (approximately HK\$11.02 million), for a consideration comprising an initial payment of A\$11.96 million (approximately HK\$69.46 million) and a deferred payment which has been subsequently determined at A\$20.01 million (approximately HK\$114.04 million). The Group's acquisition of Esprit Australia group was completed on December 1, 1995.

Save as disclosed above, no contract of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

#### Arrangement to Purchase Shares and Debentures

A Share Option Scheme ("the Scheme") was adopted by the Company on November 17, 1993 under which eligible employees of the Group, including Executive Directors of the Company, may be granted options to subscribe for shares in the Company. Each share option entitles the holder to subscribe for one share of HK\$0.10 each in the Company at HK\$2.64 per share. Details of outstanding share options as at June 30, 1996 granted to the Executive Directors on January 20, 1994 and accepted by Executive Directors under the Scheme are as follows:

Name	Granted	Exercised	Expired	As at 6.30.1996
Michael Ying Lee Yuen	4,000,000	—	—	4,000,000
Alva Chan Wai Mo	3,000,000	—	—	3,000,000
Connie Wong Chin Tzi	3,000,000	—	—	3,000,000
Surinder Chhibber	4,000,000	—	—	4,000,000
Ada Wong Suk Kwan	4,000,000	—	—	4,000,000
Eugene Lee	4,000,000	—	4,000,000	—

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.

Offers were made by EFE on January 30, 1996 to Mr. Alva Chan Wai Mo, Ms. Connie Wong Chin Tzi and Mr. Surinder Chhibber, Executive Directors of the Company, each to acquire up to 1,540,000 shares of HK\$0.10 each in the Company at HK\$1.95 per share. All the aforementioned Directors accepted the offers and each acquired 1,540,000 shares in the Company on March 25, 1996.

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, 1996, the register of substantial shareholders required to be maintained under Section 16(1) of the SDI Ordinance showed that, other than the interests disclosed above in respect of the Directors, the Company was not notified of any interest which represents 10% or more of the Company's issued share capital.

**Purchase, Sale or Redemption of the Company's Shares**

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

**Pre-emptive Rights**

There are no 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.

The percentage of the Group's purchases attributable to major suppliers are as follows:

Percentage of purchases attributable to the Group's largest supplier	10%
Percentage of purchases attributable to the Group's 5 largest suppliers	34%

None of the Directors, their associates, nor any shareholders to the knowledge of the Directors, own more than 5 percent of the Company's share capital has owned any interest in any of the Group's 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, September 19, 1996



# REPORT OF THE AUDITORS

## AUDITORS' REPORT TO THE SHAREHOLDERS OF ESPRIT ASIA HOLDINGS LIMITED

*(incorporated in Bermuda with limited liability)*

We have audited the financial statements on pages 34 to 53 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, 1996 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, September 19, 1996



## CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended June 30, 1996

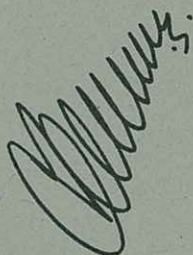
	Notes	1996 HK\$'000	1995 HK\$'000
<b>Turnover</b>		<b>1,785,330</b>	1,473,251
<b>Operating Profit</b>	2 & 3	<b>203,399</b>	183,142
<b>Share of Profit of an Associated Company</b>		<b>1,339</b>	1,708
<b>Profit before Taxation</b>		<b>204,738</b>	184,850
<b>Taxation</b>	4	<b>(44,244)</b>	(43,608)
<b>Profit after Taxation</b>		<b>160,494</b>	141,242
<b>Minority Interests</b>		<b>1,310</b>	33
<b>Profit Attributable to Shareholders</b>	5	<b>161,804</b>	141,275
<b>Dividends</b>	6	<b>(82,637)</b>	(67,792)
<b>Retained Profit for the Year</b>		<b>79,167</b>	73,483
<b>Earnings Per Share</b>	7	<b>20.47 cents</b>	18.82 cents



# CONSOLIDATED BALANCE SHEET

at June 30, 1996

	Notes	1996 HK\$'000	1995 HK\$'000
<b>Fixed Assets</b>	8	<b>226,549</b>	217,627
<b>Other Investment</b>	9	<b>20,000</b>	20,000
<b>Associated Company</b>	11	<b>5,246</b>	4,442
<b>Net Current Assets</b>	12	<b>409,735</b>	338,394
		<b>661,530</b>	580,463
Financed by:			
<b>Share Capital</b>	16	<b>80,987</b>	75,087
<b>Reserves</b>	17	<b>578,605</b>	480,304
<b>Shareholders' Funds</b>		<b>659,592</b>	555,391
<b>Minority Interests</b>		<b>1,329</b>	2,717
<b>Obligations under Finance Leases</b>	18	<b>609</b>	2,436
<b>Long Term Bank Loans</b>	19	<b>—</b>	19,919
		<b>661,530</b>	580,463



**Ada Wong Suk Kwan**  
Director



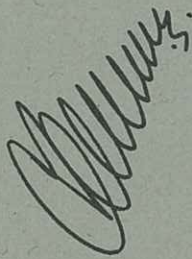
**Alva Chan Wai Mo**  
Director



# BALANCE SHEET

at June 30, 1996

	Notes	1996 HK\$'000	1995 HK\$'000
<b>Subsidiaries</b>	10	<b>654,249</b>	508,366
<b>Net Current (Liabilities)/Assets</b>	12	<b>(9,339)</b>	19,229
		<b>644,910</b>	527,595
Financed by:			
<b>Share Capital</b>	16	<b>80,987</b>	75,087
<b>Reserves</b>	17	<b>563,923</b>	452,508
<b>Shareholders' Funds</b>		<b>644,910</b>	527,595



**Ada Wong Suk Kwan**  
*Director*



**Alva Chan Wai Mo**  
*Director*



## CONSOLIDATED CASH FLOW STATEMENT

For the year ended June 30, 1996

	Notes	1996 HK\$'000	1995 HK\$'000
<b>Net Cash Inflow from Operating Activities</b>	21(a)	<b>243,421</b>	171,717
<b>Returns on Investments and Servicing of Finance</b>			
Interest received		12,981	8,770
Interest paid		(3,156)	(4,409)
Finance charges on finance leases		(230)	(249)
Dividends paid		(74,407)	(86,321)
<b>Net Cash Outflow from Returns on Investments and Servicing of Finance</b>		<b>(64,812)</b>	(82,209)
<b>Taxation</b>			
Hong Kong profits tax paid		(34,143)	(16,504)
Overseas tax paid		(15,483)	(25,407)
<b>Tax Paid</b>		<b>(49,626)</b>	(41,911)
<b>Investing Activities</b>			
Purchase of subsidiaries	21(d)	(56,508)	—
Purchase of fixed assets		(59,617)	(190,531)
Proceeds from disposal of fixed assets		2,284	2,550
Purchase of long term investment		—	(20,000)
<b>Net Cash Outflow from Investing Activities</b>		<b>(113,841)</b>	(207,981)
<b>Net Cash Inflow/(Outflow) before Financing</b>		<b>15,142</b>	(160,384)
<b>Financing</b>			
Net proceeds on issue of shares for cash		156,498	2,302
Repayments of obligations under finance leases		(1,649)	(1,119)
Repayment of bank loans		(22,105)	(8,175)
Increase in minority interests		—	3,480
New bank loans		—	42,528
<b>Net Cash Inflow from Financing</b>	21(b)	<b>132,744</b>	39,016
<b>Increase/(Decrease) in Cash and Cash Equivalents</b>		<b>147,886</b>	(121,368)
<b>Cash and Cash Equivalents At Beginning of Year</b>	21(e)	<b>198,599</b>	318,297
<b>Effect of Change in Exchange Rates</b>		<b>70</b>	1,670
<b>Cash and Cash Equivalents At end of Year</b>	21(e)	<b>346,555</b>	198,599



# NOTES TO THE FINANCIAL STATEMENTS

for the year ended June 30, 1996

## 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 an associated company, using the equity method of accounting, for the year. The investment in an associated company in the consolidated balance sheet represents the Group's share of net assets, other than goodwill, of its associated company.

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 during the year.

### (c) 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.

### (d) 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.

### (e) 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 $\frac{1}{3}$ %
Plant and machinery	30%
Air conditioning plant	33 $\frac{1}{3}$ %
Furniture and office equipment	20-33 $\frac{1}{3}$ %
Motor vehicles	30%

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

### (f) 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.



## 1. Principal Accounting Policies continued

### (g) 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.

### (h) 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.

### (i) 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 the associated company expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date and the result of subsidiaries and the associated company at the average rates of exchange prevailing during the year. Exchange differences arising are dealt with as movements in reserves.

### (j) 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.

### (k) Related companies

Mr. Michael Ying Lee Yuen holds a 50% interest in Esprit Far East Limited ("EFE"), the ultimate holding company of the Group and indirect interests in Esprit de Corp., Esprit de Corp. (1980) Ltee and their respective subsidiaries and associated companies known collectively together with EFE group as the "Esprit Global Network". Mr. Michael Ying Lee Yuen also holds an interest in Red Earth International Holdings Limited ("Red Earth"). A related company is a company of Esprit Global Network or Red Earth group.

### (l) 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.

### (m) Revenue recognition

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

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

	1996 HK\$'000	1995 HK\$'000
Operating profit is stated after crediting and charging the following:		
<b>Crediting</b>		
Interest income		
– from listed investment	1,400	1,400
– on bank deposits	12,297	7,520
Income from listed short term investments	5,971	–
<b>Charging</b>		
Auditors' remuneration	2,100	1,460
Depreciation and amortization		
– Owned assets	60,875	41,195
– Assets held under finance leases	1,011	1,615
Finance lease charges	230	249
Interest on short term bank loans, overdrafts and other bank loans wholly repayable within five years	3,360	4,620
Interest payable to a related company ( <i>note 25</i> )	4,978	–
Operating lease rental expenses – land and buildings	408,673	325,375
Royalties paid to a related company	48,305	36,224

## 3. Directors' Emoluments

	1996 HK\$'000	1995 HK\$'000
Fees		
– Non-executive Directors	484	400
Salaries, housing and other allowances, benefits in kind		
– Executive Directors	7,180	6,419
Bonuses		
– Executive Directors	6,519	4,671
	14,183	11,490

The emoluments were paid to the Directors as follows:

Emoluments Band	Number of Directors	
	1996	1995
Nil – HK\$1,000,000	6	4
HK\$1,000,000 – HK\$1,500,000	–	–
HK\$1,500,000 – HK\$2,000,000	2	3
HK\$2,000,000 – HK\$2,500,000	3	2
HK\$2,500,000 – HK\$3,000,000	–	–
HK\$3,000,000 – HK\$3,500,000	1	–
	12	9



### 3. Directors' Emoluments *continued*

The Directors' emoluments presented above include the emoluments of the four (1995: four) highest paid individuals in the Group and the other one (1995: one) highest paid individual whose emoluments are:

	1996 HK\$'000	1995 HK\$'000
Salaries, housing and other allowances, benefits in kind	1,380	1,200
Bonuses	1,190	780
	<b>2,570</b>	<b>1,980</b>

Emoluments Band	Number of Individuals	
	1996	1995
Nil – HK\$1,000,000	–	–
HK\$1,000,000 – HK\$1,500,000	–	–
HK\$1,500,000 – HK\$2,000,000	–	1
HK\$2,000,000 – HK\$2,500,000	–	–
HK\$2,500,000 – HK\$3,000,000	1	–
	<b>1</b>	<b>1</b>

### 4. Taxation

	1996 HK\$'000	1995 HK\$'000
<b>The Company and its subsidiaries</b>		
Hong Kong profits tax		
– current year provision	33,486	23,225
– (over)/under provision in prior year	(2,656)	809
Overseas taxation	13,012	19,062
	<b>43,842</b>	<b>43,096</b>
<b>Associated company – overseas taxation</b>	<b>402</b>	<b>512</b>
	<b>44,244</b>	<b>43,608</b>

Hong Kong profits tax has been provided at the rate of 16.5% (1995: 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.

	1996 HK\$'000	Group 1995 HK\$'000
<b>Deferred taxation (credit)/charge for the year has not been provided in respect of the following:</b>		
Accelerated depreciation allowances	(7,861)	462
Tax losses	(3,663)	(4,134)
Other timing differences	(575)	(1,866)
	<b>(12,099)</b>	<b>(5,538)</b>

### 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\$43,454,000 (1995: HK\$63,716,000).



## 6. Dividends

	1996 HK\$'000	1995 HK\$'000
Interim dividend paid of 3.2 cents (1995: 3.0 cents) per share	25,886	22,571
Proposed final dividend of 6.6 cents (1995: 6.0 cents) per share	53,451	45,221
	<b>79,337</b>	67,792
Alignment of 1995 final dividend on 55,000,000 new shares issued	3,300	—
	<b>82,637</b>	67,792

## 7. Earnings Per Share

The calculation of earnings per share is based on the profit attributable to shareholders of HK\$161,804,000 (1995: HK\$141,275,000) and on the weighted average number of shares in issue during the year of 790,380,000 (1995: 750,477,167).

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 1996 earnings per share.

## 8. Fixed Assets

Group	Freehold land outside Hong Kong HK\$'000	Long term leasehold land in Hong Kong HK\$'000	Buildings HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Air conditioning plant HK\$'000	Furniture and office equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
<b>Cost</b>									
At July 1, 1995	24,751	25,931	63,496	137,300	5,396	8,998	69,333	3,536	338,741
Exchange translation	(1,527)	—	(1,521)	(1,535)	—	(2)	(1,770)	(16)	(6,371)
Acquisition of subsidiaries	—	—	—	35,969	—	1,600	5,119	1,076	43,764
Additions	—	—	683	41,157	159	1,196	15,755	667	59,617
Disposals	—	—	—	(12,172)	(640)	(1,713)	(5,092)	(750)	(20,367)
<b>At June 30, 1996</b>	<b>23,224</b>	<b>25,931</b>	<b>62,658</b>	<b>200,719</b>	<b>4,915</b>	<b>10,079</b>	<b>83,345</b>	<b>4,513</b>	<b>415,384</b>
<b>Depreciation</b>									
At July 1, 1995	—	—	1,192	76,475	2,807	4,794	34,280	1,566	121,114
Exchange translation	—	—	(46)	18	—	67	(553)	8	(506)
Acquisition of subsidiaries	—	—	—	16,302	—	1,593	2,771	652	21,318
Charge for the year	—	499	2,087	37,285	1,615	2,571	16,763	1,066	61,886
Disposals	—	—	—	(8,969)	(414)	(1,597)	(3,496)	(501)	(14,977)
<b>At June 30, 1996</b>	<b>—</b>	<b>499</b>	<b>3,233</b>	<b>121,111</b>	<b>4,008</b>	<b>7,428</b>	<b>49,765</b>	<b>2,791</b>	<b>188,835</b>
<b>Net book values</b>									
<b>At June 30, 1996</b>	<b>23,224</b>	<b>25,432</b>	<b>59,425</b>	<b>79,608</b>	<b>907</b>	<b>2,651</b>	<b>33,580</b>	<b>1,722</b>	<b>226,549</b>
At June 30, 1995	24,751	25,931	62,304	60,825	2,589	4,204	35,053	1,970	217,627

At June 30, 1996, the net book value of furniture and office equipment includes an amount of HK\$1,104,000 (1995: HK\$2,590,000) in respect of assets held under finance leases.



## 9. Other Investment

	Group	
	1996 HK\$'000	1995 HK\$'000
Investment listed in Hong Kong, at cost	20,000	20,000
Market value	18,000	17,950

## 10. Subsidiaries

	Company	
	1996 HK\$'000	1995 HK\$'000
Unlisted shares, at Directors' valuation	216,677	216,677
Amounts due from subsidiaries	437,572	291,689
	654,249	508,366

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.

Details of the Company's subsidiaries at June 30, 1996 are set out in note 26 to the financial statements.

## 11. Associated Company

	Group	
	1996 HK\$'000	1995 HK\$'000
Share of net assets	5,246	4,442
Unlisted shares, at cost	1,411	1,411

At June 30, 1996 the Group held 24% (1995: 24%) of the issued ordinary share capital of Esmido Fashions Limited, a private limited company which is incorporated in Thailand. The associated company is engaged in retail distribution of fashion products.



## 12. Net Current Assets/(Liabilities)

	Group		Company	
	1996 HK\$'000	1995 HK\$'000	1996 HK\$'000	1995 HK\$'000
<b>Current Assets</b>				
Stocks and work in progress ( <i>note 13</i> )	214,290	187,035	—	—
Debtors, deposits and prepayments	223,372	185,422	—	—
Amounts due from related companies ( <i>note 14</i> )	14,126	7,720	—	—
Dividend receivable	—	—	45,000	65,000
Short-term investments	75,971	70,000	—	—
Short-term bank deposits	257,188	129,237	—	—
Bank balances and cash	46,384	33,932	8	2
	<b>831,331</b>	<b>613,346</b>	<b>45,008</b>	<b>65,002</b>
<b>Current Liabilities</b>				
Creditors and accrued charges	134,110	114,606	896	552
Amounts due to related companies ( <i>note 15</i> )	145,423	13,805	—	—
Dividend payable	53,451	45,221	53,451	45,221
Taxation	43,450	48,954	—	—
Obligations under finance leases				
— due within one year ( <i>note 18</i> )	1,599	1,922	—	—
Long term bank loans				
— due within one year ( <i>note 19</i> )	10,575	15,874	—	—
Short-term bank loans	29,838	34,358	—	—
Bank overdrafts	3,150	212	—	—
	<b>421,596</b>	<b>274,952</b>	<b>54,347</b>	<b>45,773</b>
<b>Net Current Assets/(Liabilities)</b>	<b>409,735</b>	<b>338,394</b>	<b>(9,339)</b>	<b>19,299</b>
<b>Analysis of short-term investments managed by fund managers:</b>				
Listed in Hong Kong, at cost	15,430	14,046	—	—
Listed overseas, at cost	58,981	55,954	—	—
Cash held by fund managers	1,560	—	—	—
	<b>75,971</b>	<b>70,000</b>	<b>—</b>	<b>—</b>
Market value of listed investments	77,735	72,068	—	—
Cash held by fund managers	1,560	—	—	—
	<b>79,295</b>	<b>72,068</b>	<b>—</b>	<b>—</b>

## 13. Stocks and Work in Progress

	Group	
	1996 HK\$'000	1995 HK\$'000
Raw materials	10,690	31,557
Work in progress	2,484	2,857
Finished goods	194,171	142,399
Consumables	6,945	10,222
	<b>214,290</b>	<b>187,035</b>



#### 14. Amounts Due from Related Companies

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

Name of borrower	Balance as at 6.30.1996 HK\$'000	Balance as at 7.1.1995 HK\$'000	Maximum amount during the year HK\$'000
Esprit Far East Limited and its subsidiaries excluding the Group ("EFE group")	13,232	6,470	17,974
Red Earth International Holding Limited and its subsidiaries ("Red Earth group")	813	921	2,593
Esprit de Corp., Esprit de Corp. (1980) Ltee and their respective subsidiaries and associated companies ("other entities in Esprit Global Network")	81	329	1,493
	<b>14,126</b>	<b>7,720</b>	

The amounts due from related companies are unsecured, interest free (1995: HK\$862,000 due from a related company was interest bearing at 7% p.a.) and repayable on commercial terms.

#### 15. Amounts Due to Related Companies

Included in the amounts due to related companies is a deferred payment of HK\$114,040,000 payable to Esprit Far East Limited in relation to the acquisition of Esprit Australia group as detailed in note 25. The deferred payment is unsecured, bears interests at 7% per annum and is expected to be settled in September 1996. Other amounts due to related companies are unsecured, non-interest bearing and repayable on normal commercial terms.

#### 16. Share Capital

	1996 HK\$'000	1995 HK\$'000
<b>Authorised:</b>		
1,000,000,000 shares of HK\$0.10 each	100,000	100,000
	Number of shares of HK\$0.10 each '000	Nominal value HK\$'000
<b>Issued and fully paid:</b>		
Balance at July 1, 1995	750,872	75,087
Issue of shares (note (a))	55,000	5,500
Exercise of share options (note (b))	3,998	400
<b>Balance at June 30, 1996</b>	<b>809,870</b>	<b>80,987</b>



**16. Share Capital** *continued*

- (a) During the year, 55,000,000 ordinary shares of HK\$0.10 were issued at a premium of HK\$2.578 each to finance the acquisition of Esprit Australia group.
- (b) During the year, 3,998,000 ordinary share 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.
- (c) On November 17, 1993, the Company adopted a Share Option Scheme (the "Scheme") pursuant to which the Directors may grant options to eligible employees, including Executive Directors of the Company, to subscribe for shares in the Company. In accordance with the terms of the 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 instalments. The first date of exercise between each instalment shall occur at interval of six calendar months and expiring on the fifth anniversary of the first date of exercise of each instalment or 10 years from date of adoption of this Scheme, whichever is the earlier. The exercisable date for the first instalment shall occur six months after the date of grant. Details of outstanding share options as of June 30, 1996 are as follows:

Date of share options granted	Number of outstanding share options granted as at June 30, 1996	Subscription price per share
January 20, 1994	28,254,000	HK\$2.64
September 12, 1994	1,126,000	HK\$2.64
June 26, 1995	1,750,000	HK\$2.64
December 13, 1995	3,000,000	HK\$2.64
	34,130,000	

**17. Reserves**

**Group**

	Share premium HK\$'000	Capital reserve HK\$'000	Translation reserve HK\$'000	Retained profit HK\$'000	Total HK\$'000
Balance at July 1, 1995	161,905	6,602	17,106	294,691	480,304
Premium arising from issues of shares ( <i>notes 16(a) &amp; (b)</i> )	151,945	—	—	—	151,945
Expenses in connection with issues of shares	(1,347)	—	—	—	(1,347)
Goodwill on consolidation	—	—	—	(121,608)	(121,608)
Exchange translation	—	—	(9,856)	—	(9,856)
Profit for the year retained by:					
The Company and its subsidiaries	—	—	—	78,230	78,230
Associated company	—	—	—	937	937
<b>Balance at June 30, 1996</b>	<b>312,503</b>	<b>6,602</b>	<b>7,250</b>	<b>252,250</b>	<b>578,605</b>
<b>Attributable to:</b>					
The Company and its subsidiaries	312,503	6,602	7,333	248,323	574,761
Associated company	—	—	(83)	3,927	3,844
	312,503	6,602	7,250	252,250	578,605



## 17. Reserves continued

### Company

	Share premium HK\$'000	Contributed surplus HK\$'000	Retained profit HK\$'000	Total HK\$'000
Balance at July 1, 1995	161,905	175,327	115,276	452,508
Premium arising from issues of shares (notes 16(a) & (b))	151,945	—	—	151,945
Expenses in connection with issues of shares	(1,347)	—	—	(1,347)
Profit for the year	—	—	43,454	43,454
Dividends (note 6)	—	—	(82,637)	(82,637)
<b>Balance at June 30, 1996</b>	<b>312,503</b>	<b>175,327</b>	<b>76,093</b>	<b>563,923</b>

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. Contributed surplus is available for distribution to shareholders under the laws in Bermuda.

Distributable reserve of the Company at June 30, 1996 amounted to HK\$251,420,000 (1995: HK\$290,603,000).

## 18. Obligations under Finance Leases

	1996 HK\$'000	Group 1995 HK\$'000
<b>The maturity of the obligations is as follows:</b>		
Within one year	1,599	1,922
In the second year	609	1,685
In the third to fifth years inclusive	—	751
	2,208	4,358
Less: amount shown under current liabilities (note 12)	(1,599)	(1,922)
	609	2,436

## 19. Long Term Bank Loans

	1996 HK\$'000	Group 1995 HK\$'000
Bank loans		
— secured	—	22,104
— unsecured	10,575	13,689
Amount wholly repayable within 5 years	10,575	35,793
Amount due within one year included under current liabilities (note 12)	(10,575)	(15,874)
	—	19,919
<b>The maturity of the long term bank loans is as follows:</b>		
— within one year	10,575	15,874
— in the second year	—	6,230
— in the third to fifth years inclusive	—	13,689
	10,575	35,793



## 20. Deferred Taxation

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

	Group	
	1996 HK\$'000	1995 HK\$'000
Accelerated depreciation allowances	(6,740)	1,121
Tax losses	(9,081)	(5,418)
Other timing differences	(5,914)	(5,339)
	<b>(21,735)</b>	<b>(9,636)</b>

## 21. Notes to Consolidated Cash Flow Statement

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

	1996 HK\$'000	1995 HK\$'000
Profit before taxation	204,738	184,850
Interest income	(13,697)	(8,920)
Interest expenses	8,338	4,620
Finance charges on obligations under finance leases	230	249
Depreciation	61,886	42,810
Loss on disposal of fixed assets	3,106	2,434
Gain on disposal of a subsidiary	—	(784)
Share of profit of an associated company	(1,339)	(1,708)
Decrease/(increase) in stocks and work in progress	6,948	(58,741)
(Increase)/decrease in debtors, deposits and prepayments	(34,240)	1,673
Decrease/(increase) in amounts due from related companies	2,921	(1,493)
Increase in creditors and accrued charges	2,062	3,277
Increase in amounts due to related companies	338	4,069
Effect of foreign exchange rate changes	2,130	(619)
Net cash inflow from operating activities	<b>243,421</b>	<b>171,717</b>

### (b) Analysis of changes in financing during the year

	Share capital (including share premium) HK\$'000	Minority interests HK\$'000	Bank loans HK\$'000	Obligations under finance leases HK\$'000
Balance at July 1, 1995	236,992	2,717	35,793	4,358
Cash inflow/(outflow) from financing	156,498	—	(22,105)	(1,649)
Share of loss attributable to a minority shareholder	—	(1,310)	—	—
Exchange difference	—	(78)	(3,113)	(501)
<b>Balance at June 30, 1996</b>	<b>393,490</b>	<b>1,329</b>	<b>10,575</b>	<b>2,208</b>



21. Notes to Consolidated Cash Flow Statement continued

(c) Purchases of subsidiaries

	1996 HK\$'000
Net assets acquired	
Fixed assets	22,446
Stocks	39,431
Debtors, deposits and prepayments	8,908
Bank balances and cash	12,952
Creditors and accrued charges	(21,845)
	<b>61,892</b>
Goodwill	121,608
	<b>183,500</b>
Satisfied by:	
Cash paid	69,460
Deferred payment (note 15)	114,040
	<b>183,500</b>

The subsidiaries acquired during the year contributed HK\$37,281,000 to the Group's net operating cash flows and HK\$952,000 in respect of the net returns on investments and servicing of finance and, utilised HK\$10,353,000 for investing activities.

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

	HK\$'000
Cash paid	69,460
Bank balances and cash acquired	(12,952)
Net outflow of cash and cash equivalents in respect of the purchase of subsidiaries	<b>56,508</b>

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

	1996 HK\$'000	1995 HK\$'000
Short-term investments	75,971	70,000
Short-term bank deposits	257,188	129,237
Bank balances and cash	46,384	33,932
Short-term bank loans	(29,838)	(34,358)
Bank overdrafts	(3,150)	(212)
	<b>346,555</b>	198,599



## 22. Contingent Liabilities

	1996 HK\$'000	Company 1995 HK\$'000
Guarantees given to banks in respect of banking facilities granted to subsidiaries	230,625	201,689

## 23. Operating Lease Commitments

	1996 HK\$'000	Group 1995 HK\$'000
<b>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:</b>		
Land and buildings		
– expiring in the first year	29,673	35,203
– expiring in the second to fifth years inclusive	152,132	147,715
– expiring beyond five years	13,497	–
	<b>195,302</b>	<b>182,918</b>
Other equipment		
– expiring in the second to fifth years inclusive	102	81
	<b>195,404</b>	<b>182,999</b>

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, 1996 (1995: Nil).

## 24. Capital Commitments

	1996 HK\$'000	Group 1995 HK\$'000
Contracted but not provided for	–	131
Authorised but not contracted for	1,646	–
	<b>1,646</b>	<b>131</b>

The Company did not have any significant capital commitments at June 30, 1996 (1995: Nil).



## 25. Connected Transactions

Mr. Michael Ying Lee Yuen holds a 50% interest in Esprit Far East Limited ("EFE"), the ultimate holding company of the Group and indirect interests in Esprit de Corp., Esprit de Corp. (1980) Ltee and their respective subsidiaries and associated companies known collectively together with EFE group as the "Esprit Global Network". Mr. Michael Ying Lee Yuen also holds an interest in Red Earth International Holdings Limited ("Red Earth").

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

	1996			1995		
	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
Commission received	—	(268)	(1,537)	—	—	(765)
Consultancy fee received	—	—	—	—	(77)	—
Handling fees						
— expenses	12,839	—	—	8,895	—	—
— income	(3,304)	—	—	(46)	—	—
Interest payable	4,978	—	—	—	—	—
Interest received	—	—	(24)	—	—	(63)
Purchase of equipment and inventories	—	—	—	103	—	—
Purchase of finished goods	27,000	81	12,088	17,824	685	6,572
Royalties paid	48,305	—	—	36,224	—	—
Share of management expenses	9,985	—	(138)	8,722	—	—
Transfer of fabrics	(10,854)	—	—	(6,150)	—	—

A special general meeting held on November 22, 1995 has approved the Group's acquisition from EFE group the entire issued share capital of Esprit Australia group, together with the right to receive repayment of a loan of A\$1.95 million (approximately HK\$11.02 million), for a consideration comprising an initial payment of A\$11.96 million (approximately HK\$69.46 million) and a deferred payment which has been subsequently determined at A\$20.01 million (approximately HK\$114.04 million). The Group's acquisition of Esprit Australia group was completed on December 1, 1995 and the deferred payment is expected to be settled in October 1996. Interest at 7% per annum from December 1, 1995 to the date of settlement of the deferred payment is payable to EFE. Interest payable accrued at June 30, 1996 is estimated to be approximately HK\$4,978,000.



## 26. Subsidiaries

Details of the Company's subsidiaries at June 30, 1996 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 (note b)	Principal activities
Esprit Advertising Pte Ltd	Singapore	100%	S\$20,000	Advertising
Esprit Asia (Distribution) Limited	Hong Kong	100%	HK\$9,000	Wholesale distribution of apparel and accessories
Esprit Asia Image Limited	Hong Kong	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 Asia Production Limited	Hong Kong	100%	HK\$10,000	Dormant
Esprit Australia Distribution Limited	British Virgin Islands	100%	A\$100	Investment holding
Esprit de Corp (Australia)	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 Far East (Distribution) Limited (note (a))	British Virgin Islands	100%	US\$500	Investment holding
Esprit Japan (Distribution) Limited	British Virgin Islands	90%	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	90%	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 (Formerly Esprit Advertising Limited)	Hong Kong	100%	HK\$6,000	Wholesale distribution of cosmetics and skin and general body care products
Red Earth (Hong Kong) Limited	Hong Kong	100%	HK\$10,000	Retail 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 (Korea) Ltd	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
上海思立貿易有限公司 (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

### 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, 1996 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.

## 27. Ultimate Holding Company

The ultimate holding company is Esprit Far East Limited, a private company incorporated in the British Virgin Islands.

## 28. Comparative Figures

Certain comparative figures have been reclassified to conform with the current year's presentation.



## FINANCIAL SUMMARY

Results	1996 HK\$'000	1995 HK\$'000	1994 HK\$'000	1993 HK\$'000	1992 HK\$'000
<b>Turnover</b>	<b>1,785,330</b>	1,473,251	1,144,919	769,723	485,478
<b>Operating Profit</b>					
Operating profit	<b>203,399</b>	183,142	178,932	105,862	57,305
Exceptional item	—	—	26,892	—	—
	<b>203,399</b>	183,142	205,824	105,862	57,305
<b>Share of Profit of Associated Company</b>	<b>1,339</b>	1,708	858	942	93
<b>Profit before Taxation</b>	<b>204,738</b>	184,850	206,682	106,804	57,398
<b>Taxation</b>	<b>(44,244)</b>	(43,608)	(39,322)	(27,917)	(11,562)
<b>Profit after Taxation</b>	<b>160,494</b>	141,242	167,360	78,887	45,836
<b>Minority Interests</b>	<b>1,310</b>	33	—	—	—
<b>Profit Attributable to Shareholders</b>	<b>161,804</b>	141,275	167,360	78,887	45,836
<b>Dividends</b>	<b>82,637</b>	67,792	63,750	30,000	25,000

### Balance Sheets

	1996 HK\$'000	1995 HK\$'000	1994 HK\$'000
<b>Fixed assets</b>	<b>226,549</b>	217,627	68,484
<b>Other investment</b>	<b>20,000</b>	20,000	—
<b>Associated company</b>	<b>5,246</b>	4,442	3,381
<b>Net current assets</b>	<b>409,735</b>	338,394	397,114
	<b>661,530</b>	580,463	468,979
<b>Financed by:</b>			
<b>Share capital</b>	<b>80,987</b>	75,087	75,000
<b>Reserves</b>	<b>578,605</b>	480,304	392,086
<b>Shareholders' funds</b>	<b>659,592</b>	555,391	467,086
<b>Minority interests</b>	<b>1,329</b>	2,717	53
<b>Obligations under finance leases</b>	<b>609</b>	2,436	1,840
<b>Long term bank loans</b>	<b>—</b>	19,919	—
	<b>661,530</b>	580,463	468,979

### Notes:

- 1 *Esprit Asia Holdings Limited (the "Company") 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 Asia group of companies (collectively referred to as the "Group") as a result of a group reorganization which became effective on November 17, 1993.*
- 2 *The results of the years ended June 30, 1996, 1995, 1994 and 1993 have been extracted from the audited consolidated profit and loss account.*
- 3 *The results for year ended June 30, 1992 presented above have been extracted from the prospectus of the Company dated November 23, 1993.*



## NOTICE OF ANNUAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that the Annual General Meeting of Esprit Asia Holdings Limited ("the Company") will be held at the Chatham Room of the Conrad International Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Friday, November 22, 1996 at 4:30 pm for the following purposes:

1. To receive and consider the audited Financial Statements and the Report of the Directors and of the Auditors of the Group for the year ended June 30, 1996.
2. To declare a final dividend in respect of the year ended June 30, 1996.
3. To elect Directors.
4. To appoint Auditors and to authorize the Board of Directors to fix their remuneration.

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

**THAT:**

- (a) subject to paragraph (c), the exercise by the Directors of the Company during the Relevant Period 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% 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 6 as set out below (up to a maximum equivalent to 10% 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).



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

**THAT:**

- (a) subject to paragraph (b) below, the exercise by the Directors of the Company during the Relevant Period of all the powers of the Company to purchase shares of the Company be generally and unconditionally approved;
- (b) the aggregate nominal amount of shares which may be purchased on The Stock Exchange of Hong Kong Limited or any other stock exchange be recognized for this purpose by the Securities and Futures Commission of Hong Kong and The Stock Exchange of Hong Kong Limited under the Hong Kong code on Share Repurchases pursuant to the approval in paragraph (a) above shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue on the date of this Resolution, and the said approval shall be limited accordingly; and
- (c) for the purpose of this Resolution:  
"Relevant Period" means the period from the passing of this Resolution until whichever is the earlier of:  
(aa) the conclusion of the next Annual General Meeting of the Company;  
(bb) the expiration of the period within which the next Annual General Meeting of the Company is required by the Companies Act 1981 of Bermuda (as amended) to be held; and  
(cc) the revocation or variation of the authority given under this Resolution by Ordinary Resolution of the shareholders in general meeting.
7. As special business, to consider and, if thought fit, pass the following resolution as an Ordinary Resolution:  
**THAT** the Directors of the Company be authorized to exercise the powers of the Company referred to in paragraph (a) of the resolution set out as resolution 5 in the notice of this meeting in respect of the share capital of the Company referred to in paragraph (bb) of paragraph (c) of such resolution.
8. To transact any other ordinary business.

By Order of the Board



**Alva Chan Wai Mo**  
*Director*

Hong Kong, September 19, 1996

**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.



Handwritten mark or signature in the upper right corner.