one world, one esprit.

ESPRIT

ESPRIT HOLDINGS LIMITED
annual report 2001/2002

EXECUTIVE DIRECTORS

Michael YING Lee Yuen, Chairman
CHHIBBER Surinder, Deputy Chairman
Heinz Jürgen KROGNER-KORNALIK
John POON Cho Ming
Connie WONG Chin Tzi

NON-EXECUTIVE DIRECTORS

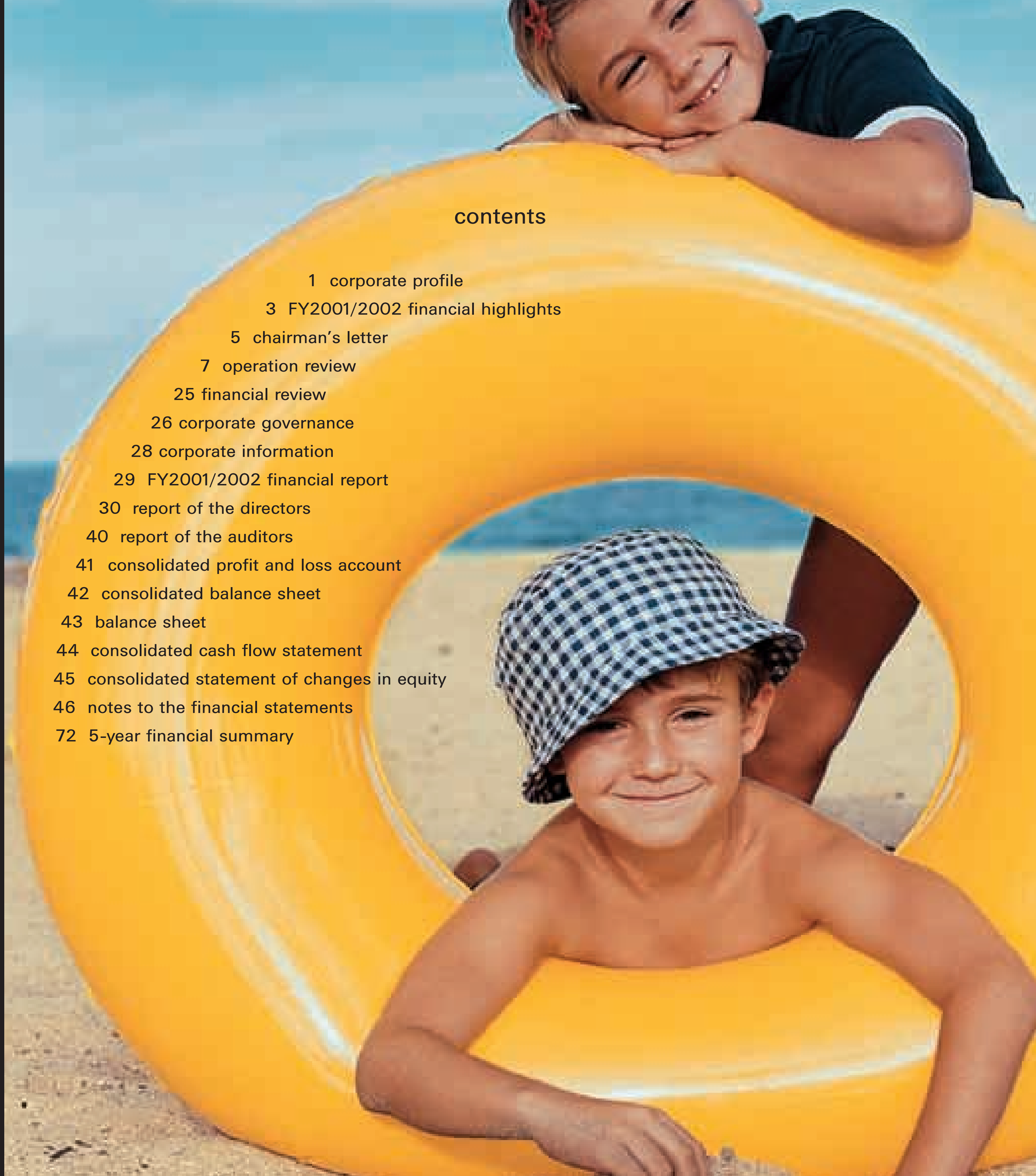
Jürgen Alfred Rudolf FRIEDRICH
Alexander Reid HAMILTON
Simon LAI Sau Cheong
Raymond OR Ching Fai

CORPORATE OFFICERS

Michael YING Lee Yuen, Group CEO
John POON Cho Ming, Group CFO
Heinz Jürgen KROGNER-KORNALIK, CEO Europe
CHHIBBER Surinder, CEO Asia Pacific

COMPANY SECRETARY

John POON Cho Ming



contents

corporate profile

In many ways Esprit has come full circle. It started out back in the U.S. some thirty years ago. After circumnavigating the globe for several decades as the quintessential American style brand, Esprit is going home as an international success story. We find ourselves poised at the threshold of a new era. Right where we started, but better and stronger.

Today, ESPRIT products are available in more than 40 countries worldwide, and the Group operates approximately 500 directly managed retail outlets and has over 2,100 franchised shops internationally. We have a clearly defined market position at the top end of the mass market, and a comprehensive product range encompassing women's, men's and kids' wear, shoes and accessories, and bodywear. The ESPRIT label is also applied to licensed products ranging from timewear, eyewear and jewelry to home products. In addition, we own the popular Red Earth brand name and distribute its cosmetic products.

With listings on the Hong Kong and London stock exchanges, Esprit enjoys widespread brand recognition in and beyond its markets.


BEACH
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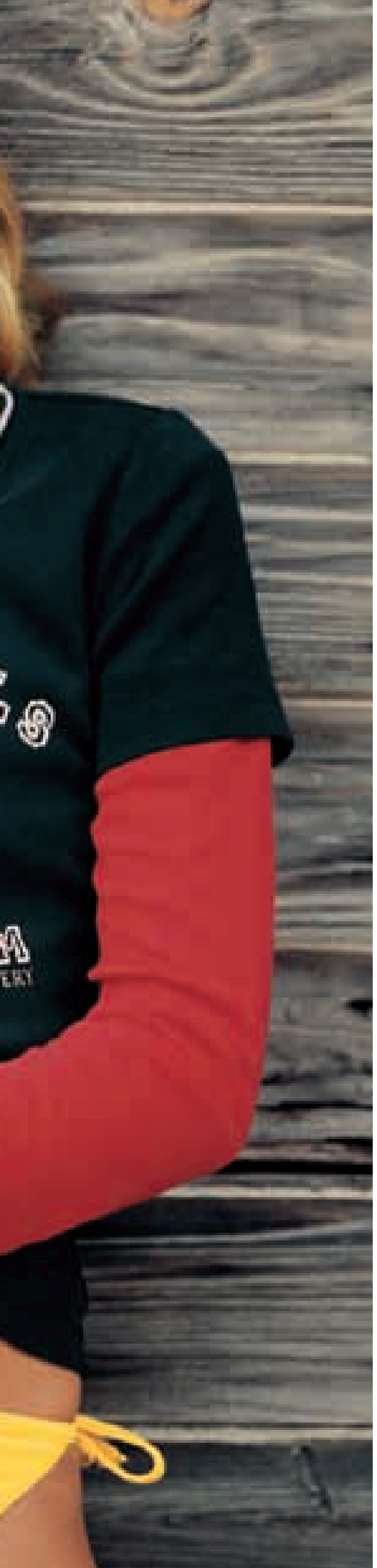
NO.
ESPRIT

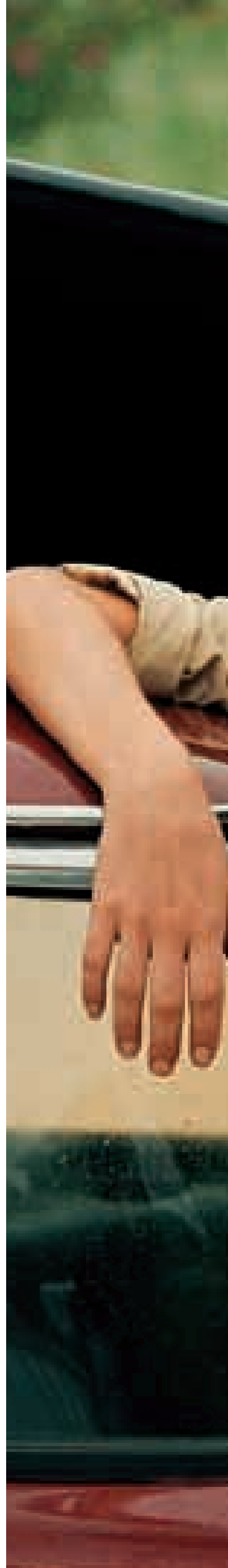


FY2001/2002 financial highlights

	FY2001/2002	FY2000/2001
OPERATING RESULTS (HK$ MN)		
turnover	9,219	8,109
earnings before interest and taxation *(EBIT)*	1,316	1,132
profit attributable to shareholders	927	575
FINANCIAL POSITION (HK$ MN)		
cash generated from operations	1,643	1,085
net current assets	1,073	615
shareholders' funds	3,204	2,181
PER SHARE DATA (HK¢)		
earnings per share — basic	80.5	51.2
earnings per share — fully diluted	79.9	50.1
dividend per share*	28.0	16.8
special dividend per share	5.0	–
book value per share**	2.7	1.9
KEY STATISTICS		
earnings before interest, taxation, depreciation and amortization *(EBITDA)* margin (%)	17.3	16.5
net profit margin (%)	10.1	7.1
return on shareholders' equity *(ROE)* (%)	34.4	28.5
net debt to equity ratio (%)***	net cash	net cash
SHARE INFORMATION#		
number of shares in issue (million)	1,177	1,143
market capitalization (HK$ mn)	17,596	9,773

* calculated after the HK5 cents special dividend for FY2001/2002
** book value refers to shareholders' funds
*** net debt refers to all interest bearing borrowings less cash and cash equivalents
\# as at financial year end


heritage,
strong
foundation,
bright
future.



chairman's letter

Dear Shareholders,

This has been a remarkable year for our company financially and a landmark year for Esprit.

Sales increased by 14%, net profit grew by 61%, and our EBITDA margin improved 0.8% point to 17.3%. Cash flow from operations was augmented 51% to HK$1.6 billion. Overall, it's been our ninth consecutive year of success and we did it despite the tough retail market worldwide.

What makes this year even more exciting for us is the opportunity to re-enter the U.S. The opportunistic timing of the U.S. acquisition presents us with the key to the world's largest consumer market without creating a financial burden. We plan to initially capitalize on our high brand awareness and existing global infrastructure, and team up with local market leaders who understand the U.S. consumers as our partners to ensure success.

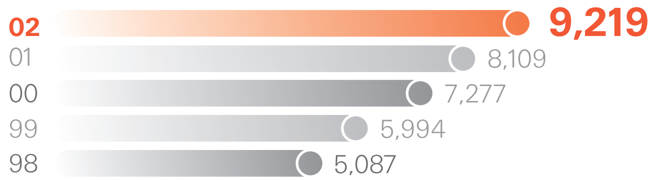
Yet, even with the excitement of the enormous U.S. market, we will continue to work diligently to maintain growth in the extremely competitive operating environment as we enter into our tenth year of operation as a listed company. Our strong financial position, coupled with net cash and strong operating cash flow, enable us to continue to expand in our existing markets and to pounce on new growth opportunities, whether in the form of new markets or other brands.

I would like to thank our shareholders for their continued support and my colleagues at Esprit for their part in helping to bring all this about. It is through the dedicated efforts of thousands of team players that we have built Esprit into a strong, healthy company with one consistently focused brand image.

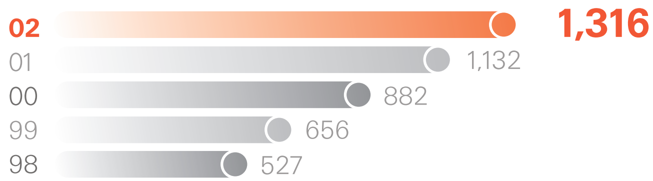
We are constantly evolving as we expand globally, but our consistent philosophy of delivering quality lifestyle products at good value will remain.

Michael Ying
Chairman
September 18, 2002

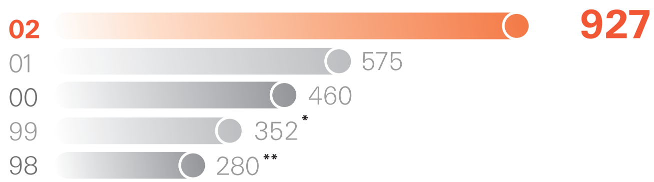
TURNOVER
(HK$ MN)



OPERATING PROFIT (EBIT)
(HK$ MN)



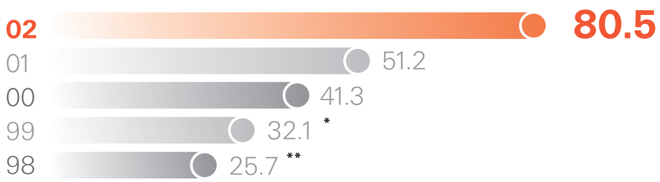
PROFIT ATTRIBUTABLE TO SHAREHOLDERS
(HK$ MN)



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

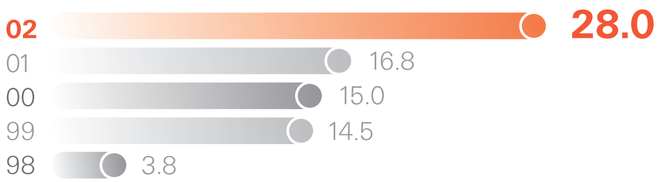
All lines of business were profitable... another outstanding year

EARNINGS PER SHARE (BASIC)
(HK¢)

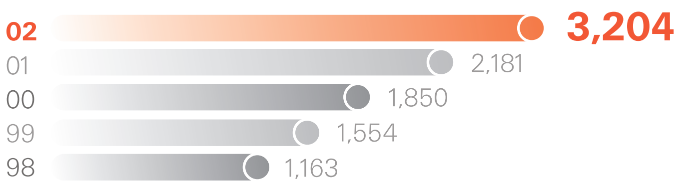


*HK¢39.2 after exceptional gain of HK$78mn
**HK¢14.2 after exceptional loss of HK$125mn

DIVIDEND PER SHARE
(HK¢)



SHAREHOLDERS' FUNDS
(HK$ MN)



Esprit had another outstanding year in 2001/2002. Despite a highly competitive operating environment internationally, all lines of business were profitable with growing demand for our products in Europe driving revenue up 13.7% to HK$9.2 billion. Our EBITDA margin improved 0.8% point to 17.3% exceeding our target range of 15-17%. Our effective tax rate was lowered from 44.2% to 27.6% partly through the Group's implementation of better international tax strategies. We ended the year with net profit growth of 61.2% to HK$927.2 million.

Moreover, cash generated from operations increased to HK$1.6 billion from HK$1.1 billion the previous year. The Group ended the year with HK$154 million of net cash after having spent HK$1.2 billion for the asset acquisition of Esprit U.S. including the ESPRIT trademark rights in the U.S. and the Caribbean Islands.

OPERATION MIX OF GROUP TURNOVER

YEAR ENDED JUNE 30, 2002

Wholesale growth was driven by strong demand for the ESPRIT brand

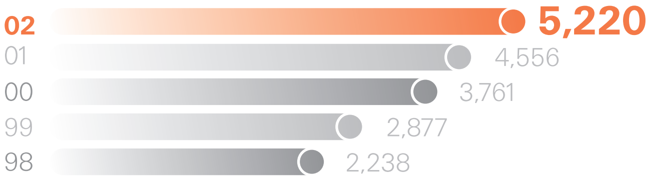
Wholesale

Our wholesale operations, which market our products through major department stores, specialty outlets and franchised stores, increased sales by 14.6% to HK$5.2 billion. In our three largest markets, Germany, Benelux and Hong Kong, the Group recorded 60.2%, 18% and 6.8% of our wholesale revenue respectively. The wholesale growth was driven by strong demand for the ESPRIT brand, particularly in Benelux, France and China, each registering more than 20% increase.

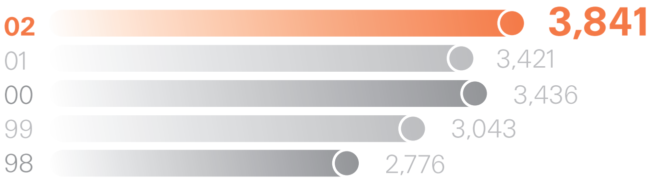
The Group's distribution partners now maintain more than 1,640 franchised shops worldwide, totalling over 1.1 million sq.ft. of sales footage. More than 260 shop-in-stores and franchised shops were added during fiscal year 2001/2002, and we plan to add approximately the same number in the current fiscal year. The launch of the discretionary limit program in Europe in early 2002 was well received and has been introduced to all wholesale customers who maintain floor space dedicated to ESPRIT. The program has made our European wholesale operations more efficient by reducing pre-orders, lead times and inventory.

In Asia Pacific, the ESPRIT brand continues to enjoy growing brand awareness and consumer acceptance. Wholesale sales increased more than 22% mainly due to rising orders from our China associates, in which we own a 49% stake, and our franchisees in the Middle East.

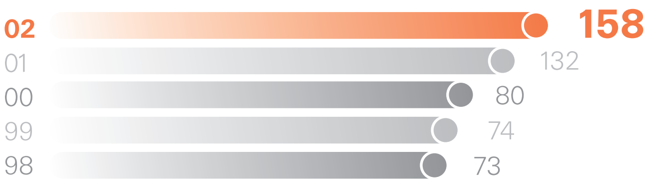
WHOLESALE
(HK$ MN)



RETAIL
(HK$ MN)



LICENSING AND OTHERS
(HK$ MN)



frankfurt


hong kong


oberhausen


sydney

munich

london

hong kong

Increased retail square footage by 16%... secured strategic locations

Retail

Revenues from our self-operated retail stores rose to HK$3.8 billion, an increase of 12.3% over last year. In our three largest markets, Germany, Benelux and Hong Kong, the Group recorded 34.9%, 11.4% and 16% of our retail revenue respectively. Comparable store sales were flat compared to last year as double-digit percentage growth in Europe was offset by the declines in Asia Pacific due to Asia's highly competitive retail environment and adverse economic conditions.

We invested HK$344 million in capital expenditures to increase our directly managed retail square footage by 16.4% to approximately 1.6 million sq.ft. and ended fiscal year 2001/2002 with a total of 495 stores located worldwide. During the year, we opened a flagship store of over 30,000 sq.ft. in Causeway Bay, Hong Kong and a megastore of approximately 25,000 sq.ft. in Frankfurt, Germany. The slowed global economy allowed us to secure strategic locations at lower rates, and allowing greater access to the customers.

The European retail operation is the Group's fastest growing division, registering over 39% turnover growth year-on-year, with the strongest growth in Germany, Benelux and Austria. The success of the injection program introduced in Europe was instrumental behind the strong comp-store-sales-growth in Europe, which led to better merchandise and more full-price sales.

In Asia Pacific, while sales recorded slight decline, all countries of operation achieved growth in the quantity of ESPRIT merchandise sold, reflective of our ability to maintain market share in the tough operating environment.


home


jewel


eyewear


timewear


home


scents + senses


home


home


timewear


home


home

Unification of the global ESPRIT brand... additional licensing and business opportunities

Sourcing

Sourcing plays an integral part in supporting the Group's success, especially in the current highly competitive retail environment. Lowering our costs of goods and shortening delivery cycles without sacrificing quality are essential in sustaining our profitability.

In the course of the past three decades, we have garnered enormous sourcing expertise and established a strong network of over 330 suppliers located throughout Asia Pacific and Europe.

About 50% of products sold in Europe were sourced from Asia Pacific, with the balance sourced from Europe. Our close ties with key suppliers with dedicated production capacities to Esprit enable us to fulfill quick injection orders, which we believe was one of the key factors contributing to the strong comp-store-sales-growth in Europe.

To reduce our expenses, we plan to progressively move our sourcing functions to less expensive areas, such as Shenzhen, China, and shift to lower cost suppliers in Northern China to reduce our costs of goods.

Licensing and others

In addition to wholesale and retail distribution of products, we leverage on our strong ESPRIT brand through our licensing activities and other operations, which together achieved third-party sales growth of 15.1% year-on-year. Our licensing business includes products ranging from bed & bath to watches, spanning over 10 product categories.

Since gaining global control of the ESPRIT trademarks, in addition to assuming more than 5 existing U.S. licensing agreements, Esprit has received accelerated licensing interest from the U.S. for non-core products such as shoes, accessories and kids' wear. Subsequent to the financial year-end, the Group has entered into an agreement with the Nine West Division of the Jones Apparel Group for the manufacturing and distribution of shoes and accessories in the U.S. and with Adjmi Apparel for children's wear.

With the unification of the global ESPRIT brand, the Group intends to explore, even more aggressively, additional licensing and business opportunities by actively identifying suitable partners in new markets, for new product categories and new lifestyle concepts.

shanghai

shanghai

shanghai

Sustained growth in our two largest product divisions, women's and men's wear

Products

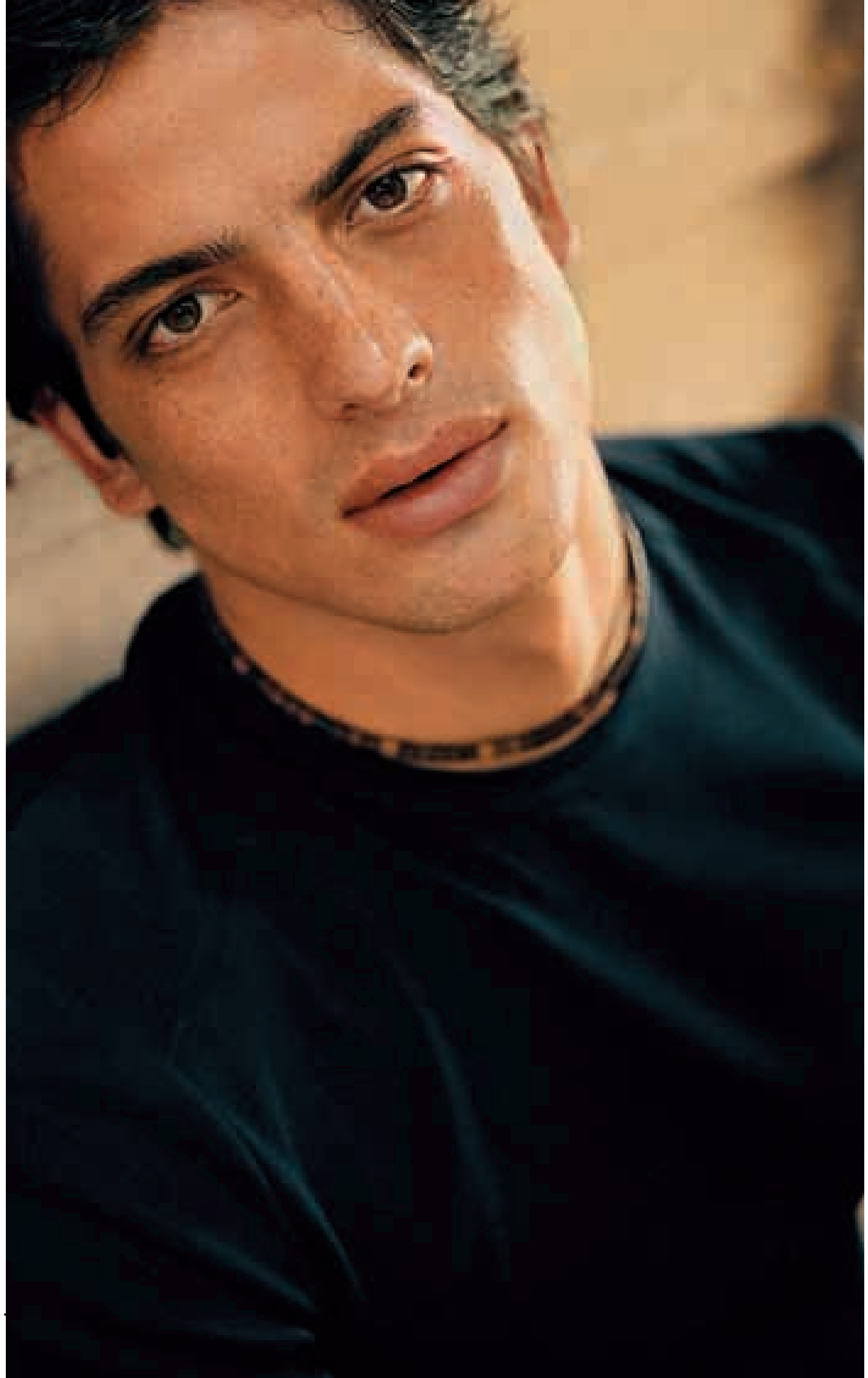
In terms of products, women's wear continued to dominate with 56.7% of the Group's total turnover and a year-on-year growth of 19.2%. Men's wear maintained its second position with 11.5% of the Group's total turnover and a year-on-year increase of 22.1%. In a German independent survey, ESPRIT bodywear, which registered a year-on-year revenue increase of 27.5%, was ranked as one of the top 5 intimate apparel brands. With the exception of the shoes and accessories division recording relatively flat performance over last year, all other ESPRIT product divisions achieved single-digit percentage sales growth in this reporting period. Red Earth products, representing approximately 3% of the Group's total turnover, suffered a year-on-year decrease in sales of about 15% and are being revitalized since our acquisition of full ownership and management control of the brand at the end of 2001.

Associates in China

Our profitable associates in China continues to show strong upward growth and recorded a year-on-year increase of more than 30% in turnover.

The China associates now have over 490 franchised shops in major cities throughout China, a net increase of 130 shops over last year. Plans for the year ahead include working with our franchise partners to maintain a consistent brand image along with a high customer service standard, and to shorten the inventory cycle to improve cash flow.

The China associates now have over 100 directly managed retail stores in Beijing, Shanghai and Dalian with more than 165,000 sq.ft. of retail space. To meet the rising expectations of China's middle class, we are upgrading our shop image, environment and services for a better shopping experience. We believe our dedications will be rewarded with customer loyalty.



distribution network

AS AT JUNE 30, 2002		DIRECTLY MANAGED STORES SALES FOOTAGE (SQ.FT.)	DIRECTLY MANAGED STORES NO. OF STORES	SHOP-IN-STORES AND FRANCHISED SHOPS SALES FOOTAGE (SQ.FT.)	SHOP-IN-STORES AND FRANCHISED SHOPS NO. OF SHOPS
total		1,587,732	495	1,149,507	1,640
by region:	europe	697,927	121	968,111	1,341
	asia pacific*	889,805	374	181,396	299
in europe:	germany	452,606	75	709,436	1,032
	belgium	66,822	10	17,617	10
	the netherlands	80,252	22	81,232	53
	denmark	13,787	2	5,004	15
	great britain	37,473	2	–	–
	france	25,129	8	41,724	107
	austria	21,858	2	95,567	80
	others	–	–	17,531	44
in asia pacific:	australia (incl new zealand)	254,274	156	–	–
	hong kong (incl macau)*	218,507	41	–	–
	canada	193,863	39	–	–
	taiwan	112,099	109	–	–
	singapore	72,781	21	–	–
	malaysia	38,281	8	–	–
	others	–	–	181,396	299
net increase (vs 2001)		**223,152**	**10**	**283,251**	**262**
china associates		165,478	101	338,584	491
net increase (vs 2001)		29,245	12	129,041	130

*excluding china associates

group turnover by product divisions

WOMEN'S WEAR
(HK$ MN)

02	5,228
01	4,387
00	3,865
99	3,246
98	2,971

SHOES AND ACCESSORIES
(HK$ MN)

02	1,338
01	1,344
00	1,243
99	1,132
98	987

MEN'S WEAR
(HK$ MN)

02	1,061
01	869
00	763
99	522
98	448

BODYWEAR
(HK$ MN)

02	213
01	167
00	117
99	29

KIDS' WEAR
(HK$ MN)

02	747
01	713
00	688
99	687
98	529

RED EARTH
(HK$ MN)

02	267
01	316
00	400
99	311
98	91

breakdown of group turnover

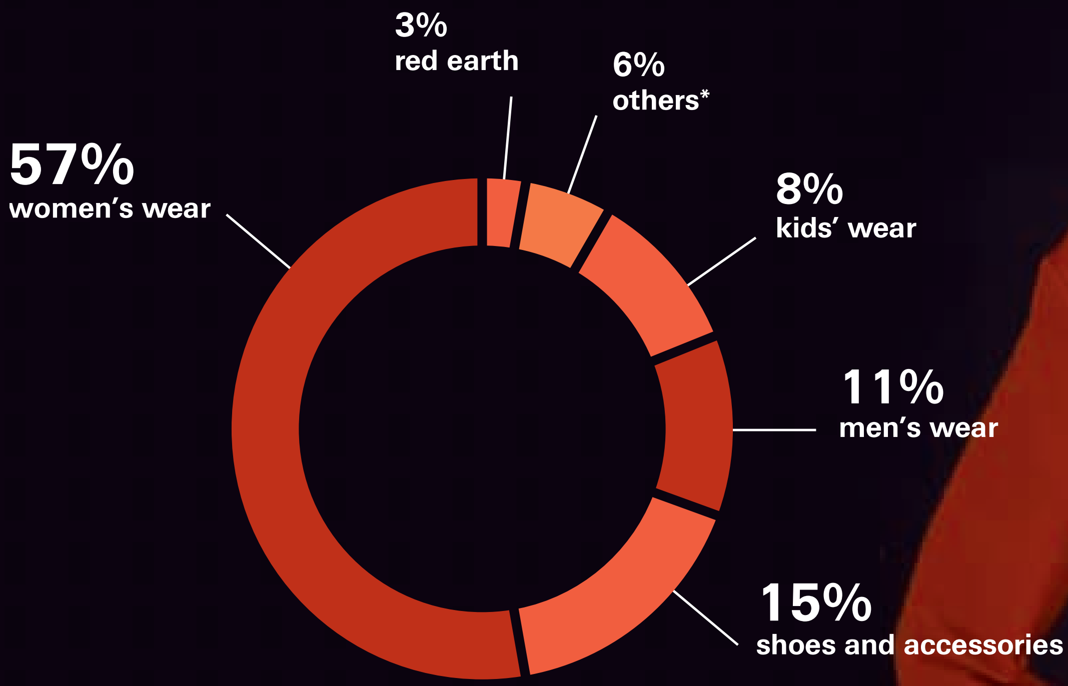
FOR THE YEAR ENDED JUNE 30	2002	2001	2000	1999	1998
OPERATION MIX (%)					
wholesale – europe	53	52	47	43	41
wholesale – asia pacific	4	4	5	5	3
retail – europe	22	18	18	20	22
retail – asia pacific	20	25	29	31	33
licensing and others	1	1	1	1	1
GEOGRAPHICAL MIX (%)					
germany	49	48	45	44	43
benelux	15	12	11	12	11
hong kong	12	14	15	13	15
other asia pacific countries	13	16	20	24	21
other european countries	10	9	8	6	6
u.s. and others	1	1	1	1	4
PRODUCT MIX (%)					
women's wear	57	54	53	54	59
shoes & accessories	15	16	17	19	19
men's wear	11	11	11	9	9
kids' wear	8	9	10	11	10
red earth	3	4	6	5	2
others*	6	6	3	2	1

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

red earth

GROUP TURNOVER BY PRODUCT DIVISIONS

YEAR ENDED JUNE 30, 2002



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

esprit sports

Prospects

Fiscal year 2001/2002 was an exceptional year for the Group, one that unified the ESPRIT brand globally and laid the foundation for our future growth for many years ahead.

As a new initiative, we will increase our women's wear collection from six to twelve a year, cutting product development lead times by approximately three months and allowing speedier response to the market. This is expected to result in more trend-right merchandise and more full-price sales. For fiscal year 2002/2003, we have budgeted HK$400 million to open 38 new stores. Total retail square footage is expected to increase by 14% to over 1.8 million sq. ft., with most additions to be made across Europe. We will continue to focus on further growth in North America, Benelux, U.K. and China. Towards these efforts we have strengthened our management team, bringing seasoned retail, licensing, and other professionals on board.

In Europe, signs of slowing economies in some of our key markets may affect our growth momentum. We are also aware of the pricing pressures present in our major markets; yet we believe that our business strategy together with the brand's growing popularity will continue to win us market share without sacrificing margins. Furthermore, the recent appreciation of the Euro will allow us to pass on some currency differential savings from sourcing to our customers and become more competitive. Amid the poor retail environment, we remain cautious for our Asia Pacific operations, anticipating revenue to be stable and working to improve our margins.

In North America, management plans to initially capitalize on our high brand awareness and leverage on our existing global infrastructure to minimize capital commitment. We will approach the massive U.S. consumer market via a wholesale strategy to achieve a meaningful nationwide rollout by forming partnerships with leading department stores, such as Macy's. For our non-core products, we are teaming up with local market leaders with multi-channel distribution capabilities, such as Nine West and Adjmi, as our licensees. Our Canadian operations will be integrated into the North American management structure and will extend into wholesale. Approximately US$100 million of turnover from North America is targeted for fiscal year 2003/2004 as we gradually build up our experience in the continent. Management is confident that North America will become one of our major markets in our next era of growth.

Maintaining our leading positions while exploring new horizons

5-year key financial and performance data

FOR THE YEAR ENDED JUNE 30	2002	2001	2000	1999	1998
OPERATING RESULTS (HK$ MN)					
turnover	9,219	8,109	7,277	5,994	5,087
EBIT	1,316	1,132	882	656	527
profit attributable to shareholders*	927	575	460	352	280
PER SHARE DATA (HK¢)					
earnings per share — basic*	80.5	51.2	41.3	32.1	25.7
dividend per share**	28.0	16.8	15.0	14.5	3.8
book value per share	2.7	1.9	1.7	1.4	1.1
KEY STATISTICS (HK$ MN)					
shareholders' funds	3,204	2,181	1,850	1,554	1,163
working capital	1,073	615	668	606	439
cash position (net of overdraft)	934	388	707	543	382
term loans	780	–	395	551	699
OTHER DATA					
number of directly managed stores	495	485	472	446	432
directly managed sales footage (SQ FT)	1,587,732	1,364,580	1,075,403	867,335	714,263
monthly sales per square foot (HK$)	285	310	386	401	387
capital expenditure (HK$ MN)	344	512	323	257	181
number of employees	5,936	5,954	5,208	4,471	4,257
KEY RATIOS					
ROE*# (%)	34.4	28.5	27.0	25.9	23.7
ROA*^ (%)	20.0	16.1	13.8	11.8	9.6
debt to equity*** (%)	25.9	2.7	22.4	36.6	64.7
net debt to equity (%)	net cash	net cash	net cash	net cash	24.7
interest cover (times)	96.2	30.8	24.0	14.0	9.6
current ratio (times)	1.6	1.5	1.5	1.5	1.4
inventory turnover**** (days)	64	64	67	72	71
EBITDA margin (%)	17.3	16.5	14.7	13.7	13.4
EBIT margin (%)	14.3	14.0	12.1	10.9	10.4

* 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 HK5 cents special dividend for FY 2002
\# 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

The Group maintained a gross margin of 49.1% (2001: 49.3%), despite the tough global economic conditions. As a result of our growing economies of scale and our vigorous expense management program, our EBITDA margin improved by 0.8% point to 17.3%, translating to an EBITDA of HK$1,595.0 million (an increase of 19% year-on-year). Staff expenses as a percentage of sales dropped by 1.2% points as the Group achieved greater efficiencies. Downward adjustment in rental costs as we renew leases was offset by the increase in building expenses for new stores in prime locations, resulting in a slight increase in building expenses as a percentage of sales to 10.2%.

Depreciation and amortization expenses increased by HK$69.7 million over last year, partly caused by the new intangible assets amortization requirement in Hong Kong Statements of Standard Accounting Practice ("HKSSAP"). In prior years, the Group amortized acquired trademarks using the straight-line method over their estimated economic life of 40 years. Under the new requirement there is a rebuttable presumption that the useful life of an intangible asset will not exceed 20 years from the date when the asset is available for use. The Group has reviewed the estimated useful life of its trademarks with a firm of qualified independent appraisers, which is of the opinion that the trademarks have an indefinite economic life with at least 40 years. However, the criteria prescribed by HKSSAP in establishing a useful life for a specific period longer than 20 years could not be unequivocally satisfied, and the trademarks are amortized over 20 years in strict compliance with the new HKSSAP resulting in additional trademark amortization charge of approximately HK$31.3 million over last year. Accounting regulatory bodies are currently reviewing the accounting standard for intangible assets, and the Group envisages reassessing application of this standard in 2003 which, if unchanged, will result in about HK$100 million trademark amortization charge for the fiscal year 2002/2003.

Profit attributable to shareholders surged 61.2% to HK$927.2 million. The net profit margin improved significantly from 7.1% to 10.1% mainly due to the lowering of our effective tax rate. During the year, the effective tax rate was reduced to 27.6%, 16.6% points less than the previous financial year. This significant decrease is partly attributable to a one-time tax credit of HK$120.9 million resulting from recognition of entitlements to refunds on dividend withholding tax paid in Germany for prior years. In addition, the German corporate income tax rate cut and the Group's implementation of better international tax strategies both lowered the effective tax rate. The Group's effective tax rate for this period would have been at 36.5% if the one-time tax credit is excluded.

Liquidity and Financial Resources

Cash generated from operations remained strong at approximately HK$1.6 billion. The Group utilized a term loan of HK$780 million as well as overdraft facilities aggregating to the equivalent of HK$48 million for our business activities.

The Group ended the year with HK$154 million of net cash after having spent HK$1.2 billion for the asset acquisition of Esprit U.S. including the ESPRIT trademark rights in the U.S. and the Caribbean Islands. As at the balance sheet date, the Group's cash position was HK$933.7 million. Our debt to equity ratio, expressed as a percentage of interest bearing external borrowings over shareholders' funds of HK$3,203.7 million, was 25.9%. The Group had assets of HK$76.2 million pledged as security for overdraft and short-term revolving facility. The current ratio improved slightly to 1.6:1 from 1.5:1 last year..

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 the credit risk. As at June 30, 2002, outstanding contracts increased to HK$251 million, from HK$170 million last year, which corresponded with the increase in European sourcing orders.

Human Resources

As at June 30, 2002, the Group employed a total of 5,936 people (2001: 5,954). The Group offers a competitive remuneration package to its employees as well as bonus and share options based on the Group's and individuals' performance. Following the changes in the listing rules, the Group has adopted a new share option scheme in November 2001, but no options have yet been issued under the new scheme.

Substance over form

In recognition of our on-going adherence to the practice of good Corporate Governance and of our company's solid professional management, Finance Asia magazine ranked Esprit as one of the best company in the following categories, "Best Managed Company," "Company most dedicated to Corporate Governance" and "Strongest Commitment to Enhancing Shareholder Value" in Hong Kong in April 2002. In January 2002, another prominent financial magazine, The Asset, named Esprit as one of Hong Kong's "Best in Corporate Governance." Our fiscal year 2000/2001 annual report was named as one of Asia's "Best Annual Report" by CFO Asia magazine in February 2002.

The Board

The Board of Directors remains committed to maintaining the Group's Corporate Governance practice to ensure the integrity of the Company's financial reporting systems and prudent enhancement and management of shareholder value.

The Board, led by Chairman and CEO Michael Ying Lee Yuen, is composed of five Executive Directors and four Non-Executive Directors. The Executive Directors are responsible for managing the Group's business decisions. The Non-Executive Directors are drawn from diverse industry expertise and oversee a system of checks and balances to safeguard the interests of shareholders and the Company as a whole.

The Board meets regularly to discuss the overall business strategy as well as the operational and financial performance of the Group. The Board also decides and approves all major acquisitions, annual budgets, annual and interim results, recommendations on director's appointments and/or re-appointments.

The Executive Directors duly inform the Board with respect to any transactions that are atypical, unusual or with related parties. In advance of Board meetings, the Board members receive comprehensive reports on current, strategic and financial issues before making decisions in the best interest of the Company.

The directors may seek independent professional advice in performing their duties. It is the Company's custom to restrict the consulting arms of our auditors from undertaking consultancy work for the Group to avoid any potential conflicts of interest.

Our Group CFO John Poon Cho Ming, who is also an Executive Director, attends all Board meetings to advise on risk management, statutory compliance, and accounting and financing matters.

All directors, apart from the Chairman, are subject to retirement by rotation at the Annual General Meeting.

Audit Committee

The Audit Committee, established in late 1997, is composed of three Non-Executive Directors and reports to the Board of Directors. The Committee is dedicated to the review of matters within the purview of audit, such as financial statements and internal control, to protect the interests of the shareholders and the Company as a whole.

The Chairman of the Audit Committee, Alexander Reid Hamilton, also a Chartered Accountant, was voted Best Non-Executive Director in 2001 by the Hong Kong Institute of Directors.

The Audit Committee currently includes the following directors:

Mr. Alexander Reid HAMILTON - Committee Chairman *
Mr. Jürgen Alfred Rudolf FRIEDRICH
Mr. Raymond OR Ching Fai *
* Independent non-executive director

Rotation of External Audit Partners

Considerable emphasis is placed on the independence of our external auditors. The Audit Committee has discussed this with the external auditors and is satisfied with their rotation policy of engagement partners to ensure a fresh, objective and critical approach to the audit.

Risk Management and Internal Control

The internal control and accounting systems of the Group are designed to manage risk in achieving business objectives. The systems provide reasonable assurance that assets are safeguarded against unauthorized use or disposition, that transactions are executed in accordance with management's authorization and that the accounting records are reliable for preparing financial information used within the business or for publication and maintaining accountability for assets and liabilities.

A global cash management system is being deployed to enhance proper control of global cash surplus and maximize return to the shareholders. The Group's legal department participates in all major projects and decisions to enforce strict compliance with relevant laws and regulations. The Group's internal audit department reports to the Audit Committee, performs group-wide risk assessment and develops relevant policies in controlling and managing risk independently. To attain a higher level of independence and integrity, the Group will appoint an external firm to perform group-wide internal audit work.

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 throughout the accounting year under review.

As a matter of best practice, the Company has chosen to early adopt some of the relevant changes in the HKSSAP.

Communication and Investor Relations

For better transparency, Esprit has always maintained a proactive policy of promoting communication and investor relations through regular meetings with institutional shareholders and analysts.

To strengthen shareholder relations, the Group regularly holds investor "roadshows" and attends conferences to communicate to the public its latest developments.

To promote effective and continued communication, and to ensure the timely distribution of results, presentation materials, press releases, announcements and financial reports, an investor relations webpage has been established (www.espritholdings.com). Press releases are distributed worldwide immediately following major developments.

All shareholders receive 21 days' notice of the Annual General Meeting and at least 14 days' notice of any Special General Meeting at which directors and committee members will be available to answer questions on the business.

Information Technology

The Company continually adopts the latest information technology advances for enhancing efficiency and effectiveness in its external and internal communications. The IT infrastructure established by the Group is connected to our distribution network to facilitate speedy dissemination and compilation of business information. The implementation of an advanced consolidation tool linking our global financial data has enhanced data integrity and enabled timelier reporting with more stringent requirements, improving the Group's decision-making process. Reflecting these improvements, our interim and final results for the fiscal year 2001/2002 were announced earlier than the previous year.

Management

Considerable emphasis is placed on the quality of personnel at all levels and the maintenance and improvement of standards through appropriate means. Reliance is placed necessarily on more senior levels of management across the divisions, due to the size of the Group, in order to ensure effective control.

corporate information

EXECUTIVE DIRECTORS

Michael YING Lee Yuen, Chairman
CHHIBBER Surinder, Deputy Chairman
Heinz Jürgen KROGNER-KORNALIK
John POON Cho Ming
Connie WONG Chin Tzi

NON-EXECUTIVE DIRECTORS

Jürgen Alfred Rudolf FRIEDRICH
Alexander Reid HAMILTON
Simon LAI Sau Cheong
Raymond OR Ching Fai

CORPORATE OFFICERS

Michael YING Lee Yuen, Group CEO
John POON Cho Ming, Group CFO
Heinz Jürgen KROGNER-KORNALIK, CEO Europe
CHHIBBER Surinder, CEO Asia Pacific

COMPANY SECRETARY

John POON Cho Ming

PRINCIPAL BANKER

The Hongkong and Shanghai Banking
Corporation Limited

AUDITORS

PricewaterhouseCoopers,
Certified Public Accountants

GROUP 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
Rosebank Centre, 11 Bermudiana Road,
Pembroke, Bermuda

HONG KONG SHARE REGISTRAR

Secretaries Limited
5/F, Wing On Centre, 111 Connaught Road Central, Hong Kong

REGISTERED OFFICE

Clarendon House
Church Street, Hamilton HM 11, Bermuda

HEAD OFFICE AND PRINCIPAL PLACES OF BUSINESS

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

Vogelsanger Weg 49, 40470
Düsseldorf, Germany
Tel: (+49 211) 6106 0
Fax: (+49 211) 6106 100

WEBSITE

www.espritholdings.com

report of the directors

The Directors have pleasure in presenting their annual report and the audited financial statements for the year ended June 30, 2002.

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 design, wholesale and retail distribution, sourcing and licensing of quality life-style products under the internationally known ESPRIT brand name in Europe, Asia Pacific and North America, together with Red Earth cosmetics, skin and body care products and the operation of Salon ESPRIT in Asia Pacific.

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 41 and in the accompanying notes to the financial statements.

The interim dividend of 6.0 Hong Kong cents per share, of which HK$67,698,259 was paid in cash and 103,603 shares were issued as scrip dividend, was paid on April 26, 2002.

The Directors recommend the payment of a final dividend of 17.0 Hong Kong cents per share and a special dividend of 5.0 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 note 20 to the financial statements.

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 72.

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$700,593.

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
CHHIBBER Surinder
Heinz Jürgen KROGNER-KORNALIK
John POON Cho Ming
Connie WONG Chin Tzi

NON-EXECUTIVE DIRECTORS

Jürgen Alfred Rudolf FRIEDRICH
Alexander Reid HAMILTON
Simon LAI Sau Cheong
Raymond OR Ching Fai

In accordance with Bye-law 87 of the Company's Bye-laws, Ms. Connie Wong Chin Tzi, Mr. Simon Lai Sau Cheong and Mr. Raymond Or Ching Fai will retire by rotation subject to re-election at annual general meeting in accordance with the Bye-laws of the Company.

Mr. Heinz Jürgen Krogner-Kornalik has entered into a service agreement which took effect from January 9, 1995 and continues thereafter until terminated by either party giving to the other not less than 12 months' notice of termination, such notice will only take effect from or after December 31, 2003.

Mr. Simon Lai Sau Cheong was appointed for a three-year term expiring on November 26, 2002 but is subject to retirement by rotation and re-election at annual general meeting in accordance with the Bye-laws of the Company.

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

DIRECTORS AND SENIOR MANAGEMENT PROFILE

EXECUTIVE DIRECTORS

Michael YING Lee Yuen, aged 52, is Chairman and Chief Executive Officer of the Group. Mr. Ying has over 30 years' experience in the apparel industry. He is primarily responsible for the overall direction and formulation of corporate policies of the Group.

CHHIBBER Surinder, aged 52, is Deputy Chairman and Chief Executive Officer of the Group's Asia Pacific operations. He joined the Group in 1987 and has over 20 years' experience in the garment industry. He holds a Master of Science Degree in Engineering from the University of Hong Kong and a Master of Science Degree in Operation Research from the University of Delhi.

Heinz Jürgen KROGNER-KORNALIK, aged 61, is Chief Executive Officer of the Group's European operations and Chief Executive Officer of Esprit International. 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 48, is Chief Financial Officer and Company Secretary of the Group. 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 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.

Connie WONG Chin Tzi, aged 54, is Director of the Group's Taiwan operation. Prior to joining the Group in 1979, she worked in the Asian buying office of a major U.S. department store group for over eight years. Ms. Wong received her Bachelor of Arts Degree in Business Administration from the National Taiwan University.

NON-EXECUTIVE DIRECTORS

Jürgen Alfred Rudolf FRIEDRICH, aged 64, founded Esprit's European operation in 1976 and was appointed as a Non-executive Director in 1997. He has over 30 years of experience in the apparel distribution business and is currently retired in the United States.

Alexander Reid HAMILTON, aged 60, 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, The Swank Shop Limited and a number of other Hong Kong companies. He was a partner of Price Waterhouse with whom he practised for 16 years.

Simon LAI Sau Cheong, aged 41, was appointed as 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 17 years' experience of legal practice.

Raymond OR Ching Fai, aged 52, was appointed as 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 was Chairman of the Hong Kong Association of Banks in 2000 and Vice Chairman in 2001 and 2002.

SENIOR MANAGEMENT

Thomas GROTE, aged 39, is Executive Director of Marketing and Sales of Esprit Europe Group. 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.

Joris LEEMAN, aged 38, is Executive Director of Operations and Sourcing of Esprit Europe Group. He holds a Master of Arts degree with emphasis in International Business and a Master of Business Administration degree from the European campus of Webster University, St. Louis. Before joining the Group in September 1998, he worked for 11 years for MEXX and Johnson & Johnson on Pan-European consolidation in logistics operations, quality management and European marketing.

Morris WAGENHEIM, aged 49, is Managing Director of the Group's Australian and New Zealand operations. He joined the Group in 1994, after having spent the previous four years as general manager of the 150 stores Sportsgirl chain in Australia. Mr. Wagenheim spent most of his working career with the Wooltru group in South Africa, the largest retail conglomerate in that country. His career has spanned all aspects of fashion retailing.

Eddie WAN Tat Wah, aged 48, is Chief Operation Officer of Salon ESPRIT . He has over 20 years of experience in garment trading and retail business. Mr. Wan first joined the Group in 1984 and was involved extensively in store operations and merchandizing in Hong Kong. He left the Group in 1993 to establish his own business and rejoined the Group in mid-1997.

DIRECTORS AND SENIOR MANAGEMENT PROFILE *continued*

SENIOR MANAGEMENT *continued*

Günter WARTENBERG, aged 49, is Executive Director of Finance of Esprit Europe Group. He joined the Group in 1991. Mr. Wartenberg studied taxation and auditing before receiving his doctorate degree from the University of Cologne. He has 25 years of experience in finance and accounting and had worked with Bertelsmann AG, Henkel KgaA and Facit GmbH before joining the Group.

Susan WONG Ping, aged 54, joined the Group in 1976 and is General Manager responsible for the Group's sourcing and production activities for apparel, shoes & accessories including product and fabric development. She has over 25 years of experience in the garment production field. Prior to joining the Group, she held various positions in several garment apparel groups.

Derong YANG, aged 37, 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 IN SHARES

As at June 30, 2002, the interests of the Directors in shares of the Company as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

	Number of Shares			
Name of Director	Personal Interests	Corporate Interests	Family Interests	Other Interests
Michael Ying Lee Yuen	–	502,656,352*	–	–
Chhibber Surinder	5,000,385	–	–	–
Jürgen Alfred Rudolf Friedrich	108,907,676	–	51,401	–
Connie Wong Chin Tzi	1,854,597	–	–	–

* ***502,656,352 shares were held by Great View International Limited which is wholly owned by Mr. Michael Ying Lee Yuen.***

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

ARRANGEMENT TO PURCHASE SHARES AND DEBENTURES

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

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"); or

(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 9.7% 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.

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 and the terms on which such an option is granted may be exercised in accordance with such terms 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 The Stock Exchange of Hong Kong Limited's ("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.

As at June 30, 2002, the Company has not granted any share option under the 2001 Share Option Scheme.

ARRANGEMENT TO PURCHASE SHARES AND DEBENTURES *continued*

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, 2002 granted to and accepted by the eligible employees of the Group (including executive directors of the Company) under the 1993 Share Option Scheme, are as follows:

Number of share options

Eligible Persons	Date of Grant (mm/dd/yyyy)	Exercise Price (HK$)	Vesting Period (mm/dd/yyyy)	Exercise Period (mm/dd/yyyy)	Number of share options: As at 6.30.2001	Granted	Exercised	Cancelled or Expired	As at 6.30.2002	Weighted Average Closing Price of the Shares Immediately Before the Dates of Exercise (HK$)
Directors										
Michael Ying Lee Yuen	05/26/1997	3.096	05/26/1997 – 11/25/1997	11/26/1997 – 11/25/2002	7,500,000	–	7,500,000	–	–	13.20
	05/26/1997	3.096	05/26/1997 – 05/25/1998	05/26/1998 – 05/25/2003	7,500,000	–	7,500,000	–	–	
					15,000,000	–	15,000,000	–	–	
Chhibber Surinder	01/20/1994	2.640	01/20/1994 – 07/19/1997	07/20/1997 – 07/19/2002	500,000	–	500,000	–	–	14.50
	01/20/1994	2.640	01/20/1994 – 01/19/1998	01/20/1998 – 01/19/2003	500,000	–	500,000	–	–	
	01/28/1997	2.656	01/28/1997 – 07/27/1997	07/28/1997 – 07/27/2002	1,000,000	–	1,000,000	–	–	
	01/28/1997	2.656	01/28/1997 – 01/27/1998	01/28/1998 – 01/27/2003	1,000,000	–	1,000,000	–	–	
	01/28/1997	2.656	01/28/1997 – 07/27/1998	07/28/1998 – 07/27/2003	1,000,000	–	1,000,000	–	–	
	01/28/1997	2.656	01/28/1997 – 01/27/1999	01/28/1999 – 11/16/2003	1,000,000	–	1,000,000	–	–	
	07/24/2000	6.264	07/24/2000 – 05/16/2003	05/17/2003 – 11/16/2003	3,000,000	–	–	–	3,000,000	
					8,000,000	–	5,000,000	–	3,000,000	
Heinz Jürgen Krogner-Kornalik	01/28/1997	2.656	01/28/1997 – 07/27/1998	07/28/1998 – 07/27/2003	2,000,000	–	2,000,000	–	–	13.08
	01/28/1997	2.656	01/28/1997 – 01/27/1999	01/28/1999 – 11/16/2003	2,000,000	–	2,000,000	–	–	
					4,000,000	–	4,000,000	–	–	
John Poon Cho Ming	12/15/1999	6.360	12/15/1999 – 06/14/2000	06/15/2000 – 11/16/2003	1,000,000	–	1,000,000	–	–	13.08
	12/15/1999	6.360	12/15/1999 – 12/14/2000	12/15/2000 – 11/16/2003	1,000,000	–	1,000,000	–	–	
	12/15/1999	6.360	12/15/1999 – 06/14/2001	06/15/2001 – 11/16/2003	1,000,000	–	1,000,000	–	–	
	12/15/1999	6.360	12/15/1999 – 12/14/2001	12/15/2001 – 11/16/2003	1,000,000	–	1,000,000	–	–	
	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	
					8,000,000	–	4,000,000	–	4,000,000	

Eligible Persons	Date of Grant (mm/dd/yyyy)	Exercise Price (HK$)	Vesting Period (mm/dd/yyyy)	Exercise Period (mm/dd/yyyy)	Number of share options: As at 6.30.2001	Granted	Exercised	Cancelled or Expired	As at 6.30.2002	Weighted Average Closing Price of the Shares Immediately Before the Dates of Exercise (HK$)
Employees										
In aggregate	12/13/1995	2.640	12/13/1995 – 06/12/1997	06/13/1997 – 06/12/2002	375,000	–	375,000	–	–	12.34
	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	
	07/05/1996	2.640	07/05/1996 – 01/04/1998	01/05/1998 – 01/04/2003	100,000	–	100,000	–	–	
	07/05/1996	2.640	07/05/1996 – 07/04/1998	07/05/1998 – 07/04/2003	250,000	–	250,000	–	–	
	03/16/1999	2.640	03/16/1999 – 09/15/1999	09/16/1999 – 11/16/2003	250,000	–	250,000	–	–	
	03/16/1999	2.640	03/16/1999 – 03/15/2000	03/16/2000 – 11/16/2003	250,000	–	250,000	–	–	
	03/16/1999	2.640	03/16/1999 – 09/15/2000	09/16/2000 – 11/16/2003	250,000	–	250,000	–	–	
	03/16/1999	2.640	03/16/1999 – 03/15/2001	03/16/2001 – 11/16/2003	250,000	–	250,000	–	–	
	01/27/1997	2.656	01/27/1997 – 01/26/1999	01/27/1999 – 11/16/2003	500,000	–	500,000	–	–	

Eligible Persons	Date of Grant (mm/dd/yyyy)	Exercise Price (HK$)	Vesting Period (mm/dd/yyyy)	Exercise Period (mm/dd/yyyy)	Number of share options As at 6.30.2001	Granted	Exercised	Cancelled or Expired	As at 6.30.2002	Weighted Average Closing Price of the Shares Immediately Before the Dates of Exercise (HK$)
	02/17/1999	2.720	02/17/1999 – 02/16/2001	02/17/2001 – 11/16/2003	1,332	–	1,332	–	–	
	02/17/1999	2.720	02/17/1999 – 08/16/2001	08/17/2001 – 11/16/2003	333,333	–	333,333	–	–	
	02/17/1999	2.720	02/17/1999 – 02/16/2002	02/17/2002 – 11/16/2003	333,335	–	333,335	–	–	
	07/11/1999	2.720	07/11/1999 – 07/10/2001	07/11/2001 – 11/16/2003	250,000	–	250,000	–	–	
	07/11/1999	2.720	07/11/1999 – 01/10/2002	01/11/2002 – 11/16/2003	250,000	–	250,000	–	–	
	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	
	01/29/1999	2.872	01/29/1999 – 07/28/2000	07/29/2000 – 11/16/2003	500,000	–	500,000	–	–	
	01/29/1999	2.872	01/29/1999 – 01/28/2001	01/29/2001 – 11/16/2003	500,000	–	500,000	–	–	
	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	
	09/22/1999	5.140	09/22/1999 – 05/16/2003	05/17/2003 – 11/16/2003	500,000	–	–	–	500,000	
					12,018,000	–	4,393,000	–	7,625,000	
TOTAL					**47,018,000**	**–**	**32,393,000**	**–**	**14,625,000**	

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

DIRECTORS' INTERESTS IN CONTRACTS

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

SUBSTANTIAL SHAREHOLDER

As at June 30, 2002, the following interests of 10% or more in the issued share capital of the Company were recorded in the register of interests required to be maintained by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name of Shareholder	Number of Shares	%
Great View International Limited	502,656,352	42.71

Such interests have also been included as corporate interests of Mr. Michael Ying Lee Yuen as disclosed under "Directors' Interests in Shares" above.

Save as disclosed above, no person, other than the Directors of the Company, whose interests are set out in the section "Directors' Interests in Shares" above, had registered any interests in the share capital of the Company that were required to be recorded pursuant to Section 16(1) of the SDI Ordinance.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

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

PRE-EMPTIVE RIGHTS

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

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 16% of the Group's purchases were attributable to the five largest suppliers.

MANAGEMENT CONTRACTS

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

THE 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 Listing Rules throughout the accounting year under review.

CONNECTED TRANSACTIONS

The following transactions, which occurred in the year under review, constituted connected transactions under Chapter 14 of the Listing Rules:

1. On December 18, 2001, the Company, Red Earth Investment Limited ("REInvest") and Red Earth International Holdings Limited ("REIHL") entered into a deed of settlement with Mr. Steven Ko Soon How ("Mr. Ko") and Jeckson Management Limited ("Jeckson"). Pursuant to the said deed of settlement, (a) Jeckson transferred to REInvest its entire 39% interests in REIHL, (b) the proceedings initiated by Jeckson against the Company, REInvest and REIHL had been dismissed, and (c) Mr. Ko and Jeckson assumed various obligations and responsibilities, in consideration of an aggregate sum of HK$15,000,000 paid by REInvest. Mr. Ko was then a director and the ex-chief executive officer of REIHL and Jeckson was a company controlled by Mr. Ko. Following the completion of the transaction, REIHL became a wholly-owned subsidiary of the Group.
2. On February 7, 2002, the Company and its wholly-owned subsidiary Esprit Capital Limited ("ECL") entered into an asset sale and purchase agreement ("Asset Acquisition Agreement") with, inter alia, Esprit de Corp. (currently known as ECOR-SF, Inc.) (the "Seller"), OCM Opportunities Fund, L.P., Columbia/HCA Master Retirement Trust (Oaktree Separate Account I), The Common Fund for Bond Investments, TCW Special Credits Fund IV, TCW Special Credits Plus Fund, TCW Special Credits Trust IV and TCW Special Credits Trust IVA, Cerberus International Ltd. and Cerberus Partners L.P. and Esprit Holdings Inc. (currently known as ECOR-SF Holdings, Inc.). The Seller was then a substantial shareholder (within the meaning of the Listing Rules) holding 37% limited partnership interests in Esprit International which is a subsidiary of the Company. Pursuant to the Asset Acquisition Agreement, the Seller sold to ECL, inter alia, its 37% limited partnership interests in Esprit International, its intellectual property rights as more particularly described in the Asset Acquisition Agreement and certain licenses agreements relating to the use of the intellectual property rights in consideration of US$150 million (approximately HK$1,170 million*).

* *exchange rate: US$1 = HK$7.8 (for illustration purpose only)*

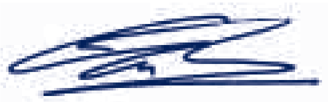
AUDIT COMMITTEE

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

AUDITORS

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

On behalf of the board



John Poon Cho Ming
Executive Director

Hong Kong, September 18, 2002

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 41 to 71 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

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

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and 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 the Group as at June 30, 2002 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, September 18, 2002

consolidated profit and loss account

for the year ended June 30, 2002

	NOTE	2002 HK$'000	2001 HK$'000
Turnover			
Company and subsidiary companies		**9,219,114**	8,109,062
Share of associated companies		**263,590**	199,487
		9,482,704	8,308,549
Company and subsidiary companies			
Turnover	2	**9,219,114**	8,109,062
Cost of goods sold		**(4,690,369)**	(4,110,019)
Gross profit		**4,528,745**	3,999,043
Staff costs		**(1,198,415)**	(1,149,618)
Depreciation and amortization		**(278,533)**	(208,825)
Other operating costs		**(1,735,345)**	(1,508,790)
Operating profit	3	**1,316,452**	1,131,810
Interest income		**22,635**	45,730
Finance costs	4	**(13,923)**	(38,290)
Share of results of associated companies		**35,811**	20,478
Profit before taxation		**1,360,975**	1,159,728
Taxation	5	**(375,239)**	(512,459)
Profit after taxation		**985,736**	647,269
Minority interests		**(58,526)**	(71,940)
Profit attributable to shareholders	6	**927,210**	575,329
Dividends	7	**328,513**	191,094
Earnings per share	8		
– Basic		**80.5 cents**	51.2 cents
– Fully diluted		**79.9 cents**	50.1 cents

consolidated balance sheet

at June 30, 2002

	NOTE	2002 HK$'000	2001 HK$'000
Intangible Assets	11	**1,849,940**	722,110
Fixed Assets	12	**988,697**	779,120
Other Investments	13	**7,686**	7,366
Associated Companies	15	**78,368**	78,980
Deferred Tax Assets	24	**4,233**	5,805
Current Assets			
Stocks	16	**955,321**	791,264
Debtors, deposits and prepayments	17	**824,248**	716,234
Amounts due from associated companies	15	**17,808**	10,349
Short-term bank deposits		**331,647**	7,855
Bank balances and cash		**650,026**	435,697
		2,779,050	1,961,399
Current Liabilities			
Creditors and accrued charges	18	**976,365**	746,923
Taxation		**681,556**	542,148
Obligations under finance leases			
– due within one year	21	**593**	1,303
Bank overdrafts	23	**47,995**	55,604
		1,706,509	1,345,978
Net Current Assets		**1,072,541**	615,421
Total Assets Less Current Liabilities		**4,001,465**	2,208,802

	NOTE	2002 HK$'000	2001 HK$'000
Financed by:			
Share Capital	19	**117,694**	114,251
Reserves	20	**3,086,025**	2,067,214
Shareholders' Funds		**3,203,719**	2,181,465
Minority Interests		**–**	18,204
Obligations Under Finance Leases	21	**450**	941
Long-term Bank Loan	22	**780,000**	–
Deferred Tax Liabilities	24	**17,296**	8,192
		4,001,465	2,208,802

Approved by the Board of Directors on September 18, 2002.

Michael Ying Lee Yuen
Chairman

John Poon Cho Ming
Executive Director

balance sheet

at June 30, 2002

	NOTE	2002 HK$'000	2001 HK$'000
Investment in Subsidiaries	14	2,410,229	2,293,623
Current Assets			
Debtors, deposits and prepayments	17	320	–
Bank balances and cash		5	2
		325	2
Current Liabilities			
Creditors and accrued charges	18	1,918	4,255
Taxation		10,458	14,875
		12,376	19,130
Net Current Liabilities		(12,051)	(19,128)
		2,398,178	2,274,495
Financed by:			
Share Capital	19	117,694	114,251
Reserves	20	2,280,484	2,160,244
Shareholders' Funds		2,398,178	2,274,495

Approved by the Board of Directors on September 18, 2002.

Michael Ying Lee Yuen
Chairman

John Poon Cho Ming
Executive Director

consolidated cash flow statement

for the year ended June 30, 2002

	NOTE	2002 HK$'000	2001 HK$'000
Cash flows from operating activities			
Cash generated from operations	25(a)	1,642,541	1,084,571
Interest paid		(13,206)	(38,035)
Interest element of finance leases		(133)	(255)
Hong Kong profits tax paid		(49,549)	(46,186)
Overseas tax paid		(248,306)	(328,291)
Net cash from operating activities		1,331,347	671,804
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		(343,974)	(444,626)
Proceeds from disposal of other investments		–	20,440
Proceeds from disposal of fixed assets		5,215	3,876
Purchase of other long-term investment		(320)	–
Loan repayment from an associated company		24,500	–
Interest received		19,072	45,360
Net cash used in investing activities		(1,484,508)	(374,950)
Cash flows from financing activities			
Net proceeds on issue of shares for cash		107,699	68,898
Repayment of obligations under finance leases		(1,016)	(1,494)
Repayment of bank loans		–	(382,053)
Long-term bank loan		780,000	–
Dividends paid		(187,925)	(173,142)
Distribution to a non-affiliated partner of a limited partnership		(72,173)	(71,399)
Net cash generated from/(used in) financing activities		626,585	(559,190)
Net increase/(decrease) in cash and cash equivalents		473,424	(262,336)
Cash and cash equivalents at beginning of year		387,948	707,126
Effect of change in exchange rates		72,306	(56,842)
Cash and cash equivalents at end of year	25(b)	933,678	387,948

consolidated statement of changes in equity

for the year ended June 30, 2002

	NOTE	2002 HK$'000	2001 HK$'000
At July 1, as previously reported		2,044,364	1,724,378
Effect of adopting SSAP 9 (revised)	20	137,101	125,474
As restated		2,181,465	1,849,852
Exchange translation			
– Company and its subsidiaries		175,309	(139,461)
– Associated companies		(38)	(11)
Net gains/(losses) not recognized in the consolidated profit and loss account		175,271	(139,472)
Profit attributable to shareholders		927,210	575,329
Dividends		(206,330)	(179,467)
Issues of shares, net of expenses			
– share options		107,699	68,898
– scrip dividend		18,404	6,325
At June 30		3,203,719	2,181,465
Representing:			
At June 30 after proposed final and special dividends		2,944,435	2,044,364
Proposed final and special dividends	7	259,284	137,101
Shareholders' Funds		3,203,719	2,181,465

notes to the financial statements

for the year ended June 30, 2002

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 following Statements of Standard Accounting Practice (SSAPs) issued by the Hong Kong Society of Accountants which are effective for accounting periods commencing on or after January 1, 2001:

SSAP 9 (revised)	:	Events after the balance sheet date
SSAP 26	:	Segment reporting
SSAP 28	:	Provisions, contingent liabilities and contingent assets
SSAP 29	:	Intangible assets
SSAP 30	:	Business combinations
SSAP 31	:	Impairment of assets
SSAP 32	:	Consolidated financial statements and accounting for investments in subsidiaries

The Group has chosen to early adopt Statement of Changes in Equity as required in SSAP 1 (revised) "Presentation of Financial Statements" and SSAP 15 (revised) "Cash Flow Statements". As a result of the adoption of the above SSAPs, 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.

Intra-group balances and transactions, and any unrealized profits arising from intra-group transactions 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/negative goodwill represents the excess/shortfall of purchase consideration over the fair values ascribed to the net assets of subsidiaries acquired. Goodwill/negative goodwill arising from acquisition on or after July 1, 2001 is recognized as intangible assets and is amortized to the consolidated profit and loss account using the straight-line method over its estimated useful life. Negative goodwill which relates to an expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, but which have not yet been recognized, is recognized in the consolidated profit and loss account when the future losses and expenses are recognized. Any remaining negative goodwill, but not exceeding the fair values of the non-monetary assets acquired, is recognized in the consolidated profit and loss account over the weighted average useful life of those non-monetary assets that are depreciable/amortizable. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognized immediately in the consolidated profit and loss account. Goodwill/negative goodwill arising on acquisition that occurred prior to July 1, 2001 was taken directly to reserves in the year of acquisition. The Group has taken advantage of the transitional provisions in SSAP 30 and such goodwill/negative goodwill has not been retroactively capitalized and amortized.

1. PRINCIPAL ACCOUNTING POLICIES *continued*

(e) Revenue recognition

Revenue from the sales of goods are recognized when goods are delivered and title has been passed to customers.

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

Licensing income is recognized on an accrual 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 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.

Prior to July 1, 2001, the Group amortized acquired trademarks using the straight-line method over their estimated economic life of 40 years. On adoption of SSAP 29 "Intangible Assets", which became effective for accounting periods commencing on or after January 1, 2001, the acquired trademarks are capitalized and amortized using the straight-line method over a period of 20 years. This constitutes a change in accounting estimate, which does not require adjustment to prior years' amortization charges and the carrying amounts of the trademarks.

Under SSAP 29, there is a rebuttable presumption that the useful life of an intangible asset will not exceed 20 years from the date when the asset is available for use. The Group has reviewed the estimated useful life of its trademarks with a firm of qualified independent appraisers, which is of the opinion that the trademarks have an indefinite economic life with at least 40 years. However, the criteria prescribed by SSAP 29 in establishing a useful life for a specific period longer than 20 years could not be unequivocally satisfied and the trademarks are amortized over 20 years in strict compliance with the new SSAP 29.

(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 life on a straight-line basis.

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 life on the same basis as owned assets.

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

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

The carrying amounts of assets are reviewed at each balance sheet date to assess whether there is any indication of impairment. 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.

1. PRINCIPAL ACCOUNTING POLICIES *continued*

(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.

(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.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(o) 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.

1. PRINCIPAL ACCOUNTING POLICIES *continued*

(p) Foreign exchange contracts

Transactions designated as hedges are valued on an equivalent basis to the assets, liabilities or net positions that they are hedging. Any gain or loss is recognized in the profit and loss account on the same basis as that arising from the related assets, liabilities or 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.

(q) Retirement benefit costs

The Group's contributions to the mandatory provident fund scheme are expensed as incurred. The assets of the scheme are held separately from those of the Group in an independently administered fund.

(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 adoption of SSAP 26, 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) Dividends

In accordance with the revised SSAP 9, the Group no longer recognizes dividends proposed or declared after the balance sheet date as a liability at the balance sheet date. This change in accounting policy has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

As detailed in Note 20, the Group's beginning retained profits at July 1, 2001 have increased by HK$137,101,000 *(2000: HK$125,474,000)* which is the reversal of the provision for 2001 *(2000)* proposed final dividend previously recorded as a liability as at June 30, 2001 *(June 30, 2000)* although not declared until after the balance sheet date.

The Company's beginning retained profits at July 1, 2001 have decreased by HK$26,699,000 *(2000: HK$174,826,000)* which comprise of the reversal of the provision for 2001 *(2000)* proposed final dividend of HK$137,101,000 *(2001: HK$125,474,000)* previously recorded as a liability as at June 30, 2001 *(June 30, 2000)* although not declared until after the balance sheet date and the reversal of the dividend income of HK$163,800,000 *(2000: HK$300,300,000)* previously recorded as a receivable as at June 30, 2001 *(June 30, 2000)* although not declared until after the balance sheet date.

2. TURNOVER AND SEGMENT INFORMATION

The Group is principally engaged in the design, wholesale and retail distribution, sourcing and licensing of quality fashion and life-style products under the internationally known ESPRIT brand name in Europe, Asia Pacific and North America, together with Red Earth cosmetics, skin and body care products and the operation of Salon ESPRIT in Asia Pacific.

	2002 HK$'000	2001 HK$'000
Turnover		
Sales of goods	**9,061,516**	7,977,257
Commission income	**11,859**	5,185
Licensing and other income	**145,739**	126,620
	9,219,114	8,109,062

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 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 result	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

2. TURNOVER AND SEGMENT INFORMATION *continued*

Primary reporting format – business segments *continued*

	Wholesale 2001 HK$'000	Retail 2001 HK$'000	Sourcing 2001 HK$'000	Licensing & others 2001 HK$'000	Eliminations 2001 HK$'000	Group 2001 HK$'000
Turnover	4,555,974	3,421,283	5,185	126,620	–	8,109,062
Inter-segment revenue	–	–	464,071	161,907	(625,978)	–
Segment revenue	4,555,974	3,421,283	469,256	288,527	(625,978)	8,109,062
Segment result	729,868	79,510	273,668	174,315	(1,564)	1,255,797
Intangible assets amortization						(20,341)
Unallocated net expenses						(103,646)
Operating profit						1,131,810
Segment assets	1,946,226	1,405,708	948,329	80,306	(1,650,517)	2,730,052
Associated companies						89,329
Intangible assets						722,110
Unallocated assets						13,289
Total assets						3,554,780
Segment liabilities	611,749	892,372	902,518	10,920	(1,650,517)	767,042
Unallocated liabilities						606,273
Total liabilities						1,373,315
Capital expenditure	87,161	348,940	244	8,616	–	444,961
Depreciation	38,745	142,288	3,176	4,275	–	188,484

2. TURNOVER AND SEGMENT INFORMATION *continued*

Secondary reporting format – geographical segments

In determining the Group's geographical segments, turnover are attributed to the segments based on the location of the markets, and assets are attributed to the segments based on the location of the assets.

	Turnover 2002 HK$'000	Capital expenditure 2002 HK$'000	Segment assets 2002 HK$'000
Germany	4,483,569	179,249	2,052,223
Belgium and the Netherlands	1,379,140	42,720	366,362
Hong Kong	1,063,126	30,558	1,945,690
Other Asia Pacific countries	1,244,919	61,124	581,194
Other European countries	984,661	29,265	472,131
U.S. and others	63,699	1,091	104,775
Eliminations	–	–	(1,774,925)
	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

	Turnover 2001 HK$'000	Capital expenditure 2001 HK$'000	Segment assets 2001 HK$'000
Germany	3,928,213	154,168	1,303,289
Belgium and the Netherlands	1,003,370	80,362	268,387
Hong Kong	1,093,221	29,106	1,639,447
Other Asia Pacific countries	1,257,031	104,533	606,126
Other European countries	755,550	76,792	329,661
U.S. and others	71,677	–	60,313
Eliminations	–	–	(1,477,171)
	8,109,062	444,961	2,730,052
Intangible assets			722,110
Associated companies			89,329
Unallocated assets			13,289
Total			3,554,780

3. OPERATING PROFIT

	2002 HK$'000	2001 HK$'000
Operating profit is arrived at after crediting and charging the following:		
Crediting		
Provision for doubtful debts written back	–	8,624
Provision for obsolete stock written back	6,302	25,725
Profit on disposal of listed investments	–	365
Net exchange gains	22,724	–
Charging		
Auditors' remuneration	5,304	6,084
Depreciation and amortization		
– Owned assets	220,767	186,824
– Assets held under finance leases	1,057	1,660
Amortization of intangible assets	56,709	20,341
Net exchange losses	–	26,290
Loss on disposal of fixed assets	6,693	9,478
Operating lease rental expenses		
– Land and buildings	863,411	621,978
– Others	–	5,375
Provision for doubtful debts	3,435	–
Retirement benefit costs (Note 9)	9,182	5,411
Provision for impairment of an unlisted investment	–	1,887

4. FINANCE COSTS

	2002 HK$'000	2001 HK$'000
Interest on bank loans and overdrafts wholly repayable within five years	13,790	38,035
Interest element of finance leases	133	255
	13,923	38,290

5. TAXATION

	2002 HK$'000	2001 HK$'000
Company and its subsidiaries:		
Hong Kong profits tax	51,801	32,807
Overseas taxation net of overprovision for prior years of HK$5,725,000 *(2001: HK$33,050,000)*	302,386	477,243
Deferred taxation (note 24)	9,129	2,348
	363,316	512,398
Associated companies - overseas taxation	11,923	61
	375,239	512,459

Hong Kong profits tax has been provided at the rate of 16% *(2001: 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.

5. TAXATION *continued*

In prior years, no recognition of entitlements to refunds on dividend withholding tax paid in Germany was made until final tax assessments were issued. Following the Corporate Income Tax Reform in Germany in 2001, the Group has reviewed its tax position with its German tax advisers and considered the dividend withholding tax paid in the sum of HK$120,900,000 in respect of prior years to be refundable. Accordingly, this amount has been recognized in the profit and loss account.

	Group	
	2002 HK$'000	2001 HK$'000
Deferred taxation for the year which has not been (credited) / charged amounts to:		
Depreciation allowances	**(2,730)**	33,779
Tax losses	**(11,299)**	42,160
Other timing differences	**5,143**	733
	(8,886)	76,672

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$203,910,000 *(2001: HK$364,303,000)*.

7. DIVIDENDS

	2002 HK$'000	2001 HK$'000
Interim dividend of 6.0 Hong Kong cents *(2001: 4.8 Hong Kong cents)* per share	**69,229**	53,993
Proposed final dividend of 17.0 Hong Kong cents and special dividend of 5.0 Hong Kong cents *(2001 final: 12.0 Hong Kong cents)* per share	**259,284**	137,101
	328,513	191,094

The amount of 2002 proposed final and special dividend is based on 1,178,562,434 shares *(2001: 1,142,505,174 shares as at June 30, 2001)* in issue as at August 31, 2002.

8. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to shareholders of HK$927,210,000 *(2001: HK$575,329,000)* and the weighted average number of shares in issue during the year of 1,152,349,097 *(2001: 1,124,643,688)*.

The calculation of fully diluted earnings per share is based on the profit attributable to shareholders of HK$927,210,000 *(2001: HK$575,329,000)*, and the weighted average number of shares in issue during the year of 1,159,817,263 *(2001: 1,147,914,405)* after adjusting for the number of dilutive ordinary shares deemed to be issued at no consideration on the assumption that all outstanding share options granted under the Company's employee share option scheme had been exercised.

9. RETIREMENT BENEFIT COSTS

Pursuant to the Mandatory Provident Fund Scheme Ordinance (Chapter 485 of the Laws of Hong Kong) (the "MPF Ordinance"), the Group has enrolled all Hong Kong employees into a MPF Scheme from December 1, 2000. The MPF Scheme is a master trust scheme established under trust arrangement and governed by laws in Hong Kong.

Under the MPF Ordinance, employers and employees are required to contribute 5% of the employees' relevant income as defined in the MPF Ordinance up to a maximum of HK$1,000 per employee per month. The contributions are fully and immediately vested in the employees as accrued benefits once they are paid to the approved trustees of the MPF Scheme. There were no forfeited contributions under the MPF Scheme.

Contributions totaling HK$705,000 *(2001: HK$788,000)* were payable to the MPF Scheme at the year-end and are included in creditors and accrued charges.

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:

	2002 HK$'000	2001 HK$'000
Fees to non-executive Directors*	**620**	620
Salaries, housing and other allowances, benefits in kind including deemed benefit arising from exercise of share options payable to Executive Directors	**303,212**	78,625
Bonuses to Executive Directors	**2,078**	8,743
	305,910	87,988

* The amount includes directors' fees of HK$470,000 *(2001: HK$470,000)* paid to Independent Non-executive Directors.

The emoluments of the Directors fell within the following bands:

Emoluments Band	Number of Directors 2002	Number of Directors 2001
Nil – HK$ 1,000,000	**4**	4
HK$ 1,500,001 – HK$ 2,000,000	**1**	–
HK$ 5,000,001 – HK$ 5,500,000	**–**	1
HK$ 8,000,001 – HK$ 8,500,000	**–**	1
HK$ 17,500,001 – HK$ 18,000,000	**–**	1
HK$ 20,000,001 – HK$ 20,500,000	**–**	1
HK$ 30,000,001 – HK$ 30,500,000	**1**	–
HK$ 36,000,001 – HK$ 36,500,000	**–**	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**	–
	9	9

(b) Five Highest Paid Individuals

The five individuals whose emoluments were the highest in the Group for the year include four *(2001: three)* Directors whose emoluments are reflected in the analysis presented above.

The emoluments receivable by the remaining one *(2001: two)* highest paid individual during the year are as follows:

	2002 HK$'000	2001 HK$'000
Salaries, housing and other allowances, benefits in kind including deemed benefit arising from exercise of share options	**13,895**	53,642
Bonuses	**1,716**	3,517
	15,611	57,159

Emoluments Band	Number of Individuals 2002	Number of Individuals 2001
HK$15,500,001 – HK$16,000,000	**1**	–
HK$27,500,001 – HK$28,000,000	**–**	1
HK$29,000,001 – HK$29,500,000	**–**	1
	1	2

11. INTANGIBLE ASSETS

Group

	Trademarks HK$'000	Goodwill HK$'000	Total HK$'000
At July 1, 2001	722,110	–	722,110
Additions	1,169,539	–	1,169,539
Acquisition of additional interest in a subsidiary	–	15,000	15,000
Amortization	(56,334)	(375)	(56,709)
At June 30, 2002	**1,835,315**	**14,625**	**1,849,940**
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**
At June 30, 2001			
Cost	813,645	–	813,645
Accumulated amortization	(91,535)	–	(91,535)
Net book amount	722,110	–	722,110

In compliance with SSAP 29 "Intangible Assets" which became effective for accounting periods beginning on or after January 1, 2001, the resultant amortization charge for the year ended June 30, 2002 has been increased by HK$31,300,000.

The net book amount at June 30, 2002 of the Group's trademarks included HK$675,522,000 *(2001: HK$722,110,000)* with remaining amortization period of 14.5 years *(2001: 15.5 years)* and HK$1,159,793,000 *(2001: Nil)* with remaining amortization period of 19.5 years *(2001: Nil)*.

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, 2001	25,031	25,931	66,906	1,026,660	7,804	413,403	9,098	1,574,833
Exchange translation	1,622	–	3,005	132,513	664	57,334	482	195,620
Additions	–	–	–	233,191	1,058	106,852	2,906	344,007
Disposals	–	–	–	(46,304)	(4,131)	(37,496)	(2,352)	(90,283)
At June 30, 2002	**26,653**	**25,931**	**69,911**	**1,346,060**	**5,395**	**540,093**	**10,134**	**2,024,177**
Depreciation								
At July 1, 2001	–	2,992	16,748	488,466	6,943	272,981	7,583	795,713
Exchange translation	–	–	1,290	60,938	503	33,262	325	96,318
Charge for the year	–	499	2,491	138,330	372	78,104	2,028	221,824
Disposals	–	–	–	(38,345)	(3,511)	(34,623)	(1,896)	(78,375)
At June 30, 2002	**–**	**3,491**	**20,529**	**649,389**	**4,307**	**349,724**	**8,040**	**1,035,480**
Net book value								
At June 30, 2002	**26,653**	**22,440**	**49,382**	**696,671**	**1,088**	**190,369**	**2,094**	**988,697**
At June 30, 2001	25,031	22,939	50,158	538,194	861	140,422	1,515	779,120

At June 30, 2002, freehold land and buildings outside Hong Kong with a net book value of HK$33,382,000 *(2001: HK$31,996,000)* are pledged as security for short-term bank loan facilities.

At June 30, 2002, the net book value of furniture and office equipment of HK$384,000 *(2001: HK$1,407,000)* and motor vehicles and launch of HK$345,000 *(2001: HK$529,000)* are held under finance leases.

13. OTHER INVESTMENTS

	Group 2002 HK$'000	Group 2001 HK$'000
Unlisted investments, at cost	**15,483**	15,163
Provision for impairment	**(7,797)**	(7,797)
	7,686	7,366

14. INVESTMENT IN SUBSIDIARIES

	Company 2002 HK$'000	Company 2001 HK$'000
Unlisted shares, at cost	**216,677**	216,677
Loans to subsidiaries	**1,621,930**	1,621,930
Amounts due from subsidiaries	**1,419,248**	1,256,245
	3,257,855	3,094,852
Amounts due to subsidiaries	**(847,626)**	(801,229)
	2,410,229	2,293,623

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. All balances are unsecured and have no fixed terms of repayment.

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, 2002 are set out in note 30 to the financial statements.

15. ASSOCIATED COMPANIES

	Group 2002 HK$'000	Group 2001 HK$'000
Share of net assets	**53,868**	29,980
Loan to an associated company	**24,500**	49,000
	78,368	78,980
Unlisted shares, at cost	**–**	–

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

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, 2002.

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 financial accounting period ended December 31, which is not coterminous with the Group.

16. STOCKS

	Group	
	2002 HK$'000	2001 HK$'000
Raw materials	8,143	7,274
Work in progress	–	463
Finished goods	1,005,614	869,682
Consumables	66,894	45,477
Provision	(125,330)	(131,632)
	955,321	791,264

At June 30, 2002, the carrying amount of stocks that are pledged as security for bank overdrafts amounted to HK$42,775,000 *(2001: HK$40,865,000)*.

17. DEBTORS, DEPOSITS AND PREPAYMENTS

	Group		Company	
	2002 HK$'000	2001 HK$'000	2002 HK$'000	2001 HK$'000
Trade debtors	520,659	439,127	–	–
Deposits	188,425	167,488	–	–
Prepayments	30,163	34,714	–	–
Other debtors and receivables	85,001	74,905	320	–
	824,248	716,234	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	
	2002 HK$'000	2001 HK$'000
0 – 30 days	460,168	359,565
31 – 60 days	21,341	40,977
61 – 90 days	6,758	17,777
Over 90 days	32,392	20,808
	520,659	439,127

18. CREDITORS AND ACCRUED CHARGES

	Group		Company	
	2002 HK$'000	2001 HK$'000	2002 HK$'000	2001 HK$'000
Trade creditors	464,144	350,065	–	–
Accruals	388,996	337,306	1,918	4,255
Other creditors and payables	123,225	59,552	–	–
	976,365	746,923	1,918	4,255

18. CREDITORS AND ACCRUED CHARGES *continued*

The ageing analysis of trade creditors is as follows:

	Group	
	2002 HK$'000	2001 HK$'000
0 – 30 days	**415,178**	316,147
31 – 60 days	**29,367**	23,838
61 – 90 days	**8,038**	4,173
Over 90 days	**11,561**	5,907
	464,144	350,065

19. SHARE CAPITAL

	2002 HK$'000	2001 HK$'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, 2000	1,116,559	111,656
Exercise of share options	25,166	2,517
Issue of scrip dividend shares	780	78
Balance at June 30, 2001	1,142,505	114,251
Balance at July 1, 2001	1,142,505	114,251
Exercise of share options (note (a))	32,393	3,239
Issues of scrip dividend shares (note (b))	2,039	204
Balance at June 30, 2002	**1,176,937**	**117,694**

(a) During the year, 32,393,000 *(2001: 25,166,000)* ordinary shares of HK$0.10 were issued at a premium of the range from HK$2.64 to HK$6.36 each respectively in relation to share options exercised by the employees and Directors under the Scheme (defined in (c) below).

(b) At the annual general meeting of the Company held on November 26, 2001, shareholders of the Company approved a final dividend for the year ended June 30, 2001 of 12.0 Hong Kong cents per share of HK$0.10 each. Shareholders were offered to elect to receive fully paid new shares ("Scrip Dividend Shares A") in lieu of cash ("Scrip Dividend Scheme A"). For the purpose of calculating the number of Scrip Dividend Shares A duly allotted, the market value of the Scrip Dividend Shares A was set at HK$8.80 per share, which is equivalent to the average closing prices of the shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for the five consecutive trading days immediately preceding and including November 26, 2001. Under this Scrip Dividend Scheme A, 2001 final dividends of HK$17,033,782 were settled by the issue of 1,935,657 Scrip Dividend Shares A at a premium of HK$8.70 each.

At the Directors' meeting of the Company held on February 7, 2002, the Directors of the Company declared an interim dividend for the six months ended December 31, 2001 of 6.0 Hong Kong cents per share of HK$0.10 each to the shareholders. Shareholders were offered to elect to receive fully paid new shares ("Scrip Dividend Shares B") in lieu of cash ("Scrip Dividend Scheme B"). For the purpose of calculating the number of Scrip Dividend Shares B duly allotted, the market value of the Scrip Dividend Shares B was set at HK$13.23 per share, which is equivalent to the average closing prices of the shares on the Stock Exchange for the five consecutive trading days immediately preceding and including March 11, 2002. Under this Scrip Dividend Scheme B, 2002 interim dividends of HK$1,370,668 were settled by the issue of 103,603 Scrip Dividend Shares B at a premium of HK$13.13 each.

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

Each share option granted under the Scheme entitles the holder to subscribe for one share of HK$0.10 each at a predetermined price. Options granted were divided into one to eight equal fractional installments with the first exercisable date between each installment shall occur at intervals of six calendar months. Options granted under the Scheme will expire on the fifth anniversary of the first date of exercise of each installment or 10 years from the date of adoption of the Scheme, whichever is the earlier. At June 30, 2002, there were 14,625,000 options outstanding which allowed the eligible employees to subscribe for shares in the Company at the price from HK$2.64 to HK$6.36 per share.

Following the changes in the Listing Rules, the Company has adopted a new share option scheme ("New Scheme") in November 2001, but no options have yet been issued under the New Scheme.

20. RESERVES

Group

	Share premium HK$'000	Contributed surplus HK$'000	Translation reserve HK$'000	Retained profits HK$'000	Total HK$'000
Balance at July 1, 2000, as previously reported	1,011,787	6,602	(136,463)	730,796	1,612,722
Effect of adopting SSAP 9 (revised)	–	–	–	125,474	125,474
As restated	1,011,787	6,602	(136,463)	856,270	1,738,196
Premium arising from issues of shares	66,381	–	–	–	66,381
Premium arising from issues of scrip dividend shares	6,247	–	–	–	6,247
Exchange translation	–	–	(139,472)	–	(139,472)
Profit attributable to shareholders by:					
Company and its subsidiaries	–	–	–	554,912	554,912
Associated companies	–	–	–	20,417	20,417
1999/2000 Final dividend paid	–	–	–	(125,502)	(125,502)
2000/2001 Interim dividend paid	–	–	–	(53,965)	(53,965)
Balance at June 30, 2001	1,084,415	6,602	(275,935)	1,252,132	2,067,214
Representing:					
At June 30, 2001 after proposed final dividend					1,930,113
2000/2001 Proposed final dividend					137,101
					2,067,214
Attributable to:					
Company and its subsidiaries	1,084,415	6,602	(275,667)	1,222,173	2,037,523
Associated companies	–	–	(268)	29,959	29,691
	1,084,415	6,602	(275,935)	1,252,132	2,067,214

20. RESERVES *continued*

Group *continued*

	Share premium HK$'000	Contributed surplus HK$'000	Translation reserve HK$'000	Retained profits HK$'000	Total HK$'000
Balance at July 1, 2001, as previously reported	1,084,415	6,602	(275,935)	1,115,031	1,930,113
Effect of adopting SSAP 9 (revised)	–	–	–	137,101	137,101
As restated	1,084,415	6,602	(275,935)	1,252,132	2,067,214
Premium arising from issues of shares	104,460	–	–	–	104,460
Premium arising from issues of scrip dividend shares	18,200	–	–	–	18,200
Exchange translation	–	–	175,271	–	175,271
Profit attributable to shareholders by:					
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)
Balance at June 30, 2002	**1,207,075**	**6,602**	**(100,664)**	**1,973,012**	**3,086,025**
Representing:					
At June 30, 2002 after proposed final and special dividends					2,826,741
2001/2002 Proposed final and special dividends					259,284
					3,086,025
Attributable to:					
Company and its subsidiaries	1,207,075	6,602	(100,358)	1,919,165	3,032,484
Associated companies	–	–	(306)	53,847	53,541
	1,207,075	6,602	(100,664)	1,973,012	3,086,025

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.

20. RESERVES *continued*

Company

	Share premium HK$'000	Contributed surplus HK$'000	Retained profits HK$'000	Total HK$'000
Balance at July 1, 2000, as previously reported	1,011,787	473,968	591,851	2,077,606
Effect of adopting SSAP 9 (revised):				
Dividend income from subsidiaries	–	–	(300,300)	(300,300)
1999/2000 proposed final dividend	–	–	125,474	125,474
As restated	1,011,787	473,968	417,025	1,902,780
Premium arising from issues of shares	66,381	–	–	66,381
Premium arising from issues of scrip dividend shares	6,247	–	–	6,247
Profit for the year	–	–	364,303	364,303
1999/2000 Final dividend paid	–	–	(125,502)	(125,502)
2000/2001 Interim dividend paid	–	–	(53,965)	(53,965)
Balance at June 30, 2001	1,084,415	473,968	601,861	2,160,244

Representing:

At June 30, 2001 after proposed final dividend	2,023,143
2000/2001 Proposed final dividend	137,101
	2,160,244

	Share premium HK$'000	Contributed surplus HK$'000	Retained profits HK$'000	Total HK$'000
Balance at July 1, 2001, as previously reported	1,084,415	473,968	628,560	2,186,943
Effect of adopting SSAP 9 (revised):				
Dividend income from subsidiaries	–	–	(163,800)	(163,800)
2000/2001 proposed final dividend	–	–	137,101	137,101
As restated	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)
Balance 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
2001/2002 Proposed final and special dividends	259,284
	2,280,484

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

Contributed surplus is available for distribution to shareholders under the laws in Bermuda. Distributable reserves of the Company at June 30, 2002 amounted to HK$1,073,409,000 *(2001: HK$1,075,829,000)*.

21. OBLIGATIONS UNDER FINANCE LEASES

	Group	
	2002	2001
	HK$'000	HK$'000
Total minimum lease payments		
– within one year	**629**	1,381
– in the second year	**216**	565
– in the third to fifth year inclusive	**289**	452
	1,134	2,398
Future finance charges on finance leases	**(91)**	(154)
Present value of finance lease liabilities	**1,043**	2,244
The present value of finance lease liabilities		
– within one year	**593**	1,303
– in the second year	**197**	519
– in the third to fifth year inclusive	**253**	422
	1,043	2,244
Amount due within one year included under current liabilities	**(593)**	(1,303)
	450	941

22. LONG-TERM BANK LOAN

	Group		Company	
	2002	2001	**2002**	2001
	HK$'000	HK$'000	**HK$'000**	HK$'000
Unsecured and wholly repayable within 5 years	**780,000**	–	**–**	–

The maturity of the long-term bank loan is in the third to fifth year inclusive.

23. BANK OVERDRAFTS

	Group	
	2002	2001
	HK$'000	HK$'000
Secured	**35,164**	40,865
Unsecured	**12,831**	14,739
	47,995	55,604

24. DEFERRED TAXATION

	Group 2002 HK$'000	Group 2001 HK$'000
Assets		
At the beginning of the year	**5,805**	–
(Charged)/credited to the profit and loss account (note 5)	**(2,092)**	5,805
Exchange translation	**520**	–
At the end of the year	**4,233**	5,805
Provided in the financial statements in respect of:		
Depreciation allowances	**4,233**	5,805
Liabilities		
At the beginning of the year	**(8,192)**	(82)
Charged to the profit and loss account (note 5)	**(7,037)**	(8,153)
Exchange translation	**(2,067)**	43
At the end of the year	**(17,296)**	(8,192)
Provided in the financial statements in respect of:		
Depreciation allowances	**(1,008)**	(1,044)
Other timing differences	**(16,288)**	(7,148)
	(17,296)	(8,192)

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

	Group 2002 HK$'000	Group 2001 HK$'000
Depreciation allowances	**5,352**	2,622
Tax losses	**28,281**	16,982
Other timing differences	**3,177**	8,320
	36,810	27,924

25. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

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

	2002 HK$'000	2001 HK$'000
Profit before taxation	**1,360,975**	1,159,728
Adjustments for:		
Interest income	**(22,635)**	(45,730)
Interest expense	**13,790**	38,035
Interest element of finance leases	**133**	255
Amortization of intangible assets	**56,709**	20,341
Depreciation	**221,824**	188,484
Loss on disposal of fixed assets	**6,693**	9,478
Profit on disposal of listed investments	**–**	(365)
Share of results of associated companies	**(35,811)**	(20,478)
Provision for impairment of an unlisted investment	**–**	1,887
Effect of foreign exchange rate changes	**(15,159)**	5,778
Operating profit before changes in working capital	**1,586,519**	1,357,413
Increase in stocks	**(164,057)**	(55,497)
Increase in debtors, deposits and prepayments	**(104,451)**	(58,871)
(Increase)/decrease in amounts due from associated companies	**(7,459)**	10,274
Increase/(decrease) in creditors and accrued charges	**228,858**	(82,614)
Effect of foreign exchange rate changes	**103,131**	(86,134)
Cash generated from operations	**1,642,541**	1,084,571

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

	2002 HK$'000	2001 HK$'000
Short-term bank deposits	**331,647**	7,855
Bank balances and cash	**650,026**	435,697
Bank overdrafts	**(47,995)**	(55,604)
	933,678	387,948

26. CONTINGENT LIABILITIES

	Company	
	2002 HK$'000	2001 HK$'000
Guarantees given to banks in respect of banking facilities granted to subsidiaries	**1,492,366**	1,331,346

27. OPERATING LEASE COMMITMENTS

	Group 2002 HK$'000	Group 2001 HK$'000
The total future minimum lease payments under non-cancellable operating leases are as follows:		
Land and buildings		
– within one year	**847,768**	605,132
– in the second to fifth year inclusive	**2,971,632**	1,598,340
– after the fifth year	**4,361,886**	1,364,879
	8,181,286	3,568,351
Other equipment		
– within one year	**27,850**	14,259
– in the second to fifth year inclusive	**28,364**	9,047
– after the fifth year	**122**	–
	8,237,622	3,591,657

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, 2002 *(2001: Nil)*.

28. COMMITMENTS

(a) Capital Commitments

	Group 2002 HK$'000	Group 2001 HK$'000
Contracted but not provided for	**260,111**	175,628
Authorized but not contracted for	**110,719**	87,814
	370,830	263,442

The Company did not have any significant capital commitments at June 30, 2002 *(2001: Nil)*.

(b) Foreign Exchange Contracts

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

	Group 2002 HK$'000	Group 2001 HK$'000
Forward contracts	**251,256**	170,371

29. RELATED PARTY TRANSACTIONS

In addition to directors' emoluments disclosed in note 10, 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:

	2002 HK$'000	2001 HK$'000
Transactions with Associated Companies		
Sales of finished goods	**231,262**	157,150
Royalty received	**8,373**	6,175
Commission received	**8,665**	–
Other income	**–**	171

1. On December 18, 2001, the Company, Red Earth Investment Limited ("REInvest") and Red Earth International Holdings Limited ("REIHL") entered into a deed of settlement with Mr. Steven Ko Soon How ("Mr. Ko") and Jeckson Management Limited ("Jeckson"). Pursuant to the said deed of settlement, (a) Jeckson transferred to REInvest its entire 39% interests in REIHL, (b) the proceedings initiated by Jeckson against the Company, REInvest and REIHL had been dismissed, (c) Mr. Ko and Jeckson assumed various obligations and responsibilities, in consideration of an aggregate sum of HK$15,000,000 paid by REInvest. Mr. Ko was then a director and the ex-chief executive officer of REIHL and Jeckson was a company controlled by Mr. Ko. Following the completion of the transaction, REIHL became a wholly-owned subsidiary of the Group.

2. On February 7, 2002, the Company and its wholly-owned subsidiary Esprit Capital Limited ("ECL") entered into an asset sale and purchase agreement ("Asset Acquisition Agreement") with, inter alia, Esprit de Corp. (currently known as ECOR-SF, Inc.) (the "Seller"). OCM Opportunities Funds, L.P., Columbia/HCA Master Retirement Trust (Oaktree Separate Account I), the Common Fund for Bond Investments, TCW Special Credits Fund IV, TCW Special Credits Plus Fund, TCW Special Credits Trust IV and TCW Special Credits Trust IVA, Cerberus International Ltd. and Cerberus Partners L.P. and Esprit Holdings Inc. (currently known as SCOR-SF Holdings, Inc.). The Seller was then a substantial shareholder (within the meaning of the Listing Rules) holding 37% limited partnership interests in Esprit International, which is a subsidiary of the Company. Pursuant to the Asset Acquisition Agreement, the Seller sold to ECL, inter alia, its 37% limited partnership interests in Esprit International, its intellectual property rights as more particularly described in the Asset Acquisition Agreement and certain licenses agreements relating to the use of the intellectual property rights in consideration of US$150 million (approximately HK$1,170 million*).

* *exchange rate: US$1 = HK$7.8 (for illustration purpose only)*

30. PRINCIPAL SUBSIDIARIES

The following are the principal subsidiaries as at June 30, 2002 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	Investment holding
Esprit de Corp (1980) Ltd.	Canada	100%	CAD1,000,100	Distribution of apparel and accessories
Esprit de Corp Danmark A/S	Denmark	100%	DKK10,000,000	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 Europe B.V. (merged with Esprit Nederland Retail B.V. and Esprit Benelux Wholesale B.V.)	The Netherlands	100%	EUR1,500,000	Investment holding and wholesale and retail distribution of apparel and accessories
Esprit Europe GmbH (formerly known as Esprit Holdings GmbH, merged with Esprit Europe AG)	Germany	100%	DM10,000,000	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 of merchandise and placement of orders
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	Group image direction
Esprit IP Limited	British Virgin Islands/Hong Kong	100%	USD1	Holding of trademarks
Esprit International (limited partnership)	California, U.S.A.	100%	–	Licensing of trademarks
Esprit Retail GmbH	Germany	100%	DM9,000,000	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%	SEK200,000	Wholesale and retail distribution of apparel and accessories
Esprit Wholesale GmbH	Germany	100%	EUR5,000,000	Wholesale distribution of apparel and accessories
Garment, Acessories 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 of trademarks
Red Earth New Zealand Limited	New Zealand	100%	NZD100	Retail distribution of cosmetics, skin and body care products

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
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

	2002 HK$'000	2001 HK$'000	2000 HK$'000	1999 HK$'000	1998 HK$'000
Turnover	**9,219,114**	8,109,062	7,277,306	5,993,820	5,087,206
Operating profit (EBIT)	**1,316,452**	1,131,810	881,724	656,323	526,849
Interest income	**22,635**	45,730	27,555	16,408	19,742
Finance costs	**(13,923)**	(38,290)	(37,912)	(48,132)	(57,004)
Profit/(loss) on listed investment held for long-term	**–**	–	–	77,662	(125,300)
	1,325,164	1,139,250	871,367	702,261	364,287
Share of results of associated companies	**35,811**	20,478	12,730	1,146	(17,616)
Profit before taxation	**1,360,975**	1,159,728	884,097	703,407	346,671
Taxation	**(375,239)**	(512,459)	(349,225)	(228,381)	(153,916)
Profit after taxation	**985,736**	647,269	534,872	475,026	192,755
Minority interests	**(58,526)**	(71,940)	(74,811)	(44,999)	(37,656)
Profit attributable to shareholders	**927,210**	575,329	460,061	430,027	155,099
Dividends	**328,513**	191,094	167,877	160,845	41,517

BALANCE SHEETS

	2002 HK$'000	2001 HK$'000	2000 HK$'000	1999 HK$'000	1998 HK$'000
Intangible assets	**1,849,940**	722,110	742,451	762,792	783,133
Fixed assets	**988,697**	779,120	596,953	484,457	403,099
Other investments	**7,686**	7,366	29,327	33,789	93,158
Associated companies	**78,368**	78,980	58,563	52,714	43,200
Deferred tax assets	**4,233**	5,805	–	–	–
Net current assets	**1,072,541**	615,421	668,294	605,849	438,669
	4,001,465	2,208,802	2,095,588	1,939,601	1,761,259
Financed by:					
Share capital	**117,694**	114,251	111,656	110,862	109,255
Reserves	**3,086,025**	2,067,214	1,738,196	1,443,583	1,053,810
Shareholders' funds	**3,203,719**	2,181,465	1,849,852	1,554,445	1,163,065
Minority interests	**–**	18,204	17,659	1,045	7,518
Obligations under finance leases	**450**	941	1,931	2,388	8,773
Long-term bank loan	**780,000**	–	226,064	380,201	532,537
Deferred tax liabilities	**17,296**	8,192	82	1,522	49,366
	4,001,465	2,208,802	2,095,588	1,939,601	1,761,259

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