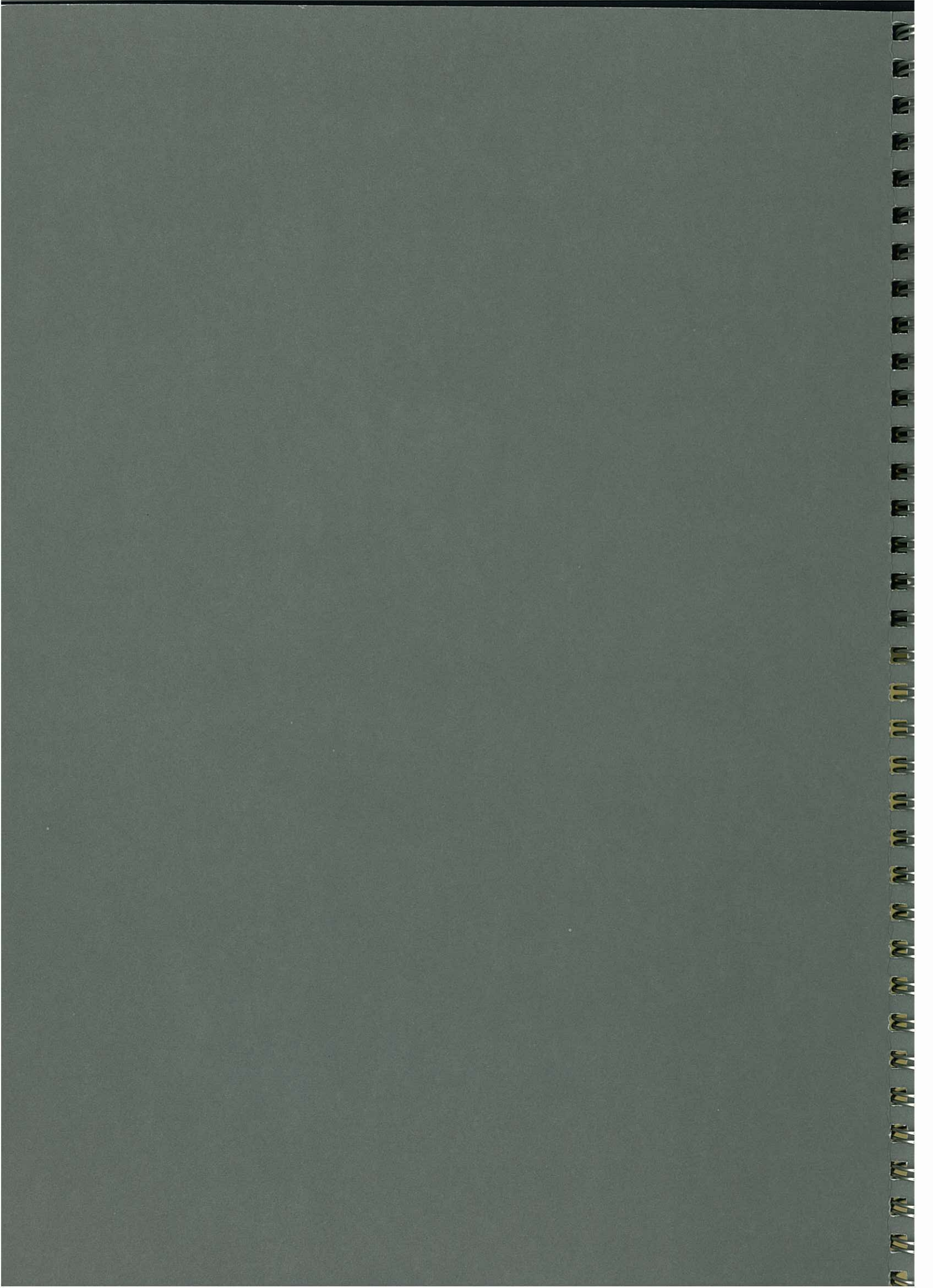


# ESPRIT

esprit asia holdings ltd annual report 1994/95

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## Financial Highlights

For the year ended June 30, 1995

	1995	1994	1993	1992
<b>Turnover (HK\$m)</b>	<b>1,473.2</b>	1,144.9	769.7	485.5
<b>Operation Mix (%)</b>				
Retail	<b>90.5</b>	91.0	89.4	84.3
Wholesale	<b>9.5</b>	9.0	10.6	15.7
<b>Geographic Mix – Retail (%)</b>				
Hong Kong	<b>41.6</b>	53.5	59.1	60.5
Singapore	<b>17.0</b>	18.2	17.5	24.0
Taiwan	<b>20.5</b>	16.0	16.5	15.5
Korea	<b>14.5</b>	9.5	6.2	N/A
China	<b>4.4</b>	2.8	0.7	N/A
Japan	<b>1.6</b>	N/A	N/A	N/A
Malaysia	<b>0.4</b>	N/A	N/A	N/A
<b>Product Mix – Retail (%)</b>				
Women's Wear	<b>57.6</b>	63.4	72.6	82.9
Men's Wear	<b>15.0</b>	11.9	8.2	1.9
Footwear & Accessories	<b>23.7</b>	19.5	11.7	9.3
Kids' Wear	<b>0.3</b>	1.9	3.8	4.9
Bed & Bath	<b>1.1</b>	1.3	2.4	1.0
Body Care	<b>2.3</b>	2.0	1.3	0.0
<b>Operating Profit (HK\$m)</b>	<b>183.1</b>	205.8	105.9	57.3
<b>Profit Attributable to Shareholders (HK\$m)</b>	<b>141.3</b>	167.4	78.9	45.8
Shareholders' Funds (HK\$m)	<b>555.4</b>	467.1	134.2	N/A
Working Capital (HK\$m)	<b>338.4</b>	397.1	95.8	N/A
Current Ratio	<b>2.2</b>	2.6	1.7	N/A
Total Debt to Equity Ratio (%)	<b>53.5</b>	53.1	104.2	N/A
Bank Borrowings to Equity Ratio (%)	<b>12.7</b>	3.3	5.6	N/A
<b>Return on Shareholders' Equity (%)</b>	<b>25.4</b>	35.7	58.8	N/A

## Operation Highlights

	1995	1994	1993	1992
Number of Stores	<b>174</b>	121	73	36
Sales Footage (sq. ft)	<b>180,105</b>	137,028	88,697	64,351
Sales per sq. ft	<b>823</b>	798	735	623
Number of Employees	<b>2,345</b>	1,988	1,483	1,156

## Corporate Information

### Executive Directors

Michael Ying Lee Yuen  
Chairman  
Eugene Lee  
Alva Chan Wai Mo  
Connie Wong Chin Tzi  
Surinder Chhibber  
Ada Wong Suk Kwan\*

### Non-executive Directors

Joyce Elena Ma  
James Connal Scotland Rankin  
Debra Belisle Sembler  
Donald Stanton LaVigne  
Alexander Reid Hamilton\*\*

### Company Secretary

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

### Authorized Representatives

Eugene Lee  
Alva Chan Wai Mo

### Principal Banker

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

### Auditors

Price Waterhouse  
Certified Public Accountants  
22nd Floor, Prince's Building  
Hong Kong

### Hong Kong Share Registrar

Secretaries Limited  
5th Floor, 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  
10th Floor, Tokwawan  
Kowloon, Hong Kong

\* Appointed August 8, 1995

\*\* Appointed August 29, 1995

A hand wearing a red and white striped work glove is holding a red hard hat. The hand is positioned on the right side of the page, with the fingers wrapped around the brim of the hat. The background is a plain, light color.

# addressing

We made dramatic progress in building the foundation for future economic

# the next

generation. That foundation is much deeper, wider and sounder than it was

# generation

just twelve months ago. We have the products, the people and the 'doors'.





# esprit

It was a memorable and a very good – no, a *great* – year. While we reported only modest increases in Group turnover and pre-tax operating profit, after delivering several years of very impressive sales and net profit growth, our managers ran a truly efficient operation and maintained the considerable profitability of their country businesses – in some cases, very much against the odds. We paid for our efficiency with reduced margins; we did not reduce the level of service to our customers, compromise the integrity of the Esprit brand in any way, or cease to develop and heighten the quality and stylishness of our products. ■ We made dramatic progress in building a foundation for the Group's future economic growth. That foundation is much, much deeper, wider and sounder than it was just twelve months ago. ■ More and more people walk into our stores and up to our counters

every day, many of them loyal and frequent Esprit shoppers. In the past year, we issued an additional 15,000 Esprit Privilege Cards, bringing our corps of Cardholders to nearly 100,000 strong. They are served by Esprit people who are better trained, more knowledgeable about our products and our business and more switched on than ever. Just 52% of those Cardholders reside in Hong Kong, reflecting the regional spread of our business (and the spread of our business risk).

We measurably strengthened our merchandising operation during the year. Tapping the Esprit Global Network, we now directly employ leading designers in Europe and the United States to help us meet the demand for city casual and city work wear.

# at the core

Our international team is also part of an important new initiative to design, market and broadly distribute Esprit footwear and handbags, two of the fastest-growing fashion categories in Asia.

We are more focused than ever; we're betting on the premium side of our business and less on what you might call the peripherals. Our core customer remains young, energetic, urban; as he and she begin to add dimensions to their lifestyles, we are providing a greater range of fashion choices, all reflecting the Esprit worldview.

We have the products, we have the people and we have the 'doors'. During the past year, 65 retail outlets were added creating an additional 63,778 square feet of retail floor area for Esprit and Red Earth products in the 17 countries in which we sell directly or through exclusive franchises. In all, the Esprit Asia retail universe comprises 298 outlets providing 275,285 square feet of selling area.

Five of those new outlets were established in Malaysia — where Esprit Singapore took charge of our retail business and is making it happen — and Japan, which we entered with a splash in October 1994 and where we opened five more shops in short order.

In 1995/96, we'll triple our floor area in Japan and plan to break even after a first-year operating loss of HK\$9.4 million. We're heartened by the realities of selling to the Japanese customer: a reverence for quality and design, strong identification with the Esprit point of view...and the advantage of selling a mid-priced international brand against a strong yen.

34 of those new outlets are in Taiwan and South Korea, where we continued to build our distribution nation-wide, increasing floor area by 99% and 33% respectively; roughly one-quarter of our floor area in each of these countries is located outside the capital cities. We also purchased a 44,000 square-foot warehouse/headquarters in Taipei, to ensure we're prepared for the growth of our Taiwan business. Turnover doubled in Korea, while sales in Taiwan rose 64.3%.

We turned the corner in China, posting our first, modest profit while doubling sales and opening seven new directly-operated shops. In China as in Korea, we're among the top-performing brands in leading department stores, while we're also establishing important new free-standing stores, including a 2,000 square-foot flagship store in Shanghai.

In Indonesia, Thailand and the Philippines, among our other franchise markets, sales of our products are growing at double-digit rates, in some cases to levels comparable to those in several of our directly operated markets — reflecting those countries' rapid economic expansion and the emergence of a vast new society of middle-income, well-informed, very cosmopolitan and fashion conscious consumers.

On the other hand, it hasn't exactly been fun and games in Hong Kong or Singapore.

In Hong Kong, our largest retail market (where it all began back in 1984 — not, as you'll recall, the best of times, either), we came up against very tough retail economic conditions aggravated by high and still-rising operating costs. The result: flat sales. We kept profit propped up by controlling expenses both at the head office and shop levels, consolidating retail operations in traditional shopping districts and by preserving the integrity of our retail presentation. We did not lose any momentum. We continued to extend our reach to the territory's fast-growing suburban areas, where high-quality shopping complexes are coming on stream, and to work towards a more diverse and balanced product mix, with sales of men's wear, footwear and accessories all gaining ground.

We've kept our vision, too.

Esprit Hong Kong donated over HK\$880,000 to the Esprit Cares Trust, set up in 1993 with an initial endowment of HK\$2 million to assist youth education and environmental protection. In 1994/95, the Trust focused its support on Sowers Action, a Hong Kong-based volunteer group which provides educational resources and support to children in remote areas of China who would otherwise be deprived of elementary education.

In Singapore, where we foresaw the present-day oversupply of retail space, we began to consolidate and streamline local operations in early 1994. Solidly positioned in the fashion market, Esprit Singapore managed to increase turnover 19.4%...and to

post the highest pre-tax profit margin of any of our retail markets.

In a nutshell: we opened new shops, moved existing shops to better locations and created selling area in every market in which we operate, while we consolidated retail operations which have consistently underperformed. We have barely begun to penetrate our potentially largest markets, leaving considerable room for steady, long-term growth; and in our well covered markets, we are growing through continuous product diversification and development. Our goal is to leverage our experience and expertise, to become more efficient and effective, to accomplish more and more with relatively less and less. We strive to manage our sourcing, operating and selling costs as aggressively as we grasp every opportunity to grow our business responsibly. Our objective is not to maximise but to optimise our size and productivity in each market.

Looking ahead, I can assure you that there isn't going to be any let-up in our efforts to build the Esprit business in Asia and to increase the value of your investment in our company.

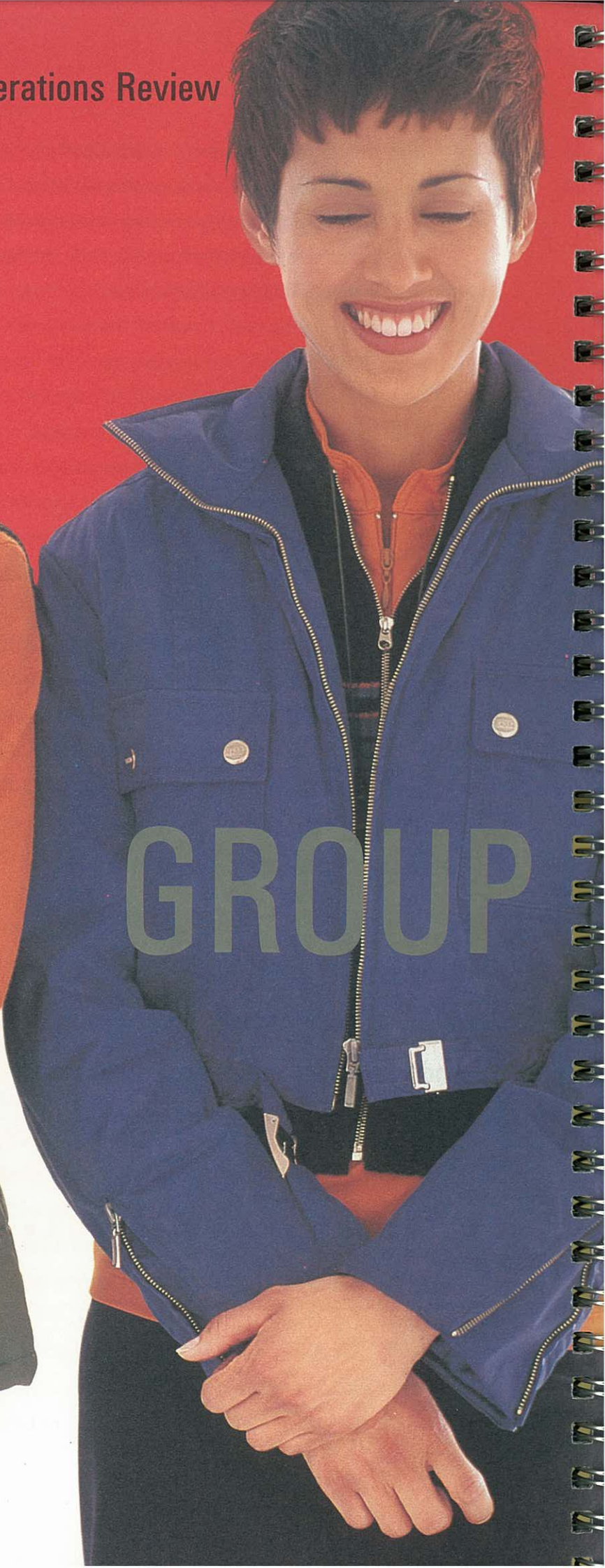
Esprit floor area in each of our markets will continue to expand in line with growing demand for international fashion and according to the availability of high-quality, well-located and economically feasible retail locations; sales volumes will keep growing; and our performance will surely be lifted by the increasing spending power of a growing corps of loyal Esprit customers.

I'm going to close with an exhortation to my terrific management team around the region:

**make the fullest possible use of the Esprit culture and its global resources; don't underestimate the value of our brand and don't underestimate the competition; and remember what George Bernard Shaw wrote (back in 1898): "The next generation is knocking at the door." What are you waiting for? Go open it. ■**



Michael Ying Lee Yuen *Chairman*  
September 29, 1995



GROUP

## Group Net Sales and Profit

Group net sales increased 28.7% on the back of a 31.4% increase in floor area. Store productivity grew 3%. Excluding exceptional item, operating profit increased 2.4% to HK\$183.1 million, while our pre-tax operating margin amounted to 12.4%. Group profit attributable to shareholders, which in 1993/94 included HK\$26.9 million in interest income arising from flotation proceeds, decreased 15.6% to HK\$141.3 million.

## Group Operating Costs

Group operating costs in 1994/95 remained under tight control but nevertheless grew, from 52% to 57% of net sales. The increase was spread between increases in staff, rental and selling expenses.

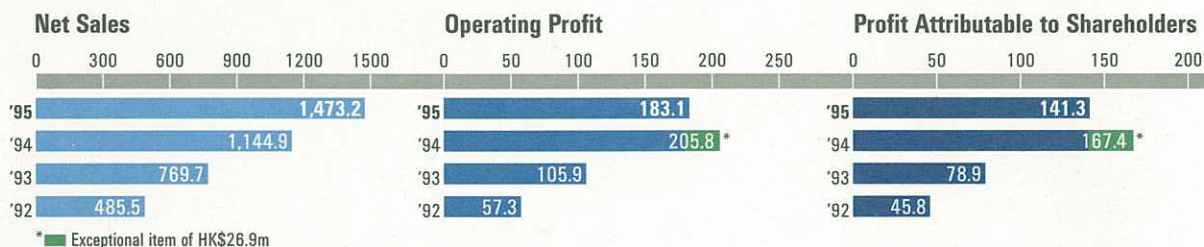
Shop rental and related building costs as a percentage of Group turnover rose to 22%, as a result of continuing expansion in Korea (where rentals average 31% of turnover); start-up costs in Japan; and flat sales coupled with continuing high rents in Hong Kong. Costs over sales are expected to increase slightly further in 1995/96.

Shop staff costs as a percentage of Group turnover increased slightly to 8%; this ratio varied greatly from country to country, from 4% in China to 15% in Japan. Staff costs over turnover are expected to decrease in 1995/96.

Advertising and promotion expenses increased only slightly as a percentage of Group turnover in 1994/95, to less than 2% of sales, despite strong marketing support for our

# OPERATIONS

### GROUP SALES & PROFIT GROWTH (HK\$m)



entry into Japan and aggressive promotion of the Esprit brand in Korea to support our expansion there.

The cost of goods as a percentage of net sales was slightly reduced, despite the highest cotton costs on record. Material costs represent a modest percentage of the total manufacturing costs for merchandise purchased by the Group; raw-material price fluctuations consequently have a minimal effect on the Group's gross margins.

The Group's taxation rate for 1994/95 amounted to 23.6%, an increase of 4.6%. We are exploring opportunities to restore our taxation rate to previous levels.



# less can be more

Our aim is to leverage our experience and expertise, to accomplish more and



**more with relatively less and less. We strive to manage our costs as aggressively as we grasp every opportunity to build our business responsibly.**



**Product Merchandising** We continue to strengthen Esprit's value-for-money and fashion-conscious positioning. Esprit continues to capture the growing aspirational market for international fashion and accessories which forms the middle ground between designer brands, priced out of reach of most consumers, and basic apparel, which does not satisfy the demand for higher-quality materials and contemporary styling.

Rapid growth in spending power and heightened fashion consciousness, particularly among young women and men moving out from home into an increasingly white-collar workplace, are underscoring the importance of the Group's participation in the Esprit Global Network. During the past year, the Group directly engaged apparel and accessory designers based in Europe and the United States with a view to incorporating Asian retail trends in Esprit's international collections.

Esprit Asia has begun to move away from its traditional related-separates merchandising approach and towards a more integrated total-wardrobe concept, to serve a customer developing a more varied and independent lifestyle. Esprit women's apparel styles in Asia are now approximately 40% city casual, 35% sport casual, 15% denim and 10% logo items. Collections will continue to lean further towards city casual and city work classics.

Shoe and accessory styles are moving in a similar direction, and an original Asian line of shoes and handbags for women, offering the widest selection of Esprit shoe and handbag styles in the world, will be launched in Spring 1996. Handbag designs will support both the sport and city casual collections. The footwear and accessories category, which five years ago represented only 10% of Group sales, today accounts for nearly 24%.

City casual styles for men will also be emphasized in the future. Men's wear sales as a proportion of total sales rose from 12% to 15% of Group turnover. Men's wear already accounts for 20% of total sales in Hong Kong. Other large Asian markets for men's wear remain to be developed.

Esprit Timewear made an impressive debut in Asia. The line was launched at retail in selected Esprit Hong Kong outlets in October 1994. Distribution of Esprit Timewear has since been extended to Singapore, Malaysia and Korea. Esprit Eyewear will be introduced in Esprit retail outlets in 1996.

**Retail Display, Visual Merchandising and Store Design** As in the area of product development, Esprit Asia is working closely with other Esprit regions towards a consistent global retail image which remains adaptable to local consumer cultures; global creative resources are being pooled to develop more efficient and effective marketing tools and materials.



The Group continues to place great emphasis on shop presentation and point-of-sale imagery to support merchandising. Displays reinforce the Esprit point of view as well as reflect major fashion trends. Displays of merchandise are changed monthly, in keeping with the introduction of new collections, injections of styles between seasons and twice-yearly sales. This motivates customers to regularly re-visit Esprit shops in search of new styles.



Esprit Asia's Hong Kong-based store design operation has continued to grow in size; a ten-person team directs the construction of all counters and free-standing stores in all regional retail and franchise markets, ensuring Esprit guidelines and specifications are followed. Store fixtures and systems originally designed by Esprit in Germany are adapted in Hong Kong to meet regional requirements.

Fashion shows and in-store promotional events were staged in all retail and franchise markets during the year, generating additional shop traffic and highlighting the variety of fashion styles carried under the Esprit banner.

**Sourcing and Distribution** In line with the growing emphasis on city casual and city work wear, the Group is steadily upgrading the quality of fabrics it purchases, with quality control teams working closely with supplier factories in China and Southeast Asia. The Group is also increasing the number of its regular manufacturing sources with additional factories now commissioned intermittently during the year in order to fulfil spot re-orders for best-selling items and to produce new styles injected between the Group's main seasonal collections.

Merchandise delivery times were substantially shortened following the introduction in 1993/94 of direct shipments of finished accessories from factories to the Group's retail markets. The streamlined procedures have minimized transshipment through Hong Kong and respective labor, freight and warehousing costs.

**MIS** The Group deploys one of the most sophisticated retail management information systems in Asia. Approximately thirty MIS professionals are employed by the Group in

the region; their activities significantly enhance the Group's competitiveness.

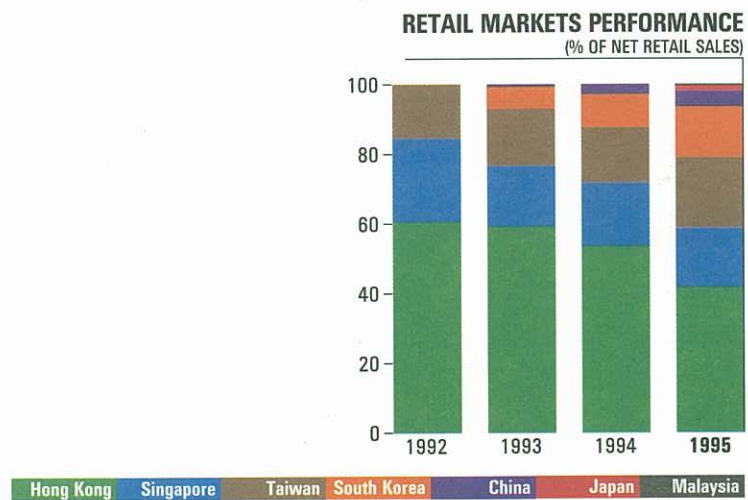
In excess of HK\$3 million was invested during the year in extension of the Group's MIS network and upgrading of MIS hardware and software, in conjunction with the addition of floor area and new retail outlets in established markets and entry into new markets such as Japan.

**People** Expansion and product diversification have increased demands on centralized Group functions such as fashion and shop design, communications and training. The Group accordingly increased its staffing levels 18% in 1994/95, to over 2,300 people. Retail staff levels were increased 20% to over 1,000 people.

We continue to invest in and place great importance on retail staff development and customer service training. During the year, an in-house training capability was established, including the installation of a new training centre in Hong Kong, and staff training programs designed in-house were launched.

A "mystery customer" service report program was introduced during the year, together with quarterly screenings of videotaped customer interviews for department heads and shop managers, all of which ultimately provide valuable feedback to front-line sales staff.

In 1995/96, training programs will focus on selling technique, and new sales incentive programs will be introduced, with a view to further improve staff productivity.



**Hong Kong** Esprit's past financial year saw the Hong Kong retail sector suffer from a combination of falling property and stock market values, significant unemployment and high interest rates. While certain economic conditions are showing signs of improvement, political uncertainty is likely to have a lingering adverse effect on consumer sentiment and spending.

Esprit Hong Kong remains well positioned among fashion retailers, enjoying a broad and loyal customer base, and has maintained its profit levels despite flat sales. Esprit Hong Kong reported net retail sales of HK\$525 million. Same-store sales decreased 17%. Esprit Hong Kong retail operations accounted for 39.3% of Group retail sales, compared with 51.5% in 1993/94.

Esprit Hong Kong increased its selling area 6%, to 59,897 square feet. During the year, Esprit Hong Kong established outlets beyond the traditional shopping precincts of Central, Causeway Bay and Tsimshatsui. Shops were opened in Sheung Shui, a growing residential suburb, and the densely populated district of Mongkok. A men's shop was opened in Shatin New Town Plaza, the best established mall in Hong Kong's New Territories, and Esprit moved its existing women's wear outlet to a superior location within the Plaza.

In order to facilitate local retail operations, a 42,000 square-foot warehouse, located in Fanling, was purchased for approximately HK\$51.9 million.

Rentals as a percentage of turnover increased to 21.5%. As current leases revert in a softening market, Esprit Hong Kong expects to negotiate satisfactory renewals, and where



appropriate to achieve reduced rentals in conjunction with long-term lease commitments.

Floor area will be slightly reduced in 1995/96 following a planned consolidation of several smaller outlets. A shop will be opened in the Diamond Hill area of Kowloon, and an outlet in the Whampoa Garden residential complex will be expanded.

'94 GDP Growth 5.4% '94 Population 6.2 million '94 Per Capita Income (PPP) US\$22,527

The market for Esprit footwear and accessories in Hong Kong is growing with these

STORE PRODUCTIVITY	'92	'93	'94	'95
NO. OF OUTLETS	20	25	36	39
FLOOR SPACE (SQ. FT)	38,050	44,145	61,263	64,859
SALES/SQ. FT/MONTH (HK\$)	584	641	711	685

categories' contribution to total Hong Kong sales increasing to 27.1% during the year.

As Esprit Hong Kong achieves further savings in head office and store costs and steadily increases store and staff productivity, earnings should gradually improve from 1995/96.

**Red Earth** The Australian line of natural health and beauty care products, distributed by Esprit Asia since 1992, contributed HK\$30.2 million in turnover in 1994/95, an increase of 59%. The Red Earth operation recorded a small loss in 1994/95 and is expected to be profitable in 1995/96.

Two additional department store counters were opened during the year, bringing the total to seven, and one of six free-standing stores was closed, with total floor area at year-end up 4.1%, to 4,962 square feet. Plans for 1995/96 call for free-standing stores to be expanded in size, and the number of department store counters to be steadily increased. Red Earth is also distributed on a wholesale basis in Japan and Thailand; distribution is likely to be extended to other markets in the coming year.

Red Earth places great emphasis on improving product quality and developing new product lines. A new cosmetics line is being readied for launch in early 1996.

**Singapore** Esprit Singapore managed to increase net sales 19.4% and pre-tax profit 7.1%, reflecting an especially strong first half, contributing 17% of Group retail sales.

A recession in the local retail economy reached serious proportions during the year, as Singapore is faced with an oversupply of retail space. An estimated additional 5.4 million square feet of floor area remains due to come on stream by 1997. The Singapore government will halve the amount of land to be released for retail development in future, but the benefits of this policy may not be felt for years to come.



Singapore's retail industry has also suffered from a decline in inbound tourism. The Singapore dollar has risen more than 10% against the US dollar since 1994. Other Southeast Asian cities now boast their own malls offering many of the brands previously available only in Singapore or Hong Kong. Retail property development is booming from Jakarta to Kuala Lumpur to Bangkok.

Foreseeing the oversupply of retail property, Esprit Singapore began positioning itself for the current downturn in early 1994, consolidating and reducing floor area 1.5%, closing one free-standing store and one counter, tightly controlling selling and other costs and reducing

**'94 GDP Growth 10.1%** **'94 Population 3.1 million** **'94 Per Capita Income (PPP) US\$21,493** headcount through attrition.

Most outlets which were opened in 1993/94 posted satisfactory returns in their first full year of operation. Trading within one of the region's most difficult retail environments, Esprit Singapore posted the highest pre-tax profit margin of any Esprit market. In its category, Esprit remains Singapore's leading fashion brand.

Renovation of Esprit's 13,000 square-foot flagship store on Orchard Road was completed as planned. The

<b>STORE PRODUCTIVITY</b>	'92	'93	'94	'95
NO. OF OUTLETS	6	11	17	15
FLOOR SPACE (SQ. FT)	17,506	21,561	29,949	29,506
SALES/SQ. FT/MONTH (HK\$)	589	789	650	721

retrofit allows the store to stock and display more merchandise, and merchandise is now positioned in clearly delineated, customer-friendlier departments. The store's main entrance is fronted by a Japanese garden, which has served to re-establish the store as a landmark for resident and visiting shoppers.

Esprit Singapore's strategy remains focused on increasing operating efficiency and refining customer service techniques in order to generate higher margins and higher sales per customer. Esprit Singapore regularly trains staff off-site at the Service Quality Centre, a highly innovative training facility owned and operated by Singapore Airlines.

Despite the prevailing gloom in the retail sector, Singapore's general economic prospects are bright, signifying a reversal of fortunes for the retail industry and a revival of local consumption in the longer term. Esprit Singapore is very well positioned to benefit directly from Singapore's general economic growth and, while net sales may actually decline in 1995/96, margin and profit levels are likely to be sustained.

**Malaysia** After a decade of franchised operation, the Group entered Malaysia directly in March 1995, with the business coming under the management of Esprit Singapore. Establishment of a retail operation in Malaysia appears to have been well timed, coinciding

**'94 GDP Growth 8.7%** **'94 Population 20.0 million** **'94 Per Capita Income (PPP) US\$8,763** with a wave of new retail and

commercial property development and foreign investment, and rapid growth of the country's middle-income population. A weak Malaysian ringgit should also help attract greater numbers of tourists to Malaysia's growing number of shopping malls and department stores.

Awareness of Esprit is already high, as a result of licensed distribution in the past and Malaysians' familiarity with Esprit outlets in neighbouring Singapore.

<b>STORE PRODUCTIVITY</b>	'95
NO. OF OUTLETS	5
FLOOR SPACE (SQ. FT)	6,188
SALES/SQ. FT/MONTH (HK\$)	355

Three department store counters and two free-standing stores representing over 6,000 square feet of floor area were opened before the close of the financial year, generating net sales of HK\$5 million. We will see further expansion of the retail portfolio in 1995/96.

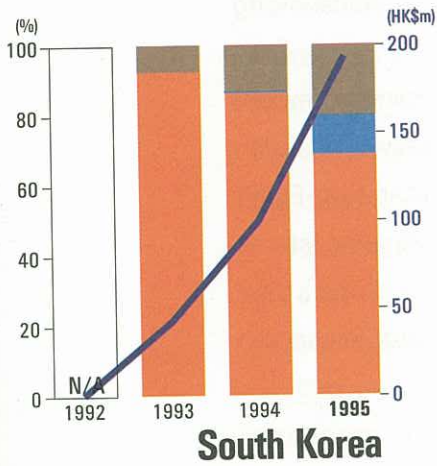
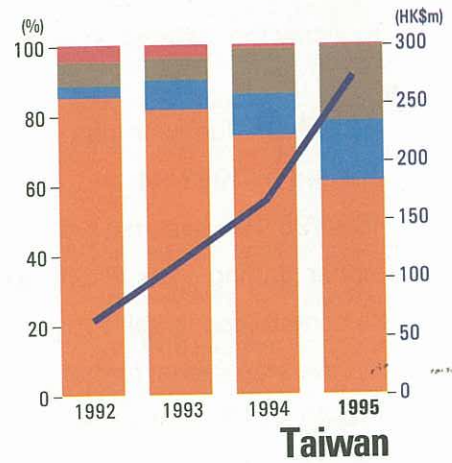
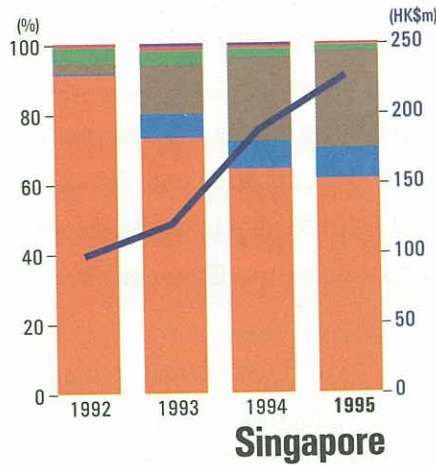
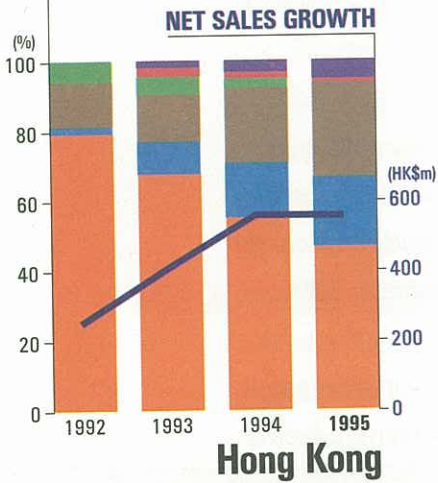


# change and growth

Women's

Men's

**PRODUCT PERFORMANCE**  
(% OF NET RETAIL SALES)



We're positioned to capture the young, urban and fast-growing market which forms the middle ground between designer brands and basic apparel.

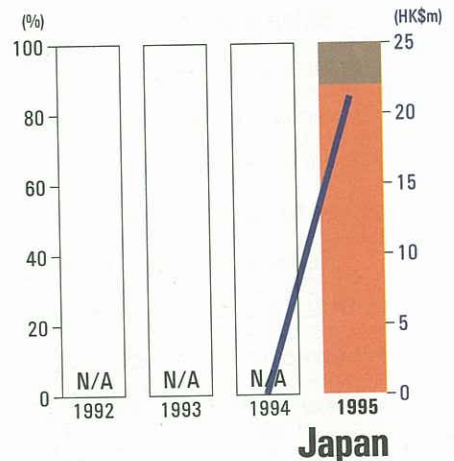
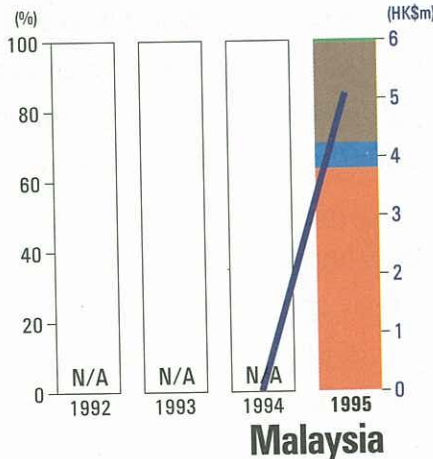
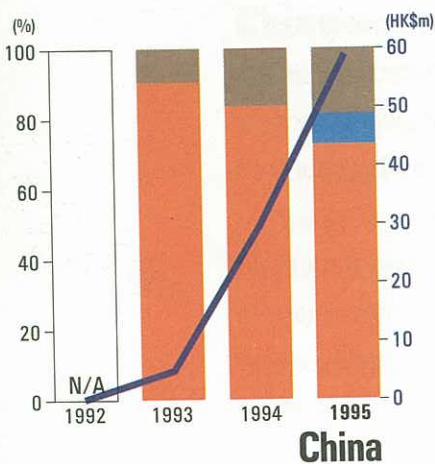
# across the spectrum

Footwear & Accessories

Kids'

Bed & Bath

Body Care





All Esprit outlets are situated within the Kuala Lumpur metropolitan area; Malaysia's other larger cities do not yet offer the requisite high-quality locations or sufficient economies of scale to justify the distribution and selling costs of expansion to other areas.

**Taiwan** Turnover jumped 64.3% as a result of a full-year contribution from 13 outlets opened in 1993/94 and the contribution of an additional 23 outlets opened throughout 1994/95. However, net profit increased only 6%, due to capital expenditures and significantly higher staffing costs. Esprit Taiwan's contribution to Group profit remained substantial while its contribution to sales rose from 16% to 20.5%.

We prepared for further growth in our Taiwan business with the purchase, for approximately HK\$49.4 million, of a three-storey, 44,000 square-foot warehouse and headquarters facility.

Operations have been made **'94 GDP Growth 6.1%** **'94 Population 21.4 million** **'94 Per Capita Income (PPP) US\$13,235** considerably more efficient, with the new facility also serving as a training centre, merchandising showroom and retail display workshop.

After increasing our retail floor area 46% in 1993/94, we nearly doubled again the amount of our retail selling space in 1994/95. We continued to diversify geographically in line with national trends; 27% of our floor area is now located outside Taipei. At year-end, Esprit

STORE PRODUCTIVITY	'92	'93	'94	'95
NO. OF OUTLETS	10	16	29	52
FLOOR SPACE (SQ. FT)	8,795	12,240	17,875	35,500
SALES/SQ. FT/MONTH (HK\$)	728	934	1,113	877

operated five free-standing stores and 31 counters in Taipei and a total of 16 shops in Taichung, Tainan and Kaohsiung.



In 1995/96, Esprit will open two additional free-standing stores in Taipei. In Spring 1996, Esprit Kids will be introduced through two dedicated counters in Taipei. Bed & Bath was introduced in 1994/95, and is distributed primarily on a wholesale basis to national department store accounts.

During the past year, Esprit Taiwan improved and increased its staffing, raising the calibre of new hires both at retail and management levels, after a period of understaffing. The benefits of increased staff capabilities are expected to result in higher productivity.

Sales growth is forecast to fall off in 1995/96; increasing local and foreign investment in the retail sector has coincided with a slowdown in consumer spending and depreciation of the Taiwan NT dollar. Despite a relatively high inflation rate and a charged domestic political scene, resulting in lowered projections for GDP growth in 1995, we are confident in the country's ability to sustain its development and competitiveness over the longer term.

Retail rental costs as a percentage of turnover may be brought down; department store counter leases, which extend for relatively short periods of six to twelve months, may be renewed on more favourable terms in 1995/96. Some consolidation is also planned with weaker-performing outlets to be closed at the time their leases expire.

**South Korea** The country is moving rapidly towards developed-nation status. The Korean government projects per capita income will reach US\$20,000 by the end of this decade.

In 1993/94, our first full year of directly managed retail operation, we pushed sales up 135% and increased floor area 185%. In 1994/95, sales were nearly doubled as a result of expansion of floor area and increasing demand for imported fashion – not only in Seoul but in other main cities in the central and southern regions of the country.

'94 GDP Growth **8.4%** '94 Population **45.0 million** '94 Per Capita Income (PPP) **US\$10,534**

At year-end, Esprit operated 34 department store counters in Seoul and a total of nine counters in Pusan and Daegu. Establishment of a strong presence and brand image in both of these cities, and in the satellite cities rising on the outskirts of Seoul, will be critical to our long term success in Korea. Approximately one-quarter of our total floor area is now located outside Seoul.

During the past year, we consolidated our free-standing operations by closing under-performing stores and reducing their number to six. Free-standing store operations will remain limited to Seoul for the short term. We shifted

STORE PRODUCTIVITY	'92	'93	'94	'95
NO. OF OUTLETS	–	18	32	43
FLOOR SPACE (SQ. FT)	–	6,024	17,172	22,868
SALES/SQ. FT/MONTH (HK\$)	–	771	817	1,119

our focus to improving the quality of our shop locations, as counters in department stores were moved to more prime locations. Floor area grew by approximately one-third in 1994/95, and is projected to grow an additional 17% in 1995/96.



The men's wear and footwear and accessories categories, introduced in Spring 1994, are growing steadily. Esprit Kids will be introduced in Spring 1996, initially through five dedicated department store counters.

Rental costs remain among the highest in the region, and advertising and promotion expenditures are higher than the Group's average as a result of efforts to establish the Esprit name and image in the Korean market. Operating cost increases will limit profit growth during the next year but the development of the country head office organization, an efficient national distribution network and recognition of our brand are creating a solid foundation for long term growth.

**China** 1994/95 saw Esprit Asia continue to fine-tune its China merchandising strategy, and, significantly, to tighten the timeframe and raise targets for profit growth. Our China strategy – to directly control retail operations in China's most cosmopolitan cities and to establish franchises in second- and third-tier markets, is proving to be the correct one.

Seven counters were added to our China portfolio in 1994/95, resulting in a 56% increase in floor area and contributing to a doubling of turnover...and to a first-time contribution of operating profit to the Group. At year-end, our portfolio comprised 14 directly-managed Esprit outlets – ten of these located in Shanghai – and eight franchised outlets. In September 1995, we established a 2,000 square-foot national flagship store in Shanghai. Franchised

shops are located in Chengdu, Guangzhou, Hangzhou, Nanjing, Wenzhou, Wuhan and Xian.

During the year, the Group acquired the Beijing retail operation for approximately HK\$3.6 million, and purchased a 6,000 square-foot headquarters facility in Shanghai for approximately HK\$12.9 million.

Plans call for an additional seven directly-managed outlets to be opened in 1995/96, including two in the fast-

**'94 GDP Growth 11.9% '94 Population 1,210.1 million '94 Per Capita Income (PPP) US\$2,660**

growing port city of Dalian, and to establish an additional five franchises, which will allow us to penetrate new markets including Shantou, Shenyang and Harbin. Based on plans to increase

STORE PRODUCTIVITY	'92	'93	'94	'95
NO. OF OUTLETS	-	3	7	14
FLOOR SPACE (SQ. FT)	-	4,727	10,769	16,776
SALES/SQ. FT/MONTH (HK\$)	-	227	262	367

floor area in directly-operated and franchised markets, turnover is expected to grow approximately 45% in 1995/96.

**Japan** In October 1994, we opened our first retail outlet, a 1,300 square-foot counter in the Mitsukoshi department store, an anchor tenant of the US\$300 million Yebisu Garden Place complex in the heart of Tokyo.

During 1994/95, an additional five counters were opened, including three in Tokyo – in Yuracho-Ginza, Shinjuku and Ikebukuro, one in Osaka's Umeda district and one in Kobe.

Market entry and penetration costs resulted in an operating loss of HK\$9.4 million during 1994/95. Plans call for the opening of an additional four counters and three free-standing stores in Tokyo in 1995/96. Assuming a five-fold increase in turnover and an approximate tripling of floor area, to over

**'94 GDP Growth 0.6% '94 Population 125.4 million '94 Per Capita Income (PPP) US\$21,328**

12,000 square feet, the Japan operation is expected to reach breakeven in 1995/96 and to begin contributing to Group profit in 1996/97.

The Group manages distribution directly, resulting in a direct benefit to operating margins

STORE PRODUCTIVITY	'95
NO. OF OUTLETS	6
FLOOR SPACE (SQ. FT)	4,408
SALES/SQ. FT/MONTH (HK\$)	1,057

and keeping retail prices at competitive levels.

We are unhesitatingly bullish on Japan. Japanese consumers are the most knowledgeable and brand-driven consumers of fashion in Asia; attracted by the unique

combination of Esprit's Northern California persona and its French-inspired name, they demonstrate an especially high level of awareness of our brand.

Esprit Asia's strategy is to focus on sales of higher-value city casual and city work wear. With Japan's high space and salary costs, this strategy will be key to generating satisfactory sales per square foot.

Given the fast growing demand for locally-produced and imported footwear and handbags, the Group also intends to aggressively develop this market and is exploring channels for wider distribution of Esprit footwear and handbag lines in Japan.



**Esprit products** are sold through exclusive franchise operations in Thailand, Macau, Indonesia, the Philippines, Guam, Saipan, Israel, Kuwait, Saudi Arabia and United Arab Emirates. Esprit Asia maintains close working partnerships with its franchisees and oversees all aspects of the business, ensuring full consistency with Group-owned retail operations, from shop design and construction to retail presentation, visual merchandising, advertising and staff training.

Sales to our exclusive franchise markets in 1994/95 totalled approximately HK\$140 million, representing 9.5% of Group turnover.

We are seeing a rapid acceleration of economic growth and consumer demand and spending in our largest franchise markets, notably Thailand, the Philippines and Indonesia, where the value of sales of Esprit products at retail is growing at double-digit rates, and in several instances is comparable to sales in some of the Group's directly-operated retail markets.

**Thailand** Annual economic growth is expected to be in the vicinity of 8% during the next two years following four years of 7.5% growth, while some 1.2 million square feet of new retail space is due to come on stream by 1998. The surge in retail property development is fuelled by demand from a consumer base whose average age is a very Espritch 26.

Esprit sales to Thailand totalled approximately HK\$26.4 million in 1994/95, up 50% from 1993/94. Three free-standing stores were opened in Bangkok in 1994/95, bringing the total to ten, while department store counter operations were consolidated, with the number of counters reduced to 39 from 43. Floor area was increased approximately 16%, to 32,074 square feet.

'94 GDP Growth 8.5% '94 Population 60.4 million '94 Per Capita Income (PPP) US\$6,816

Sales of men's wear, introduced in 1992/93, grew quickly in 1994/95, accounting for 18% of total local sales, up from 7% in 1993/94. Likewise, sales of footwear and accessories increased as a percentage of total local sales.

<b>STORE PRODUCTIVITY</b>	'95
<b>NO. OF OUTLETS</b>	49
<b>FLOOR SPACE (SQ. FT)</b>	32,074

**Macau** Esprit Asia operates through an exclusive franchise in the Portuguese enclave of Macau, close to Hong Kong and bordering China's special economic zone of Zhuhai.

Esprit products are well suited to Macau's casual, Mediterranean lifestyle as well as being popular with visitors. Macau's economy and infrastructure links with China and Hong Kong are growing steadily on the back of the industrial boom taking place in the surrounding Pearl River Delta region, and a new international airport, scheduled to open in 1996, promises to boost business and leisure related tourism.

<b>STORE PRODUCTIVITY</b>	'95
<b>NO. OF OUTLETS</b>	3
<b>FLOOR SPACE (SQ. FT)</b>	3,409

Macau's first free-standing Esprit store was opened during the year. Sales in Macau more than tripled in 1994/95, to HK\$8.16 million. Floor area grew 62%, to 3,409 square feet.

**Indonesia** In a market with enormous potential for Esprit Asia, annual economic growth has averaged 7% during the past five years. Indonesia's middle class population is estimated to be 15 million people and is projected to double in five years' time. Approximately one percent

**'94 GDP Growth 7.8%** | **'94 Population 195.5 million** | **'94 Per Capita Income (PPP) US\$3,388** of the country's 185 million people earn more than US\$20,000 a year, a level considered to be upper income; another 5% earn between US\$4,500 and US\$20,000.

Sales to Indonesia in 1994/95 totalled HK\$32.7 million, representing 2.2% of Group net sales, up 52% from 1993/94. All product categories experienced strong to exceptional growth during the past year. Local sales of men's wear more than quadrupled and sales of Bed & Bath more than doubled, while footwear and accessories grew more than 85% and sales of kids' wear increased more than 40%.

STORE PRODUCTIVITY	
'95	
NO. OF OUTLETS	26
FLOOR SPACE (SQ. FT)	17,831

**The Philippines** The economy is projected to grow more than 6% in 1995 after 5% growth in 1994, which was twice the rate of growth in 1993. Large-scale commercial and retail re-development is planned for downtown Manila, and foreign investment and confidence in the local economy have increased substantially. Demand for Esprit products is expected to grow accordingly. Consumer spending power is increasing as evidenced by the recent entry of several leading international fashion brands into the market.

**'94 GDP Growth 5.1%** | **'94 Population 67.3 million** | **'94 Per Capita Income (PPP) US\$2,660** Esprit sales to the Philippines totalled approximately HK\$20.2 million in 1994/95, up 79% from 1993/94, driven by an 140% increase in floor area, to 15,688 square feet. Five outlets were opened in 1994/95, bringing the total in the country to twelve, of which all but one are free-standing stores. Aside from a store in

STORE PRODUCTIVITY	
'95	
NO. OF OUTLETS	12
FLOOR SPACE (SQ. FT)	15,688

Subic Bay, a former US Naval base, and two in the city of Cebu, all Esprit outlets are located within Metro Manila.

A well-diversified product range is contributing to the success of Esprit in the Philippines. First introduced in September 1994, men's wear accounted for 21% of total local sales, while footwear and accessories accounted for 25% of local sales, down slightly from 26% in 1993/94.



## Guam and Saipan

<b>STORE PRODUCTIVITY</b>	'95
<b>NO. OF OUTLETS</b>	5
<b>FLOOR SPACE (SQ. FT)</b>	5,050

Sales to the territories of Guam and Saipan, popular resort destinations for Japanese and Southeast Asian tourists, totalled nearly HK\$12 million in 1994/95, up 63% from 1993/94.

Floor area remained unchanged during the year, at 5,050 square feet, with plans to open a 1,400 square-foot store in 1995/96. Footwear and accessories accounted for 42% of total local sales in 1994/95, while women's wear as a percentage of total local sales is projected to increase substantially, from 48% to 59%, in 1995/96.

## Middle East

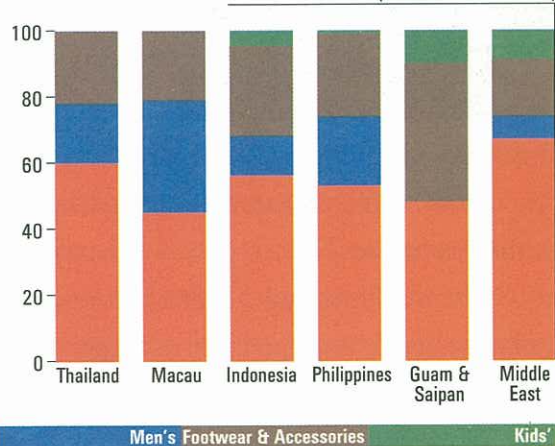
<b>STORE PRODUCTIVITY</b>	'95
<b>NO. OF OUTLETS</b>	21
<b>FLOOR SPACE (SQ. FT)</b>	17,960

Sales to Israel, Kuwait, Saudi Arabia and United Arab Emirates totalled approximately HK\$18.1 million, up nearly 12% from 1993/94. At year-end, there were 21 Esprit outlets in this region, with a total floor area of 17,960 square feet. Floor area will be increased slightly in 1995/96.

Women's wear accounted for an average 67% of our sales in this region, with footwear and accessories being the second largest contributor, accounting for 17% of total sales, and kids' wear contributing 9%. Sales of women's wear as a percentage of total sales is projected to remain at roughly the same level in 1995/96.

NET SALES SUMMARY 94/95 (HK\$m)	
THAILAND	26.36
MACAU	8.16
INDONESIA	32.70
THE PHILIPPINES	20.17
GUAM AND SAIPAN	11.95
MIDDLE EAST	18.15

**PRODUCT PERFORMANCE 94/95**  
(% OF NET RETAIL SALES)



Country GDP Growth, Population and Per Capita Income (Purchasing Power Parity) statistics provided by The Hong Kong General Chamber of Commerce.

# Financial Report

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Item	Value	Value
Revenue	100,000	100,000
Expenses	(80,000)	(80,000)
Profit	20,000	20,000

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, 1995.

### Principal Activities

The Company is an investment holding company. Its subsidiaries are principally engaged in the retail and wholesale distribution of high quality fashion products under the internationally known ESPRIT brand name, together with Red Earth body care products.

The turnover and contribution by geographical market are as follows:

	Turnover HK\$'000	Contribution HK\$'000
Hong Kong	<b>695,402</b>	<b>125,724</b>
Singapore	<b>226,499</b>	<b>35,318</b>
Taiwan	<b>273,154</b>	<b>20,076</b>
Korea	<b>193,103</b>	<b>7,051</b>
China	<b>58,869</b>	<b>5,719</b>
Japan	<b>21,143</b>	<b>(9,406)</b>
Malaysia	<b>5,081</b>	<b>(1,340)</b>
	<b>1,473,251</b>	<b>183,142</b>

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

Interim dividend of 3 cents per share, totalling HK\$22,571,000, was paid on May 15, 1995.

The Directors recommend the payment of a final dividend of 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.

### Share Capital

Details of the 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.

### Borrowings

Details of bank loans and overdrafts are set out in notes 12, 18 and 19 to the financial statements.

No interest was capitalized by the Group during the year.

### Charitable Donations

During the year, the Group made charitable donations totalling HK\$882,000.

## Directors and Service Contracts

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

### Executive Directors:

Michael Ying Lee Yuen

Eugene Lee

Alva Chan Wai Mo

Connie Wong Chin Tzi

Surinder Chhibber

Ada Wong Suk Kwan

(appointed on August 8, 1995)

### Non-executive Directors:

Joyce Elena Ma

James Connal Scotland Rankin

Debra Belisle Sembler

Donald Stanton LaVigne

Alexander Reid Hamilton

(appointed on August 29, 1995)

In accordance with the Company's Bye-laws, Mr. Eugene Lee, Ms. Connie Wong Chin Tzi and Mr. Surinder Chhibber retire by rotation and, being eligible, offer themselves for re-election.

Each of the Executive Directors 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.

## Directors and Senior Management Profile

### Executive Directors

**Michael YING Lee Yuen**, aged 45, is the Chairman and founder of the Group and the Chairman and founder of Esprit Far East group. Mr. Ying has over 20 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.

**Eugene LEE**, aged 46, is an Executive Director of the Group and the President and Chief Operating Officer of Esprit Far East group. Prior to joining the Group in February 1993, Mr. Lee was an executive director of a public listed finance and investment group in Thailand and a non-executive director of Esmido Fashions Limited, the Esprit distributor in Thailand. He graduated from Massachusetts Institute of Technology and received a Master of Science Degree from Stanford University and a Master of Business Administration Degree from Harvard University. He has 16 years' experience in the financial services industry in New York, London, Hong Kong and Bangkok.

**Alva CHAN Wai Mo**, aged 39, is an Executive Director of the Group and the Country General Manager of the Group's Korea operation, having previously served as the Chief Financial Officer of the Group since April 1992. 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 United States in 1982 and is a fellow of the Hong Kong Society of Accountants.

**Connie WONG Chin Tzi**, aged 47, is an Executive Director of the Group and the Country General Manager of the Group's Taiwan operation. Prior to joining the Group in 1979, she worked for the Asian buying office of a major US department store for over eight years. Ms. Wong received her B.A. Degree in Business Administration from National Taiwan University.

**Surinder CHHIBBER**, aged 45, is an Executive Director of the Group and the Country General Manager of the Group's Singapore operation. He joined the Group in 1987 and has over 20 years' experience in the garment industry. He holds a Master of Science Degree in Engineering from the University of Hong Kong and a Master of Science Degree in Operational Research from the University of Delhi.

**Ada WONG Suk Kwan**, aged 38, is an Executive Director of the Group and the Director of the Group's marketing and sales operations. Ms. Wong joined the Group in 1984 and has been extensively involved in store operation and merchandising/buying in Hong Kong since that time. She was also responsible for expanding the Taiwan retail market from 1989 to 1991.

## Directors and Senior Management Profile (continued)

### Non-executive Directors

**Joyce Elena MA**, aged 54, is a Non-executive Director of the Group and is the founder and Chief Executive Officer of JOYCE Boutique Holdings Limited. Mrs. Ma has over 25 years' experience in the fashion industry.

**James Connal Scotland RANKIN**, aged 53, is a Non-executive Director of the Group. He joined The Hongkong and Shanghai Banking Corporation Limited ("HongkongBank") in 1960 and is currently General Manager and Chief Executive Officer of Hongkong Bank in Singapore. Mr. Rankin is also Chairman of Hongkong Bank Malaysia Berhad and a Director of a number of subsidiaries of HSBC Holdings plc.

The Group is a long-standing client of Hongkong Bank.

**Debra Belisle SEMBLER**, aged 43, is a Non-executive Director of the Group and 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, and a Director of the parent company of a United States retailer/wholesaler of apparel. Ms. Sembler was the Chief Financial Officer of Esprit de Corp. for over eight years. She is qualified as a Certified Public Accountant in the United States.

**Donald Stanton LAVIGNE**, aged 30, is a Non-executive Director of the Group. He is also a Director of Esprit de Corp. in the United States. 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 54, has been a Non-executive Director of the Group since August 1995. He was a partner in Price Waterhouse with which he practised for 16 years. He is a Non-executive Director and advisor to a number of Hong Kong companies.

### Senior Management

**Annie MAK Chi Ling**, aged 43, is the General Manager responsible for the production operations of the Group. Ms. Mak has over 19 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 45, is the General Manager of the Group's Hong Kong retail operation. She joined the Group in 1983 and was responsible for the Kids line and the U.S. line from 1986 to 1994. She was appointed to head up the Group's Asian 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 35, 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 take charge of regional merchandising and buying for Asia. 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 38, 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.

**Herbert CHOW Siu Lung**, aged 31, is the Group's Chief Operating Officer and Acting General Manager of its operation in Japan. Prior to joining the Group in May 1993, Mr. Chow was the controller of sales and marketing for a leading apparel retailer in Hong Kong. Before entering the apparel industry, Mr. Chow worked for a multinational advertising agency.

**Eva WANG Wai Man**, aged 36, is the Group's Chief Financial Officer. Ms. Wang qualified as a Certified Public Accountant in the United States in 1983 and has over 14 years' management consulting and operation experience in finance and information technology. She held a number of senior positions with major accounting and consulting firms and multinational companies before joining the Group in May 1995. She graduated from the University of Michigan Graduate School of Business with a Master of Business Administration and is a member of the American Production and Inventory Control Society.

### Directors' Interests in Shares

As at June 30, 1995, the interests of the Directors in shares in 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	—	562,500,000*	—	—

\* 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 meeting held on June 13, 1995 has approved the Group to act as buying agents for the related companies within the Esprit Global Network including, EFE group, Esprit de Corp., and Esprit de Corp. (1980) Ltee.

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

### 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, 1995 granted to the Executive Directors on January 20, 1994 and accepted by Executive Directors under the Scheme are as follows:

Name	Granted	Exercised	As at 6.30.1995
Michael Ying Lee Yuen	4,000,000	—	4,000,000
Eugene Lee	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

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.

**Arrangement to Purchase Shares and Debentures** (continued)

Except for the above, at no time during the year was the Company, its subsidiaries, its fellow subsidiaries and 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**

As at June 30, 1995, 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 the five largest suppliers is 35%. 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.

**Auditors**

During the year, 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 for the year ended June 30, 1995.

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

On behalf of the Board



**Eugene Lee**

*Director*

Hong Kong, September 29, 1995

## 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 36 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 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, 1995 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*

Price Waterhouse

*Certified Public Accountants*

Hong Kong, September 29, 1995

## Consolidated Profit and Loss Account

For the year ended June 30, 1995

	Notes	1995 HK\$'000	1994 HK\$'000
Turnover		1,473,251	1,144,919
Operating Profit	2 & 3	183,142	178,932
Exceptional Item		—	26,892
		183,142	205,824
Share of Profit of an Associated Company		1,708	858
Profit Before Taxation		184,850	206,682
Taxation	4	(43,608)	(39,322)
Profit After Taxation		141,242	167,360
Minority Interests		33	—
Profit Attributable to Shareholders	5	141,275	167,360
Dividends	6	(67,792)	(63,750)
Retained Profit for the Year		73,483	103,610
Earnings Per Share	7	18.82 cents	23.98 cents

## Consolidated Balance Sheet

At June 30, 1995

	Notes	1995 HK\$'000	1994 HK\$'000
<b>Fixed Assets</b>	8	<b>217,627</b>	68,484
<b>Other Investment</b>	9	<b>20,000</b>	—
<b>Associated Company</b>	11	<b>4,442</b>	3,381
<b>Net Current Assets</b>	12	<b>338,394</b>	397,114
		<b>580,463</b>	468,979
Financed by:			
<b>Share Capital</b>	16	<b>75,087</b>	75,000
<b>Reserves</b>	17	<b>480,304</b>	392,086
<b>Shareholders' Funds</b>		<b>555,391</b>	467,086
<b>Minority Interests</b>		<b>2,717</b>	53
<b>Obligations Under Finance Leases</b>	18	<b>2,436</b>	1,840
<b>Long Tem Bank Loans</b>	19	<b>19,919</b>	—
		<b>580,463</b>	468,979



**Eugene Lee**  
Director



**Alva Chan Wai Mo**  
Director



# Balance Sheet

At June 30, 1995

	Notes	1995 HK\$'000	1994 HK\$'000
<b>Subsidiaries</b>	10	<b>508,366</b>	436,630
<b>Net Current Assets</b>	12	<b>19,229</b>	92,739
		<b>527,595</b>	529,369
Financed by:			
<b>Share Capital</b>	16	<b>75,087</b>	75,000
<b>Reserves</b>	17	<b>452,508</b>	454,369
<b>Shareholders' Funds</b>		<b>527,595</b>	529,369



**Eugene Lee**  
*Director*



**Alva Chan Wai Mo**  
*Director*

## Consolidated Cash Flow Statement

For the year ended June 30, 1995

	Notes	1995 HK\$'000	1994 HK\$'000
<b>Net Cash Inflow from Operating Activities</b>	21(a)	<b>171,717</b>	130,424
<b>Returns on Investments and Servicing of Finance</b>			
Interest received		<b>8,770</b>	32,395
Interest paid		<b>(4,409)</b>	(1,268)
Finance charges on finance leases		<b>(249)</b>	(278)
Dividends paid		<b>(86,321)</b>	—
<b>Net Cash (Outflow)/Inflow from Returns on Investments and Servicing of Finance</b>		<b>(82,209)</b>	30,849
<b>Taxation</b>			
Hong Kong profits tax paid		<b>(16,504)</b>	(7,922)
Overseas tax paid		<b>(25,407)</b>	(10,775)
<b>Tax Paid</b>		<b>(41,911)</b>	(18,697)
<b>Investing Activities</b>			
Purchase of fixed assets		<b>(190,531)</b>	(55,212)
Proceeds from disposal of fixed assets		<b>2,550</b>	272
Purchase of long term investment		<b>(20,000)</b>	—
<b>Net Cash Outflow from Investing Activities</b>		<b>(207,981)</b>	(54,940)
<b>Net Cash (Outflow)/Inflow Before Financing</b>		<b>(160,384)</b>	87,636
<b>Financing</b>			
	21(b)		
Issue of shares for cash – net		<b>2,302</b>	228,440
Increase in minority interests		<b>3,480</b>	53
Repayments of obligations under finance leases		<b>(1,119)</b>	(1,096)
New bank loans		<b>42,528</b>	—
Repayment of bank loans		<b>(8,175)</b>	—
<b>Net Cash Inflow from Financing</b>		<b>39,016</b>	227,397
<b>(Decrease)/Increase in Cash and Cash Equivalents</b>		<b>(121,368)</b>	315,033
<b>Cash and Cash Equivalents at Beginning of Year</b>	21(c)	<b>318,297</b>	2,956
<b>Effect of Change in Exchange Rates</b>		<b>1,670</b>	308
<b>Cash and Cash Equivalents at End of Year</b>	21(c)	<b>198,599</b>	318,297

## Notes to the Financial Statements

For the year ended June 30, 1995

### 1. Principal Accounting Policies

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

#### (a) BASIS OF CONSOLIDATION

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

The consolidated profit and loss account includes the Group's share of results of associated 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 and long term leasehold land are not amortised.

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 <sup>1</sup> / <sub>3</sub> %
Plant and machinery	30%
Air conditioning plant	33 <sup>1</sup> / <sub>3</sub> %
Furniture and office equipment	20-33 <sup>1</sup> / <sub>3</sub> %
Motor vehicles	30%

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

## 1. Principal Accounting Policies (continued)

### **(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.

### **(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.

Dividends from investments are accounted for to the extent of dividends received during the year.

### **(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 results of subsidiaries and the associated company at the average rates of exchange prevailing during the year. Exchange differences arising are dealt with as a movement 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 and cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advances.

## 2. Operating Profit

	1995 HK\$'000	1994 HK\$'000
Operating profit is stated after crediting and charging the following:		
<b>Crediting</b>		
Interest income	8,920	5,504
<b>Charging</b>		
Auditors' remuneration	1,460	1,615
Depreciation and amortization		
- Owned assets	41,195	19,984
- Assets held under finance leases	1,615	1,467
Finance lease charges	249	278
Interest on overdrafts and bank loans wholly repayable within five years	4,620	1,268
Operating leases - land and buildings	325,375	224,557
Royalties paid to a related company	36,224	30,243

## 3. Directors' Emoluments

	1995 HK\$'000	1994 HK\$'000
Fees		
- Non-executive Directors	400	200
Salaries, housing and other allowances, benefits in kind		
- Executive Directors	6,419	4,275
Bonuses		
- Executive Directors	4,671	2,475
	<b>11,490</b>	<b>6,950</b>

The emoluments were paid to the Directors as follows:

Emoluments Band	Number of Directors	
	1995	1994
Nil - HK\$1,000,000	4	7
HK\$1,000,000 - HK\$1,500,000	-	4
HK\$1,500,000 - HK\$2,000,000	3	1
HK\$2,000,000 - HK\$2,500,000	2	-
	<b>9</b>	<b>12</b>

The Directors' emoluments presented above include the emoluments of the 4 (1994: 2) highest paid individuals in the Group.

The other 1 (1994: 3) highest paid individual whose emoluments are as follows:

	1995 HK\$'000	1994 HK\$'000
Salaries, housing and other allowances, benefits in kind	1,200	2,760
Bonuses	780	1,920
	<b>1,980</b>	<b>4,680</b>

Emoluments Band	Number of individuals	
	1995	1994
Nil - HK\$1,000,000	-	-
HK\$1,000,000 - HK\$1,500,000	-	1
HK\$1,500,000 - HK\$2,000,000	1	2
	<b>1</b>	<b>3</b>

#### 4. Taxation

	1995 HK\$'000	1994 HK\$'000
<b>The Company and its subsidiaries</b>		
Hong Kong profits tax		
– current year's provision	23,225	22,585
– under/(over) provision in prior year	809	(1,076)
Overseas taxation	19,062	17,555
	<b>43,096</b>	39,064
<b>Associated company</b>	<b>512</b>	258
	<b>43,608</b>	39,322

Hong Kong profits tax has been provided at the rate of 16.5% (1994: 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.

	1995 HK\$'000	1994 HK\$'000
<b>Deferred taxation (credit)/charge for the year has not been provided in respect of the following:</b>		
Accelerated depreciation allowances	462	608
Tax losses	(4,134)	(508)
Other timing differences	(1,866)	1,312
Effect of change in tax rate	–	29
	<b>(5,538)</b>	1,441

#### 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\$63,716,000 (1994: HK\$183,102,000).

#### 6. Dividends

	1995 HK\$'000	1994 HK\$'000
Interim dividend paid of 3 cents (1994: nil) per share	22,571	–
Proposed final dividend of 6 cents (1994: 8.5 cents) per share	45,221	63,750
	<b>67,792</b>	63,750

#### 7. Earnings per share

The calculation of earnings per share is based on the profit after taxation and minority interests of HK\$141,275,000 (1994: HK\$167,360,000) and on the weighted average number of shares in issue during the year of 750,477,167 (1994: 697,945,206).

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 1995 earnings per share.

## 8. Fixed Assets

### GROUP

	Freehold land and buildings outside Hong Kong HK\$'000	Long term leasehold land and building in Hong Kong 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, 1994	—	—	96,873	4,494	7,887	48,740	2,218	160,212
Exchange translation	631	—	4,837	—	62	2,093	154	7,777
Additions	61,684	51,863	52,117	1,083	2,781	21,893	1,303	192,724
Disposals	—	—	(16,527)	(181)	(1,732)	(3,393)	(139)	(21,972)
<b>At June 30, 1995</b>	<b>62,315</b>	<b>51,863</b>	<b>137,300</b>	<b>5,396</b>	<b>8,998</b>	<b>69,333</b>	<b>3,536</b>	<b>338,741</b>
<b>Depreciation</b>								
At July 1, 1994	—	—	63,737	805	3,866	22,391	929	91,728
Exchange translation	8	—	2,700	—	26	767	63	3,564
Charge for the year	680	504	23,692	2,111	2,255	12,855	713	42,810
Disposals	—	—	(13,654)	(109)	(1,353)	(1,733)	(139)	(16,988)
<b>At June 30, 1995</b>	<b>688</b>	<b>504</b>	<b>76,475</b>	<b>2,807</b>	<b>4,794</b>	<b>34,280</b>	<b>1,566</b>	<b>121,114</b>
<b>Net book values</b>								
<b>At June 30, 1995</b>	<b>61,627</b>	<b>51,359</b>	<b>60,825</b>	<b>2,589</b>	<b>4,204</b>	<b>35,053</b>	<b>1,970</b>	<b>217,627</b>
At June 30, 1994	—	—	33,136	3,689	4,021	26,349	1,289	68,484

At June 30, 1995, the net book value of furniture and office equipment includes an amount of HK\$2,590,000 (1994: HK\$1,503,000) in respect of assets held under finance lease.

## 9. Other Investment

	Group	
	1995 HK\$'000	1994 HK\$'000
Investment listed in Hong Kong, at cost	<b>20,000</b>	—
Market value	<b>17,950</b>	—

## 10. Subsidiaries

	Company	
	1995 HK\$'000	1994 HK\$'000
Unlisted shares, at Directors' valuation	<b>216,677</b>	181,577
Amounts due from subsidiaries	<b>291,689</b>	260,607
Amount due to a subsidiary	—	(5,554)
	<b>508,366</b>	436,630

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, 1995 are set out in note 26 to the financial statements.

## 11. Associated Company

	Group	
	1995 HK\$'000	1994 HK\$'000
Share of net assets	<b>4,442</b>	3,381

At June 30, 1995 the Group held 24% (1994: 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

	Group		Company	
	1995 HK\$'000	1994 HK\$'000	1995 HK\$'000	1994 HK\$'000
<b>Current Assets</b>				
Stock and work in progress (note 13)	<b>187,035</b>	121,132	—	—
Debtors, deposits and prepayments	<b>185,422</b>	181,986	—	—
Amounts due from related companies (note 14)	<b>7,720</b>	6,134	—	—
Dividend receivable	—	—	<b>65,000</b>	157,000
Short term investments	<b>70,000</b>	85,322	—	—
Short term bank deposits	<b>129,237</b>	224,689	—	—
Bank balances and cash	<b>33,932</b>	23,783	<b>2</b>	—
	<b>613,346</b>	643,046	<b>65,002</b>	157,000
<b>Current Liabilities</b>				
Creditors and accrued charges	<b>114,606</b>	109,123	<b>552</b>	511
Amounts due to related companies (note 15)	<b>13,805</b>	9,768	—	—
Dividend payable	<b>45,221</b>	63,750	<b>45,221</b>	63,750
Taxation	<b>48,954</b>	46,825	—	—
Obligations under finance leases				
– due within one year (note 18)	<b>1,922</b>	969	—	—
Long term bank loans				
– due within one year (note 19)	<b>15,874</b>	—	—	—
Short term bank loans	<b>34,358</b>	14,469	—	—
Bank overdrafts	<b>212</b>	1,028	—	—
	<b>274,952</b>	245,932	<b>45,773</b>	64,261
Net Current Assets	<b>338,394</b>	397,114	<b>19,229</b>	92,739
<b>Analysis of short term investments managed by fund managers, at cost less provision:</b>				
Listed in Hong Kong	<b>14,046</b>	24,390	—	—
Listed overseas	<b>55,954</b>	46,890	—	—
Cash held by fund managers	—	14,042	—	—
	<b>70,000</b>	85,322	—	—
Market value of listed investments	<b>72,068</b>	71,424	—	—
Cash held by fund managers	—	14,042	—	—
	<b>72,068</b>	85,466	—	—



### 13. Stocks and Work in Progress

	Group	
	1995 HK\$'000	1994 HK\$'000
Raw materials	41,779	16,428
Work in progress	2,857	2,788
Finished goods	142,399	101,916
	<b>187,035</b>	121,132

### 14. Amounts due from Related Companies

Particulars of the amounts due from the related companies being companies in which Mr Michael Ying Lee Yuen has interests are as follows:

Name of borrower	Balance as at 6.30.1995 HK\$'000	Balance as at 7.1.1994 HK\$'000	Maximum amount during the year HK\$'000
Esprit Far East Limited and its subsidiaries excluding the Group ("EFE group")	6,470	4,650	31,400
Red Earth International Holding Limited and its subsidiaries ("Red Earth group")	921	1,470	2,221
Esprit de Corp., Esprit de Corp. (1980) Ltee and their respective subsidiaries and associated companies ("other entities in Esprit Global Network")	329	14	747
	<b>7,720</b>	6,134	

The amounts due from related companies arising from trading activities are unsecured and repayable on commercial terms. Except for an amount of HK\$862,000 due from a related company which is interest bearing at 7% p.a., the remaining amounts are interest free.

### 15. Amount Due to Related Companies

The amounts due to related companies are unsecured, non-interest bearing and repayable on normal commercial terms.

### 16. Share Capital

	1995 HK\$'000	1994 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, 1994	750,000	75,000
Exercise of share options ( <i>note (a)</i> )	872	87
<b>Balance at June 30, 1995</b>	<b>750,872</b>	<b>75,087</b>

## 16. Share Capital (continued)

- (a) During the year, 872,000 ordinary shares of HK\$0.10 were issued at a premium of HK\$2.54 each in relation to share options exercised by employees under the Company's Share Option Scheme.
- (b) On November 17, 1993, the Company adopted a Share Option Scheme (the "Scheme") pursuant to which the Directors may grant options to eligible employees of the Group, including Executive Directors of the Company, to subscribe for shares in the Company. In accordance with the terms of the Scheme, the number of shares in respect of which options may be granted under the Scheme shall not exceed 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 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 exercisable date for the first instalment shall occur six months after the date of grant. Details of outstanding share options as at June 30, 1995 are as follows:

Date of share options granted	Number of outstanding share options granted as at June 30, 1995	Subscription price per share
January 20, 1994	35,628,000	HK\$2.64
September 12, 1994	1,500,000	HK\$2.64
June 26, 1995	2,000,000	HK\$2.64
	39,128,000	

## 17. Reserves

### GROUP

	Share premium HK\$'000	Capital reserve HK\$'000	Translation reserve HK\$'000	Goodwill reserve HK\$'000	Retained profit HK\$'000	Total HK\$'000
Balance at July 1, 1994	159,690	6,602	4,595	(488)	221,687	392,086
Premium arising from issue of shares	2,215	—	—	—	—	2,215
Reserve arising on consolidation	—	—	—	9	—	9
Exchange translation	—	—	12,511	—	—	12,511
Profit for the year retained	—	—	—	—	73,483	73,483
<b>Balance at June 30, 1995</b>	<b>161,905</b>	<b>6,602</b>	<b>17,106</b>	<b>(479)</b>	<b>295,170</b>	<b>480,304</b>
<b>Attributable to:</b>						
The Company and its subsidiaries	161,905	6,602	17,056	(914)	292,613	477,262
Associated company	—	—	50	435	2,557	3,042
	161,905	6,602	17,106	(479)	295,170	480,304

## 17. Reserves (continued)

### COMPANY

	Share premium HK\$'000	Contributed surplus HK\$'000	Retained profit HK\$'000	Total HK\$'000
Balance at July 1, 1994	159,690	175,327	119,352	454,369
Premium arising from issue of shares	2,215	—	—	2,215
Retained profit for the year	—	—	63,716	63,716
Dividends (note 6)	—	—	(67,792)	(67,792)
<b>Balance at June 30, 1995</b>	<b>161,905</b>	<b>175,327</b>	<b>115,276</b>	<b>452,508</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, 1995 amounted to HK\$290,603,000 (1994: HK\$294,679,000).

## 18. Obligations under Finance Leases

	Group	
	1995 HK\$'000	1994 HK\$'000
<b>The maturity of the obligations is as follows:</b>		
Within one year	1,922	969
In the second year	1,685	1,029
In the third to fifth years inclusive	751	811
	<b>4,358</b>	2,809
Less: amount shown under current liabilities (note 12)	<b>(1,922)</b>	(969)
	<b>2,436</b>	1,840

## 19. Long Term Bank Loans

	Group	
	1995 HK\$'000	1994 HK\$'000
Bank loans		
– secured	22,104	—
– unsecured	13,689	—
Amount wholly repayable within five years	<b>35,793</b>	—
Amount due within one year included under current liabilities (note 12)	<b>(15,874)</b>	—
	<b>19,919</b>	—
<b>The maturity of the long term bank loans is as follows:</b>		
– within one year	15,874	—
– in the second year	6,230	—
– in the third to fifth years inclusive	13,689	—
	<b>35,793</b>	—

## 20. Deferred Taxation

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

	1995 HK\$'000	Group 1994 HK\$'000
Accelerated depreciation allowances	1,121	659
Tax losses	(5,418)	(1,284)
Other timing differences	(5,339)	(3,473)
	<b>(9,636)</b>	<b>(4,098)</b>

## 21. Notes to Cash Flow Statement

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

	1995 HK\$'000	1994 HK\$'000
Profit from ordinary activities before taxation	184,850	206,682
Interest income	(8,920)	(32,396)
Interest expense	4,620	1,268
Finance lease charges	249	278
Depreciation	42,810	21,451
Loss on disposal of fixed assets	2,434	2,682
Gain on partial disposal of a subsidiary	(784)	—
Share of profit of an associated company	(1,708)	(858)
Exchange gain on unlisted investments	—	(57)
Increase in stocks and work in progress	(58,741)	(20,830)
Decrease/(increase) in debtors, deposits and prepayments	1,673	(89,281)
(Increase)/decrease in amounts due from related companies	(1,493)	26,738
Increase in creditors and accrued charges	3,277	62,134
Decrease in amounts due to related companies	4,069	(45,479)
Effect of foreign exchange rate changes	(619)	(1,908)
Net cash inflow from operating activities	<b>171,717</b>	<b>130,424</b>

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

	Share capital and share premium HK\$'000	Minority interests HK\$'000	Bank loans HK\$'000	Obligations under finance leases HK\$'000
Balance at July 1, 1994	234,690	53	—	2,809
Issue of shares	2,302	—	—	—
Capital injected by minority shareholder	—	3,480	—	—
Share of loss attributable to minority shareholder	—	(818)	—	—
New bank loans	—	—	42,528	—
Repayment of bank loans	—	—	(8,175)	—
Inception of new finance leases	—	—	—	2,398
Repayment of finance lease obligations	—	—	—	(1,119)
Exchange difference	—	2	1,440	270
<b>Balance at June 30, 1995</b>	<b>236,992</b>	<b>2,717</b>	<b>35,793</b>	<b>4,358</b>

## 21. Notes to Cash Flow Statement (continued)

### (c) Analysis of the balance of cash and cash equivalents

	1995 HK\$'000	1994 HK\$'000
Short term investments	70,000	85,322
Short term bank deposit	129,237	224,689
Bank balances and cash	33,932	23,783
Short term bank loans	(34,358)	(14,469)
Bank overdrafts	(212)	(1,028)
	<b>198,599</b>	<b>318,297</b>

## 22. Contingent Liabilities

	Group		Company	
	1995 HK\$'000	1994 HK\$'000	1995 HK\$'000	1994 HK\$'000
Guarantees given to banks in respect of banking facilities granted to subsidiaries	—	—	201,689	115,000

## 23. Operating Lease Commitments

	Group	
	1995 HK\$'000	1994 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	35,203	14,184
– expiring in the second to fifth years inclusive	147,715	137,373
	<b>182,918</b>	<b>151,557</b>
Other equipment		
– expiring in the second to fifth years inclusive	81	—
	<b>182,999</b>	<b>151,557</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, 1995 (1994: Nil).

## 24. Capital Commitments

	Group	
	1995 HK\$'000	1994 HK\$'000
Contracted but not provided for	131	44,691
Authorised but not contracted for	—	—
	<b>131</b>	<b>44,691</b>

The Company did not have any significant capital commitments at June 30, 1995 (1994: 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 these related companies. Details relating to these connected transactions are as follows:

	1995			1994		
	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
Transfer of raw materials and sale of finished goods	(6,150)	—	—	(10,809)	—	(234)
Purchase of finished goods	17,824	685	6,572	19,602	825	2,487
Handling fees						
– expenses	8,895	—	—	9,579	—	—
– income	(46)	—	—	—	—	—
Management fees paid	—	—	—	529	—	—
Computer services and shared accommodation expenses	8,722	—	—	7,289	—	—
Consultancy fee received	—	(77)	—	—	—	—
Purchase of equipment and inventories	103	—	—	5,303	—	131
Commission received	—	—	(765)	—	—	(330)
Interest received	—	—	(63)	—	—	(25)
Royalties paid	36,224	—	—	2,540	27,703	—

## 26. Subsidiaries

Details of the Company's subsidiaries at June 30, 1995 are as follows:

Name of subsidiary	Place of incorporation/ registration	Attributable equity interest to the Group	Issued and fully paid share capital/ registered capital <i>(note b)</i>	Principal activities
Esprit Far East (Distribution) Limited <i>(note a)</i>	British Virgin Islands	100%	US\$500	Investment holding
Esprit Asia (Distribution) Limited	Hong Kong	100%	HK\$9,000	Wholesale distribution of apparel and accessories
Esprit Thailand Distribution Limited	British Virgin Islands	100%	US\$100	Investment holding

26. Subsidiaries (continued)

Name of subsidiary	Place of incorporation/ registration	Attributable equity interest to the Group	Issued and fully paid share capital/ registered capital <i>(note b)</i>	Principal activities
Shenzhen Shihe Dress Co., Ltd.	The People's Republic of China	100%	US\$1 million registered capital	Manufacture and retail distribution of apparel
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	Retail distribution of apparel and accessories
Esprit Retail (Hong Kong) Limited	Hong Kong	100%	HK\$10,000	Retail distribution of apparel, accessories and bed and bath products
Esprit Advertising Limited	Hong Kong	100%	HK\$6,000	Advertising
Red Earth Limited	British Virgin Islands	100%	US\$100	Investment holding
Red Earth (Hong Kong) Limited	Hong Kong	100%	HK\$10,000	Retail distribution of cosmetics and skin and general body care products
Red Earth (Korea) Ltd	Republic of Korea	100%	Won3,300,000,000	Retail distribution of apparel and accessories
Red Earth (Singapore) Pte Ltd	Singapore	100%	S\$100,000	Retail distribution of cosmetics and skin and general body care products
Red Earth (Taiwan) Limited	Hong Kong	100%	HK\$2	Garment buying agent
Esprit Retail (Taiwan) Limited	Hong Kong	100%	HK\$9,000	Retail distribution of apparel and accessories
Esprit Japan (Distribution) Limited	British Virgin Islands	90%	US\$500	Investment holding
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 Advertising Pte Ltd	Singapore	100%	S\$20,000	Advertising
Esprit De Corp. (China) Limited	British Virgin Islands	100%	US\$100	Not yet commenced trading
Esprit De Corp. (Malaysia) Sdn. Bhd.	Malaysia	100%	MYR500,000	Retail distribution of apparel and accessories

Note:

(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, 1995 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

	1995 HK\$'000	1994 HK\$'000	1993 HK\$'000	1992 HK\$'000	1991 HK\$'000
<b>Turnover</b>	<b>1,473,251</b>	1,144,919	769,723	485,478	346,863
<b>Operating Profit</b>					
Operating profit	<b>183,142</b>	178,932	105,862	57,305	32,218
Exceptional item	—	26,892	—	—	—
	<b>183,142</b>	205,824	105,862	57,305	32,218
<b>Share of Profit of</b>					
<b>Associated Company</b>	<b>1,708</b>	858	942	93	47
<b>Profit before Taxation</b>	<b>184,850</b>	206,682	106,804	57,398	32,265
<b>Taxation</b>	<b>(43,608)</b>	(39,322)	(27,917)	(11,562)	(5,708)
<b>Profit after Taxation</b>	<b>141,242</b>	167,360	78,887	45,836	26,557
<b>Minority Interests</b>	<b>33</b>	—	—	—	—
<b>Profit attributable to</b>					
<b>Shareholders</b>	<b>141,275</b>	167,360	78,887	45,836	26,557
<b>Dividends</b>	<b>67,792</b>	63,750	30,000	25,000	—

#### Note:

- (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 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 for the years ended June 30, 1995, 1994 and 1993 have been extracted from the audited consolidated profit and loss accounts.*
- (3) *The results for the years ended June 30, 1992 and 1991 presented above have been extracted from the prospectus of the Company dated November 23, 1993.*
- (4) *The Company was incorporated on November 16, 1993 and the only balance sheets of the Group which have been prepared are those set out on page 37 of the financial statements.*

## 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 Washington Room of the American Club, 47th Floor, Two Exchange Square, 8 Connaught Place, Central, Hong Kong on Wednesday, November 22, 1995 at 4:30 p.m. for the following purposes:

1. To receive and consider the audited Financial Statements and the Report of the Directors and of the Auditors of the Group for the year ended June 30, 1995.
2. To declare a final dividend in respect of the year ended June 30, 1995.
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 sub-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*

September 29, 1995

**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.*

