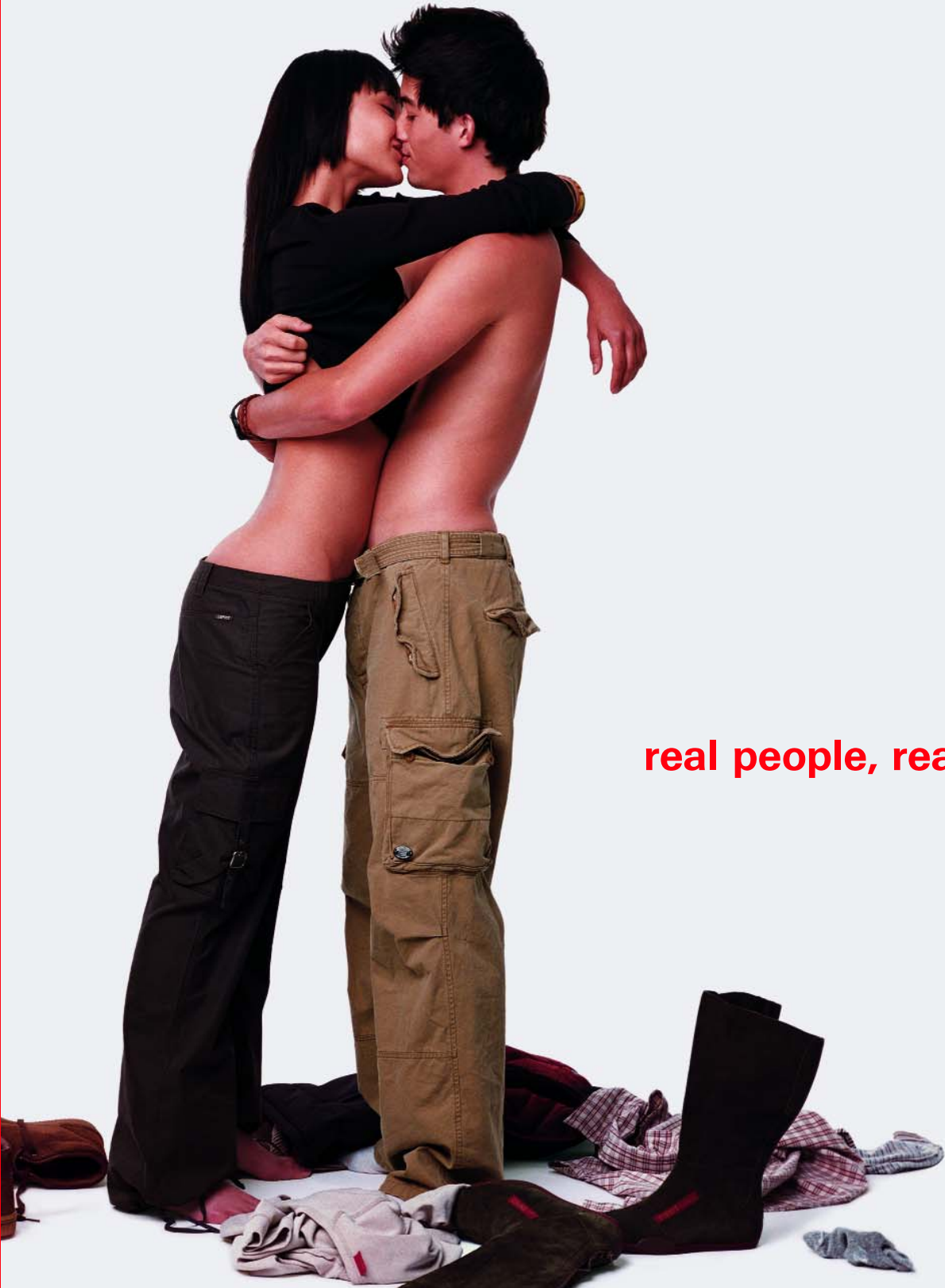


10th
listing anniversary
ESPRIT

ESPRIT

real people, real design, real style

ESPRIT HOLDINGS LIMITED
annual report 2002 | 2003



real people, real design, real style

ESPRIMO

corporate officers

Michael YING Lee Yuen
Chairman of the Board

Heinz Jürgen KROGNER-KORNALIK
Group Chief Executive Officer

John POON Cho Ming
Group Chief Financial Officer

contents

1	corporate overview
2	FY2002/03 financial summary & highlights
4	milestones
6	chairman's statement
8	ceo's statement
10	operations review
22	financial review
24	corporate governance
26	our achievement
28	social responsibility
30	corporate information
31	FY2002/03 financial report
32	report of the directors
42	report of the auditors
43	consolidated profit and loss account
44	consolidated balance sheet
45	balance sheet
46	consolidated cash flow statement
47	consolidated statement of changes in equity
48	notes to the financial statements
73	5-year financial summary

10th
listing anniversary
ESPRIT



**We
are proud
to have brought
10 years of continuous
growth to the
shareholders of**

ESPRIT

As a shareholder, you are a part of a global corporation with a lifestyle brand that is well recognized in many parts of the world. Esprit is not merely about clothes, it is a positive experience that allows you to be who you are. Esprit is not so much about age, it is more about an attitude, the sheer enjoyment of life that never goes out of fashion. Real people, real design, real style - these are our core values and the reasons why we are renowned for the simplicity, sincerity and truth of our products.

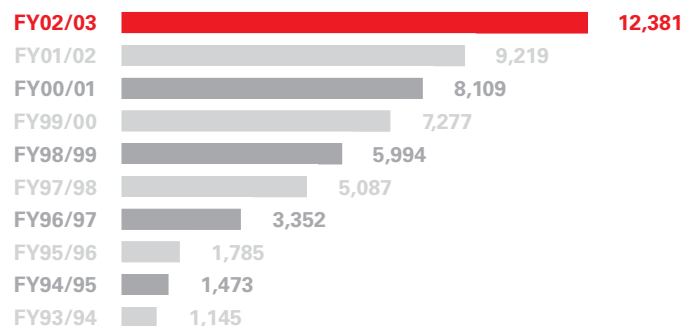
Today, Esprit's merchandises can be found in over 40 countries worldwide, and the Group operates approximately 570 directly managed retail stores and has over 6,000 wholesale outlets internationally. Our comprehensive product offerings encompass women's wear, men's wear, kids' wear, as well as shoes and accessories. The **ESPRIT** label is also applied to licensed products ranging from eyewear, jewelry and timewear to homeware and bed & bath products. In addition, we own the popular Red Earth brand name and distribute its cosmetic products.

Since our listings on the Hong Kong and London stock exchanges in 1993 and 1998, the MSCI Hong Kong Index, Hang Seng Index, FTSE All-World Index for Hong Kong and S&P/HKEx LargeCap Index have all included us in recognition of our solid financial strength.

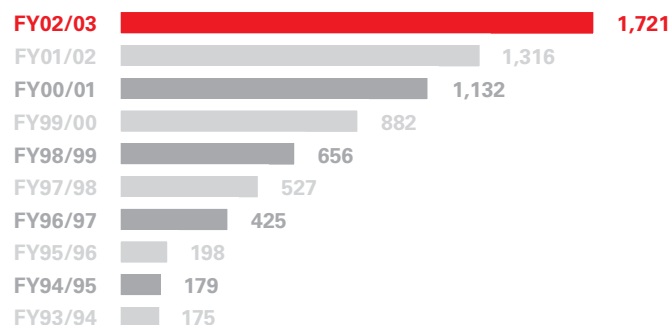


celebrating our 10th consecutive year of growth

TURNOVER (HK\$ MN)



OPERATING PROFIT (EBIT) (HK\$ MN)



OPERATING RESULTS (HK\$ MN)

	NET CHANGE	FY2002/03	FY2001/02
turnover	+34.3%	12,381	9,219
earnings before interest and taxation (<i>EBIT</i>)	+30.7%	1,721	1,316
profit attributable to shareholders	+27.9%	1,186	927

FINANCIAL POSITION (HK\$ MN)

	NET CHANGE	FY2002/03	FY2001/02
net cash from operating activities	+18.3%	1,575	1,331
net cash [^]	+757.1%	1,320	154
net current assets	+90.4%	2,042	1,073
shareholders' funds	+32.3%	4,238	3,204

PER SHARE DATA (HK¢)

	NET CHANGE	FY2002/03	FY2001/02
earnings per share – basic	+24.8%	100.5	80.5
earnings per share – fully diluted	+25.5%	100.3	79.9
dividend per share*	+150.0%	70.0	28.0
special dividend per share	+500.0%	30.0	5.0
book value per share**	+30.8%	356.1	272.2

KEY STATISTICS

	NET CHANGE	FY2002/03	FY2001/02
earnings before interest, taxation, depreciation and amortization (<i>EBITDA</i>) margin (%)	-0.3% pt	17.0	17.3
net profit margin (%)	-0.5% pt	9.6	10.1
return on shareholders' equity (<i>ROE</i>) (%)	-2.5% pts	31.9	34.4
net debt to equity ratio (%)***	–	net cash	net cash

SHARE INFORMATION#

	NET CHANGE	FY2002/03	FY2001/02
number of shares in issue (million)	+1.0%	1,189	1,177
market capitalization (HK\$ mn)	+28.7%	22,644	17,595

[^] cash and cash equivalents less long-term bank loan which will be payable in 2005

* calculated after the HK30 cents special dividend for FY2002/03 and HK5 cents special dividend for FY2001/02

** book value refers to shareholders' funds

*** net debt refers to all interest bearing borrowings less cash and cash equivalents

as at financial year end

milestones



68

Doug and Susie Tompkins and friend Jane Tise founded the Plain Jane Dress Company in San Francisco.



71

The company was renamed Esprit de Corp.



74

Michael Ying formed a partnership with the Tompkins to set up a company that was the principal sourcing agent for products sold by Esprit de Corp. This company is now a part of the Group.



78

The brand entered the European market for the first time.



79

The internationally recognized Esprit logo, featuring the triple-bar E, was created by John Casado.



83

The world's first Esprit retail store opened in Hong Kong



86

European design center in Düsseldorf was built.



93

The Company was listed on the Stock Exchange of Hong Kong.



95

Esprit's Australian operation was injected into the Company.



97

The Group acquired the European operations which included a 63% interest in Esprit International.

The Company was renamed Esprit Holdings Ltd. which reflected the Company's global focus in going forward.



98

The Group acquired about 61% of Red Earth Group.

The Company gained secondary listing on the London Stock Exchange.



99

The Company took complete control over operations in Canada.



00

The Company became a constituent stock of Morgan Stanley's MSCI Hong Kong Index.



01

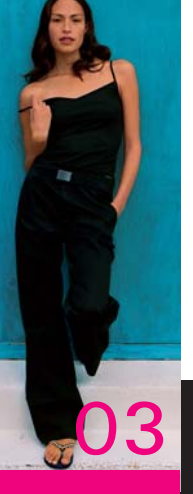
The Group acquired the remaining 39% of Red Earth Group and gained full control of the Red Earth brand.



02

The Group acquired the US trademark rights from Esprit de Corp and the remaining 37% interest in Esprit International, unifying the Esprit brand globally.

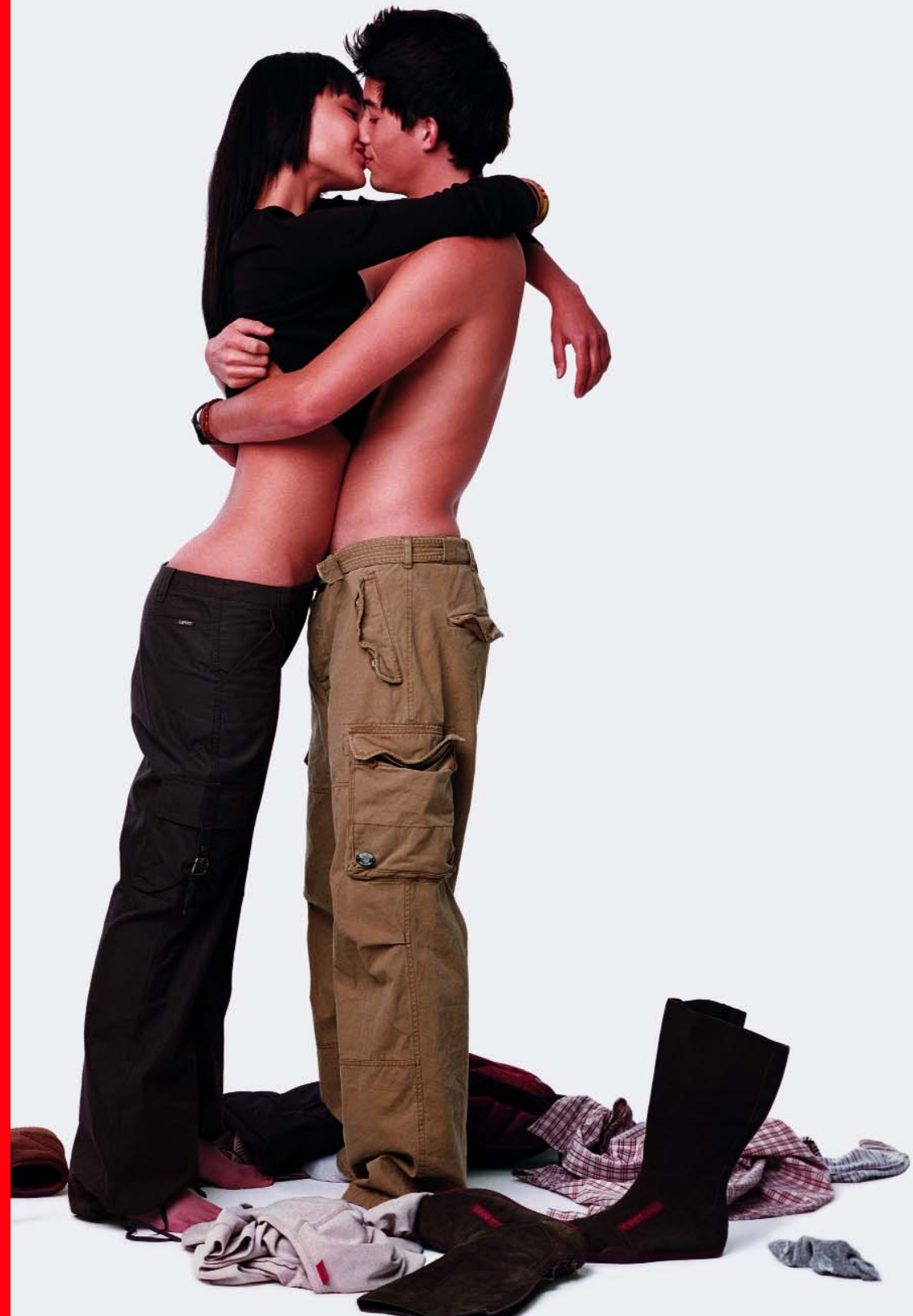
The Company became a constituent stock of Hong Kong's Hang Seng Index.



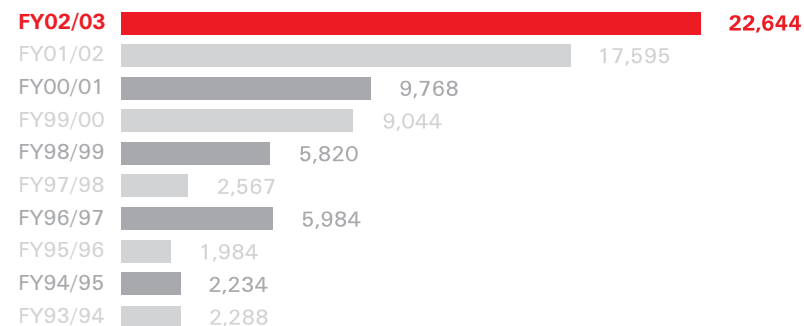
03

The Company was included in the FTSE All-World Index for Hong Kong and S&P/HKEx LargeCap Index

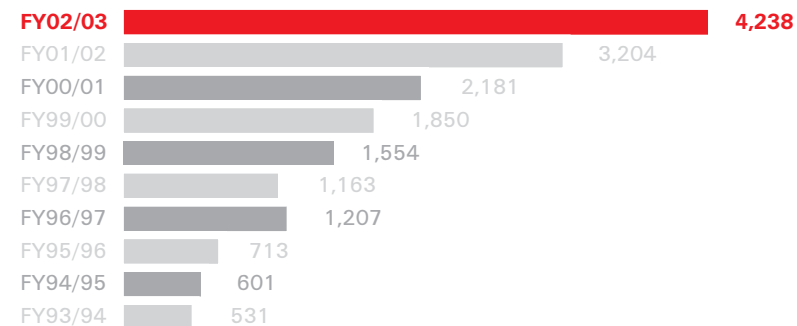
a
historical year,
an important
milestone
for
ESPRIT



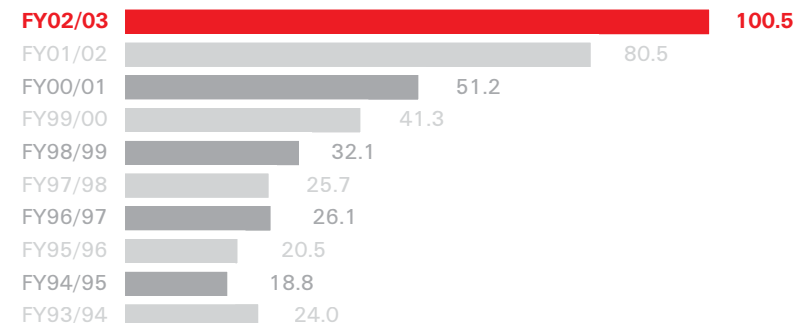
MARKET CAPITALIZATION# (HK\$ MN)



SHAREHOLDERS' FUNDS (HK\$ MN)



EARNINGS PER SHARE (BASIC) (HK¢)



as at financial year end

Dear Shareholders,

The 2002/03 fiscal year carried historical significance for Esprit in many ways.

2003 marks the 35th anniversary of the ESPRIT brand and the Company's tenth year as a listed entity on the Stock Exchange of Hong Kong. Since the infancy of the Esprit Group, this is also the first year in which the ESPRIT brand worldwide is reunited into one global corporation. Having been through the ups and downs with Esprit for over three decades, I am very proud to see that the Company has completed a decade of growth with outstanding results for the past financial year. Despite a weak global economy and difficult retail environment, Group turnover increased by 34% to HK\$12.38 billion and net profit rose to HK\$1.19 billion, a 28% growth from the previous year. Earnings per share and proposed final dividend per share have also demonstrated a 25% and 91% increase respectively.

Our commitment in corporate excellence is evident not only from our stellar financial performances but also from the numerous awards we have attained. In the past fiscal year, Esprit has been ranked one of the best in corporate strategy and in corporate governance in Hong Kong, just to name a few.

Fueled by industry recognition and financial strength, we will continue to strive for future growth and increased return. From a geographical perspective, we are presented with incredible opportunities as our major markets in Europe, Asia and North America go through different phases of development. From a strategic point of view, we are implementing a global strategy that leverages on our international presence and economies of scale while allowing for timely responses to market needs through local execution. With a solid foundation for continuous growth, we are confident that the years ahead will be even brighter as Esprit becomes more than a brand, but a lifestyle of quality, value, and style.

Of course, none of these would be possible without the support of our shareholders, the collaboration of our business partners, and the dedication of our talented employees. Also, I'd like to take this opportunity to report some changes and addition to our Board – Heinz Krogner, who is formerly the CEO of our European operations, has taken my place as the Group CEO while I remain the Chairman of the Board; Thomas Grote and Paul Cheng have joined our Board as Executive Director and Independent Non-executive Director respectively. Under the leadership of our Directors, I am confident that Esprit will continue to expand globally and evolve into a lifestyle of choice by customers all over the world.

Michael YING
Chairman of the Board
September 18, 2003

integration
global of our
business...
it is like a
new
company



Dear Shareholders,

For the first time as the Group's CEO, I am happy to report that the Group had another very successful year and achieved record turnover and profits. Overall, despite the backdrop of continuing difficult retail environment worldwide, all lines of business were profitable. The reason for such success is simple: the management has defined a sound strategy and this strategy is being consistently upheld and executed throughout the Group. Through close contact with our target customers, we are increasingly market-driven and remain committed to delivering high-quality Esprit products at fair prices. Increasing brand awareness of our world-class image and flexible distribution strategies are also paramount factors in our success.

Last year, we made significant strides towards building a stronger global company. We integrated the strategies, system and thinking of different regions into one global structure. We aligned all divisions, from retail to sourcing, under a functional reporting structure, rather than a regional or country-based one. We added new talents to our management team, and we strengthened our retail and merchandising efforts in Asia. Esprit is now a global brand "at home" in Europe, North America and Asia. Today, our strong global brand is supported and developed on the backbone of an ever more competitive and flexible company.

Europe continued to be our growth driver in the past fiscal year. A finely calibrated three-tier pricing strategy, careful use of injection-ordering, the implementation of 12 collections-year that kept the store-offer fresh and the promotion of full-price sales, all contributed to our success. Our penetration into Europe was further deepened with Benelux, France and Scandinavia achieving over 50% wholesale turnover growth. Encouraging sales improvement in non-women's wear was another indication of the level of diversification that we achieved so far.

Our position in Asia is to be aligned with our international platform to project a volume prestige brand. It is essential that we have in Asia a product range that mirrors our global offering, provides a wider selection of merchandise, and most important of all, offers a similar price-quality correlation that appeals to a broad range of consumers. To achieve this, it is necessary to centralize our merchandising practice so that we can leverage off the synergies that can be achieved with and

through our global team. Best practices that are highly successful in Europe, such as the 12 collections-year, injection ordering, demand-driven pricing and inventory management, are now being implemented in Asia. We are focusing on improved stock turns and margins through a bottom-up store-by-store inventory planning approach and pricing merchandise fairly without relying on discounts. The full effect of the rejuvenation of our Asian operation will be seen in FY2003/04.

Entry plans for the U.S. are continuing, with no operating loss and minimal capital expenditure incurred during the last financial year as planned. We have already established partnerships with three department store chains and we are working with these partners to further energize the ESPRIT brand, as well as to fine-tune our products and strategies to fit the specific U.S. market needs.

The appreciation of the euro provided us with unexpected profit in the past financial year. Yet we continue to be prudent in our foreign exchange exposure and we will continue to focus on our core business while minimizing our exposure to the volatility of the various currencies in which we operate.

I strongly believe that our consistent and sustained performance is largely attributable to the hard work and dedication of our brilliant management team. I would like to thank all of our employees around the world for the outstanding efforts that they have made during the past year. The strength of the Group and its brands, the exciting opportunities we now have to grow the business globally, and our new global management structure and team, make me extremely confident that Esprit's growth momentum will continue this year and well into the future.



Heinz KROGNER
Deputy Chairman and Group CEO
September 18, 2003



all business segments profitable with double-digit sales growth

The Group has achieved a decade of consecutive growth. Group turnover grew by 34.3% year-on-year to reach HK\$12.38 billion. Our operating profit (EBIT) increased by 30.7% to HK\$1.72 billion. Profit attributable to shareholders increased 27.9% year-on-year to HK\$1.19 billion. Turnover from key product categories, lines of business and continents with operations have all recorded growth.

WHOLESALE* (HK\$ MN)	RETAIL* (HK\$ MN)	LICENSING AND OTHERS*(HK\$ MN)
FY02/03 7,070	FY02/03 5,107	FY02/03 204
FY01/02 5,220	FY01/02 3,841	FY01/02 158
FY00/01 4,556	FY00/01 3,421	FY00/01 132
FY99/00 3,761	FY99/00 3,436	FY99/00 80
FY98/99 2,877	FY98/99 3,043	FY98/99 74

* Turnover from third parties excluding inter-segment revenue





wholesale

Our wholesale business continued to grow in double-digits during the year. Turnover grew by 35.4% to HK\$7.07 billion (FY2001/02: HK\$5.22 billion). Germany remained our largest wholesale market and recorded 25.8% growth. We have also successfully diversified into Benelux, France and Scandinavia, each of which achieved over 50% increase in turnover. The main reason for our remarkable wholesale performance was our continued triumph in gaining wholesale partners' confidence through the consistent profitability offered by ESPRIT merchandises. Success in cross-selling our progressively diversified product lines, evident in men's wear wholesale turnover growth of 56.2%, also contributed to outstanding results in FY2002/03.

During the year, the number of shop-in-stores in department stores, stand-alone partnership stores and identity corners in multi-label stores increased to over 1,700, 400 and 3,300, totaling over 78,000 m², 64,000 m² and 68,000 m² in selling space respectively. Another channel of wholesale distribution involved country distributors, such as China and Switzerland which have delivered promising results. Our China joint venture has over 600 point-of-sales, totaling over 53,000 m². This combination of our different wholesale formats enabled us to flexibly and speedily penetrate into various locations and markets without major capital commitment.

Breakdown of Wholesale Turnover

Market	Germany	Benelux	France	Scandinavia	Austria	Others
% of wholesale turnover	55.9%	20.2%	6.6%	5.1%	5.0%	7.2%
% point(s) difference (FY2002/03 vs. FY2001/02)	-4.3% pts	+2.2% pts	+1.7% pts	+0.8% pt	-0.1% pt	-0.3% pt
% growth from last year	+25.8%	+52.1%	+80.2%	+61.8%	+33.8%	+29.8%

Key Wholesale Distribution Channels

(as at June 30, 2003)

	partnership stores			shop-in-stores			identity corners/others		
	no. of stores*	sales area (sq.m.)	net change in sales area (%)	no. of stores*	sales area (sq.m.)	net change in sales area (%)	no. of units	sales area (sq.m.)	net change in sales area (%)
europa									
germany	106	23,253	+71.6%	1,189	60,822	+16.1%	2,264	45,352	+29.0%
belgium	29	5,368	+153.0%	33	1,451	n.a.	282	6,336	+22.9%
the netherlands	55	8,847	+30.9%	8	329	+8.6%	272	6,159	+34.4%
france	33	3,340	+175.4%	180	4,948	+85.7%	134	3,303	+65.2%
austria	55	8,981	+36.0%	38	2,261	-0.7%	63	1,309	-13.1%
scandinavia	5	1,998	n.a.	57	2,573	+22.9%	359	5,268	+42.0%
others	-	-	-	-	-	-	14	387	-11.6%
asia									
thailand	19	1,317	-54.4%	52	1,443	-13.5%	-	-	-
philippines	12	1,114	+13.3%	20	791	-2.8%	-	-	-
korea	4	385	n.a.	17	1,050	+42.9%	-	-	-
japan	17	440	-16.8%	36	111	no change	-	-	-
dubai	14	701	+8.5%	-	-	-	-	-	-
middle east	31	4,655	+94.4%	15	1,306	+6.6%	-	-	-
others	34	3,858	+9.0%	73	1,466	+6.9%	-	-	-
north america									
u.s.	-	-	-	2	77	n.a.	264	-**	-
china***	89	14,306	-11.7%	584	39,533	+29.2%	-	-	-

* include Esprit & Red Earth stores

** sales area not available

*** managed by China joint venture or its franchise partners

n.a. = not applicable, stores opened in FY2002/03

**wholesale
turnover up
35% ...
significant
growth in
european
markets**



retail

Our retail operation achieved 33.0% turnover growth to HK\$5.11 billion (FY2001/02: HK\$3.84 billion) amid challenging operating environment. Instrumental to this growth was the combined effect of a 6.9% comparable-store sales growth and a 9.2% increase in the Group's net sales per square meter. Europe led all other regions in comparable-store growth and recorded a 14.1% increase over last year. In spite of charges and provisions for retail space restructuring in Hong Kong, U.K. and Canada, operating profit for this business segment remained flat. In FY2002/03, we have successfully improved inventory turnover and reduced markdowns through better merchandising, demand-driven pricing, and inventory management.

During the year, we invested HK\$231.1 million in capital expenditure to increase our net directly managed retail floor space by 11,049 m², representing a 7.8% growth, to 152,108 m², and ended the fiscal year with a total of 569 directly managed retail stores worldwide. The majority of the new space opened was in Germany where we were able to take advantage of the adverse market conditions by securing favorable locations at reasonable costs.

Breakdown of Retail Turnover

Market	Germany	Benelux	Australasia	Hong Kong	Others
% of retail turnover	45.9%	11.8%	11.4%	11.2%	19.7%
% point(s) difference (FY2002/03 vs. FY2001/02)	+11.0% pts	+0.4% pt	-2.1% pts	-4.8% pts	-4.5% pts
% growth from last year	+74.8%	+36.8%	+12.5%	-6.8%	+8.5%

Retail Distribution Channel

(as at June 30, 2003)

	directly managed stores		
	no. of stores*	sales area** (sq.m.)	net change in sales area*** (%)
europa			
germany	85	53,323	+26.8%
the netherlands	24	8,716	+16.9%
belgium	10	6,089	-1.9%
austria	3	3,090	+52.1%
france	9	2,636	+12.9%
great britain	1	2,094	-39.9%
denmark	2	1,281	no change
asia			
hong kong (incl. macau)	65	18,363	+10.1%
taiwan	110	7,360	-16.7%
singapore	35	5,391	-20.2%
malaysia	15	2,481	-23.3%
australasia			
australia (incl. new zealand)	158	23,627	+4.2%
north america			
canada	52	17,657	-2.0%

* include Esprit & Red Earth stores.

** as part of our effort to unify our global reporting system, we have redefined the meaning of sales area and store count and began using sq.m. as the measurement unit for sales area.

*** versus balance as at June 30, 2002.

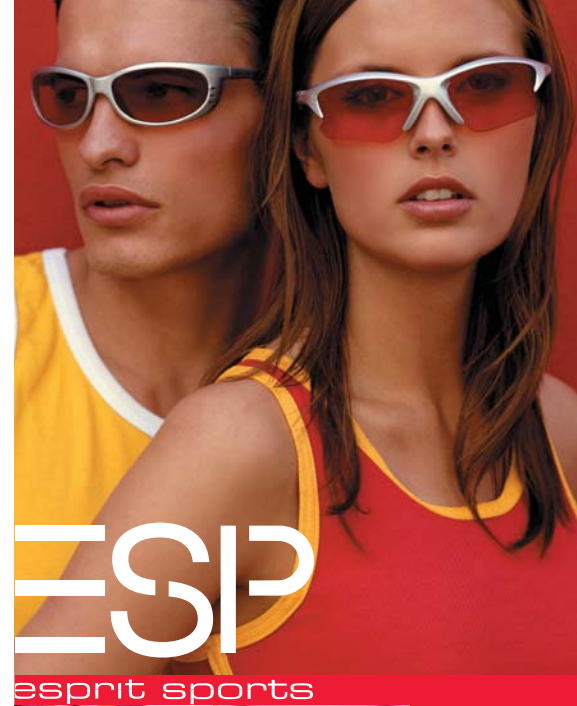
**retail
sales up 33%
amid
challenging
environment**

licensing activities compliment brand penetration worldwide

licensing

Since global unification of the brand, we have committed additional resources to grow the licensing business. Our increased licensing activities have further complimented our brand penetration worldwide. Product license partners distributed ESPRIT licensed products through their own distribution channels, such as department stores and specialty stores, some of which also distribute our other lines of products such as women's or kids' wear. Our U.S. market was the main growth factor in this business segment with 5 new U.S. licenses granted between May 2002 and June 2003.

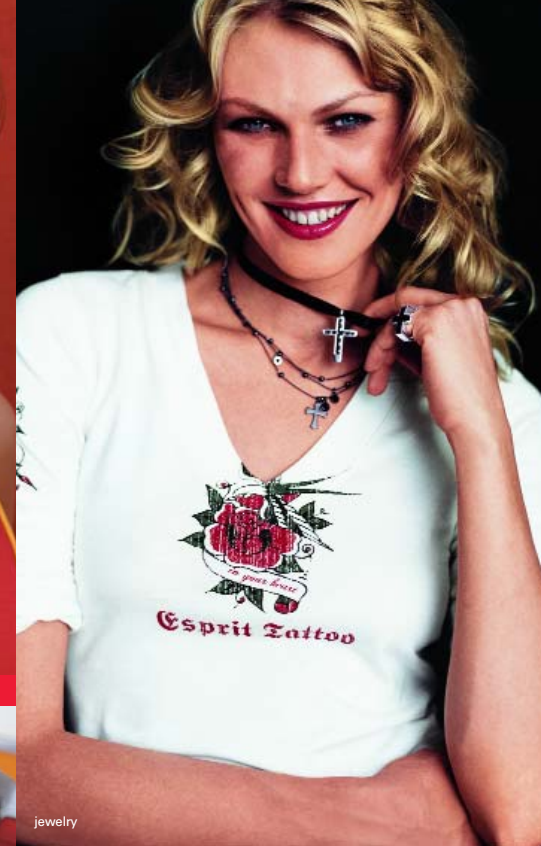
Licensing has now become a strategic element in the future plans of the Group. We currently have more than 20 product license partners offering merchandises in over 20 categories, including eyewear, jewelry, timewear and footwear. We have also put together a strong team of people with great experience both in our brand and in licensing to execute strategies complimentary to our global image.



esprit sports



eyewear



jewelry

timewear



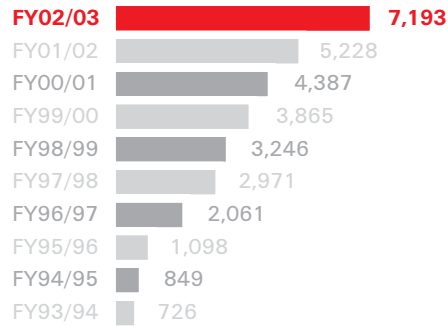
scents + senses



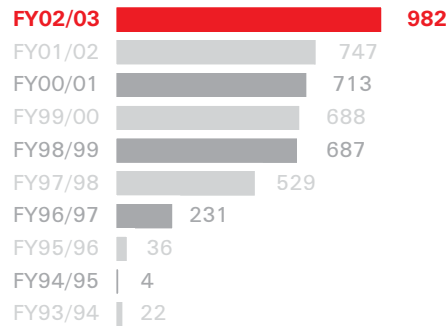
KEY LICENSED PRODUCT CATEGORY	GEOGRAPHICAL COVERAGE			
	europa	asia	australasia	north america
baby carriages	✓			
bags				✓
bed & bath	✓	✓		
belts				✓
duvet	✓			
eyewear	✓	✓	✓	✓
flatware	✓			
footwear				✓
fragrance	✓	✓	✓	✓
golf		✓		
homeware	✓			
kids' wear				✓
jewelry	✓	✓	✓	✓
outerwear				✓
sleepwear				✓
socks & tights	✓			✓
swimwear				✓
timewear	✓	✓	✓	✓
umbrellas	✓			
winter accessories				✓

operations review

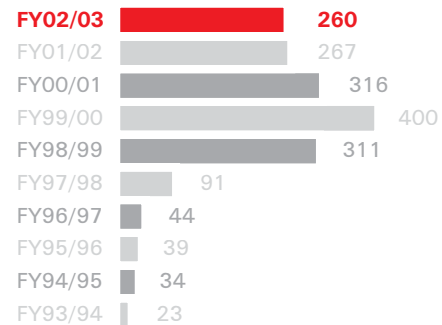
WOMEN'S WEAR (HK\$ MN)



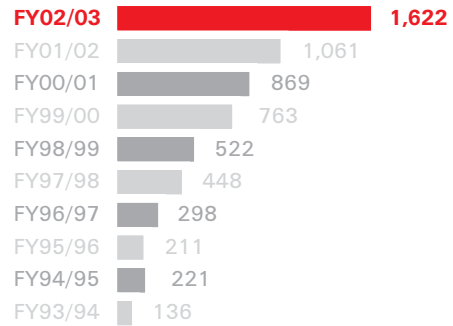
KIDS' WEAR (HK\$ MN)



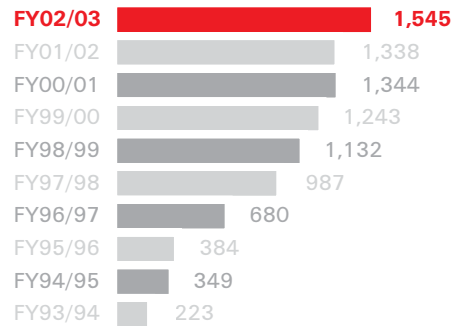
RED EARTH (HK\$ MN)



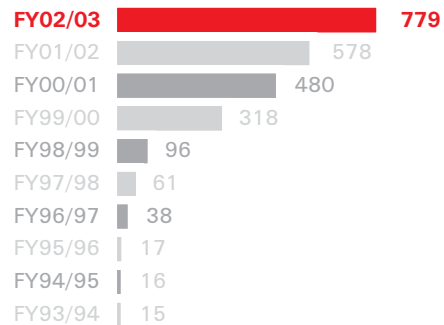
MEN'S WEAR (HK\$ MN)



SHOES AND ACCESSORIES (HK\$ MN)



OTHERS (HK\$ MN)



double-digit turnover growth across key product categories

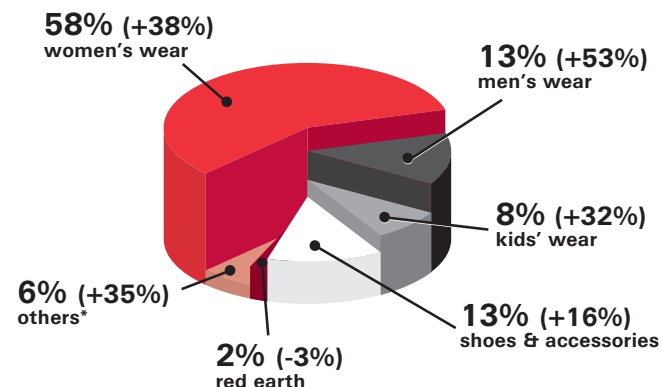
products

Key product categories achieved double-digit turnover growth. Women's wear continued to be our major contributor, making up 58.1% of our total turnover and recording 37.9% year-on-year growth. Men's wear was the best performer in terms of sales growth among all product categories, recorded 52.9% year-on-year growth and accounted for 13.1% of the Group's turnover.

The outstanding sales performance was attributable to the alignment of local management team in executing global product strategy and the implementation of 12 collections-year and injection ordering. These factors gave rise to better market-driven products at the right time and generated healthy sales. Our focus remains in offering high quality products at fair prices. On the back of strong euro, we passed on some of the cost savings from better sourcing to our customers through lower prices or enhanced product quality.



GROUP TURNOVER BY PRODUCT DIVISION
year ended june 30, 2003



() represents year-on-year sales growth

* include salon, café, bodywear, bed & bath, homeware & licensed products like timewear, eyewear, jewelry, etc

operations review

BREAKDOWN OF GROUP TURNOVER*

FOR THE YEAR ENDED JUNE 30

	2003	2002	2001	2000	1999
OPERATION MIX (%)					
wholesale	57	57	56	52	48
retail	41	42	42	47	51
licensing and others	2	1	2	1	1

PRODUCT MIX (%)

women's wear	58	57	54	53	54
men's wear	13	11	11	11	9
kids' wear	8	8	9	10	11
shoes & accessories	13	15	16	17	19
red earth	2	3	4	6	5
others**	6	6	6	3	2

GEOGRAPHICAL MIX (%)

europa	80	74	70	65	63
asia	13	18	21	24	24
australasia	5	6	7	9	10
north america and others	2	2	2	2	3

* excludes inter segment revenue

**include salon, café, bodywear, bed & bath, homeware & licensed products like timewear, eyewear, jewelry, etc.



prospects

Our targets for FY2003/04 are to continue delivering double-digit top and bottom line growth. To achieve these goals, we are going to further leverage on the success of our European operations, halve the retail losses in Hong Kong, U.K. and Canada and deepen our market penetration into North America.

The ESPRIT brand and products, as well as our global distribution channels, remain our focus. In September 2003, we have launched a global image campaign to further nurture our most valuable assets. In addition, we will continue to strengthen our brand dominance in continental Europe.

On the products front, we are focusing on getting the right product to the right location at the right time. We will continue to enhance the breadth and quality of our global offerings to cater to the needs of our markets and further improve our products' price-quality correlation. A new position of International Product Director has already been created to orchestrate and coordinate these plans. Another initiative was the product re-launch exercise in September 2003 in Hong Kong. In addition to product betterment, we will facilitate our successful licensees to enter other markets, further diversifying our offerings in the global marketplace.

Our other main focus is the development of our global distribution network. Europe will remain the growth driver for FY2003/04. Additional space is already booked to begin operation in FY2003/04, including 500 new shop-in-stores in department stores, 100 new stand-alone partnership stores, and around 24,000 m² of directly managed retail space. We feel that we have accumulated enough knowledge of the U.K. market to accelerate its retail and wholesale development. New stores will be opened around the central London area and we have already started wholesaling in the U.K..

The next phase of channel development in North America will begin as we extend our U.S. distribution network beyond department stores into free-standing retail stores. We have accelerated our entrance into the retail business and planned to open around 5 retail stores in the U.S. by the end of 2004, subject to availability of suitable store locations. Roll-out of wholesale shop-in-stores will continue with the expansion to other channels including independent and chain stores in the U.S.. Moreover, we are making plans to introduce e-shop, our online store that is already yielding good return in Europe, to the U.S. in the second half of 2004. In Canada, we target to launch wholesale in FY2003/04.

**with the
right strategy...
more growth
is still ahead...**

In Asia, we will continue our retail space restructuring as well as improvement in store displays and layouts. We are also stepping up efforts to grow our wholesale business within the region. Furthermore, Esprit's joint venture business in China is recovering from the impact of Severe Acute Respiratory Syndrome ("SARS") and is set for further growth.

As for Australasia, we will focus our attention on achieving comparable store growth and strengthening brand penetration in New Zealand.

We have budgeted around HK\$600 million in capital expenditure for FY2003/04, of which approximately HK\$400 million is for opening new stores and upgrading existing ones primarily located in Europe. We will also dedicate around HK\$90 million for implementation of IT systems mainly for merchandise planning and retail management, to facilitate our global unification as well as to enhance productivity and efficiency. Another HK\$100 million has been allocated for furnishing new showrooms and our global business headquarter in Ratingen, Germany due to open in October 2003.

With our major markets in varying stages of advancement, each promising exciting opportunity into the future, we believe that we will remain on track to expand internationally, both in market penetration and in brand recognition.

celebrate 10 years of solid financial performances

FOR THE YEAR ENDED JUNE 30	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
OPERATING RESULTS (HK\$ MN)										
turnover	12,381	9,219	8,109	7,277	5,994	5,087	3,352	1,785	1,473	1,145
operating profit (<i>EBIT</i>)	1,721	1,316	1,132	882	656	527	425	198	179	175
profit attributable to shareholders*	1,186	927	575	460	352	280	236	162	141	167
PER SHARE DATA (HK¢)										
earnings per share – basic*	100.5	80.5	51.2	41.3	32.1	25.7	26.1	20.5	18.8	24.0
dividend per share**	70.0	28.0	16.8	15.0	14.5	3.8	11.5	9.8	9.0	8.5
KEY STATISTICS (HK\$ MN)										
shareholders' funds	4,238	3,204	2,181	1,850	1,554	1,163	1,207	713	601	531
working capital	2,042	1,073	615	668	606	439	505	463	384	460
cash position (net of overdraft)	2,097	934	388	707	543	382	530	347	199	318
term loans	776	780	–	382	533	654	728	11	36	–
OTHER DATA										
number of directly managed stores	569	495	485	472	446	432	364	253	174	121
directly managed sales footage (sq.m.)	152,108	141,059	126,796	99,926	80,592	66,369	56,006	27,875	16,735	12,733
monthly sales per square meter (HK\$)	2,848	2,353	3,336	4,154	4,316	4,165	5,058	6,812	8,857	8,588
capital expenditure (HK\$ MN)	333	344	512	323	257	181	79	60	191	55
number of employees	5,751	5,936	5,954	5,208	4,471	4,257	4,377	2,619	2,345	1,988
KEY RATIOS										
return on shareholders' equity* # (<i>ROE</i>) (%)	31.9	34.4	28.5	27.0	25.9	23.7	24.5	24.6	25.0	48.2
return on total assets* ^ (<i>ROA</i>) (%)	18.3	20.0	16.1	13.8	11.8	9.6	11.6	16.7	18.0	33.8
debt to equity*** (%)	18.7	25.9	2.7	22.4	36.6	64.7	64.0	6.4	12.4	3.4
net debt to equity (%)	net cash	net cash	net cash	net cash	net cash	24.7	16.5	net cash	net cash	net cash
interest cover (times)	54.3	96.2	30.8	24.0	14.0	9.6	9.3	24.7	38.6	116.7
current ratio (times)	1.9	1.6	1.5	1.5	1.5	1.4	1.5	2.3	2.7	3.5
stock turnover period**** (days)	51	64	64	67	72	71	89	122	118	111
earnings before interest, taxation, depreciation and amortization (<i>EBITDA</i>) margin (%)	17.0	17.3	16.5	14.7	13.7	13.4	16.3	14.6	15.1	17.2
earnings before interest and taxation (<i>EBIT</i>) margin (%)	13.9	14.3	14.0	12.1	10.9	10.4	12.7	11.1	12.2	15.3
earnings before taxation (<i>EBT</i>) margin* (%)	14.5	14.8	14.3	12.1	10.4	9.3	12.0	11.5	12.5	15.7

* calculated before profit or loss on listed investment held for long term (HK\$78mn exceptional gain for FY1999, HK\$125mn exceptional loss for FY1998)

** calculated after the HK30 cents special dividend for FY2003 and HK5 cents special dividend for FY2002

calculated based on net earnings as a percentage of average shareholders' equity

^ calculated based on net earnings as a percentage of average total assets

*** debt refers to all interest bearing borrowings

**** calculated as average inventory (excluding consumables) over average daily cost of goods sold for the year

earnings position

Gross margin improved 0.8% point to 49.9% (FY2001/02: 49.1%). Contributing positively to the margin was the lower sourcing cost resulting from the appreciation of euro, and the successful execution of our 12 collections-year strategy, which led to increased full price sales. These positive factors were partly offset by price point adjustment or improvement in product quality while keeping price stable.

EBITDA (operating profit before interest, taxation, depreciation and amortization) for the Group improved by 31.7% to HK\$2.10 billion, and EBITDA margin was slightly lowered by 0.3% point to 17.0%. As a percentage of sales, building expenses (which accounted for 27.1% of total operating expenses) decreased by 0.4% point while staff costs remained flat despite the addition of a number of key personnel. Greater economies of scale was offset by charges and provisions for retail space restructuring primarily in Hong Kong, U.K. and Canada.

Depreciation and amortization expenses were HK\$378.9 million, that is HK\$100.4 million or 36.0% higher than last year's. The significant increase was partly due to an additional amortization charge of HK\$48.8 million attributable to intangible assets acquired in the second half of FY2001/02. Both the Financial Accounting Standards Committee of the Hong Kong Society of Accountants and the International Accounting Standards Board are currently reviewing the comments on their proposed accounting treatment of intangible assets including non-amortization of intangible assets with indefinite useful lives but assessing such assets for impairment on a regular basis. Depending on the timing of release of any revised standard in this regard, we will align our accounting policies to be consistent with the standard.

The Group's effective tax rate was 33.8%, which was 2.7% points lower than the year before, excluding the one-time tax benefit of HK\$120.9 million in FY2001/02. The increase in trademark amortization described above, as well as additional tax on the acquired minority interest in Esprit International, was balanced by our continuous efforts in implementing yield enhancement and efficient tax strategies worldwide. Profit attributable to shareholders increased by 27.9% reaching HK\$1.19 billion. Net profit margin, excluding the one-time tax benefit of HK\$120.9 million in FY2001/02, improved 0.9% point to 9.6%.

liquidity and financial resources

Net cash from operating activities increased by 18.3% to HK\$1.57 billion. The Group's net cash (i.e. cash and cash equivalents less long term bank loan which is payable in 2005) as at June 30, 2003 increased HK\$1.17 billion to HK\$1.32 billion after having spent HK\$332.6 million in capital expenditures during the year. Our debt to equity ratio, expressed as a percentage of interest bearing external borrowings over shareholders' funds of HK\$4.24 billion, was 18.7%. The Group had assets of HK\$74.5 million pledged as security for overdraft and short-term revolving facility. The current ratio (current assets divided by current liabilities) improved to 1.9:1 from 1.6:1.

foreign exchange risk management

During the year, as is our policy, the Group entered into foreign exchange forward contracts to reduce exposure to foreign exchange risks. These agreements were contracted with large and reputable financial institutions, thereby minimizing credit risk. As at June 30, 2003, outstanding contracts increased to HK\$375.2 million, from HK\$251.3 million last year, which corresponded with the increase in European and U.S. orders.

dividend policy

For FY2002/03, the Board of Directors has recommended a final dividend of HK32.5 cents per share. Together with the interim dividend of HK7.5 cents per share distributed in April, this represented a total dividend of HK40.0 cents per share for the fiscal year, or a 73.9% increase from last year. The dividend payout ratio, including the proposed final dividend for the year, was approximately 40.0%. It is the intention of the Group to maintain a long-term consistent dividend payout policy and distribute dividend income to our shareholders that is broadly in line with our earnings growth.

In celebration of the 10th listing anniversary of the Group, the Board of Directors also recommended a special dividend of HK30.0 cents per share to be distributed to our shareholders.

human resources

As at June 30, 2003, the Group employed a total of 5,751 people (FY2001/02: 5,936). Since human capital is key to our growth and profitability, heavy emphasis has been placed on staff training and development. The Group also offers competitive remuneration packages to its employees in compensation for their contribution. In addition, share options and discretionary bonuses are also granted based on the Group's and individuals' performance. All employees from around the world are connected in the Esprit community through the quarterly newsletter and the intranet sharing of the Group's vision and values.

our corporate governance

At Esprit, we are determined to foster and maintain high standards of corporate governance. We believe that maximization of long-term returns is best achieved by acting in recognition of the interests of our stakeholders. We therefore devote considerable efforts to identifying and formalizing the best practices according to international standards. The Group's effort and achievements in these areas have won widespread recognition in various sectors, and the Group has received numerous awards from internationally renowned professional organizations and journals for its standards of corporate governance.

the board of directors

The Board is accountable to our shareholders for leading Esprit in a responsible and effective manner. The key responsibilities of the Board include the formulation of the Group's overall strategies, ensuring effective management leadership of the highest quality and integrity, and providing supervision of the proper conduct of the Group's business.

The Board currently consists of 11 members. To continuously enhance corporate governance, Mr. Heinz Jürgen KROGNER-KORNALIK was appointed as the Group CEO in November of 2002, separating the role of the Chairman from that of the Group CEO. This separation of duties provides a clear distinction between the Chairman's responsibility in managing the operations of the Board and the Group CEO's responsibility in running the Group's business. Mr. Paul CHENG Ming Fun has also been appointed as an independent non-executive director, bringing the total number of independent non-executive directors to four. These independent non-executive directors are selected individuals whose objective judgment are not subject to the influence of the Company or of its major shareholders, and are therefore free to take into account the interests of all shareholders. They also bring a wide range of experience and expertise to the Group and have played an active role in the Board.

The Board, together with the Audit Committee, conducts quarterly review of the Group's operational and financial performances. Matters reserved to the Board for decision-making include annual budgets, capital expenditure, dividend, major acquisitions and disposal of assets and key human resources issues. The Board also receives comprehensive reports well in advance of Board meetings for discussions and decision-making.

One third of our directors, apart from the Chairman of the Board, retire by rotation and submit themselves for re-election by shareholders at each Annual General Meeting ("AGM").

the audit committee

The Audit Committee is responsible for assisting the Board in safeguarding the Company's assets by providing an independent review of the effectiveness of the financial reporting process and the internal control and risk management systems of the Company. The committee also oversees the audit process and performs other duties as assigned by the Board.

All the members of our Audit Committee are non-executive directors, with a majority being independent. The Audit Committee members include:

Mr. Alexander Reid HAMILTON* (chairman of the Audit Committee)

Mr. Paul CHENG Ming Fun*

Mr. Jürgen Alfred Rudolf FRIEDRICH

Mr. Raymond OR Ching Fai*

*independent non-executive directors

In FY2002/03, the Audit Committee met five times. During these meetings, the Audit Committee reviewed the nature, scope and findings of internal and external audit reviews. It also reviewed the treasury activities, liquidity and risk management of the Company during the financial year. Our Group CFO, the external auditors, internal auditors and senior management from group finance department attended the meetings in order to answer any questions raised by the Audit Committee.

outsource internal audit

We outsourced the internal audit function to a big-4 international accounting firm, which is not our statutory auditor, in order to ensure the internal auditor's objectivity and enhance the function's efficiency and effectiveness. The internal auditor reports directly to the Audit Committee. So far, this arrangement has been working well. In FY2002/03, the internal auditor issued reports to the Audit Committee and the Board covering various operational and financial issues, including our global sourcing operation and inventory management. As the need arises, it also conducts ad-hoc reviews or investigations.

internal control and risk management

The Board is responsible for ensuring that the management maintains a sound system of internal control to safeguard shareholders' investments and the Group's assets. The Group is committed to the identification, monitoring and management of risks associated with its business activities and has implemented practical and effective control systems. These include:

- A clearly defined organizational structure with approved authority limits;
- Budgeting and forecasting systems for strategic business units for performance measurement and monitoring;
- Quarterly review of the Group's performances by the Audit Committee and the Board;
- Procedures relating to capital expenditure, asset and liability management;
- Protection of the Company's brand globally;
- Policies to manage financial risks, including hedging foreign exchange exposures;
- Group-wide insurance programs; and
- A global cash management system that is deployed to enhance proper control of global cash surpluses and to maximize returns to our shareholders.

code of best practice

In the opinion of the Directors, the Company was in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") throughout the accounting year under review.

model code for securities transactions by directors

The Company also complies with the Model Code for Securities Transactions by Directors of Listed Companies contained in Appendix 10 of the Listing Rules. Our Group CFO and Executive Director, Mr. John POON Cho Ming, who is also the Company Secretary, is responsible for ensuring that procedures are followed and that applicable laws and regulations are complied with. These include obligations for directors relating to disclosure of interests in securities, disclosure of any conflict of interest in a transaction involving the Company, prohibitions on dealing in securities and restrictions on disclosure of price-sensitive information. The proposal of grant of share options are subject to approval by the Board.

proactive investor relations

It has always been our top priority to effectively communicate to shareholders and investors the Company's direction, performance and key issues. Therefore, we have a high regard for the AGM, as it provides a valuable channel for communication between the Board and the shareholders where questions raised are addressed by our directors.

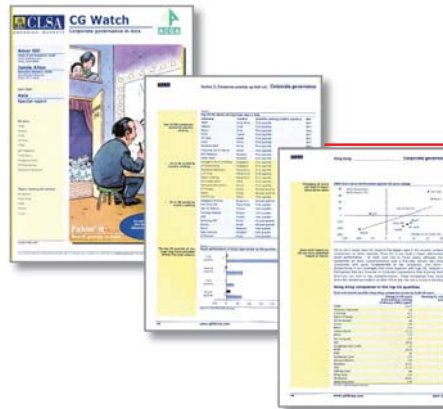
We are also committed to fair disclosure and comprehensive reporting of our performances and activities. Both our Group CEO and Group CFO meet with the analysts and the press after our results announcements, regularly attend major investors conferences and actively participate in round-the-world road-shows to personally talk to institutional investors. To further improve on the speed and transparency of disclosure, our enhanced corporate investor relations website (www.espritholdings.com) is constantly updated with current information such as annual and interim reports, presentations and webcasts, press releases and announcements, lists of analysts covering our stock, as well as our share price performance.



Best in Corporate Governance in Hong Kong (no. 6)
The Asset, December 2002



Best Company Investor Relations in the consumer industry in Asia, based on buy-side and sell-side views
The Asia Equities Investment Report, by Reuters & Institutional Investor Research Group, June 2003



Best in Corporate Governance in Hong Kong (top 4)
Best in Corporate Governance in Asia (top 20)
CLSA, April 2003



Best Annual Reports in Asia (no. 13)
CFO Asia, March 2003

public recognition and awards

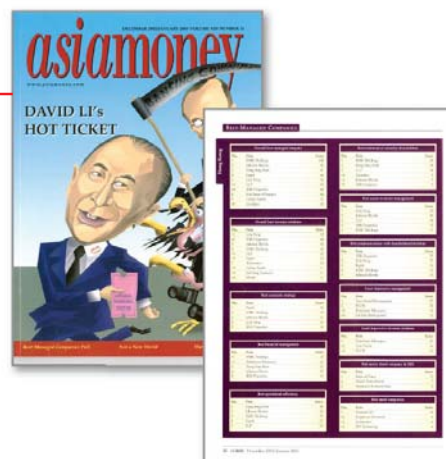
Overall Best Managed Company in Hong Kong (no. 4)
Asiamoney, December 2002/January 2003

Best Corporate Strategy in Hong Kong (no. 1)
Asiamoney, December 2002/January 2003

Best Communications with Shareholders/Investors in Hong Kong (no. 3)
Asiamoney, December 2002/January 2003

Overall Best Investor Relations in Hong Kong (no. 5)
Asiamoney, December 2002/January 2003

Best Operational Efficiency in Hong Kong (no. 4)
Asiamoney, December 2002/January 2003



Best Corporate Governance in Hong Kong (no. 8)
FinanceAsia Magazine, May 2003

Best Managed Company in Hong Kong (no. 8)
FinanceAsia Magazine, May 2003

Most Commitment to Shareholder Value in Hong Kong (no. 5)
FinanceAsia Magazine, May 2003

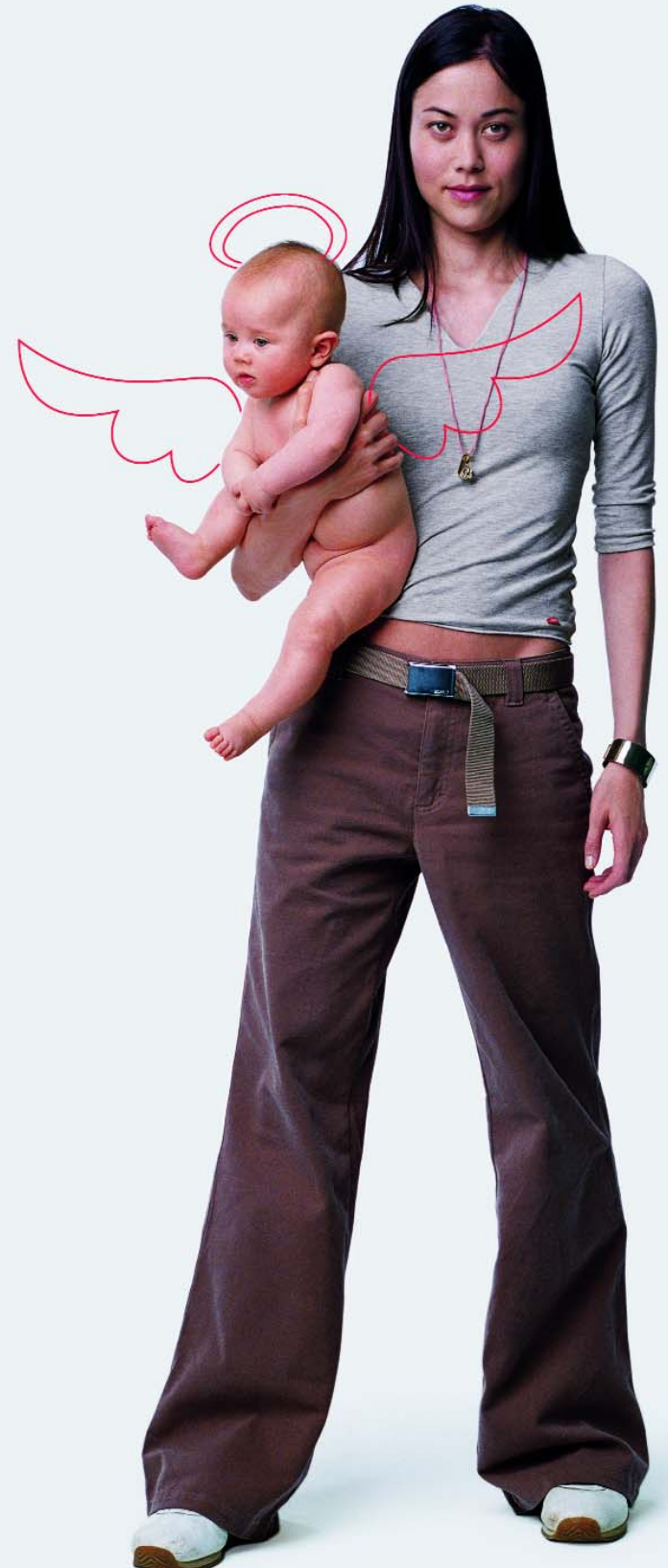
Best at Investor Relations in Hong Kong (no. 8)
FinanceAsia Magazine, May 2003

Best Financial Management in Hong Kong (no. 8)
FinanceAsia Magazine, May 2003

Best CFO in Hong Kong (runner up) - Mr. John POON Cho Ming
FinanceAsia Magazine, May 2003

social responsibility

real angel



**we are
a part
of it...**

esprit and the partners

Esprit is committed to conducting its business in a responsible and sustainable manner. We require suppliers to observe the laws of the relevant jurisdiction particularly with respect to refraining from using child labor, maintaining a safe and healthy work environment for workers and paying reasonable wages and benefits. We also prefer suppliers who take into account the importance of basic education for children and those who demonstrate responsible environmental protections and practices.

To ensure that the standards are being maintained and upheld, Esprit will carry out periodical inspections of suppliers' premises during the year. In addition to checking the quality of the merchandise, our quality controllers also have the task of reporting any infringements on the social aspect of our requirement. We have the right to terminate business dealings or cancel orders with suppliers that fail to meet these standards.

esprit and the community

Esprit is also committed to playing an active role as a responsible corporate citizen. We provide financial support, offer charitable donations, and participate in voluntary activities to help the communities in countries where we do businesses in.

The Esprit Cares Trust was established in 1993 to support non-profit organizations. This year we had supported organizations such as Community Chest of Hong Kong, Operation Smile China Medical Mission Ltd, End Child Sexual Abuse Foundation, and Mission Australia (supporting homeless youth). During the time of SARS outbreak, we have donated over 10,000 T-shirts to hospitals' workers and residents in the affected estates.

We are recognized by the Hong Kong Council of Social Service as Caring Company 2002-2003. Esprit has also been honored for placing donation boxes in all stores since 2000 where all proceeds go to helping the mentally handicapped.



executive directors

Michael YING Lee Yuen
Heinz Jürgen KROGNER-KORNALIK
John POON Cho Ming
CHHIBBER Surinder
Thomas Johannes GROTE
Connie WONG Chin Tzi

non-executive directors

Paul CHENG Ming Fun
Jürgen Alfred Rudolf FRIEDRICH
Alexander Reid HAMILTON
Simon LAI Sau Cheong
Raymond OR Ching Fai

corporate officers

Michael YING Lee Yuen, Chairman of the Board
Heinz Jürgen KROGNER-KORNALIK, Group CEO
John POON Cho Ming, Group CFO

company secretary

John POON Cho Ming

principal banker

The Hongkong and Shanghai Banking
Corporation Limited

auditors

PricewaterhouseCoopers,
Certified Public Accountants

principal legal advisors

Baker & McKenzie
Deacons

stock code

The shares of Esprit Holdings Limited are listed for trading
on The Stock Exchange of Hong Kong Limited (code: 0330)
and the London Stock Exchange (ticker: EPT LI).

principal share registrar

Butterfield Fund Services (Bermuda) Limited
11 Rosebank Centre, Bermudiana Road, Pembroke, Bermuda

hong kong share registrar

Secretaries Limited
G/F, Bank of East Asia Harbour View Centre,
56 Gloucester Road, Wanchai, Hong Kong

registered office

Clarendon House
Church Street, Hamilton HM 11, Bermuda

hong kong head office

10/F, 11 Yuk Yat Street, Tokwawan, Kowloon, Hong Kong
Tel: (+852) 2765 4321
Fax: (+852) 2362 5576

global business headquarter

Esprit-Allee, 40882 Ratingen, Germany
Tel: (+49) 2102 123 0
Fax: (+49) 2102 123 15100

website

www.espritholdings.com

FY2002|03 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, 2003.

principal activities

The Company is an investment holding company. The activities of the principal subsidiaries are shown in note 30 to the financial statements. The Group is principally engaged in the wholesale and retail distribution, sourcing and licensing of quality fashion and life-style products designed under its own internationally known **ESPRIT** brand name, together with Red Earth cosmetics, skin and body care products and the operation of Salon Esprit.

results and appropriations

The results of the Group and appropriations of the Company are set out in the consolidated profit and loss account on page 43 and in the accompanying notes to the financial statements.

The interim dividend of 7.5 Hong Kong cents per share, totalling HK\$88,425,933, was paid on April 8, 2003.

The Directors recommend the payment of a final dividend of 32.5 Hong Kong cents per share and a special dividend of 30.0 Hong Kong cents per share. Details are set out in note 7 to the financial statements.

reserves

Movements in reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on page 47 and in note 20 to the financial statements respectively.

financial summary

A summary of the results and the balance sheets of the Group for the last five financial years is set out on page 73.

share capital

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

fixed assets

Details of movements in fixed assets of the Group during the year are set out in note 12 to the financial statements.

bank loan and overdrafts

Details of bank loan and overdrafts are set out in notes 22 and 23 to the financial statements respectively.

charitable donations

During the year, the Group made charitable donations totalling HK\$2,524,533.

directors and service contracts

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

executive directors

Michael YING Lee Yuen

Heinz Jürgen KROGNER-KORNALIK

John POON Cho Ming

CHHIBBER Surinder

Thomas Johannes GROTE

(appointed on November 1, 2002)

Connie WONG Chin Tzi

non-executive directors

Paul CHENG Ming Fun

(appointed on November 1, 2002)

Jürgen Alfred Rudolf FRIEDRICH

Alexander Reid HAMILTON

Simon LAI Sau Cheong

Raymond OR Ching Fai

In accordance with Bye-laws 86 and 87 of the Company's Bye-laws, Messrs. Heinz Jürgen KROGNER-KORNALIK, Thomas Johannes GROTE, Jürgen Alfred Rudolf FRIEDRICH and Paul CHENG Ming Fun will retire by rotation subject to re-election at annual general meeting in accordance with the Bye-laws of the Company.

directors and service contracts *continued*

Mr. Heinz Jürgen KROGNER-KORNALIK has entered into a service agreement for the period from October 1, 2002 to December 31, 2005 with a member of the Group which is not determinable by the relevant employer before the expiry date without payment of compensation under the applicable local law.

Mr. Thomas Johannes GROTE has entered into a service agreement with a member of the Group which took effect from October 1, 2002 and continues thereafter until terminated by the relevant employer by giving not less than 12 months' notice of termination, such notice will only take effect from or after June 30, 2005.

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

directors and senior management profile**executive directors**

Michael YING Lee Yuen, aged 53, is Chairman of the Board. Mr. Ying has over 30 years of experience in the apparel industry. He is primarily responsible for the overall corporate direction and strategy of the Group.

Heinz Jürgen KROGNER-KORNALIK, aged 62, is Deputy Chairman and Chief Executive Officer of the Group. He has been with the Group since January 1995. He possesses a degree in business administration and industrial engineering. He was a consultant with Kurt Salmon Associates in a variety of areas, including production, organization, marketing, strategy and brand positioning, as well as with several textile firms, always in executive positions, before joining the Group.

John POON Cho Ming, aged 49, is Group Chief Financial Officer and Company Secretary. Mr. Poon is responsible for managing the Group's financial and legal functions, including accounting and tax, treasury management, investor relations, strategic and corporate planning, as well as company secretarial affairs. Prior to joining the Group in December 1999, he has held executive directorships in other public companies and has extensive experience in corporate management, corporate finance and legal affairs. Mr. Poon is a qualified solicitor in Hong Kong, England and Wales, and a barrister and solicitor in Alberta, Canada. He graduated from University of Alberta, Canada with a Bachelor of Arts Degree in Economics and a Bachelor of Laws Degree.

CHHIBBER Surinder, aged 53, is Deputy Chairman of the Board and is responsible for Asia wholesale operations. He joined the Group in 1987 and has over 20 years of experience in the garment industry. He holds a Master of Science Degree in Engineering from The University of Hong Kong and a Master of Science Degree in Operation Research from University of Delhi.

Thomas Johannes GROTE, aged 40, is principally responsible for the Group's wholesale operations. He completed business college in 1983 and thereafter worked at a German textile printing company for six years. He joined the Group in 1990 as key account manager for the accessories division and was later promoted to sales manager. In 1992, he left the Group to work for In-Wear in Germany as sales manager of the men's division and was subsequently promoted to managing director. He returned to the Group in June 1996.

Connie WONG Chin Tzi, aged 55, is responsible for Taiwan operation. Prior to joining the Group in 1979, she worked in the Asian buying office of a major U.S. department store group for over eight years. Ms. Wong received her Bachelor of Arts Degree in Business Administration from National Taiwan University.

non-executive directors

Paul CHENG Ming Fun, aged 66, was appointed an Independent Non-executive Director of the Company in November 2002. Mr. Cheng was a former member of the Hong Kong Legislative Council as well as Chairman of Inchcape Pacific Limited, N M Rothschild & Sons (Hong Kong) Ltd., the Hong Kong General Chamber of Commerce, and the American Chamber of Commerce in Hong Kong. He is currently a Steward of the Hong Kong Jockey Club and an Independent Non-executive Director of several listed companies on the Hong Kong Stock Exchange. He is an Adjunct Professor of Management of Organizations of the Hong Kong University of Science and Technology and is also a member of the Council of The Chinese University of Hong Kong.

Jürgen Alfred Rudolf FRIEDRICH, aged 65, founded Esprit's European operation in 1976 and was appointed a Non-executive Director in 1997. He has over 30 years of experience in the apparel distribution and marketing business and is currently retired in the United States.

Alexander Reid HAMILTON, aged 61, has been an Independent Non-executive Director of the Company since August 1995. He is also a director of CITIC Pacific Limited, COSCO Pacific Limited, COSCO International Holdings Limited, Shangri-La Asia Limited and a number of other Hong Kong companies. He was a partner of Price Waterhouse with whom he practised for 16 years.

report of the directors

directors and senior management profile *continued*

non-executive directors *continued*

Simon LAI Sau Cheong, aged 42, was appointed an Independent Non-executive Director of the Company in November 1999. He is admitted to practice as a solicitor in Hong Kong, England and Wales and New South Wales, Australia. Mr. Lai is a partner of the law firm of Deacons and has over 17 years' experience of legal practice.

Raymond OR Ching Fai, aged 53, was appointed an Independent Non-executive Director of the Company in 1996. He is a General Manager of The Hongkong and Shanghai Banking Corporation Limited, and a director of Hang Seng Bank Limited, Cathay Pacific Airways Limited and Hutchison Whampoa Limited. He is Chairman of the Hong Kong Association of Banks for 2003.

senior management

Ursula BUCK, aged 41, is director of licensing of the Group. She holds a Bachelor Degree in Business Management and Economics from University of Augsburg. She joined the Group in 2002 and has over 10 years' experience in licensing fashion products. Prior to joining the Group, she worked in lifestyle companies like Valentino and Hugo Boss and has 7 years' experience in McKinsey & Company, a management consultancy firm.

Jerome GRIFFITH, aged 45, is the head of retail operation of the Group. He received his Bachelor of Science Degree in Marketing from Pennsylvania State University. Before joining the Group in 2002, he had over 20 years' experience with major retail companies in the United States and Europe.

Melody HARRIS-JENSBACH, aged 42, is International Product Director of the Group. She joined the Group in August 1998 as Design Director for Women's Wear. She graduated from Parsons School of Design in New York City with a Bachelor of Fine Arts majoring in Fashion Design. She has over 19 years' experience as Designer/Chief Designer for various international and national apparel companies.

Albert HESSE, aged 47, is Group Chief Organization Officer. He holds a Master of Business Administration degree from University of Regensburg. Prior to joining the Group in 2003, he has extensive experience in organization, IT and logistics operation in Germany.

Derong YANG, aged 38, is Image Director of the Group. He joined the Group in September 1994 as the Creative Director. His current role is to create and ensure the smooth implementation of an integrated image system throughout the operating regions of the Group. Prior to joining the Group, he worked with a renowned French designer "Jean Charles de Castelbajac" as Design Director. He has received awards for excellence in his creative endeavors and is an activist in arts and culture.

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

As at June 30, 2003, the interests or short positions of the Directors in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited ("SEHK") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"), were as follows:

(1) Shares of the Company

Name of Directors	Capacity	Number of Shares	Total Number of Shares	Percentage of Aggregate Interests to Total Issued Share Capital
Michael Ying Lee Yuen	Interest of a controlled corporation (<i>Note 1</i>)	452,926,352	452,926,352	38.103%
Chhibber Surinder	Beneficial owner	25,385	25,385	0.002%
Thomas Johannes Grote	Beneficial owner	50,000	50,000	0.004%
Connie Wong Chin Tzi	Beneficial owner	2,034,597	2,034,597	0.171%
Jürgen Alfred Rudolf Friedrich	Beneficial owner	101,251,176		
	Interest of spouse (<i>Note 2</i>)	50,901	101,302,077	8.522%

Notes:

1. The shares were held by Great View International Limited, the entire issued share capital of which is owned by Mr. Michael Ying Lee Yuen.
2. The shares were held by Mrs. Anke Beck Friedrich, the wife of Mr. Jürgen Alfred Rudolf Friedrich.
3. All interests disclosed above represent long position in the shares of the Company.

directors' interests and short positions in shares, underlying shares and debentures*continued***(2) Shares Options of the Company**

The interests of the directors in the share options of the Company are detailed in "Share Options" below.

As at June 30, 2003, save as disclosed above, none of the Directors, chief executives or their associates had any interests or short position, whether beneficial or non-beneficial, in the shares, underlying shares or debentures of the Company or any of its associated corporations as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and SEHK pursuant to the Model Code.

share options

The Company adopted a share option scheme on November 17, 1993 (the "1993 Share Option Scheme"). In view of the changes to Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") which govern the operation of share option schemes, the Company adopted a new share option scheme ("2001 Share Option Scheme") on November 26, 2001 and the operation of the 1993 Share Option Scheme was terminated on the same day (such that no further options could be offered under the 1993 Share Option Scheme of the Company but the provisions of the 1993 Share Option Scheme continued to govern outstanding options under that scheme).

Summaries of the 1993 Share Option Scheme and the 2001 Share Option Scheme are set out in note 19 to the financial statements.

report of the directors

share options *continued*

Details of share options exercised during the year and outstanding share options as at June 30, 2003 granted to and accepted by the eligible employees of the Group (including executive directors of the Company) under the 1993 Share Option Scheme, were as follows:

	Date of Grant (mm/dd/yyyy)	Exercise Price (HK\$)	Vesting Period (mm/dd/yyyy) (Note 1)	Exercise Period (mm/dd/yyyy)	Number of Share Options		
					As at 7.1.2002	Exercised	As at 6.30.2003
Directors							
John POON Cho Ming	12/15/1999	6.360	12/15/1999 – 06/14/2002	06/15/2002 – 11/16/2003	1,000,000	1,000,000	–
	12/15/1999	6.360	12/15/1999 – 12/14/2002	12/15/2002 – 11/16/2003	1,000,000	1,000,000	–
	12/15/1999	6.360	12/15/1999 – 06/14/2003	06/15/2003 – 11/16/2003	1,000,000	1,000,000	–
	12/15/1999	6.360	12/15/1999 – 11/15/2003	11/16/2003	1,000,000	–	1,000,000
					4,000,000	3,000,000	1,000,000
CHHIBBER Surinder	07/24/2000	6.264	07/24/2000 – 05/16/2003	05/17/2003 – 11/16/2003	3,000,000	3,000,000	–
Thomas Johannes GROTE (Note 2)	09/22/1999	5.140	09/22/1999 – 05/16/2003	05/17/2003 – 11/16/2003	500,000	–	500,000
Employees							
In aggregate	12/13/1995	2.640	12/13/1995 – 12/12/1997	12/13/1997 – 12/12/2002	375,000	375,000	–
	12/13/1995	2.640	12/13/1995 – 06/12/1998	06/13/1998 – 06/12/2003	375,000	375,000	–
	12/13/1995	2.640	12/13/1995 – 12/12/1998	12/13/1998 – 11/16/2003	375,000	–	375,000
	12/13/1995	2.640	12/13/1995 – 06/12/1999	06/13/1999 – 11/16/2003	375,000	–	375,000
	12/13/1995	2.640	12/13/1995 – 12/12/1999	12/13/1999 – 11/16/2003	375,000	–	375,000
	07/11/1999	2.720	07/11/1999 – 07/10/2002	07/11/2002 – 11/16/2003	250,000	250,000	–
	07/11/1999	2.720	07/11/1999 – 01/10/2003	01/11/2003 – 11/16/2003	250,000	250,000	–
	07/11/1999	2.720	07/11/1999 – 07/10/2003	07/11/2003 – 11/16/2003	250,000	–	250,000
	09/02/1999	5.140	09/02/1999 – 05/16/2003	05/17/2003 – 11/16/2003	1,000,000	1,000,000	–
	09/11/1999	5.140	09/11/1999 – 05/16/2003	05/17/2003 – 11/16/2003	2,500,000	2,500,000	–
	09/15/1999	5.140	09/15/1999 – 05/16/2003	05/17/2003 – 11/16/2003	1,000,000	1,000,000	–
						7,125,000	5,750,000
TOTAL (Directors & Employees)					14,625,000	11,750,000	2,875,000

Notes:

- Vesting Period under the 1993 Share Option Scheme means, in respect of any particular option, a period of not less than six months and not exceeding four years commencing on the date on which an option is granted in accordance with that scheme.
- Mr. Thomas Johannes Grote was appointed Executive Director on November 1, 2002 and the options granted to him as employee were re-classified in the category of "Directors" during the year.

- The weighted average closing prices of the shares on the relevant dates immediately before the dates of exercise regarding the options exercised by Mr. CHHIBBER Surinder, Mr. John POON Cho Ming and the employees were HK\$14.80, HK\$16.00 and HK\$15.16 respectively.
- No share options were granted, cancelled or lapsed under the 1993 Share Option Scheme during the year.

share options *continued***2001 Share Option Scheme**

Details of the share options granted during the year and outstanding share options as at June 30, 2003 under the 2001 Share Option Scheme were as follows:

	Date of Grant (mm/dd/yyyy)	Exercise Price (HK\$)	Vesting Date (mm/dd/yyyy)	Exercise Period (mm/dd/yyyy)	Number of Share Options			
					As at 7.1.2002	Granted	Lapsed	As at 6.30.2003
Directors								
Heinz Jürgen KROGNER-KORNALIK	11/26/2002	14.60	11/26/2003	11/26/2003 – 11/25/2008	–	800,000	–	800,000
			11/26/2004	11/26/2004 – 11/25/2008	–	800,000	–	800,000
			11/26/2005	11/26/2005 – 11/25/2008	–	800,000	–	800,000
			11/26/2006	11/26/2006 – 11/25/2008	–	800,000	–	800,000
			11/26/2007	11/26/2007 – 11/25/2008	–	800,000	–	800,000
					–	4,000,000	–	4,000,000
John POON Cho Ming	11/26/2002	14.60	11/26/2003	11/26/2003 – 11/25/2008	–	480,000	–	480,000
			11/26/2004	11/26/2004 – 11/25/2008	–	480,000	–	480,000
			11/26/2005	11/26/2005 – 11/25/2008	–	480,000	–	480,000
			11/26/2006	11/26/2006 – 11/25/2008	–	480,000	–	480,000
			11/26/2007	11/26/2007 – 11/25/2008	–	480,000	–	480,000
					–	2,400,000	–	2,400,000
Thomas Johannes GROTE	11/26/2002	14.60	11/26/2003	11/26/2003 – 11/25/2008	–	320,000	–	320,000
			11/26/2004	11/26/2004 – 11/25/2008	–	320,000	–	320,000
			11/26/2005	11/26/2005 – 11/25/2008	–	320,000	–	320,000
			11/26/2006	11/26/2006 – 11/25/2008	–	320,000	–	320,000
			11/26/2007	11/26/2007 – 11/25/2008	–	320,000	–	320,000
					–	1,600,000	–	1,600,000

report of the directors

share options *continued*

	Date of Grant (mm/dd/yyyy)	Exercise Price (HK\$)	Vesting Date (mm/dd/yyyy)	Exercise Period (mm/dd/yyyy)	Number of Share Options			
					As at 7.1.2002	Granted	Lapsed	As at 6.30.2003
CHHIBBER Surinder	11/26/2002	14.60	11/26/2003	11/26/2003 – 11/25/2008	–	240,000	–	240,000
			11/26/2004	11/26/2004 – 11/25/2008	–	240,000	–	240,000
			11/26/2005	11/26/2005 – 11/25/2008	–	240,000	–	240,000
			11/26/2006	11/26/2006 – 11/25/2008	–	240,000	–	240,000
			11/26/2007	11/26/2007 – 11/25/2008	–	240,000	–	240,000
					–	1,200,000	–	1,200,000
Connie WONG Chin Tzi	11/26/2002	14.60	11/26/2003	11/26/2003 – 11/25/2008	–	80,000	–	80,000
			11/26/2004	11/26/2004 – 11/25/2008	–	80,000	–	80,000
			11/26/2005	11/26/2005 – 11/25/2008	–	80,000	–	80,000
			11/26/2006	11/26/2006 – 11/25/2008	–	80,000	–	80,000
			11/26/2007	11/26/2007 – 11/25/2008	–	80,000	–	80,000
					–	400,000	–	400,000
Employees								
In aggregate	11/26/2002	14.60	11/26/2003	11/26/2003 – 11/25/2008	–	4,432,000	80,000	4,352,000
			11/26/2004	11/26/2004 – 11/25/2008	–	4,432,000	80,000	4,352,000
			11/26/2005	11/26/2005 – 11/25/2008	–	4,432,000	80,000	4,352,000
			11/26/2006	11/26/2006 – 11/25/2008	–	4,432,000	80,000	4,352,000
			11/26/2007	11/26/2007 – 11/25/2008	–	4,432,000	80,000	4,352,000
					–	22,160,000	400,000	21,760,000
TOTAL (Directors & Employees)					–	31,760,000	400,000	31,360,000

Notes:

1. The closing price of the shares of the Company on November 25, 2002 being the trading day immediately before the date of grant was HK\$14.50.
2. No share options were exercised or cancelled under the 2001 Share Option Scheme during the year.

Save as disclosed above, at no time during the year was the Company or its subsidiaries a party to any arrangement 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.

share options *continued***Accounting Treatment for Share Options**

There is currently no accounting standard for share options or share-based remuneration in Hong Kong. The International Accounting Standards Board ("IASB") has published an exposure draft on the relevant subject in November 2002. The IASB and the Hong Kong Society of Accountants are currently reviewing comments received from the public on this exposure draft.

The Board will assess the Group's accounting treatment for share options or share-based remuneration when relevant Hong Kong accounting standards have been issued. The Company currently intends to value and account for subsisting share options pursuant to the 2001 Share Option Scheme and (if applicable) the 1993 Share Option Scheme in accordance with the requirements of such standards and the Listing Rules.

On that basis, the Board takes the view that it would be inappropriate at this time to state an estimated value of such options as such valuation will be dependent on a large number of assumptions and may not be in accordance with relevant accounting standards that may be issued in the near future.

directors' interests in contracts

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

substantial shareholders

As at June 30, 2003, the following shareholders (other than the directors of the Company whose interests and short positions in the shares and underlying shares of the company are set out above) had interests or short positions in the shares and underlying shares of the Company ("Shares") as recorded in the register required to be kept by the Company under Section 336 of the SFO:

Name of Shareholders	Capacity	Number of Shares	Percentage of Aggregate Interests to Total Issued Share Capital
Great View International Limited	Beneficial owner <i>(Note 1)</i>	452,926,352	38.103%
J.P. Morgan Chase & Co.	Interest of controlled corporations <i>(Note 2)</i>	155,241,597	13.060%

Notes:

- Such interests have also been included as interests of a controlled corporation of Mr. Michael Ying Lee Yuen as disclosed above under "Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures".
- The Shares held by J.P. Morgan Chase & Co. are held in the following capacities:

No. of Shares	Capacity
1,546,000	Beneficial Owner
80,028,687	Investment Manager
73,666,910	Other

substantial shareholders *continued*

3. Details of the interest in the 155,241,597 Shares held by J.P. Morgan Chase & Co. were as follows:

Name	Direct (D) /Indirect (I) Interests in the Shares of the Company	Aggregate Long Position in Shares	Percentage of Aggregate Interests to Total Issued Share Capital
JPMorgan Chase Bank	D	74,510,376	6.268%
J.P. Morgan Fleming Investment GmbH	D	132,000	0.011%
J.P. Morgan Investment Management Limited	D	3,814,040	0.321%
J.P. Morgan Investment Management Inc.	I	3,814,040	0.321%
J.P. Morgan Investment Management Inc.	D	9,015,226	0.758%
J.P. Morgan Trust Bank Ltd	D	276,000	0.023%
J.P. Morgan International Finance Limited	I	2,208,143	0.186%
J.P. Morgan International Inc.	I	2,208,143	0.186%
JPMorgan Chase Bank	I	2,208,143	0.186%
J.P. Morgan Fleming Asset Management (UK) Limited	D	6,955,631	0.585%
Robert Fleming Asset Management Ltd	I	6,955,631	0.585%
Robert Fleming Holdings Ltd	I	6,955,631	0.585%
J.P. Morgan Fleming Asset Management Holdings Inc.	I	65,561,812	5.515%
JF Asset Management (Singapore) Limited	D	2,710,000	0.228%
J.P. Morgan Fleming Asset Management (Asia) Inc.	I	58,606,181	4.930%
JF Asset Management Limited	D	55,496,681	4.669%
JF International Management Inc.	D	399,500	0.034%
J.P. Morgan (Suisse) SA	D	386,143	0.032%
J.P. Morgan Whitefriars Inc.	D	46,000	0.004%
J.P. Morgan Overseas Capital Corporation	I	46,000	0.004%
J.P. Morgan Securities Ltd.	D	1,500,000	0.126%
J.P. Morgan Holdings (UK) Limited	I	1,500,000	0.126%

Explanatory Notes:

All the following interests were deemed to be held by the relevant company under SFO. J.P. Morgan Chase & Co. was deemed to be interested in an aggregate of 155,241,597 Shares held or deemed to be held by: (i) JPMorgan Chase Bank (76,718,519 Shares), (ii) J.P. Morgan Fleming Investment GmbH (132,000 Shares), (iii) J.P. Morgan Investment Management Inc. (12,829,266 Shares) and (iv) J.P. Morgan Fleming Asset Management Holdings Inc. (65,561,812 Shares), all wholly-owned by J.P. Morgan Chase & Co.

- (i) JPMorgan Chase Bank directly held 74,510,376 Shares and was also deemed to be interested in the 2,208,143 Shares held by the following indirect subsidiaries held through JPMorgan International Inc. and J.P. Morgan International Finance Limited ("JPFIN"), both wholly-owned by JPMorgan Chase Bank:
 - (a) 276,000 Shares were held by J.P. Morgan Trust Bank Ltd., 72.16% owned by JPFIN;
 - (b) 386,143 Shares were held by J.P. Morgan (Suisse) SA, wholly-owned by JPFIN;
 - (c) 46,000 Shares were held by J.P. Morgan Whitefriars Inc., wholly-owned by JPFIN through J.P. Morgan Overseas Capital Corporation; and
 - (d) 1,500,000 Shares were held by J.P. Morgan Securities Ltd., 90% owned by J.P. Morgan Holdings (UK) Limited, which was in turn wholly-owned by JPFIN.
- (ii) J.P. Morgan Fleming Investment GmbH directly held 132,000 Shares.
- (iii) J.P. Morgan Investment Management Inc. ("JPIM") directly held 9,015,226 Shares and was also deemed to be interested in the 3,814,040 Shares held by J.P. Morgan Investment Management Limited, wholly-owned by JPIM.

- (iv) J.P. Morgan Fleming Asset Management Holdings Inc. was deemed to be interested in an aggregate of 65,561,812 Shares deemed to be held by (a) J.P. Morgan Fleming Asset Management (Asia) Inc. ("JPAsia"), a wholly-owned subsidiary (58,606,181 Shares) and (b) Robert Fleming Holdings Ltd. ("RFH"), 96%-owned subsidiary (6,955,631 Shares).

- (a) JPAsia was deemed to be interested in an aggregate of 58,606,181 Shares held by the following subsidiaries:
 - i. 2,710,000 Shares held by JF Asset Management (Singapore) Limited, wholly-owned by JPAsia;
 - ii. 55,496,681 Shares were held by JF Asset Management Limited, 99.99% owned by JPAsia; and
 - iii. 399,500 Shares were held by JF International Management Inc., wholly-owned by JPAsia.
- (b) RFH was deemed to be interested in 6,955,631 Shares held by J.P. Morgan Fleming Asset Management (UK) Limited, wholly-owned by Robert Fleming Asset Management Limited, which was in turn 99.96% owned by RFH.

4. All interests disclosed above represent long position in the Shares of the Company in which 73,666,910 Shares represents lending pool.

As at June 30, 2003, save as disclosed above, no person, other than the Directors of the Company, whose interests are set out in "Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures" above, had an interest or a short position in the shares and underlying shares as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

purchase, sale or redemption of the company's shares

Neither the Company nor any of its subsidiaries have purchased, sold or redeemed any of the Company's shares during the year.

pre-emptive rights

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

major customers and suppliers

During the year, less than 12% of the Group's sales were attributable to the five largest customers and less than 15% of the Group's purchases were attributable to the five largest suppliers.

management contracts

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

related party transactions

Details of the significant related party transactions undertaken in the normal course of business are provided under note 29 to the financial statements. None of these related party transactions constitutes a disclosable connected transaction as defined in the Listing Rules.

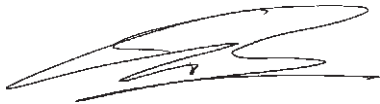
audit committee

An Audit Committee was formed in late 1997, reporting to the Board of Directors. The Committee is comprised of four Non-executive Directors, three of whom are independent. The Audit Committee is dedicated to the review of matters within the purview of audit, such as financial statements and internal controls, and met five times during the year.

auditors

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

On behalf of the board



John Poon Cho Ming

Executive Director

Hong Kong, September 18, 2003

report of the auditors

AUDITORS' REPORT TO THE SHAREHOLDERS OF ESPRIT HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 43 to 72 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 solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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 judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, 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 of the state of affairs of the Company and of the Group as at June 30, 2003 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.



PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, September 18, 2003

consolidated profit and loss account

for the year ended June 30, 2003

	NOTE	2003 HK\$'000	2002 HK\$'000
Turnover			
Company and subsidiary companies		12,381,458	9,219,114
Share of associated companies		297,574	263,590
		12,679,032	9,482,704
Company and subsidiary companies			
Turnover	2	12,381,458	9,219,114
Cost of goods sold		(6,198,869)	(4,690,369)
Gross profit		6,182,589	4,528,745
Staff costs	9	(1,603,630)	(1,198,415)
Depreciation and amortization		(378,884)	(278,533)
Other operating costs		(2,479,118)	(1,735,345)
Operating profit	3	1,720,957	1,316,452
Interest income		41,584	22,635
Finance costs	4	(32,463)	(13,923)
Share of results of associated companies		61,024	35,811
Profit before taxation		1,791,102	1,360,975
Taxation	5	(605,532)	(375,239)
Profit after taxation		1,185,570	985,736
Minority interests		–	(58,526)
Profit attributable to shareholders	6	1,185,570	927,210
Dividends	7	831,918	328,513
Earnings per share	8		
– Basic		100.5 cents	80.5 cents
– Fully diluted		100.3 cents	79.9 cents

consolidated balance sheet

as at June 30, 2003

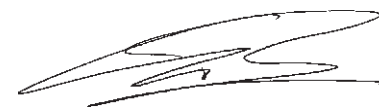
	NOTE	2003 HK\$'000	2002 HK\$'000
Intangible Assets	11	1,744,125	1,849,940
Fixed Assets	12	1,077,505	988,697
Other Investments	13	7,846	7,686
Associated Companies	15	101,568	78,368
Deferred Tax Assets	24	45,765	4,233
Current Assets			
Stocks	16	918,268	955,321
Debtors, deposits and prepayments	17	1,206,333	824,248
Amounts due from associated companies	15	26,196	17,808
Short-term bank deposits		167,443	331,647
Bank balances and cash		1,944,793	650,026
		4,263,033	2,779,050
Current Liabilities			
Creditors and accrued charges	18	1,429,881	976,365
Taxation		775,441	681,556
Obligations under finance leases			
– due within one year	21	219	593
Bank overdrafts	23	15,571	47,995
		2,221,112	1,706,509
Net Current Assets		2,041,921	1,072,541
Total Assets Less Current Liabilities		5,018,730	4,001,465

	NOTE	2003 HK\$'000	2002 HK\$'000
Financed by:			
Share Capital	19	118,869	117,694
Reserves		4,118,858	3,086,025
Shareholders' Funds		4,237,727	3,203,719
Obligations Under Finance Leases	21	336	450
Long-term Bank Loan	22	776,411	780,000
Deferred Tax Liabilities	24	4,256	17,296
		5,018,730	4,001,465

Approved by the Board of Directors on September 18, 2003.



Michael Ying Lee Yuen
Chairman



John Poon Cho Ming
Executive Director

balance sheet


as at June 30, 2003

	NOTE	2003 HK\$'000	2002 HK\$'000
Investment in Subsidiaries	14	2,160,160	2,410,229
Current Assets			
Debtors, deposits and prepayments	17	2,630	320
Bank balances and cash		9,263	5
		11,893	325
Current Liabilities			
Creditors and accrued charges	18	2,684	1,918
Taxation		8,668	10,458
		11,352	12,376
Net Current Assets/(Liabilities)		541	(12,051)
Total Assets Less Current Liabilities		2,160,701	2,398,178
Financed by :			
Share Capital	19	118,869	117,694
Reserves	20	2,041,832	2,280,484
Shareholders' Funds		2,160,701	2,398,178

Approved by the Board of Directors on September 18, 2003.



Michael Ying Lee Yuen
Chairman



John Poon Cho Ming
Executive Director

consolidated cash flow statement

for the year ended June 30, 2003

	NOTE	2003 HK\$'000	2002 HK\$'000
Cash flows from operating activities			
Cash generated from operations	25(a)	2,108,760	1,642,541
Interest paid		(14,442)	(13,206)
Interest element of finance leases		(55)	(133)
Hong Kong profits tax paid		(36,320)	(49,549)
Overseas tax paid		(612,197)	(320,305)
Overseas tax refund received		129,041	71,999
Net cash from operating activities		1,574,787	1,331,347
Cash flows from investing activities			
Acquisition of US trademarks and remaining interest in a limited partnership		–	(1,174,001)
Acquisition of additional interest in a subsidiary		–	(15,000)
Purchase of fixed assets		(332,622)	(343,974)
Proceeds from disposal of fixed assets		9,550	5,215
Purchase of other long-term investment		(160)	(320)
Loan repayment from an associated company		24,500	24,500
Interest received		45,523	19,072
Net cash used in investing activities		(253,209)	(1,484,508)
Cash flows from financing activities			
Net proceeds on issue of shares for cash		64,343	107,699
Repayment of obligations under finance leases		(586)	(1,016)
Long-term bank loan		–	780,000
Interest paid on long-term bank loan		(22,372)	–
Dividends paid		(347,710)	(187,925)
Distribution to a non-affiliated partner of a limited partnership		–	(72,173)
Net cash (used in)/generated from financing activities		(306,325)	626,585

	NOTE	2003 HK\$'000	2002 HK\$'000
Net increase in cash and cash equivalents		1,015,253	473,424
Cash and cash equivalents at beginning of year		933,678	387,948
Effect of change in exchange rates		147,734	72,306
Cash and cash equivalents at end of year	25(b)	2,096,665	933,678

consolidated statement of changes in equity

for the year ended June 30, 2003

	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000	Translation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
Balance at July 1, 2001	114,251	1,084,415	6,602	(275,935)	1,252,132	2,181,465
Exchange translation and net gains not recognized in the consolidated profit and loss account	-	-	-	175,271	-	175,271
Profit attributable to shareholders						
Company and its subsidiaries	-	-	-	-	903,322	903,322
Associated companies	-	-	-	-	23,888	23,888
2000/2001 final dividend paid	-	-	-	-	(137,261)	(137,261)
2001/2002 interim dividend paid	-	-	-	-	(69,069)	(69,069)
Issues of scrip dividend shares	204	18,200	-	-	-	18,404
Issues of shares	3,239	104,460	-	-	-	107,699
Balance at June 30, 2002	117,694	1,207,075	6,602	(100,664)	1,973,012	3,203,719
Representing:						
At June 30, 2002 after proposed final and special dividends					2,944,435	
Proposed final and special dividends					259,284	
Shareholders' funds						<u>3,203,719</u>
Attributable to:						
Company and its subsidiaries	117,694	1,207,075	6,602	(100,358)	1,919,165	3,150,178
Associated companies	-	-	-	(306)	53,847	53,541
	<u>117,694</u>	<u>1,207,075</u>	<u>6,602</u>	<u>(100,664)</u>	<u>1,973,012</u>	<u>3,203,719</u>

	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000	Translation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
Balance at July 1, 2002	117,694	1,207,075	6,602	(100,664)	1,973,012	3,203,719
Exchange translation and net gains not recognized in the consolidated profit and loss account	-	-	-	131,805	-	131,805
Profit attributable to shareholders						
Company and its subsidiaries	-	-	-	-	1,137,870	1,137,870
Associated companies	-	-	-	-	47,700	47,700
2001/2002 final and special dividends paid	-	-	-	-	(259,284)	(259,284)
2002/2003 interim dividend paid	-	-	-	-	(88,426)	(88,426)
Issues of shares (note 19(a))	1,175	63,168	-	-	-	64,343
Balance at June 30, 2003	118,869	1,270,243	6,602	31,141	2,810,872	4,237,727
Representing:						
At June 30, 2003 after proposed final and special dividends					3,494,235	
Proposed final and special dividends					743,492	
Shareholders' funds						<u>4,237,727</u>
Attributable to:						
Company and its subsidiaries	118,869	1,270,243	6,602	31,120	2,709,325	4,136,159
Associated companies	-	-	-	21	101,547	101,568
	<u>118,869</u>	<u>1,270,243</u>	<u>6,602</u>	<u>31,141</u>	<u>2,810,872</u>	<u>4,237,727</u>

The contributed surplus of the Group represents the difference between the nominal value of the shares of the subsidiaries acquired pursuant to the Group reorganization in 1993 and the nominal value of the Company's shares issued in exchange thereof net of any goodwill arisen from subsequent acquisitions prior to July 1, 2001.

notes to the financial statements

for the year ended June 30, 2003

1. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are as follows:

(a) Basis of preparation

The financial statements have been prepared under the historical cost convention in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants.

In the current year, the Group adopted the Statement of Standard Accounting Practice ("SSAP") No. 34 "Employee benefits" issued by the Hong Kong Society of Accountants which is effective for accounting periods commencing on or after January 1, 2002. The adoption of the new SSAP has no material effect on the results for the current and prior accounting periods. Certain comparative figures have been reclassified to conform with the current year's presentation.

(b) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to June 30. Subsidiaries are those entities in which the Group controls the composition of the board of directors, controls more than half of the voting power or holds more than half of the issued share capital.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortized goodwill/negative goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged or recognized in the consolidated profit and loss account, and the related accumulated foreign currency translation reserve up to the effective date of disposal.

Minority interests represent the interests of outside shareholders and a non-affiliated partner in the operating results and net assets of subsidiaries and a limited partnership.

In the Company's balance sheet the investment in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(c) Associated companies

An associated company is a company, not being a subsidiary, in which the Group has a long-term equity interest, and over which the Group is in a position to exercise significant influence in management, including participation in commercial and financial policy decisions.

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

(d) Goodwill/negative goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition.

Goodwill on acquisitions occurring on or after July 1, 2001 is included in intangible assets and is amortized using the straight-line method over its estimated useful life. Goodwill on acquisitions that occurred prior to July 1, 2001 was eliminated against reserves. Any impairment arising on such goodwill is accounted for in the profit and loss account.

Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisition. For acquisitions after July 1, 2001, negative goodwill is presented in the same balance sheet classification as goodwill. To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities at the date of acquisition, that portion of negative goodwill is recognized in the profit and loss account when the future losses and expenses are recognized. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognized in the profit and loss account over the remaining weighted average useful life of those assets; negative goodwill in excess of the fair values of those non-monetary assets is recognized in the profit and loss account immediately. For acquisitions prior to July 1, 2001, negative goodwill was taken directly to reserves on acquisition.

1. PRINCIPAL ACCOUNTING POLICIES *continued*

(e) Revenue recognition

Revenue from the sales of goods is recognized on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has been passed.

Revenue from the operation of salon is recognized when services are rendered.

Licensing income is recognized on an accruals basis in accordance with the substance of the licensing agreement.

Commission income and other income is recognized when services are rendered.

Interest income is recognized on a time proportion basis on the principal amounts outstanding and the interest rates applicable.

(f) Trademarks

Acquired trademarks are stated at cost and amortized using the straight-line method over their estimated useful life subject to a presumed maximum life span of 20 years.

(g) Fixed Assets

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

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

Improvements to leasehold properties and fixtures occupied by the Group under operating leases are amortized over a period of the shorter of five years and their estimated useful lives on a straight-line basis. Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account.

Other tangible fixed assets are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on a straight-line basis after taking into account their estimated residual values. The principal annual rates are as follows:

Buildings	3 ¹ / ₃ – 5%
Plant and machinery	30%
Furniture and office equipment	10 – 33 ¹ / ₃ %
Motor vehicles and launch	30%

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

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognized in the profit and loss account.

(h) Impairment of assets

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognized to reduce the asset to its recoverable amount. Such impairment losses are recognized in the profit and loss account.

(i) Assets under leases

(i) Finance leases

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. Finance leases are capitalized at the inception of the leases at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Each lease payment is allocated between the capital and finance charges so as to achieve a constant rate on the capital balances outstanding. The corresponding rental obligations, net of finance charges, are included in long-term liabilities. The finance charges are charged to the profit and loss account over the lease periods.

(ii) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

(j) Other investments

Investments held for the long-term are stated at cost less provision for impairment losses. Profits or losses on disposal of other investments, representing the difference between the net sales proceeds and the carrying amounts, are recognized in the profit and loss account as they arise.

1. PRINCIPAL ACCOUNTING POLICIES *continued*

(k) Stocks

Stocks are stated at the lower of cost and net realisable 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 realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(l) Trade debtors

Provision is made against trade debtors to the extent they are considered to be doubtful. Trade debtors in the balance sheet are stated net of such provision.

(m) 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.

(n) Provisions

Provisions are recognized for liabilities of uncertain timing or amount when the Company or the Group has a legal or constructive obligation arising as a result of past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made.

(o) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognized because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognized but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognized as a provision.

(p) Translation of foreign currencies

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

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

(q) Foreign exchange contracts

Transactions designated as hedges are translated on an equivalent basis to the assets, liabilities or net positions that they are hedging. Any gain or loss is recognized in the profit and loss account on the same basis as that arising from the related assets, liabilities or net positions. All over or under hedge transactions are marked to market and the gains or losses are recognized in the profit and loss account. No gain or loss is recognized in relation to foreign exchange contracts which are entered into to hedge future commitments until the transaction occurs.

1. PRINCIPAL ACCOUNTING POLICIES *continued*

(r) Cash and cash equivalents

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

Cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and which are subject to an insignificant risk of changes in value. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

(s) Segment reporting

In accordance with Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format. Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment.

Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group companies with a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period. Unallocated items mainly comprise financial and corporate assets, interest-bearing borrowings, corporate and financial expenses.

(t) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

(ii) Retirement benefit costs

The Group operates a number of defined contribution plans throughout the world. The Group's contributions to the defined contribution retirement schemes are expensed as incurred and are not reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. The assets of the schemes are held separately from those of the Group in an independently administered fund.

(iii) Share options

The Company granted share options to certain directors and eligible persons. No compensation cost is recognized. When the options are exercised, the proceeds received net of any transaction costs are credited to share capital and share premium.

2. TURNOVER AND SEGMENT INFORMATION

The Group is principally engaged in the wholesale and retail distribution, sourcing and licensing of quality fashion and life-style products designed under its own internationally known **ESPRIT** brand name, together with Red Earth cosmetics, skin and body care products and the operation of Salon Esprit.

	2003 HK\$'000	2002 HK\$'000
Turnover		
Sales of goods	12,177,503	9,061,516
Commission income	5,534	11,859
Licensing and other income	198,421	145,739
	12,381,458	9,219,114

notes to the financial statements

2. TURNOVER AND SEGMENT INFORMATION *continued*

Primary reporting format – business segments

The Group's businesses are managed according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments.

	Wholesale 2003 HK\$'000	Retail 2003 HK\$'000	Sourcing 2003 HK\$'000	Licensing & others 2003 HK\$'000	Eliminations 2003 HK\$'000	Group 2003 HK\$'000
Turnover	7,070,143	5,107,360	5,534	198,421	–	12,381,458
Inter-segment revenue	–	–	736,682	258,723	(995,405)	–
Segment revenue	7,070,143	5,107,360	742,216	457,144	(995,405)	12,381,458
Segment results	964,465	2,055	567,325	233,981	6,739	1,774,565
Intangible assets amortization						(105,815)
Unallocated net income						52,207
Operating profit						1,720,957
Segment assets	3,306,077	1,825,701	2,228,671	328,158	(2,519,380)	5,169,227
Associated companies						127,764
Intangible assets						1,744,125
Unallocated assets						198,726
Total assets						7,239,842
Segment liabilities	682,102	1,737,319	1,449,398	15,432	(2,519,380)	1,364,871
Unallocated liabilities						1,637,244
Total liabilities						3,002,115
Capital expenditure	79,531	231,095	6,056	15,940	–	332,622
Depreciation	68,754	190,379	3,186	10,750	–	273,069
Impairment of fixed assets	–	36,140	–	–	–	36,140
Provision for retail store exit costs	–	63,589	–	–	–	63,589

2. TURNOVER AND SEGMENT INFORMATION *continued***Primary reporting format – business segments** *continued*

	Wholesale 2002 HK\$'000	Retail 2002 HK\$'000	Sourcing 2002 HK\$'000	Licensing & others 2002 HK\$'000	Eliminations 2002 HK\$'000	Group 2002 HK\$'000
Turnover	5,220,258	3,841,258	11,859	145,739	–	9,219,114
Inter-segment revenue	–	–	530,628	190,588	(721,216)	–
Segment revenue	5,220,258	3,841,258	542,487	336,327	(721,216)	9,219,114
Segment results	844,577	4,471	429,924	196,142	(22,855)	1,452,259
Intangible assets amortization						(56,709)
Unallocated net expenses						(79,098)
Operating profit						1,316,452
Segment assets	2,350,678	1,650,475	1,249,030	129,440	(1,632,173)	3,747,450
Associated companies						96,176
Intangible assets						1,849,940
Unallocated assets						14,408
Total assets						5,707,974
Segment liabilities	401,885	1,434,340	794,561	12,582	(1,632,173)	1,011,195
Unallocated liabilities						1,493,060
Total liabilities						2,504,255
Capital expenditure	46,896	280,255	3,408	13,448	–	344,007
Depreciation	54,692	158,542	2,339	6,251	–	221,824
Impairment of fixed assets	–	–	–	–	–	–
Provision for retail store exit costs	–	–	–	–	–	–

2. TURNOVER AND SEGMENT INFORMATION *continued*

Secondary reporting format – geographical segments

In determining the Group's geographical segments, turnover is attributed to the segments based on the location of customers. The Group has changed the presentation of its geographical segments to reflect its current internal financial reporting which was revised following the implementation of the Group's new global management structure in the current year. Accordingly prior year comparatives have been re-stated to conform with the current year presentation.

	Turnover 2003 HK\$'000	Capital expenditure 2003 HK\$'000	Segments assets 2003 HK\$'000
Europe	9,843,095	256,678	4,327,938
Asia	1,631,685	57,102	1,021,898
Australasia	605,491	13,082	201,269
North America and others	301,187	5,760	152,011
Eliminations	–	–	(533,889)
	12,381,458	332,622	5,169,227
Intangible assets			1,744,125
Associated companies			127,764
Unallocated assets			198,726
Total			7,239,842

	Turnover 2002 HK\$'000	Capital expenditure 2002 HK\$'000	Segment assets 2002 HK\$'000
Europe	6,866,121	251,234	2,495,747
Asia	1,621,076	48,621	1,038,234
Australasia	541,844	27,115	181,271
North America and others	190,073	17,037	116,992
Eliminations	–	–	(84,794)
	9,219,114	344,007	3,747,450
Intangible assets			1,849,940
Associated companies			96,176
Unallocated assets			14,408
Total			5,707,974

3. OPERATING PROFIT

	2003 HK\$'000	2002 HK\$'000
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Operating profit is arrived at after crediting and charging the following:

Crediting:

Provision for obsolete stocks written back	–	6,302
Net exchange gain	151,475	22,724

Charging:

Auditors' remuneration	4,680	5,304
Depreciation		
– Owned assets	272,541	220,767
– Assets held under finance leases	528	1,057
Intangible assets amortization	105,815	56,709
Impairment of fixed assets	36,140	–
Loss on disposal of fixed assets	44,960	6,693
Operating lease rental expenses		
– Land and buildings	1,131,434	863,411
Provision for obsolete stocks and stock write-off	88,918	–
Provision for doubtful debts	29,086	3,435
Provision for retail store exit costs	63,589	–

4. FINANCE COSTS

	2003 HK\$'000	2002 HK\$'000
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Interest on bank loan and overdrafts		
wholly repayable within five years	32,408	13,790
Interest element of finance leases	55	133
	32,463	13,923

5. TAXATION

	2003 HK\$'000	2002 HK\$'000
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Company and its subsidiaries:

Hong Kong profits tax	37,889	51,801
Overseas taxation	602,559	302,386
Deferred taxation (note 24)	(48,240)	9,129

	592,208	363,316
Associated companies – overseas taxation	13,324	11,923

	605,532	375,239
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Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profit for the year.

Overseas (outside of Hong Kong) taxation has been calculated at the rates of taxation prevailing in the countries in which the Group operates.

	2003 HK\$'000	2002 HK\$'000
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Deferred taxation for the year which has not been (credited)/charged amounts to:

Depreciation allowances	(3,383)	(2,730)
Tax losses	(91,409)	(11,299)
Other timing differences	(10,872)	5,143

	(105,664)	(8,886)
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notes to the financial statements

6. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit of the Company attributable to shareholders is dealt with in the financial statements to the extent of HK\$45,890,000 (2002: HK\$203,910,000).

7. DIVIDENDS

	2003 HK\$'000	2002 HK\$'000
Paid interim dividend of 7.5 Hong Kong cents (2002: 6.0 Hong Kong cents) per share	88,426	69,229
Proposed final dividend of 32.5 Hong Kong cents and special dividend of 30.0 Hong Kong cents (2002 final: 17.0 Hong Kong cents, special: 5.0 Hong Kong cents) per share	743,492	259,284
	831,918	328,513

The amount of 2003 proposed final and special dividends is based on 1,189,587,434 shares (2002: 1,178,562,434 shares as at August 31, 2002) in issue as at August 31, 2003.

8. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to shareholders of HK\$1,185,570,000 (2002: HK\$927,210,000) and the weighted average number of shares in issue during the year of 1,179,721,133 (2002: 1,152,349,097).

The calculation of fully diluted earnings per share is based on the profit attributable to shareholders of HK\$1,185,570,000 (2002: HK\$927,210,000), and the weighted average number of shares in issue during the year of 1,181,438,207 (2002: 1,159,817,263) after adjusting for the number of dilutive ordinary shares deemed to be issued at no consideration based on the assumption that all outstanding share options granted under the Company's share option schemes had been exercised.

9. STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	2003 HK\$'000	2002 HK\$'000
Salaries and wages	1,284,770	1,024,940
Social security costs and other staff costs	285,612	154,351
Pension costs of defined contribution plans	33,248	19,124
	1,603,630	1,198,415

10. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' Remuneration

The aggregate amounts of emoluments receivable by Directors of the Company during the year are as follows:

	2003 HK\$'000	2002 HK\$'000
Fees to non-executive Directors*	932	620
Salaries, housing and other allowances, benefits in kind including deemed benefit arising from exercise of share options payable to Executive Directors	82,077	303,152
Bonuses to Executive Directors	16,086	2,078
Pension costs of defined contribution plans	64	60
	99,159	305,910

* The amount includes directors' fees of HK\$732,000 (2002: HK\$470,000) paid to Independent Non-executive Directors.

10. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *continued*

(a) Directors' Remuneration *continued*

The emoluments of the Directors fell within the following bands:

Emoluments Band	Number of Directors	
	2003	2002
Nil – HK\$ 1,000,000	5	4
HK\$ 1,500,001 – HK\$ 2,000,000	1	1
HK\$ 2,500,001 – HK\$ 3,000,000	1	–
HK\$ 8,000,001 – HK\$ 8,500,000	1	–
HK\$ 20,500,001 – HK\$ 21,000,000	1	–
HK\$ 29,000,001 – HK\$ 29,500,000	1	–
HK\$ 30,000,001 – HK\$ 30,500,000	–	1
HK\$ 35,000,001 – HK\$ 35,500,000	1	–
HK\$ 51,000,001 – HK\$ 51,500,000	–	1
HK\$ 62,500,001 – HK\$ 63,000,000	–	1
HK\$158,500,001 – HK\$ 159,000,000	–	1
	11	9

(b) Five Highest Paid Individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2002: four) Directors whose emoluments are reflected in the analysis presented above.

The emoluments receivable by the remaining two (2002: one) highest paid individuals during the year are as follows:

	2003 HK\$'000	2002 HK\$'000
Salaries, housing and other allowances, benefits in kind including deemed benefit arising from exercise of share options	28,480	13,883
Bonuses	2,717	1,716
Pension costs of defined contribution plans	4	12
	31,201	15,611

Emoluments Band	Number of Individuals	
	2003	2002
HK\$13,500,001 – HK\$14,000,000	1	–
HK\$15,500,001 – HK\$16,000,000	–	1
HK\$17,000,001 – HK\$17,500,000	1	–
	2	1

11. INTANGIBLE ASSETS

Group

	Trademarks HK\$'000	Goodwill HK\$'000	Total HK\$'000
At July 1, 2002	1,835,315	14,625	1,849,940
Amortization	(105,065)	(750)	(105,815)
At June 30, 2003	1,730,250	13,875	1,744,125
At June 30, 2003			
Cost	1,983,184	15,000	1,998,184
Accumulated amortization	(252,934)	(1,125)	(254,059)
Net book amount	1,730,250	13,875	1,744,125
At June 30, 2002			
Cost	1,983,184	15,000	1,998,184
Accumulated amortization	(147,869)	(375)	(148,244)
Net book amount	1,835,315	14,625	1,849,940

The net book amount at June 30, 2003 of the Group's trademarks included HK\$628,934,000 (2002: HK\$675,522,000) with a remaining amortization period of 13.5 years (2002: 14.5 years) and HK\$1,101,316,000 (2002: 1,159,793,000) with a remaining amortization period of 18.5 years (2002: 19.5 years).

12. FIXED ASSETS

Group

	Freehold land outside Hong Kong HK\$'000	Medium-term leasehold land in Hong Kong HK\$'000	Buildings HK\$'000	Leasehold improvements and fixtures HK\$'000	Plant and machinery HK\$'000	Furniture and office equipment HK\$'000	Motor vehicles and launch HK\$'000	Total HK\$'000
Cost								
At July 1, 2002	26,653	25,931	69,911	1,346,060	5,395	540,093	10,134	2,024,177
Exchange translation	431	–	1,930	175,922	536	74,105	993	253,917
Additions	–	–	–	194,158	574	132,746	5,144	332,622
Disposals	–	–	–	(103,920)	(427)	(49,857)	(1,804)	(156,008)
At June 30, 2003	27,084	25,931	71,841	1,612,220	6,078	697,087	14,467	2,454,708
Depreciation								
At July 1, 2002	–	3,491	20,529	649,389	4,307	349,724	8,040	1,035,480
Exchange translation	–	–	1,063	86,261	359	45,792	537	134,012
Charge for the year	–	499	2,598	161,447	446	105,822	2,257	273,069
Impairment charge	–	–	–	32,827	–	3,313	–	36,140
Disposals	–	–	–	(56,947)	(392)	(42,699)	(1,460)	(101,498)
At June 30, 2003	–	3,990	24,190	872,977	4,720	461,952	9,374	1,377,203
Net book value								
At June 30, 2003	27,084	21,941	47,651	739,243	1,358	235,135	5,093	1,077,505
At June 30, 2002	26,653	22,440	49,382	696,671	1,088	190,369	2,094	988,697

At June 30, 2003, freehold land and buildings outside Hong Kong with a net book value of HK\$31,727,000 (2002: HK\$33,382,000) are pledged as security for short-term bank loan facilities.

At June 30, 2003, the net book value of motor vehicles and launch of HK\$227,000 (2002: HK\$345,000) are held under finance leases.

13. OTHER INVESTMENTS

	Group	
	2003 HK\$'000	2002 HK\$'000
Unlisted investments, at cost	15,643	15,483
Provision for impairment	(7,797)	(7,797)
	7,846	7,686

14. INVESTMENT IN SUBSIDIARIES

	Company	
	2003 HK\$'000	2002 HK\$'000
Unlisted shares, at cost	216,677	216,677
Loans to subsidiaries	1,633,524	1,621,930
Amounts due from subsidiaries	1,140,140	1,419,248
	2,990,341	3,257,855
Amounts due to subsidiaries	(830,181)	(847,626)
	2,160,160	2,410,229

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

Except for a loan to a wholly-owned subsidiary of US\$170 million (approximately HK\$1,314.1 million) which carries interest at 2% over London Interbank Offer Rate and is wholly repayable on January 10, 2005, the remaining loan balances are interest free and have no fixed terms of repayment. All balances are unsecured.

The amounts due from/to subsidiaries are unsecured, interest free and have no fixed terms of repayment.

Details of the Company's principal subsidiaries at June 30, 2003 are set out in note 30 to the financial statements.

15. ASSOCIATED COMPANIES

	Group	
	2003 HK\$'000	2002 HK\$'000
Share of net assets	101,568	53,868
Loan to an associated company	-	24,500
	101,568	78,368
Unlisted shares, at cost	-	-

The loan to an associated company is unsecured, interest free and has no fixed terms of repayment. The loan was fully repaid during the year ended June 30, 2003.

The amounts due from associated companies are unsecured, interest free and have no fixed terms of repayment.

The following is a list of the principal associated companies as at June 30, 2003:

Name of associated company	Place of incorporation /operation	Attributable equity interest to the Group	Issued and fully paid share capital/ registered capital	Principal activities
Tactical Solutions Incorporated	British Virgin Islands/ The People's Republic of China	49%	US\$100	Investment holding
CRE Esprit Inc.	The People's Republic of China	49%	RMB5,000,000	Retail and wholesale distribution of apparel, accessories and cosmetics products

Both Tactical Solutions Incorporated and CRE Esprit Inc. have a financial accounting period ended December 31, which is not coterminous with the Group.

notes to the financial statements

16. STOCKS

	Group	
	2003 HK\$'000	2002 HK\$'000
Raw materials	9,449	8,143
Finished goods	1,011,097	1,005,614
Consumables	74,075	66,894
Provisions	(176,353)	(125,330)
	918,268	955,321

At June 30, 2003, the carrying amount of stocks that are pledged as security for bank overdrafts amounted to HK\$42,768,000 (2002: HK\$42,775,000).

17. DEBTORS, DEPOSITS AND PREPAYMENTS

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Trade debtors	875,934	520,659	–	–
Deposits	180,764	188,425	–	–
Prepayments	55,055	30,163	–	–
Other debtors and receivables	94,580	85,001	2,630	320
	1,206,333	824,248	2,630	320

The Group's retail sales to customers are mainly on cash basis. The Group also grants credit period which is usually 30 days to certain wholesale and franchise customers. The ageing analysis of trade debtors is as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
0–30 days	791,644	460,168
31–60 days	45,828	21,341
61–90 days	10,774	6,758
Over 90 days	27,688	32,392
	875,934	520,659

18. CREDITORS AND ACCRUED CHARGES

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Trade creditors	543,270	464,144	—	—
Accruals	677,646	388,996	2,684	1,918
Other creditors and payables	208,965	123,225	—	—
	1,429,881	976,365	2,684	1,918

The Group recognizes a provision for retail store exit costs of HK\$63,589,000 (2002: Nil) as the expected benefits to be derived from lease contracts are less than the unavoidable costs of meeting the obligations under the contracts. The amount was included in other creditors and payables.

The ageing analysis of trade creditors is as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
0–30 days	489,189	415,178
31–60 days	30,048	29,367
61–90 days	8,095	8,038
Over 90 days	15,938	11,561
	543,270	464,144

19. SHARE CAPITAL

	2003 HK\$'000	2002 HK\$'000
Authorized:		
2,000,000,000 shares of HK\$0.10 each	200,000	200,000
	Number of shares of HK\$0.10 each '000	Nominal value HK\$'000

Issued and fully paid:

Balance at July 1, 2001	1,142,505	114,251
Exercise of share options	32,393	3,239
Issues of scrip dividend shares	2,039	204
Balance at June 30, 2002	1,176,937	117,694
Balance at July 1, 2002	1,176,937	117,694
Exercise of share options (note (a))	11,750	1,175
Balance at June 30, 2003	1,188,687	118,869

notes to the financial statements

19. SHARE CAPITAL *continued*

(a) During the year, 11,750,000 (2002: 32,393,000) ordinary shares of HK\$0.10 were issued at a premium of the range from HK\$2.54 to HK\$6.26 each in relation to share options exercised by Directors and employees under the 1993 Share Option Scheme (defined in (b) below).

(b) Share options

The Company adopted a share option scheme on November 17, 1993 (the "1993 Share Option Scheme"). In view of the changes to Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") which govern the operation of share option schemes, the Company adopted a new share option scheme ("2001 Share Option Scheme") on November 26, 2001 and the operation of the 1993 Share Option Scheme was terminated on the same day (such that no further options could be offered under the 1993 Share Option Scheme of the Company but the provisions of the 1993 Share Option Scheme continued to govern outstanding options under that scheme).

Summaries of the 1993 Share Option Scheme and the 2001 Share Option Scheme are listed below:

1993 Share Option Scheme

Purpose and eligible persons

The 1993 Share Option Scheme is a share option scheme for employees of the Company or any subsidiaries (including executive directors of the Company or any subsidiary).

Total number of shares available for issue

Operation of the 1993 Share Option Scheme was terminated by the Shareholders on November 26, 2001. Therefore, no further options could be offered under the 1993 Share Option Scheme but in all other respects, the provisions of the 1993 Share Option Scheme shall remain in full force and effect until November 17, 2003.

Maximum entitlement of each eligible persons

The maximum number of shares in respect of which options may be granted to any one person under the 1993 Share Option Scheme, together with shares already issued and issuable under options previously granted to such person, may not exceed 25% of the maximum number of shares in respect of which options may be granted under the 1993 Share Option Scheme from time to time.

Minimum Period for which an option must be held before it can be exercised

Options were divided into fractional installment(s). The first exercisable date between each installment shall occur at intervals of six calendar months. The earliest exercisable date for the first installment shall occur six months after the date of grant.

Period within which the shares must be taken up under an option

An option may be exercised in accordance with the terms of the 1993 Share Option Scheme at any time during a period of five years commencing on the first exercisable date and expiring on the last day of the five-year period or November 17, 2003, whichever is the earlier.

Basis of determining the subscription price

The subscription price for shares in respect of which options are granted will be not less than the higher of the nominal value of the shares and 80% of the average of the closing price of the shares on the SEHK on the five trading days immediately preceding the date of offer of the option.

Details of share options exercised during the year and outstanding share options as at June 30, 2003 granted to and accepted by the eligible employees of the Group (including executive directors of the Company) under the 1993 Share Option Scheme, were as follows:

	Number of share options	
	2003	2002
Balance at July 1	14,625,000	47,018,000
Exercise during the year (Note (i))	(11,750,000)	(32,393,000)
Balance at June 30 (Note (ii))	2,875,000	14,625,000

19. SHARE CAPITAL *continued*

(i) Details of share options exercised during the year ended June 30, 2003 were as follows:

Allotment date	Exercise price HK\$	Number of share options	Proceeds received		Market value* per share at allotment date HK\$
			Share capital HK\$'000	Share premium HK\$'000	
July 5, 2002	2.640	375,000	37	953	15.90
July 11, 2002	2.720	250,000	25	655	15.85
August 5, 2002	6.360	1,000,000	100	6,260	12.85
January 11, 2003	2.720	250,000	25	655	14.05
March 21, 2003	6.360	200,000	20	1,252	15.80
March 29, 2003	6.360	400,000	40	2,504	15.25
April 7, 2003	2.640	125,000	13	318	15.00
May 6, 2003	2.640	125,000	13	318	15.65
May 17, 2003	5.140	3,500,000	350	17,640	15.10
May 20, 2003	5.140	1,000,000	100	5,040	14.80
May 21, 2003	6.264	3,000,000	300	18,492	14.95
May 28, 2003	2.640	125,000	12	317	16.15
June 19, 2003	6.360	1,400,000	140	8,764	18.15
		11,750,000	1,175	63,168	

* "Market value" represents the closing price of the share in Hong Kong on the allotment date or on the trading day immediately before the allotment date (if it is a non-trading day).

Details of share options exercised during the year ended June 30, 2002 were as follows:

Allotment date	Exercise price HK\$	Number of share options	Proceeds received		Market value* per share at allotment date HK\$
			Share capital HK\$'000	Share premium HK\$'000	
October 10, 2001	2.720	250,000	25	655	8.15
October 12, 2001	2.656	500,000	50	1,278	8.30
October 22, 2001	2.720	332,000	33	870	8.00
October 26, 2001	2.640	250,000	25	635	8.25
February 18, 2002	2.720	250,000	25	655	13.60
February 21, 2002	2.720	336,000	34	880	12.65
March 4, 2002	2.656	400,000	40	1,022	12.95
March 4, 2002	6.360	400,000	40	2,504	12.95
March 5, 2002	2.656	1,995,000	199	5,100	13.35
March 5, 2002	6.360	1,995,000	199	12,489	13.35
March 8, 2002	2.656	1,605,000	161	4,102	13.15
March 8, 2002	6.360	1,605,000	161	10,047	13.15
March 12, 2002	3.096	15,000,000	1,500	44,940	13.15
March 13, 2002	2.640	125,000	12	318	12.65
June 5, 2002	2.640	2,350,000	235	5,969	14.60
June 5, 2002	2.656	4,000,000	400	10,224	14.60
June 5, 2002	2.872	1,000,000	100	2,772	14.60
		32,393,000	3,239	104,460	

* "Market value" represents the closing price of the share in Hong Kong on the allotment date or on the trading day immediately before the allotment date (if it is a non-trading day).

notes to the financial statements

19. SHARE CAPITAL *continued*

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

Expiry date	Exercise price HK\$	Number of share options outstanding		Last date of vesting period
		2003	2002	
Directors				
November 16, 2003	6.264	–	3,000,000	May 16, 2003
November 16, 2003	6.360	–	1,000,000	June 14, 2002
November 16, 2003	6.360	–	1,000,000	December 14, 2002
November 16, 2003	6.360	–	1,000,000	June 14, 2003
November 16, 2003	6.360	1,000,000	1,000,000	November 15, 2003
November 16, 2003	5.140	500,000*	–	May 16, 2003
Employees				
December 12, 2002	2.640	–	375,000	December 12, 1997
June 12, 2003	2.640	–	375,000	June 12, 1998
November 16, 2003	2.640	375,000	375,000	December 12, 1998
November 16, 2003	2.640	375,000	375,000	June 12, 1999
November 16, 2003	2.640	375,000	375,000	December 12, 1999
November 16, 2003	2.720	–	250,000	July 10, 2002
November 16, 2003	2.720	–	250,000	January 10, 2003
November 16, 2003	2.720	250,000	250,000	July 10, 2003
November 16, 2003	5.140	–	5,000,000	May 16, 2003
		2,875,000	14,625,000	

* Mr. Thomas Johannes GROTE was appointed Executive Director on November 1, 2002 and the options granted to him as employee (500,000 share options) were re-classified in the category of "Directors" during the year.

2001 Share Option Scheme

Purpose

The 2001 Share Option Scheme is a share incentive scheme established to recognize and acknowledge the contributions that selected eligible persons have made or may make to the Group.

Eligible persons

Eligible persons include:

- (i) any director, employee of the Group, consultant, customer, supplier, agent, partner or adviser of or contractor to the Group or a company in which the Group holds an interest or a subsidiary of such company ("Affiliate");
- (ii) the trustee of any trust the beneficiary of which or any discretionary trust the discretionary objects of which include any director, employee of the Group, consultant, customer, supplier, agent, partner or adviser of or contractor to the Group or an Affiliate; or
- (iii) a company beneficially owned by any director, employee of the Group, consultant, customer, supplier, agent, partner, adviser of or contractor to the Group or an Affiliate.

Total number of shares available for issue

The total number of shares available for issue under the 2001 Share Option Scheme is 114,383,717, representing 9.6% of the issued share capital of the Company as at the date of this report.

Maximum entitlement of each eligible person

The maximum number of shares in respect of which options may be granted under the 2001 Share Option Scheme (including the total number of the shares issued and to be issued upon exercise of options granted and to be granted to any eligible person) shall not exceed any limits that may be imposed under the Listing Rules from time to time as amended and in force.

Minimum period for which an option must be held before it can be exercised

There is no general requirement on the period within which an option must be held before an option can be exercised under the terms of 2001 Share Option Scheme. However, at the time of granting any option, the Board may, on a case by case basis, make such grant subject to such conditions, restrictions or limitations in relation to the minimum period for which the options must be held as the Board may determine in its absolute discretion.

19. SHARE CAPITAL *continued*

Period within which the shares must be taken up under an option

Subject to certain restrictions contained in the 2001 Share Option Scheme, an option which is exercisable pursuant to the 2001 Share Option Scheme may be exercised in accordance with the terms on which such an option was granted at any time during the applicable option period as may be determined by the Board (which shall not be more than 10 years from the date of grant of such an option).

Basis of determining the subscription price

The subscription price for any share under the 2001 Share Option Scheme will be a price determined by the Board and notified to each grantee. Such price will be not less than the highest of (i) the closing price of a share as stated in SEHK's daily quotations sheet on the date of grant of the relevant option, which must be a Business Day (as defined in the Listing Rules), (ii) an amount equivalent to the average closing price of a share as stated in SEHK's daily quotation sheets for the five Business Days immediately preceding the date of grant of the relevant option and (iii) the nominal value of a share.

Remaining life of the 2001 Share Option Scheme

The 2001 Share Option Scheme will remain in force until November 26, 2011.

Details of the share options granted during the year and outstanding share options as at June 30, 2003 under the 2001 Share Option Scheme were as follows:

	Number of share options	
	2003	2002
Balance at July 1	—	—
Granted during the year (Note (iii))	31,760,000	—
Lapsed during the year	(400,000)	—
Balance at June 30 (Note (iv))	31,360,000	—

(iii) Details of share options granted during the year ended June 30, 2003 were as follows:

Exercise period	Exercise price HK\$	Number of share options*
November 26, 2003 - November 25, 2008	14.60	6,352,000
November 26, 2004 - November 25, 2008	14.60	6,352,000
November 26, 2005 - November 25, 2008	14.60	6,352,000
November 26, 2006 - November 25, 2008	14.60	6,352,000
November 26, 2007 - November 25, 2008	14.60	6,352,000
		31,760,000

* 9,600,000 share options were granted to directors and 22,160,000 share options were granted to employees at an exercise price of HK\$14.60 per share option.

(iv) Share options outstanding at the end of the year were as follows:

Expiry date	Exercise price HK\$	Number of share options outstanding	
		2003	2002
Directors			
November 25, 2008*	14.60	9,600,000	—
Employees			
November 25, 2008*	14.60	21,760,000	—
		31,360,000	—

* The share options listed above are not vested at the balance sheet date.

notes to the financial statements

20. RESERVES

Company

	Share premium HK\$'000	Contributed surplus HK\$'000	Retained profits HK\$'000	Total HK\$'000
At July 1, 2001	1,084,415	473,968	601,861	2,160,244
Premium arising from issues of shares	104,460	-	-	104,460
Premium arising from issues of scrip dividend shares	18,200	-	-	18,200
Profit for the year	-	-	203,910	203,910
2000/2001 final dividend paid	-	-	(137,261)	(137,261)
2001/2002 interim dividend paid	-	-	(69,069)	(69,069)
At June 30, 2002	1,207,075	473,968	599,441	2,280,484
Representing:				
At June 30, 2002 after proposed final and special dividends				2,021,200
Proposed final and special dividends				259,284
				2,280,484
At July 1, 2002	1,207,075	473,968	599,441	2,280,484
Premium arising from issues of shares	63,168	-	-	63,168
Profit for the year	-	-	45,890	45,890
2001/2002 final and special dividends paid	-	-	(259,284)	(259,284)
2002/2003 interim dividend paid	-	-	(88,426)	(88,426)
At June 30, 2003	1,270,243	473,968	297,621	2,041,832
Representing:				
At June 30, 2003 after proposed final and special dividends				1,298,340
Proposed final and special dividends				743,492
				2,041,832

The contributed surplus of the Company represents the difference between the underlying net tangible assets of the subsidiaries acquired by the Company and the nominal amount of the share capital issued by the Company arising from the Group reorganization which became effective on November 17, 1993 and the excess of the value of the shares acquired over the nominal value of the shares issued for the acquisition of Esprit Far East Limited and its subsidiaries on January 10, 1997.

Contributed surplus is available for distribution to shareholders under the laws of Bermuda. Distributable reserves of the Company at June 30, 2003 amounted to HK\$771,589,000 (2002: HK\$1,073,409,000).

21. OBLIGATIONS UNDER FINANCE LEASES

	Group	
	2003 HK\$'000	2002 HK\$'000
Total minimum lease payments		
- within one year	255	629
- in the second year	151	216
- in the third to fifth year inclusive	192	289
	598	1,134
Future finance charges on finance leases	(43)	(91)
Present value of finance lease liabilities	555	1,043
The present value of finance lease liabilities		
- within one year	219	593
- in the second year	126	197
- in the third to fifth year inclusive	210	253
	555	1,043
Amount due within one year included under current liabilities	(219)	(593)
	336	450

22. LONG-TERM BANK LOAN

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Unsecured and wholly repayable within 5 years	776,411	780,000	–	–

The long-term bank loan is repayable in 2005.

23. BANK OVERDRAFTS

	Group	
	2003 HK\$'000	2002 HK\$'000
Secured	197	35,164
Unsecured	15,374	12,831
	15,571	47,995

24. DEFERRED TAXATION

	Group	
	2003 HK\$'000	2002 HK\$'000

Assets

At the beginning of the year	4,233	5,805
Credited/(charged) to the profit and loss account (note 5)	36,549	(2,092)
Exchange translation	4,983	520
At the end of the year	45,765	4,233

Provided in the financial statements in respect of:

Depreciation allowances	4,830	4,233
Tax losses	29,481	–
Other timing differences	11,454	–
	45,765	4,233

Liabilities

At the beginning of the year	(17,296)	(8,192)
Credited/(charged) to the profit and loss account (note 5)	11,691	(7,037)
Exchange translation	1,349	(2,067)
At the end of the year	(4,256)	(17,296)

Provided in the financial statements in respect of:

Depreciation allowances	(497)	(1,008)
Other timing differences	(3,759)	(16,288)
	(4,256)	(17,296)

notes to the financial statements

24. DEFERRED TAXATION *continued*

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

	Group	
	2003 HK\$'000	2002 HK\$'000
Depreciation allowances	8,735	5,352
Tax losses	119,690	28,281
Other timing differences	14,049	3,177
	142,474	36,810

25. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit before taxation to cash generated from operations

	2003	2002
	HK\$'000	HK\$'000
Profit before taxation	1,791,102	1,360,975
Adjustments for:		
Interest income	(41,584)	(22,635)
Interest expense	32,408	13,790
Interest element of finance leases	55	133
Depreciation	273,069	221,824
Intangible assets amortization	105,815	56,709
Impairment of fixed assets	36,140	–
Loss on disposal of fixed assets	44,960	6,693
Provision for retail store exit costs	63,589	–
Share of results of associated companies	(61,024)	(35,811)
Effect of foreign exchange rate changes	(157,890)	(15,159)
Operating profit before changes in working capital	2,086,640	1,586,519
Decrease/(increase) in stocks	37,053	(164,057)
Increase in debtors, deposits and prepayments	(396,024)	(104,451)
Increase in amounts due from associated companies	(8,388)	(7,459)
Increase in creditors and accrued charges	287,274	228,858
Effect of foreign exchange rate changes	102,205	103,131
Cash generated from operations	2,108,760	1,642,541

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

	2003	2002
	HK\$'000	HK\$'000
Short-term bank deposits	167,443	331,647
Bank balances and cash	1,944,793	650,026
Bank overdrafts	(15,571)	(47,995)
	2,096,665	933,678

26. CONTINGENT LIABILITIES

	Company	
	2003	2002
	HK\$'000	HK\$'000
Guarantees given to banks in respect of banking facilities granted to subsidiaries	1,281,362	1,492,366

27. OPERATING LEASE COMMITMENTS

	Group	
	2003	2002
	HK\$'000	HK\$'000
The total future minimum lease payments under non-cancellable operating leases are as follows:		
Land and buildings		
– within one year	1,035,808	847,768
– in the second to fifth year inclusive	3,416,932	2,971,632
– after the fifth year	4,666,608	4,361,886
	9,119,348	8,181,286
Other equipment		
– within one year	9,717	27,850
– in the second to fifth year inclusive	5,947	28,364
– after the fifth year	47	122
	9,135,059	8,237,622

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

The Company did not have any operating lease commitments at June 30, 2003 (2002: Nil).

28. COMMITMENTS**(a) Capital Commitments**

	Group	
	2003	2002
	HK\$'000	HK\$'000
Contracted but not provided for	316,977	260,111
Authorized but not contracted for	158,448	110,719
	475,425	370,830

The Company did not have any significant capital commitments at June 30, 2003 (2002: Nil).

(b) Foreign Exchange Contracts

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

	Group	
	2003	2002
	HK\$'000	HK\$'000
Forward contracts	375,233	251,256

29. RELATED PARTY TRANSACTIONS

In the ordinary course of business and on normal commercial terms, the Group entered into transactions with related companies during the year. Details relating to these related party transactions are as follows:

	2003	2002
	HK\$'000	HK\$'000
Transactions with Associated Companies		
Sales of finished goods	231,923	231,262
Royalty received	11,419	8,373
Commission received	3,790	8,665

notes to the financial statements

30. PRINCIPAL SUBSIDIARIES

The following are the principal subsidiaries as at June 30, 2003 which, in the opinion of the Directors, principally affect the results and net operating assets of the Group. To give details of other subsidiaries would in the opinion of the Directors result in particulars of excessive length.

Name of subsidiary	Place of incorporation/ operation	Attributable equity interest to the Group	Issued and fully paid share capital/ registered capital (note a)	Principal activities
Esprit Belgie Retail N.V.	Belgium	100%	EUR1,200,000	Retail distribution of apparel and accessories
Esprit Belgie Wholesale N.V.	Belgium	100%	EUR100,000	Wholesale distribution of apparel and accessories
Esprit China Distribution Limited	British Virgin Islands/Hong Kong	100%	USD100	Investment holding
Esprit Corporate Services Limited	British Virgin Islands/Hong Kong	100%	USD100	Financial services
Esprit de Corp (1980) Ltd.	Canada	100%	CAD1,000,100	Distribution of apparel and accessories
Esprit de Corp Danmark A/S	Denmark	100%	DKK12,000,000	Wholesale and retail distribution of apparel and accessories
Esprit de Corp (Far East) Limited	Hong Kong	100%	HKD1,200,000	Sourcing of apparel and accessories
Esprit de Corp France S.A.	France	100%	EUR6,373,350	Wholesale and retail distribution of apparel and accessories
Esprit de Corp (Malaysia) Sdn. Bhd.	Malaysia	100%	MYR500,000	Retail distribution of apparel and accessories
Esprit Design und Product Development GmbH	Germany	100%	EUR300,000	Design of apparel and accessories
Esprit Distribution Limited	Hong Kong	100%	HKD2,000,000	Wholesale distribution of apparel and accessories
Esprit EILP Limited	British Virgin Islands/Hong Kong	100%	USD1	Limited partner of Esprit International
Esprit Europe B.V.	The Netherlands	100%	EUR1,500,000	Investment holding and wholesale and retail distribution of apparel and accessories
Esprit Europe GmbH	Germany	100%	EUR5,112,919	Investment holding

30. PRINCIPAL SUBSIDIARIES *continued*

Name of subsidiary	Place of incorporation/ operation	Attributable equity interest to the Group	Issued and fully paid share capital/ registered capital (note a)	Principal activities
Esprit Europe Services GmbH	Germany	100%	EUR2,600,000	Sourcing, distribution and logistic
Esprit GB Limited	United Kingdom	100%	GBP150,000	Wholesale and retail distribution of apparel and accessories
Esprit Handelsgesellschaft mbH	Austria	100%	EUR100,000	Wholesale and retail distribution of apparel and accessories
Esprit Image and Product Development Limited	United Kingdom	100%	GBP800,000	Image direction
Esprit International (GP), Inc.	United States	100%	USD1,000,000	General partner of Esprit International
Esprit International (limited partnership)	California, U.S.A.	100%	–	Licensing and holding of trademarks
Esprit IP Limited	British Virgin Islands/Hong Kong	100%	USD1	Licensing and holding of trademarks
Esprit Macao Commercial Offshore Limited	Macau	100%	MOP3,000,000	Wholesale distribution of apparel and accessories
Esprit Retail B.V. & Co. KG	Germany	100%	EUR5,000,000	Retail distribution of apparel and accessories
Esprit Retail (Hong Kong) Limited	Hong Kong	100%	HKD10,000	Retail distribution of apparel and accessories and operation of Salon Esprit
Esprit Retail Pte Ltd	Singapore	100%	SGD3,000,000	Retail distribution of apparel and accessories
Esprit (Retail) Pty Ltd	Australia	100%	AUD200,000	Retail distribution of apparel and accessories
Esprit Retail (Taiwan) Limited	Hong Kong/Taiwan	100%	HKD9,000	Retail distribution of apparel and accessories
Esprit Singapore Pte Limited	Singapore	100%	SGD100,000	Manufacturing and sourcing of apparel
Esprit Sweden AB	Sweden	100%	SEK500,000	Wholesale distribution of apparel and accessories
Esprit US Distribution Limited	United States	100%	USD1,000	Wholesale distribution of apparel and accessories

notes to the financial statements

30. PRINCIPAL SUBSIDIARIES *continued*

Name of subsidiary	Place of incorporation/ operation	Attributable equity interest to the Group	Issued and fully paid share capital/ registered capital (note a)	Principal activities
Esprit Wholesale GmbH	Germany	100%	EUR5,000,000	Wholesale distribution of apparel and accessories
Garment, Accessories and Cosmetics Esprit Retail (Macau) Limited	Macau	100%	MOP100,000	Retail distribution of apparel and accessories
Red Earth (Hong Kong) Limited	Hong Kong	100%	HKD10,000	Retail distribution of cosmetics, skin and body care products
Red Earth International Holdings Limited	British Virgin Islands/Hong Kong	100%	USD1,668,000	Investment holding
Red Earth Licensing Limited	British Virgin Islands/Hong Kong	100%	USD100	Licensing and holding of trademarks
Red Earth New Zealand Limited	New Zealand	100%	NZD100	Retail distribution of cosmetics, skin and body care products
Red Earth Production Limited	Hong Kong	100%	HKD10,000	Wholesale distribution of cosmetics, skin and body care products
Red Earth Pty Limited	Australia	100%	AUD100	Retail distribution of cosmetics, skin and body care products
Red Earth (Taiwan) Limited	Hong Kong/Taiwan	100%	HKD2	Retail distribution of cosmetics, skin and body care products
Sijun Fashion Design (Shenzhen) Co., Ltd.	The People's Republic of China (note b)	100%	USD1,600,000 registered capital	Sample development

Notes:

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

(b) Wholly foreign-owned enterprise

5-year financial summary

RESULTS

	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000
Turnover	12,381,458	9,219,114	8,109,062	7,277,306	5,993,820
Operating profit (EBIT)	1,720,957	1,316,452	1,131,810	881,724	656,323
Interest income	41,584	22,635	45,730	27,555	16,408
Finance costs	(32,463)	(13,923)	(38,290)	(37,912)	(48,132)
Profit on listed investment held for long-term	–	–	–	–	77,662
Share of results of associated companies	1,730,078	1,325,164	1,139,250	871,367	702,261
	61,024	35,811	20,478	12,730	1,146
Profit before taxation	1,791,102	1,360,975	1,159,728	884,097	703,407
Taxation	(605,532)	(375,239)	(512,459)	(349,225)	(228,381)
Profit after taxation	1,185,570	985,736	647,269	534,872	475,026
Minority interests	–	(58,526)	(71,940)	(74,811)	(44,999)
Profit attributable to shareholders	1,185,570	927,210	575,329	460,061	430,027
Dividends	831,918	328,513	191,094	167,877	160,845

BALANCE SHEETS

	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000
Intangible assets	1,744,125	1,849,940	722,110	742,451	762,792
Fixed assets	1,077,505	988,697	779,120	596,953	484,457
Other investments	7,846	7,686	7,366	29,327	33,789
Associated companies	101,568	78,368	78,980	58,563	52,714
Deferred tax assets	45,765	4,233	5,805	–	–
Net current assets	2,041,921	1,072,541	615,421	668,294	605,849
	5,018,730	4,001,465	2,208,802	2,095,588	1,939,601
Financed by:					
Share capital	118,869	117,694	114,251	111,656	110,862
Reserves	4,118,858	3,086,025	2,067,214	1,738,196	1,443,583
Shareholders' funds	4,237,727	3,203,719	2,181,465	1,849,852	1,554,445
Minority interests	–	–	18,204	17,659	1,045
Obligations under finance leases	336	450	941	1,931	2,388
Long-term bank loan	776,411	780,000	–	226,064	380,201
Deferred tax liabilities	4,256	17,296	8,192	82	1,522
	5,018,730	4,001,465	2,208,802	2,095,588	1,939,601



10th

listing anniversary

ESPRIT



ESPRIT HOLDINGS LIMITED

10/f, 11 yuk yat street, tokwawan, kowloon, hong kong.

www.espritholdings.com