



ESPRIT

ESPRIT HOLDINGS LIMITED annual report 2000/2001



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As a shareholder in Esprit Holdings Limited, you own a stake in a rapidly-growing global lifestyle brand that designs, sources, distributes and markets a stylish variety of apparel and related products in over 40 countries worldwide. With listings on the Hong Kong and London stock exchanges, Esprit enjoys widespread brand recognition in and beyond its markets. 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, kids', shoes, accessories, bodywear, and other lifestyle products.

ESPRIT



a year of continued growth despite the tough economic conditions



FY2000/2001 financial highlights

FOR THE YEAR ENDED JUNE 30, 2001

CHANGE

OPERATING RESULTS (HK\$ MN)

turnover	8,109	+11.4%
operating profit (after finance costs)	1,139	+30.7%
profit attributable to shareholders	575	+25.1%

PER SHARE DATA (HK¢)

earnings per share – basic	51.2	+24.0%
dividend per share	16.8	+12.0%

KEY STATISTICS

earnings before interest, taxation, depreciation and amortization margin (<i>EBITDA</i>) (%)	16.5	+1.8% points
return on shareholders' equity (<i>ROE</i>) (%)	30.5	+1.4% points
net cash position, net of bank borrowings (HK\$ MN)	388	+19.4%
debt to equity ratio* (%)	2.8	-21.2% points
net debt to equity ratio** (%)	net cash	not applicable
shareholders' funds (HK\$ MN)	2,044	+18.6%

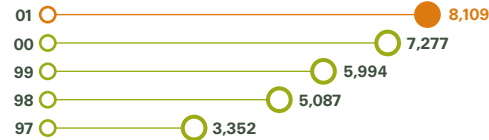
* debt refers to all interest bearing borrowings

** net debt refers to interest bearing borrowings less cash

dear shareholder

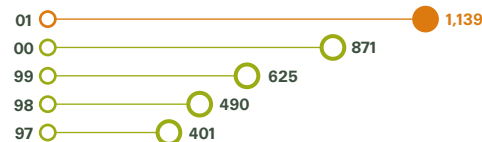
TURNOVER

(HK\$ MN)



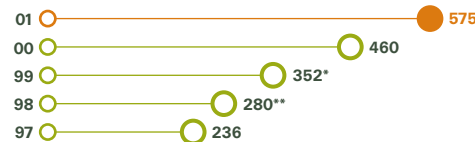
OPERATING PROFIT (AFTER FINANCE COSTS)

(HK\$ MN)



PROFIT ATTRIBUTABLE TO SHAREHOLDERS

(HK\$ MN)



*before exceptional gain of HK\$78mn

**before exceptional loss of HK\$125mn

Last year was a healthy year for Esprit, a year of continued growth and improvement in most areas of our business. We opened new stores, launched new products and entered into new markets. In number terms, sales went up 11%, net profit grew 25%, and retail space increased by 27%. Our EBITDA margin rose 1.8% points to 16.5%, and net cash on hand grew to about US\$50 million. All in all, we ended our eighth consecutive year of growth with new heights amid a pretty tough global economic environment.

The management is both proud of and grateful for the accomplishment, which represents an upswing in momentum. This momentum provides additional backing as we strive to maintain growth under extremely competitive operating condition.

There is, however, no room for complacency. The management is challenged by the imminent economic hardships after the tragic attacks on September 11 in the U.S.. We have no doubts that our discipline and philosophy will guide us well, as they have in the past. We are even optimistic, if things do not turn out as badly as predicted, that there is a fair chance for us to finish the current financial year with moderate growth.

Yes we have a fair chance. Our company is solid; with substantial net cash on hand and a strong operating cash flow more than sufficient to fund our capital expenditure of approximately US\$50 million this year. We have added and will continue to add many new stores in prime locations worldwide, which guarantee better access to our customers and promote higher brand awareness internationally. Historical margins achieved have been high enough to sustain some margin shrinkage. Last but not least, the performance in our core markets so far has met our pre-911 expectations.

As difficult as it sounds, this tough environment will not last forever, nor will it last a long time. Our short-term strategy may be dictated by the market, but our foundation and long-term conviction for fast growth remain intact.

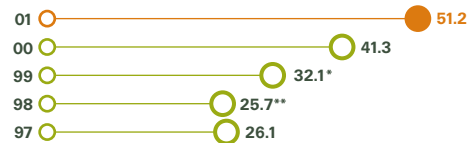
Michael Ying

Chairman

September 26, 2001

EARNINGS PER SHARE (BASIC)

(HK¢)

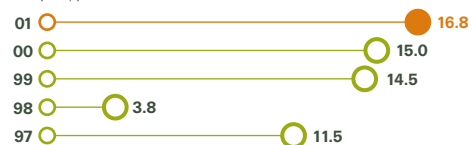


*39.2HK¢ after exceptional gain of HK\$78mn

**14.2HK¢ after exceptional loss of HK\$125mn

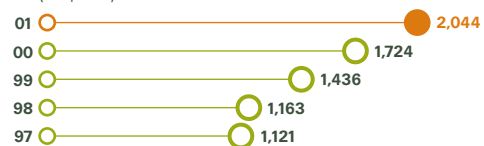
DIVIDEND PER SHARE

(HK¢)



SHAREHOLDERS' FUNDS

(HK\$ MN)





a growing product range ... a focused lifestyle

corporate structure

AS AT JUNE 30, 2001



* please refer to "substantial shareholders" in report of the directors for shareholding information on the Company

business review

Last year, our aim was to place Esprit on the fast track to global expansion. We are therefore doubly pleased to see that the Esprit lifestyle is continuing to gather momentum as we achieved yet another record year of profit and turnover in FY2000/2001. Overall growth in turnover increased 11.4% and operating profit after finance costs grew 30.7% resulting in our Shareholders' Funds as at the end of June 2001 exceeded HK\$2.0 billion. This achievement is all the more significant as it counters negative global economic trends and slowing markets around the world.

EUROPE – DRIVING MOMENTUM...FUELLING GROWTH

The tremendous momentum of the Esprit brand in Europe has borne fruitful dividends, leading to a 35.8% increase in turnover in Euro terms.

During the year, Germany continued its reign as our largest market growing at 33.5% in Euro terms. France and Austria however were our fastest growing markets, registering growth at 59.3% and 53.2% respectively. Benelux (i.e. Belgium and the Netherlands) saw relatively more modest growth at 37.5%. Impressive as these figures are, our penetration in these markets is still low. We therefore have every confidence that Esprit will continue to play an increasingly important role in the European market.

Our controlled space strategy contributed significantly to this strong growth, as our products became more accessible to more consumers through more third party managed stores throughout Europe. This aggressive growth not only increases our brand visibility and customer facilities – we now have over 750,000 square feet of third party retail space representing 44% growth over last year – it also encourages our partners and wholesale customers to actively promote our products.

Among the year's many highlights, a major step was taken outside continental Europe with our re-entry into the United Kingdom. Our first store, a 22,000 sq.ft. mega-store, opened on Regent Street in London in May this year. A second store has been opened in September at the Bluewater Mall in Kent. In time, we expect our activities in this market to significantly enhance our brand awareness.

the esprit lifestyle continues to gather momentum



**OPERATION MIX OF
GROUP TURNOVER**

YEAR ENDED JUNE 30, 2001



* includes royalty and commission income



esprit sport



timewear



bodywear



bed & bath



shoes and accessories



red earth



homeware



jewelry

ASIA PACIFIC – GROWING OPPORTUNITIES...STAYING AHEAD

Developments in Asia Pacific were more restrained. Hard hit by dampened markets, discounted pricing and currency depreciation, the market rebound of the previous year tailed off. Catering for more price sensitive customers, we have been striking a balance – boosting sales through more frequent promotions and resisting the urge to cut prices which we see as damaging to our global brand and image. Despite growth in both Hong Kong and Malaysia, total sales for the region, excluding China, reported an overall decline of 2.1% in local currency terms.

During the year, we opened and signed leases for mega-stores in some of the busiest traffic locations in the world. Leading this list is our flagship store scheduled to be opened in the last quarter of 2001 in Causeway Bay, Hong Kong. With over 40,000 sq.ft., it will be our largest store in the world. Another mega-store will also be opened at a prominent location in Tsimshatsui later this financial year. In Hong Kong, we are thus well positioned to take advantage of the anticipated increase in tourists from mainland China.

Consolidating our position in the Canadian market, Esprit Canada is emerging with a major focus on retail operations. Resources were channelled into increasing square footage which grew over 70% during the financial year. Stores rolled out in all major cities and we are now highly visible in Canada. The pace will further pick up as the full impact of the new retail facilities is reflected.

Sounding a highly positive note is the China market. Building on our unique positioning as an international brand in China, we continue to enjoy escalating growth of 52.2% and 154.3% in turnover and net profit respectively. The ongoing momentum is being fuelled by our expanding target market – the middle class. The joint venture in China now operates approximately 90 directly managed stores in Shanghai, Beijing and Dalian, and over 100 franchisees with approximately 360 franchised shops in more than 90 cities. During the year, 2 new mega-stores were also opened in Shanghai.



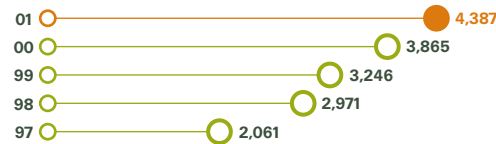
eyewear



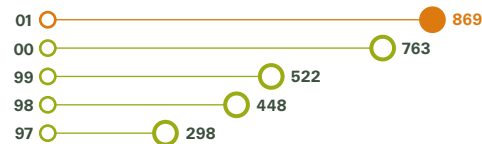
toys

TURNOVER:

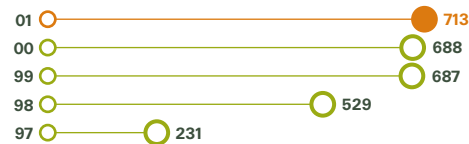
WOMEN'S WEAR
(HK\$ MN)



MEN'S WEAR
(HK\$ MN)



KIDS' WEAR
(HK\$ MN)



KEEPING FIT...STAYING TRIM

Weathering the storm ahead, our aim is to anticipate and be responsive to market changes, maintaining our vigilance as we seek lower costs and prepare for increasingly fierce competition. With our expanding scale and scope, we are able to exercise greater clout to gain better prices from suppliers. Stringent cost controls on staffing and inventory management as well as the outsourcing of our distribution in Europe and Australia have all led to significant cost savings.

We managed to decrease total staff and building expenses by 1.3% as a percentage of turnover, which contributed to the 2.1% points overall improvement in our operating margin. At the same time, we benefited from the opportunity to expand our retail facilities with larger shops and better locations. Building on our mega-store philosophy, strengthening our brand awareness and reinforcing Esprit's lifestyle concept, we invested over HK\$500 million in capital expenditure last year and expanded our directly managed sales footage by 27% to over 1.3 million sq.ft.

Together with our solid financial position, this fitter and sleeker organization will provide the springboard for sustaining our future growth and success.

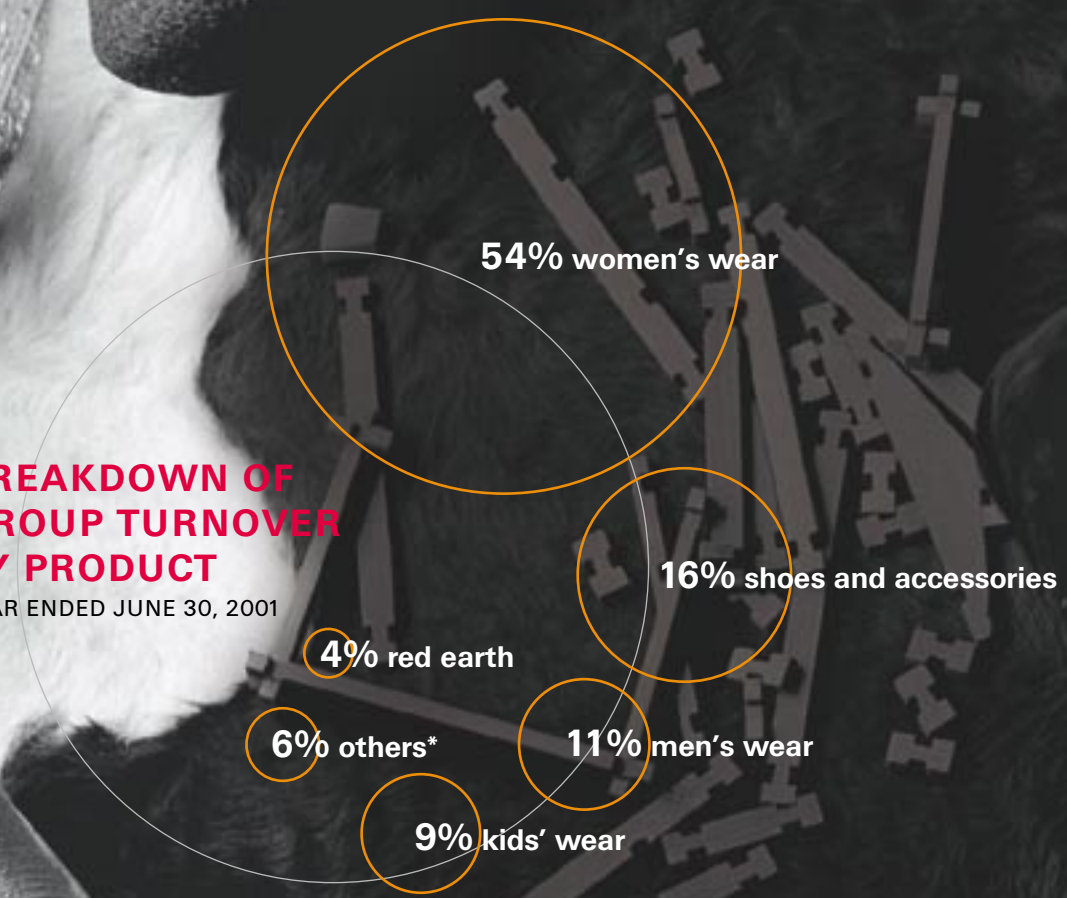
THE ESPRIT LIFESTYLE – RIGHT PRODUCT...RIGHT PLACE...RIGHT TIME

Complementing our contemporary Esprit brand, is our diverse product range from women's wear, men's wear and children's fashions to accessories and shoes, bodywear, cosmetics as well as our many licensed products for the home. Leading market trends, we produce over 8,000 designs in 12 collections a year to make sure that the right products hit the markets at the right time.

In FY2000/2001, women's wear continued to dominate our business, growing an overall 13.5% and accounting for over 50% of our total sales. This figure was actively boosted by the success of our EDC line, appealing to a younger and more contemporary market, which grew a highly encouraging 40%. In Europe, we also launched a new women's wear line – Esprit Sports, which is proving to be extremely popular with retailers and customers. We expect additional growth in this sector, as the sports line opens up the specialist sportswear market and is launched in Asia Pacific.

**BREAKDOWN OF
GROUP TURNOVER
BY PRODUCT**

YEAR ENDED JUNE 30, 2001



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

product and market data of group turnover

FOR THE YEAR ENDED JUNE 30	2001	2000	1999	1998	1997
OPERATION MIX (%)					
wholesale – europe	52	47	43	41	27
wholesale – asia pacific	4	5	5	3	6
retail – europe	18	18	20	22	16
retail – asia pacific	25	29	31	33	50
others*	1	1	1	1	1
GEOGRAPHICAL MIX (%)					
germany	48	45	44	43	29
hong kong	14	15	13	15	23
benelux	12	11	12	11	8
other asia pacific countries	16	20	24	21	26
other european countries	9	8	6	6	4
others	1	1	1	4	10
PRODUCT MIX (%)					
women's wear	54	53	54	59	62
men's wear	11	11	9	9	9
kids' wear	9	10	11	10	7
accessories	7	9	11]19]20
shoes	9	8	8		
red earth	4	6	5	2	1
others**	6	3	2	1	1

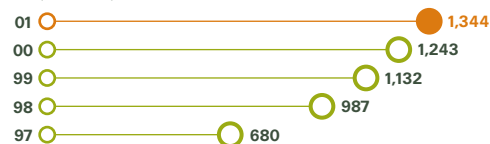
* includes royalty and commission income

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

TURNOVER:

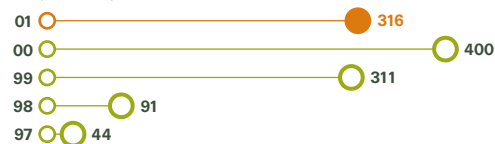
SHOES AND ACCESSORIES

(HK\$ MN)



RED EARTH

(HK\$ MN)



BODYWEAR

(HK\$ MN)



Men's wear achieved a satisfactory year on year increase of 13.8%. Growth was particularly strong in Europe improving a positive 20.9% in Hong Kong dollar terms. Sales of Esprit Kids remained relatively stable increasing 3.6% during the year. Though smaller than the women's wear market, both men's wear and kids' wear, accounting for 10.7% and 8.8% respectively of our total turnover, play a significant role in our operations. Not only do they enhance and diversify the total Esprit mix, they also broaden our market base.

After a record year in FY1999/2000, our Red Earth range of colour cosmetics saw a retreat with turnover falling 20.9%. Sales in Australia were particularly affected as the brand completed its final stages of consolidation and repositioning. Gearing up to this challenge, plans are in hand to reposition the brand in Hong Kong, expand the brand in Malaysia and Singapore and launch it in Canada.

At the same time, our range of licensed products continues to expand. Apart from our timewear collection, we also carry eyewear, jewelry, bed and bath products, homeware as well as our latest additions – toys and fragrances.

Our market oriented product divisions, with their extensive knowledge of the different markets, continue to ensure the delivery of products with exceptional value and top quality. Their flexibility and speed to market have proven to be an effective weapon in the price wars within the industry. Europe also took a major step forward in its organizational re-structure, with the integration of both buying and merchandising in the retail business with the product divisions. This has resulted in a more focused view of market needs, more retail oriented sales packages and shorter product development and delivery cycles – all critical factors in winning market share.

distribution network

AS AT JUNE 30, 2001		DIRECTLY MANAGED STORES		NO. OF FRANCHISED SHOPS
		SALES FOOTAGE (SQ. FT)	NO. OF STORES	
total		1,364,580	485	1,378
by region:	europa	541,802	110	1,103
	asia pacific*	822,778	375	275
in europa,	germany	315,478	62	872
	belgium	61,278	10	5
	the netherlands	76,281	20	37
	denmark	15,551	4	15
	france	25,764	9	84
	austria	21,858	2	67
	others	25,592	3	23
in asia pacific,	hong kong (incl macau)*	204,531	43	2
	australia (incl new zealand)	222,186	149	-
	taiwan	102,061	113	-
	canada	184,049	40	-
	singapore	71,670	22	-
	malaysia	38,281	8	-
	others	-	-	273
increase (vs 2000)		289,177	13	
china joint venture		136,233	89	361
increase (vs 2000)		57,678	22	

* excluding china joint venture

THE STEADY TRACK TO FUTURE SUCCESS

We have experienced a difficult yet rewarding year all in all. We have had to work harder but have not been cowed by the trying market conditions. The challenge now is to stay ahead and sustain our growth as we move into another stormy year ahead.

In Europe, we expect to reap the benefits of the aggressive capital expenditures invested in additional retail footage last year. We will also be extending the “vertical retailer concept” into the wholesale business from January 2002, a move which is expected to further reduce inventory risk for our wholesale partners by shortening lead times for pre-orders as well as increasing capacity for injection orders which should lead to better comparable store performance. Fighting the competition, we are continuing to introduce more quality products at lower pricing points.

In Asia Pacific where we already have stores in most of the major cities, our strategy is to maintain market share while enhancing efficiencies and cutting costs to improve overall margins and our bottom line.

Our philosophy is to “grow old trees while planting new ones”. To this end, apart from our move into the United Kingdom, we are commencing our franchise business in Korea where several new retail stores are scheduled to open by the end of 2001. We are also moving into the New Zealand market with the opening of around 10 stores in the next three years. At the same time, plans are being developed with regard to Spain and Japan.

Enhancing operating efficiencies, we are going further upstream to suppliers with the integration of our supply chain management systems. We anticipate savings from the elimination of manual procedures, as well as increased capabilities in refilling orders. At the same time our financial reporting capabilities are being streamlined with the implementation of Hyperion, an advanced consolidation tool linking our global financial data, which will enable us to perform faster reporting with more stringent requirements and will enhance the Group’s decision and risk management report. As the Group has a relatively high effective tax rate due to major profits are being generated from high-tax countries in Europe particularly Germany, we anticipate the lower tax rates in Germany taking effect in our FY2001/2002 will improve the Group’s overall tax rate significantly.

With this focused planning in place, strong financial position with HK\$388 million in net cash and no term loan, and the commitment and hard work of our people, we will not only retain but will continue to steadily grow our markets, products and services. Only by doing so can we remain on track to further global expansion and enhance our international brand recognition.

management discussion and analysis

FOR THE YEAR ENDED JUNE 30, 2001

REVIEW OF OPERATIONS

TURNOVER

Group turnover increased by 11.4% to HK\$8,109 million during the year. The wholesale and sourcing business grew by 21%. The retail and licensing businesses grew by 1.1% and 2.9% respectively.

We achieved growth in our three largest markets – Germany, Hong Kong and the Benelux (i.e. Belgium and the Netherlands) countries. In Hong Kong dollar terms, turnover in Germany, accounting for 48.4% of the Group's total turnover, recorded a growth of 19.2%. Hong Kong, our second largest market, reported growth of 1.4%. Benelux, our third largest market grew at 22.8%. France and Austria reported a growth of 42.3% and 36.8% respectively – a result of our efforts to grow our smaller markets in the region.

We reported increases in growth for most of our product lines. Net sales under the ESPRIT brand name accounted for 95.2% of the Group's turnover. Women's wear reported 13.5% growth, accounting for 54.1% of our Group's turnover. Men's wear grew by 13.8%, whereas growth in the Kids' wear line was stable at 3.6%. The turnover of Red Earth colour cosmetics declined by 20.9% overall in view of the difficult retail environment in Asia and the repositioning of the business in Australia.

GROSS PROFIT

Our gross profit increased by 10.4% to HK\$3,999 million. Margins declined by 0.5% point to 49.3% as a result of the increase in turnover from the lower margin wholesale business in Europe. Gross profit was also affected by the depreciation of the Euro and Australian Dollars.

our foundation and long-term conviction for fast growth remain intact





NET OPERATING EXPENSES (INCLUDING NET INTEREST EXPENSES)

Total net operating expenses dropped from 37.8% to 35.3% when expressed as a percentage of turnover. Building expenses as a percentage of turnover declined 0.4% point to 10.0%, as the Group took advantage of lower rentals to expand retail space in both Europe and Asia Pacific. The net increase in directly managed floor area was 27%, whilst building expenses increased by 7.3% to HK\$810 million.

Staff expenses as a percentage of turnover dropped from 15.1% to 14.2%, due to the operation of more megastores, as well as our various cost control measures. Building and staff expenses accounted for 68.5% of the Group's net operating expenses.

In spite of the turnover growth, other operating expenses (excluding building and staff expenses), including depreciation and amortization, sales and general administration expenses, as well as net interest expenses, stayed relatively flat in comparison to the previous year; primarily due to better economies of scale. Accordingly, other operating expenses as a percentage of turnover dropped from 12.3% to 11.1%.

EARNINGS BEFORE INTEREST, TAXATION, DEPRECIATION AND AMORTIZATION (EBITDA)

Our EBITDA increased by 25.4% to HK\$1,341 million and the EBITDA margin improved 1.8% points to 16.5%. This improvement was attributable to a combination of our greater economies of scale, effective cost controls, and improved efficiencies.

OPERATING PROFIT (AFTER FINANCE COSTS)

The Group has achieved eight consecutive years of growth in operating profit. The operating profit in FY2000/2001 increased 30.7% to HK\$1,139 million after finance costs. Germany, Benelux and Hong Kong remained the three largest profit contributors.

TAXATION

The effective tax rate in FY2000/2001 was 44.2%, 4.7% points higher than the previous financial year. This was mainly due to a higher proportion of profits being generated in Europe, where tax rates are relatively higher.

PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Compared with FY1999/2000, profit attributable to shareholders increased by 25.1% to HK\$575 million. The net profit margin improved from 6.3% to 7.1% as a result of a lower percentage in net operating expenses to turnover.

5-year key financial and performance data

FOR THE YEAR ENDED JUNE 30

2001

2000

1999

1998

1997

OPERATING RESULTS (HK\$ MN)

turnover	8,109	7,277	5,994	5,087	3,352
operating profit (after finance costs)	1,139	871	625	490	401
profit attributable to shareholders*	575	460	352	280	236

PER SHARE DATA (HK¢)

earnings per share – basic*	51.2	41.3	32.1	25.7	26.1
dividend per share	16.8	15.0	14.5	3.8	11.5

KEY STATISTICS (HK\$ MN)

shareholders' fund	2,044	1,724	1,436	1,163	1,121
working capital	478	543	487	439	420
cash position (net of overdraft)	388	707	543	382	530
term loans	0	395	551	704	767

OTHER DATA

number of directly managed stores	485	472	446	432	364
directly managed sales footage (sq.ft)	1,364,580	1,075,403	867,335	714,263	602,735
monthly sales per square foot (HK\$)	310	386	401	387	470
capital expenditure (HK\$ MN)	512	323	257	181	79
number of employees	5,954	5,208	4,471	4,257	4,377

KEY RATIOS

return on shareholders' equity** (ROE) (%)	30.5	29.1	27.1	24.6	26.5
return on total assets*^ (%)	16.2	13.8	11.8	9.6	11.6
debt to equity** (%)	2.8	24.0	39.6	64.7	68.9
net debt to equity (%)	net cash	net cash	net cash	23.3	17.7
interest cover (times)	29.7	23.3	13.6	9.2	8.8
current ratio (times)	1.3	1.3	1.4	1.4	1.4
stock turnover period*** (days)	36	37	40	37	51
earnings before interest, taxation, depreciation and amortization (EBITDA) margin (%)	16.5	14.7	13.7	13.4	16.3
earnings before interest and taxation (EBIT) margin (%)	14.0	12.1	10.9	10.4	12.7
earnings before taxation (EBT) margin* (%)	14.0	12.1	10.4	9.3	12.0

* 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 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 closing stocks balance as at year-end over average daily turnover for the year



LIQUIDITY AND FINANCIAL RESOURCES

A SOLID FINANCIAL POSITION

Cash generated from the Group's operating activities remained strong at HK\$1,085 million. Of these funds, HK\$445 million was used in the purchase of fixed assets and HK\$374 million in tax payments. After allocating HK\$382 million to retire all outstanding bank loans, the Group was free of short-term and long-term debt, holding HK\$388 million net cash, as at the balance sheet date. Only utilized overdraft facilities aggregating the equivalent of HK\$56 million, remained outstanding for our normal trading activities. Our debt to equity ratio, expressed as a percentage of interest bearing borrowings over shareholders' funds of HK\$2,044 million, went down significantly from 24.0% to 2.8%. The Group has assets of HK\$73 million pledged as security for overdraft and short-term revolving facility. The current ratio remains at 1.3: 1.

During the year, as is our policy, the Group entered foreign exchange forward contracts to reduce exposure to foreign currency exchange risk. These agreements were contracted with large and reputable financial institutions, thereby minimizing the credit risk. We were also able to reduce the Euro exchange risk arising from Asian sourcing for our European sales by agreeing with Asian suppliers to quote prices in Euro. As at June 30, 2001, outstanding contracts valued at contracted rates decreased to HK\$170 million, from HK\$189 million last year.

CAPITAL EXPENDITURE

INVESTING IN THE GROUP'S FUTURE

Capital expenditure totaled HK\$512 million in FY2000/2001. HK\$445 million was used primarily to generate a net increase in our directly managed sales footage by over 289,000 square feet, or 27%, to bring the total to approximately 1,364,000 square feet. Approximately HK\$134 million of the HK\$445 million was spent in Asia Pacific with the balance of HK\$311 million invested in Europe, resulting in increases of around 111,000 square feet and 178,000 square feet respectively. The remaining HK\$67 million represented capitalized expenses in connection with the expansion of our global distribution network.

For FY2001/2002, the Group has planned around HK\$400 million for capital expenditure. This is expected to be funded out of operating cash flow, primarily to bolster worldwide retail space further. The Group plans to enter into new markets such as Korea and New Zealand. We expect total sales footage of the Group in June 2002 to reach over 1.6 million square feet.

EMPLOYMENT, TRAINING AND DEVELOPMENT

As at June 30, 2001, the Group had a total of 5,954 employees, an increase of 740 staff over last year, in line with our expansion plans.

Total staff expenses for the year amounted to HK\$1,150 million. We remunerate our employees based on their performance, experience and prevailing industry practices, with remuneration policies and packages being reviewed on a regular basis. Bonuses are linked both to the performance of the Group and to individual performance as recognition to value creation. Aligning individual interests with the Group, share options are granted to senior management. We are also fully committed to staff training and the ongoing development of our people.

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

COMPANY SECRETARY

John POON Cho Ming

PRINCIPAL BANKER

The Hongkong and Shanghai Banking
Corporation Limited

AUDITORS

PricewaterhouseCoopers,
Certified Public Accountants

SOLICITORS

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 Corporate Services Limited
11 Rosebank Centre, Bermudiana Road,
Hamilton, Bermuda

HONG KONG SHARE REGISTRAR

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

REGISTERED OFFICE

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FY2000/2001 financial report

report of the directors

The Directors have pleasure in presenting their annual report and the audited financial statements for the year ended June 30, 2001.

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, licensing, sourcing, wholesale and retail distribution of high quality fashion products under the internationally known ESPRIT brand name in Europe, Asia Pacific and Canada, together with Red Earth cosmetics, skin and general body care products.

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 32 and in the accompanying notes to the financial statements.

The interim dividend of 4.8 Hong Kong cents per share, of which HK\$49,978,000 was paid in cash and 470,829 shares were issued as scrip dividend, was paid on May 18, 2001.

The Directors recommend the payment of a final dividend of 12 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 56.

SHARE CAPITAL

Details of movements in share capital of the Company and share options granted by 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 LOANS AND OVERDRAFTS

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

CHARITABLE DONATIONS

During the year, the Group made charitable donations totalling HK\$702,165.

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 clauses 86 and 87 of the Company's Bye-laws, Mr. Chhibber Surinder and Mr. Alexander Reid Hamilton will retire by rotation and, being eligible, offer themselves for re-election.

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 the 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 51, is Chairman and Chief Executive Officer of the Group. Mr. Ying has over 25 years' experience in apparel distribution and manufacturing. He is primarily responsible for the overall direction and formulation of corporate policies of the Group.

CHHIBBER Surinder, aged 51, is Deputy Chairman and Chief Executive Officer of the Group's Asia Pacific operation. He joined the Group in 1987 and has over 20 years' experience in the garment industry. He holds a Master of Science Degree in Engineering from the University of Hong Kong and a Master of Science Degree in Operation Research from the University of Delhi.

Heinz Jürgen KROGNER-KORNALIK, aged 60, is Chairman and Chief Executive Officer of Esprit Europe AG group 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 had been a consultant with Kurt Salmon Associates in a variety of areas, including production, organization, marketing, strategy and brand positioning as well as with several textile firms, always in executive positions, before joining the Group.

John POON Cho Ming, aged 47, is Group Chief Financial Officer and Company Secretary. Mr. Poon is responsible for the Group's financial, corporate and legal affairs. Prior to joining the Group in December 1999, he was an executive director of two Hong Kong publicly listed 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 the University of Alberta, Canada with a Bachelor of Arts Degree in Economics and a Bachelor of Law Degree.

Connie WONG Chin Tzi, aged 53, 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 63, 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. He and his family live in the United States.

Alexander Reid HAMILTON, aged 59, 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, The Swank Shop Limited and a number of other Hong Kong companies. He was a partner of Price Waterhouse with which 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 over 16 years' experience of legal practice.

Raymond OR Ching Fai, aged 51, 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.

SENIOR MANAGEMENT

Thomas GROTE, aged 38, is Chief Sales Officer of Esprit Europe AG 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 division and was subsequently promoted to managing director. He returned to the Group in June 1996.

Andreas KROMER, aged 43, is the head of retail operations for Esprit Europe AG group. After completing his studies in retailing at the German Polytechnic in Nagold, he worked for six years in the well-known German textile retail company, Boecker. He then assumed the position of managing director for the German department store, Cramer Meermann, until he joined the Group in 1992.

Joris LEEMAN, aged 37, is Chief Operating Officer of Esprit Europe AG 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.

DIRECTORS AND SENIOR MANAGEMENT PROFILE *continued***SENIOR MANAGEMENT** *continued*

Morris WAGENHEIM, aged 48, is Managing Director of the Group's Australian operation.

He joined the Group in 1994, after having spent the previous four years as general manager of the 150-store Sportsgirl chain in Australia. Mr. Wagenheim had 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 47, is Chief Operation Officer of Esprit Salon. 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/buying in Hong Kong. He left the Group in the year 1993 to establish his own business and rejoined the Group in mid-1997.

Günter WARTENBERG, aged 48, is Chief Financial Officer of Esprit Europe AG 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 18 years of experience in finance and accounting and had worked with Bertelsmann AG, Henkel KgaA and Facit GmbH before joining Esprit Europe AG group.

Jörg WINGBERMÜHLE, aged 40, is Chief Divisional Officer of Esprit Europe AG group. He studied economics at the College of Advanced Vocational Studies in 1982 and graduated with a Master of Business Administration. Thereafter he joined Hugo Boss for four years as product manager and assistant of the creative board. Subsequently he worked as a freelancer in the development of collections and production management for well known brands such as Joop, Mac Jeans and Uli Knecht. He joined the Group in 1997 as Manager for the Men Division.

Susan WONG Ping, aged 53, 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 36, 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 the local arts and culture scene.

DIRECTORS' INTERESTS IN SHARES

As at June 30, 2001, 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:

NAME OF DIRECTOR	NUMBER OF SHARES			
	PERSONAL INTERESTS	CORPORATE INTERESTS	FAMILY INTERESTS	OTHER INTERESTS
Michael Ying Lee Yuen	–	502,656,352*	–	–
Chhibber Surinder	3,700,385	–	–	–
Jürgen Alfred Rudolf Friedrich	126,801,692	–	287,535	–*
Connie Wong Chin Tzi	3,297,630	–	–	–

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

Mr. Jürgen Alfred Rudolf Friedrich bought an Equity-Linked-Note with face value of HK\$47,500,000 at strike of HK\$9.50, matured on August 3, 2001, with an obligation to receive 5,000,000 shares of HK\$0.10 each in the Company (the "Shares") on maturity if the closing price of the Shares was below HK\$9.50 on August 1, 2001.

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

DIRECTORS' INTERESTS IN CONTRACTS

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

ARRANGEMENT TO PURCHASE SHARES AND DEBENTURES

A share option scheme (the "Scheme") was adopted by the Company on November 17, 1993 under which eligible employees of the Group, including Executive Directors of the Company, may be granted options to subscribe for shares in the Company. Details of share options exercised during the year and outstanding share options as at June 30, 2001 granted to and accepted by the Executive Directors under the Scheme, in which the Executive Directors can subscribe for shares in the Company at HK\$2.64 to HK\$6.36 per share, are as follows:

ARRANGEMENT TO PURCHASE SHARES AND DEBENTURES *continued*

NAME OF DIRECTOR	AS AT				AS AT 6.30.2001
	6.30.2000	GRANTED	EXERCISED	EXPIRED	
Michael Ying Lee Yuen	15,000,000	–	–	–	15,000,000
Chhibber Surinder	7,000,000	3,000,000	2,000,000	–	8,000,000
Heinz Jürgen Krogner-Kornalik	8,000,000	–	4,000,000	–	4,000,000
John Poon Cho Ming	8,000,000	–	–	–	8,000,000
Connie Wong Chin Tzi	3,000,000	–	3,000,000	–	–

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

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.

SUBSTANTIAL SHAREHOLDERS

As at June 30, 2001, the following interest 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	44.00
Jürgen Alfred Rudolf Friedrich	127,089,227	11.12

These interests are also included as corporate interest of Mr. Michael Ying Lee Yuen and personal and family interests of Mr. Jürgen Alfred Rudolf Friedrich 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 an interest in the

share capital of the Company that was 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 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 although there are no restrictions against such rights under the laws of Bermuda.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, less than 30% of the Group's sales were attributable to the five largest customers and less than 30% of the Group's purchases were attributable to the five largest suppliers.

MANAGEMENT CONTRACTS

No 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.

CORPORATE GOVERNANCE

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 (the "Listing Rules") throughout the accounting year under review.

CONNECTED TRANSACTION

The following transaction, which occurred in the year under review, constitutes a connected transaction under Chapter 14 of the Listing Rules:

On May 3, 2001, Red Earth Investment Limited ("REInvest"), a wholly owned subsidiary of the Company, exercised the option to acquire 654,100 shares of Red Earth International Holdings Limited ("REIHL"), representing approximately 39.2% interest in REIHL (the "Option Shares") from Jackson Management Limited ("Jeckson"), a company controlled by Mr. Ko Soon How ("Mr. Ko"), the former Chief Executive Officer of REIHL.

CONNECTED TRANSACTION *continued*

This transaction was made pursuant to an option deed entered into between REInvest and Mr. Ko on April 16, 1998 which was subsequently assigned by Mr. Ko to Jeckson under a Deed of Consent and Novation dated February 1, 1999 (collectively "the Deeds"). In accordance with the terms of the Deeds, REInvest would pay Jeckson an option price calculated by a pre-agreed formula. Jeckson failed to deliver the Option Shares on completion and this matter is now under litigation.

The remaining 60.8% interest in REIHL is held by REInvest.

GRANTING OF FINANCIAL ASSISTANCE TO NON-WHOLLY OWNED SUBSIDIARIES

The following transactions, occurred in FY 1998/1999 and were subsisting as at June 30, 2001, constitute granting of financial assistance by the Group to non-wholly owned subsidiaries and are required to be disclosed under the Listing Rules as follows:

- (1) REInvest subscribed for a convertible note (the "Note") issued by REIHL for the amount of HK\$22,013,100 on August 27, 1998. REInvest holds approximately 60.8% interest in REIHL and Mr. Ko, a director of REIHL, holds indirectly through Jeckson the remaining interest in REIHL and Jeckson would exercise only 60% of the voting power of its shares at meetings of REIHL.

Pursuant to the terms of the Note, REInvest has an option to convert the outstanding amount of the Note or any part thereof at any time into fully paid shares (the "REIHL Share") with a par value of US\$1.00 each of REIHL at the conversion price of US\$1.80 per REIHL Share. Approximately HK\$10,080,000 of the proceeds from the issue of the Note was used to repay amount owing by REIHL to a wholly owned subsidiary of the Company. The remaining balance of the proceeds was used as working capital of REIHL. The Note is repayable on demand and bears interest, payable quarterly in arrears, at the prime rate for lending in Hong Kong dollars as announced or applied by The Hongkong and Shanghai Banking Corporation Limited (the "Prime Rate").

- (2) Esprit Distribution Limited ("EDIST"), a wholly owned subsidiary of the Company, has made available a facility of HK\$10,000,000 (the "Facility") to REIHL. The Facility was drawn down in two installments on September 29, 1998 and October 19, 1998 respectively. The purpose of the Facility is to finance the working capital requirements of REIHL. The Facility bears interest, payable monthly in arrears, at the Prime Rate. The loan is due but not repaid. Jeckson has pledged all its shareholding and interest in REIHL to EDIST as security for the Facility.
- (3) The Company provided a guarantee of HK\$16,500,000 regarding banking facilities ("Facilities A") of HK\$25,000,000 granted by The Hongkong and Shanghai Banking Corporation Limited to

Red Earth Production Limited ("REP"), a company in which the Group has 60.8% interest and renewed on May 12, 2000. The remaining 39.2% interest in REP is held indirectly by Mr. Ko, a director of REP, who has also provided a personal guarantee for Facilities A. The guarantees made by the Company and Mr. Ko are in proportion to their respective interests in REP and Facilities A are for general working capital purposes.

- (4) On August 31, 2001, Red Earth Holdings Pty. Ltd ("REA"), a 98% subsidiary of REIHL, has renewed certain banking facilities to the amount of A\$4,923,000 ("Facilities B") from ANZ Bank Limited ("ANZ"). As security for Facilities B, the Company has provided a guarantee of up to 95% of the outstanding amount of Facilities B in favour of ANZ. Mr. Ko who indirectly holds the remaining share of REA, has also provided a guarantee in respect of approximately 40% of Facilities B.

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 control, to protect the interests of the shareholders of the Company.

AUDITORS

The financial statements have been audited by PricewaterhouseCoopers who 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 26, 2001

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 32 to 55 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, 2001 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.



PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, September 26, 2001

consolidated profit and loss account

for the year ended June 30, 2001

	NOTES	2001 HK\$'000	2000 HK\$'000
Turnover	2	8,109,062	7,277,306
Cost of goods sold		(4,110,019)	(3,654,119)
Gross profit		3,999,043	3,623,187
Other revenues	2	67,824	64,422
Staff costs		(1,149,618)	(1,099,549)
Depreciation and amortization		(208,825)	(186,939)
Other operating costs		(1,530,884)	(1,491,842)
Operating profit	3	1,177,540	909,279
Finance costs	4	(38,290)	(37,912)
Share of profits of associated companies		20,478	12,730
Profit before taxation		1,159,728	884,097
Taxation	5	(512,459)	(349,225)
Profit after taxation		647,269	534,872
Minority interests		(71,940)	(74,811)
Profit attributable to shareholders	6	575,329	460,061
Dividends	7	(191,094)	(167,877)
Profit for the year retained		384,235	292,184
Earnings Per Share	8		
– Basic		51.16 cents	41.32 cents
– Fully diluted		50.12 cents	39.96 cents

consolidated balance sheet

at June 30, 2001

	NOTES	2001 HK\$'000	2000 HK\$'000
Trademarks	11	722,110	742,451
Fixed Assets	12	779,120	596,953
Other Investments	13	7,366	29,327
Associated Companies	15	78,980	58,563
Current Assets			
Stocks and work in progress	16	791,264	735,767
Debtors, deposits and prepayments	17	716,234	656,993
Amounts due from associated companies	15	10,349	20,623
Short-term bank deposits		7,855	160,538
Bank balances and cash		435,697	574,334
		1,961,399	2,148,255
Current Liabilities			
Creditors and accrued charges	18	746,923	829,537
Proposed dividend		137,101	125,474
Taxation		542,148	464,937
Obligations under finance leases – due within one year	21	1,303	1,835
Long-term bank loan – due within one year	22	–	155,906
Unsecured short-term bank loan		–	13,223
Bank overdrafts	23	55,604	14,523
		1,483,079	1,605,435
Net Current Assets		478,320	542,820
Total Assets Less Current Liabilities		2,065,896	1,970,114

	NOTES	2001 HK\$'000	2000 HK\$'000
Financed by:			
Share Capital	19	114,251	111,656
Reserves	20	1,930,113	1,612,722
Shareholders' Funds		2,044,364	1,724,378
Minority Interests		18,204	17,659
Obligations under Finance Leases	21	941	1,931
Long-term Bank Loan	22	–	226,064
Deferred Taxation	24	2,387	82
		2,065,896	1,970,114



Michael Ying Lee Yuen
Chairman



John Poon Cho Ming
Executive Director

balance sheet

at June 30, 2001

	NOTES	2001 HK\$'000	2000 HK\$'000
Investment in Subsidiaries	14	2,293,623	2,413,118
Current Assets			
Debtors, deposits and prepayments	17	–	295
Dividends receivable		163,800	300,300
Bank balances and cash		2	1
		163,802	300,596
Current Liabilities			
Creditors and accrued charges	18	4,255	5,287
Proposed dividend		137,101	125,474
Taxation		14,875	11,721
Long-term bank loan – due within one year	22	–	155,906
		156,231	298,388
Net Current Assets		7,571	2,208
		2,301,194	2,415,326
Financed by :			
Share Capital	19	114,251	111,656
Reserves	20	2,186,943	2,077,606
Shareholders' Funds		2,301,194	2,189,262
Long-term Bank Loan	22	–	226,064
		2,301,194	2,415,326



Michael Ying Lee Yuen
Chairman



John Poon Cho Ming
Executive Director

consolidated cash flow statement

for the year ended June 30, 2001

	NOTES	2001 HK\$'000	2000 HK\$'000
Net Cash Inflow from Operating Activities	25(a)	1,084,568	1,088,877
Returns on Investments and Servicing of Finance			
Interest received		45,360	27,938
Interest paid		(38,035)	(37,614)
Interest element of finance leases		(255)	(298)
Income from listed investments		3	2
Dividends paid		(173,142)	(147,510)
Distribution to a non-affiliated partner of a limited partnership		(71,399)	(60,212)
Net Cash Outflow from Returns on Investments and Servicing of Finance		(237,468)	(217,694)
Taxation			
Hong Kong profits tax paid		(46,186)	(28,107)
Overseas tax paid		(328,291)	(203,177)
Tax Paid		(374,477)	(231,284)
Investing Activities			
Purchase of additional interest in a subsidiary		-	(5,329)
Purchase of fixed assets		(444,626)	(322,819)
Proceeds from disposal of fixed assets		3,876	7,203
Proceeds from disposal of other investments		20,440	-
Net Cash Outflow from Investing Activities		(420,310)	(320,945)
Net Cash Inflow before Financing		52,313	318,954

	NOTES	2001 HK\$'000	2000 HK\$'000
Financing			
Net proceeds on issues of shares for cash		68,898	17,018
Repayment of obligations under finance leases		(1,494)	(2,450)
Repayment of bank loans		(382,053)	(153,548)
Net Cash Outflow from Financing	25(b)	(314,649)	(138,980)
(Decrease)/increase in Cash and Cash Equivalents		(262,336)	179,974
Cash and Cash Equivalents at beginning of year	25(c)	707,126	542,932
Effect of Change in Exchange Rates		(56,842)	(15,780)
Cash and Cash Equivalents at end of year	25(c)	387,948	707,126

consolidated statement of recognized gains and losses

for the year ended June 30, 2001

	NOTES	2001 HK\$'000	2000 HK\$'000
Exchange differences arising on translation of subsidiaries and associated companies not recognized in the profit and loss account	20	(139,472)	(22,054)
Profit for the year		575,329	460,061
Total recognized gains		435,857	438,007
Goodwill eliminated directly against reserves	20	–	(12,108)
		435,857	425,899

notes to the financial statements

for the year ended June 30, 2001

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.

(b) BASIS OF CONSOLIDATION

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

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

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill or reserves arising on acquisition which was not previously charged or recognized in the consolidated profit and loss account.

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.

The consolidated financial statements also include the Group's share of post acquisition profits less losses, and reserves, of its associated companies.

(c) TURNOVER

Turnover represents the invoiced sales to, royalties and commission income from third party customers.

(d) REVENUE RECOGNITION

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

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

Commission income is recognized when the services are rendered.

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

Income from listed investments is recognized when the right to receive payment is established.

(e) TRADEMARKS

Trademarks are stated at cost and amortized by equal annual installments over their estimated economic life of 40 years. The cost of acquisition is the fair market value at the time of acquisition determined by an independent valuer.

(f) GOODWILL AND RESERVES ARISING ON ACQUISITION

Goodwill/reserves arising on acquisition represents the excess/shortfall of purchase consideration over the fair values ascribed to the net assets of subsidiaries acquired and is taken directly to reserves in the year of acquisition.

(g) SUBSIDIARIES

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors. Investment in subsidiaries are stated at cost less provision for permanent diminution in value. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(h) ASSOCIATED COMPANIES

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

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.

(i) FIXED ASSETS

Fixed assets are stated at cost less accumulated depreciation.

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

Improvements to leasehold properties occupied by the Group under operating leases are amortized over a period of the shorter of five years and their estimated useful life on a straight-line basis.

1. PRINCIPAL ACCOUNTING POLICIES *continued***(i) FIXED ASSETS** *continued*

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

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

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

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

The carrying amounts of fixed assets are reviewed regularly to assess whether their recoverable amounts have declined below their carrying amounts. Expected future cash flows have not been discounted in determining the recoverable amounts.

Gains or losses arising from the retirement or disposal of fixed assets are determined as the difference between the estimated net disposal proceeds and the carrying amount of the assets and are recognized as income or expense in the profit and loss account.

(j) 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. The principal portions of the corresponding lease commitments are shown as obligations to the lessor. Finance charges are charged to the profit and loss account in proportion to the capital balances outstanding.

(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. The annual rentals payable under operating leases are charged to the profit and loss account on a straight-line basis over the terms of the respective leases.

(k) OTHER INVESTMENTS

Investments held for the long-term are stated at cost less provision for permanent diminution in value. 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.

(l) STOCKS AND WORK IN PROGRESS

Stocks and work in progress 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.

(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) 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.

(o) FOREIGN EXCHANGE CONTRACTS

Foreign exchange contracts and options are entered into to protect the Group from the impact of foreign currency fluctuation. According to Group policy, within a predetermined risk limit, the Group may over or under hedge a certain percentage of the anticipated foreign exchange exposure. 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

1. PRINCIPAL ACCOUNTING POLICIES *continued***(o) FOREIGN EXCHANGE CONTRACTS** *continued*

same basis as that arising from the related assets, liabilities or positions. All over 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. Premiums on options are amortized over the option period.

(p) RETIREMENT BENEFIT COSTS

The Group's contributions to the Hong Kong mandatory provident fund scheme (the "MPF Scheme") are expensed as incurred. The assets of the scheme are held separately from those of the Group in an independently administered fund.

(q) CASH AND CASH EQUIVALENTS

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

Cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance.

(r) COMPARATIVES

Where necessary, comparatives figures have been adjusted to conform with changes in presentation in the current year. In particular, comparatives have been adjusted to take into account the requirements of the Statements of Standard Accounting Practice ("SSAP") No.14 (Revised) "Leases" which the Group implemented in 2001.

There are no changes in accounting policy that affect operating profit resulting from the adoption of the above standards in these financial statements, as the Group was already following the recognition and measurement principles in those standards.

2. TURNOVER, REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in the design, licensing, sourcing, wholesale and retail distribution of high quality fashion products under the internationally known ESPRIT brand name in Europe, Asia Pacific and Canada, together with Red Earth cosmetics, skin and general body care products.

	2001 HK\$'000	2000 HK\$'000
Turnover		
Sales of goods	8,030,531	7,196,884
Royalty income	73,346	71,309
Commission income	5,185	9,113
	8,109,062	7,277,306
Other revenues		
Interest income	45,730	27,555
Others	22,094	36,867
	67,824	64,422
Total revenues	8,176,886	7,341,728

The turnover and contribution to operating profit after finance costs by principal activities and geographical markets are as follows:

	TURNOVER		CONTRIBUTION TO OPERATING PROFIT AFTER FINANCE COSTS	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Analysis by principal activities				
Wholesale	4,555,974	3,761,072	986,474	563,093
Retail	3,474,557	3,435,812	119,483	270,769
Others	78,531	80,422	33,293	37,505
	8,109,062	7,277,306	1,139,250	871,367
Analysis by principal geographical markets				
Germany	3,928,213	3,296,078	788,524	504,533
Hong Kong	1,093,221	1,078,536	71,237	97,951
Belgium and the Netherlands	1,003,370	817,180	163,356	103,020
Other Asia Pacific countries	1,257,031	1,439,486	51,222	115,334
Other European countries	755,550	576,320	31,618	13,024
Others	71,677	69,706	33,293	37,505
	8,109,062	7,277,306	1,139,250	871,367

3. OPERATING PROFIT

	2001 HK\$'000	2000 HK\$'000
Operating profit is arrived at after crediting and charging the following:		
Crediting		
Income from listed investments	3	2
Provision for doubtful debts written back	8,624	–
Provision for obsolete stock written back	25,725	–
Profit on disposal of listed investments	365	–
Exchange gain	–	1,861
Charging		
Auditors' remuneration	6,084	6,142
Depreciation and amortization		
– Owned assets	186,824	163,748
– Assets held under finance leases	1,660	2,850
– Trademarks	20,341	20,341
Exchange loss	26,290	–
Loss on disposal of fixed assets	9,478	13,983
Loss on disposal of interest in an associated company	–	2,837
Operating lease rental expenses		
– Land and buildings	621,978	608,181
– Others	5,375	3,514
Provision for doubtful debts	–	34,098
Retirement benefit costs (note 9)	5,411	–
Provision for diminution in value of an unlisted investment	1,887	5,893
Provision for obsolete stock	–	42,375

4. FINANCE COSTS

	2001 HK\$'000	2000 HK\$'000
Interest on short-term bank loans, overdrafts and other loans wholly repayable within five years	38,035	37,614
Interest element of finance leases	255	298
	38,290	37,912

5. TAXATION

	2001 HK\$'000	2000 HK\$'000
Company and its subsidiaries:		
Hong Kong profits tax	32,807	45,459
Overseas taxation net of overprovision for prior years of HK\$33,050,000 (2000: HK\$20,767,000)	477,243	300,113
Deferred taxation (note 24)	2,348	(1,019)
	512,398	344,553
Associated companies – overseas taxation	61	4,672
	512,459	349,225

Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profit for the year.

Overseas taxation has been calculated at the rates of taxation prevailing in the countries in which the Group operates.

5. TAXATION *continued*

	GROUP	
	2001 HK\$'000	2000 HK\$'000
Deferred taxation for the year which has not been credited amounts to:		
Accelerated depreciation allowances	(33,779)	(18,876)
Tax losses	(42,160)	(2,638)
Other timing differences	(733)	(8,490)
	(76,672)	(30,004)

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\$227,803,000 (2000: HK\$358,029,000).

7. DIVIDENDS

	2001	2000
	HK\$'000	HK\$'000
Interim dividend paid of 4.8 Hong Kong cents (2000: 3.8 Hong Kong cents) per share	53,993	42,403
Proposed final dividend of 12 Hong Kong cents (2000: 11.2 Hong Kong cents) per share	137,101	125,474
	191,094	167,877

8. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to shareholders of HK\$575,329,000 (2000: HK\$460,061,000) and on the weighted average number of shares in issue during the year of 1,124,643,688 (2000: 1,113,522,594).

The calculation of fully diluted earnings per share is based on the profit attributable to shareholders of HK\$575,329,000 (2000: HK\$460,061,000), and on the weighted average number of shares in issue during the year of 1,124,643,688 (2000: 1,113,522,594) plus the weighted average number of 23,270,717 shares (2000: 37,908,558 shares) deemed to be issued at no consideration on the assumption that all outstanding share options granted under the share option scheme had been exercised at July 1, 2000.

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\$788,000 (2000: Nil) 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:

	2001 HK\$'000	2000 HK\$'000
Fees*		
– Non-executive Directors	620	620
Salaries, housing and other allowances, benefits in kind including deemed benefit arising from exercise of share options		
– Executive Directors	78,625	19,162
Bonuses		
– Executive Directors	8,743	9,542
	87,988	29,324

* The amount includes directors' fees of HK\$470,000 (2000: HK\$470,003) paid to Independent Non-executive Directors.

The emoluments of the Directors fell within the following bands:

EMOLUMENTS BAND	NUMBER OF DIRECTORS	
	2001	2000
Nil – HK\$ 1,000,000	4	6
HK\$ 1,500,001 – HK\$ 2,000,000	–	1
HK\$ 3,500,001 – HK\$ 4,000,000	–	1
HK\$ 5,000,001 – HK\$ 5,500,000	1	–
HK\$ 6,500,001 – HK\$ 7,000,000	–	1
HK\$ 7,500,001 – HK\$ 8,000,000	–	2
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\$36,000,001 – HK\$ 36,500,000	1	–
	9	11

(b) FIVE HIGHEST PAID INDIVIDUALS

The five individuals whose emoluments were the highest in the Group for the year include three (2000: three) Directors whose emoluments are reflected in the analysis presented above.

The emoluments receivable by the remaining two (2000: two) highest paid individuals during the year are as follows:

	2001 HK\$'000	2000 HK\$'000
Salaries, housing and other allowances, benefits in kind including deemed benefit arising from exercise of share options	53,642	13,730
Bonuses	3,517	3,937
	57,159	17,667

EMOLUMENTS BAND	NUMBER OF INDIVIDUALS	
	2001	2000
HK\$ 8,500,001 – HK\$ 9,000,000	–	2
HK\$27,500,001 – HK\$ 28,000,000	1	–
HK\$29,000,001 – HK\$ 29,500,000	1	–
	2	2

11. TRADEMARKS

	GROUP	
	2001 HK\$'000	2000 HK\$'000
At the beginning of the year	742,451	762,792
Less: Amortization	(20,341)	(20,341)
At the end of the year	722,110	742,451

12. FIXED ASSETS**GROUP**

	FREEHOLD LAND OUTSIDE HONG KONG HK\$'000	LONG-TERM LEASEHOLD LAND IN HONG KONG HK\$'000	BUILDINGS HK\$'000	LEASEHOLD IMPROVEMENTS AND FIXTURES HK\$'000	PLANT AND MACHINERY HK\$'000	FURNITURE AND OFFICE EQUIPMENT HK\$'000	MOTOR VEHICLES AND LAUNCH HK\$'000	TOTAL HK\$'000
Cost								
At July 1, 2000	23,558	25,931	65,063	857,138	10,013	383,477	8,967	1,374,147
Exchange translation	(2,612)	–	(3,559)	(88,988)	(768)	(39,285)	(335)	(135,547)
Additions	4,290	–	5,402	327,359	322	106,552	1,036	444,961
Disposals	(205)	–	–	(68,849)	(1,763)	(37,341)	(570)	(108,728)
At June 30, 2001	25,031	25,931	66,906	1,026,660	7,804	413,403	9,098	1,574,833
Depreciation								
At July 1, 2000	–	2,493	15,446	470,815	8,882	272,843	6,715	777,194
Exchange translation	–	–	(1,132)	(46,252)	(651)	(26,284)	(272)	(74,591)
Charge for the year	–	499	2,434	122,603	467	60,940	1,541	188,484
Disposals	–	–	–	(58,700)	(1,755)	(34,518)	(401)	(95,374)
At June 30, 2001	–	2,992	16,748	488,466	6,943	272,981	7,583	795,713
Net book values								
At June 30, 2001	25,031	22,939	50,158	538,194	861	140,422	1,515	779,120
At June 30, 2000	23,558	23,438	49,617	386,323	1,131	110,634	2,252	596,953

At June 30, 2001, the net book value of furniture and office equipment includes an amount of HK\$1,936,000 (2000: HK\$3,688,000) in respect of assets held under finance leases.

At June 30, 2001, freehold land and buildings outside Hong Kong with a net book value of HK\$31,996,000 (2000: HK\$36,650,000) are pledged as security of short-term bank loan facilities.

13. OTHER INVESTMENTS

	GROUP	
	2001 HK\$'000	2000 HK\$'000
Investments listed in Hong Kong, at cost	–	20,075
Unlisted investments, at cost	15,163	15,161
Provision for permanent diminution in value	(7,797)	(5,909)
	7,366	9,252
	7,366	29,327
Market value of listed investments	–	19,396

14. INVESTMENT IN SUBSIDIARIES

	COMPANY	
	2001 HK\$'000	2000 HK\$'000
Unlisted shares, at cost	216,677	216,677
Loans to subsidiaries	1,621,930	1,621,930
Amounts due from subsidiaries	1,256,245	955,946
	3,094,852	2,794,553
Amounts due to subsidiaries	(801,229)	(381,435)
	2,293,623	2,413,118

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, 2001 are set out in note 30 to the financial statements.

15. ASSOCIATED COMPANIES

	GROUP	
	2001 HK\$'000	2000 HK\$'000
Share of net assets	29,980	9,563
Loan to an associated company	49,000	49,000
	78,980	58,563
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, 2001.

NAME OF ASSOCIATED COMPANY	PLACE OF INCORPORATION	ATTRIBUTABLE EQUITY INTEREST TO THE GROUP	ISSUED AND FULLY PAID SHARE CAPITAL/ REGISTERED CAPITAL	PRINCIPAL ACTIVITIES
Tactical Solutions Incorporated	British Virgin Islands	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

16. STOCKS AND WORK IN PROGRESS

	GROUP	
	2001 HK\$'000	2000 HK\$'000
Raw materials	7,274	14,032
Work in progress	463	2,758
Finished goods	869,682	836,321
Consumables	45,477	40,013
Provision	(131,632)	(157,357)
	791,264	735,767

At June 30, 2001, the carrying amount of stocks that are pledged as security for bank overdrafts amounted to HK\$40,865,000 (2000: Nil).

17. DEBTORS, DEPOSITS AND PREPAYMENTS

	GROUP		COMPANY	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Trade debtors	439,127	435,758	–	–
Deposits	167,488	100,506	–	–
Prepayments	34,714	65,702	–	–
Other debtors and receivables	74,905	55,027	–	295
	716,234	656,993	–	295

The ageing analysis of trade debtors is as follows:

	GROUP	
	2001 HK\$'000	2000 HK\$'000
0-30 days	359,565	345,960
31-60 days	40,977	42,030
61-90 days	17,777	15,982
Over 90 days	20,808	31,786
	439,127	435,758

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.

18. CREDITORS AND ACCRUED CHARGES

	GROUP		COMPANY	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Trade creditors	350,065	358,435	–	–
Accruals and provisions	337,306	393,563	4,255	3,959
Other creditors and payables	59,552	77,539	–	1,328
	746,923	829,537	4,255	5,287

The ageing analysis of trade creditors is as follows:

	GROUP	
	2001 HK\$'000	2000 HK\$'000
0-30 days	316,147	293,864
31-60 days	23,838	26,618
61-90 days	4,173	6,850
Over 90 days	5,907	31,103
	350,065	358,435

19. SHARE CAPITAL

	2001 HK\$'000	2000 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, 1999	1,108,622	110,862
Issue of scrip dividend shares	1,771	177
Exercise of share options	6,166	617
Balance at June 30, 2000	1,116,559	111,656
Balance at July 1, 2000	1,116,559	111,656
Issues of scrip dividend shares <i>(note (a))</i>	780	78
Exercise of share options <i>(note (b))</i>	25,166	2,517
Balance at June 30, 2001	1,142,505	114,251

(a) At the annual general meeting of the Company held on November 23, 2000, shareholders of the Company approved a final dividend for the year ended June 30, 2000 of 11.2 Hong Kong cents per share of HK\$0.10 each. Shareholders may 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\$7.55 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 23, 2000. Under this Scrip Dividend Scheme A, 2000 final dividends of HK\$2,336,793 were settled by the issue of 309,509 Scrip Dividend Shares A at a premium of HK\$7.45 each.

At the Directors' meeting of the Company held on February 28, 2001, the Directors of the Company declared an interim dividend for the six months ended December 31, 2000 of 4.8 Hong Kong cents per share of HK\$0.10 each to the shareholders. Shareholders could 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\$8.47 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 31, 2001. Under this Scrip Dividend Scheme B, 2001 interim dividends of HK\$3,987,922 were settled by the issue of 470,829 Scrip Dividend Shares B at a premium of HK\$8.37 each.

- (b) During the year, 25,166,000 shares of HK\$0.10 were issued at a premium of the range from HK\$2.64 to HK\$2.944 each respectively in relation to share options exercised by employees and Directors under the Scheme (defined in (c) below).
- (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. The first exercisable date between each installment shall occur at intervals of six calendar months and expiring on the fifth anniversary of the first date of exercise of each installment or 10 years from the date of adoption of the Scheme, whichever is the earlier. At June 30, 2001, there were 47,018,000 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.

20. RESERVES**GROUP**

	SHARE PREMIUM HK\$'000	CONTRIBUTED SURPLUS HK\$'000	TRANSLATION RESERVE HK\$'000	RETAINED PROFIT HK\$'000	TOTAL HK\$'000
Balance at July 1, 1999	981,737	6,602	(114,409)	450,720	1,324,650
Premium arising from issues of scrip dividend shares	13,649	-	-	-	13,649
Premium arising from issues of shares	16,401	-	-	-	16,401
Goodwill on acquisition of additional interest in a subsidiary	-	-	-	(5,530)	(5,530)
Goodwill on acquisition of business from franchisees	-	-	-	(6,578)	(6,578)
Exchange translation	-	-	(22,054)	-	(22,054)
Profit for the year retained by:					
Company and its subsidiaries	-	-	-	284,126	284,126
Associated company	-	-	-	8,058	8,058
Balance at June 30, 2000	1,011,787	6,602	(136,463)	730,796	1,612,722
Attributable to:					
Company and its subsidiaries	1,011,787	6,602	(136,206)	721,254	1,603,437
Associated company	-	-	(257)	9,542	9,285
	1,011,787	6,602	(136,463)	730,796	1,612,722
Balance at July 1, 2000	1,011,787	6,602	(136,463)	730,796	1,612,722
Premium arising from issues of scrip dividend shares (<i>note 19(a)</i>)	6,247	-	-	-	6,247
Premium arising from issues of shares (<i>note 19(b)</i>)	66,381	-	-	-	66,381
Exchange translation	-	-	(139,472)	-	(139,472)
Profit for the year retained by:					
Company and its subsidiaries	-	-	-	363,818	363,818
Associated companies	-	-	-	20,417	20,417
Balance at June 30, 2001	1,084,415	6,602	(275,935)	1,115,031	1,930,113
Attributable to:					
Company and its subsidiaries	1,084,415	6,602	(275,667)	1,085,072	1,900,422
Associated companies	-	-	(268)	29,959	29,691
	1,084,415	6,602	(275,935)	1,115,031	1,930,113

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.

20. RESERVES *continued***COMPANY**

	SHARE PREMIUM HK\$'000	CONTRIBUTED SURPLUS HK\$'000	RETAINED PROFIT HK\$'000	TOTAL HK\$'000
Balance at July 1, 1999	981,737	473,968	401,699	1,857,404
Premium arising from issues of scrip dividend shares	13,649	-	-	13,649
Premium arising from issues of shares	16,401	-	-	16,401
Profit for the year	-	-	358,029	358,029
Dividends (<i>note 7</i>)	-	-	(167,877)	(167,877)
Balance at June 30, 2000	1,011,787	473,968	591,851	2,077,606
Balance at July 1, 2000	1,011,787	473,968	591,851	2,077,606
Premium arising from issues of scrip dividend shares (<i>notes 19(a)</i>)	6,247	-	-	6,247
Premium arising from issues of shares (<i>notes 19(b)</i>)	66,381	-	-	66,381
Profit for the year	-	-	227,803	227,803
Dividends (<i>note 7</i>)	-	-	(191,094)	(191,094)
Balance at June 30, 2001	1,084,415	473,968	628,560	2,186,943

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, 2001 amounted to HK\$1,102,528,000 (*2000: HK\$1,065,819,000*).

21. OBLIGATIONS UNDER FINANCE LEASES

	GROUP	
	2001 HK\$'000	2000 HK\$'000
Total minimum lease payments		
– within one year	1,381	2,077
– in the second year	565	1,460
– in the third to fifth year inclusive	452	591
	2,398	4,128
Future finance charges on finance leases	(154)	(362)
Present value of finance lease liabilities	2,244	3,766
The present value of finance lease liabilities		
– within one year	1,303	1,835
– in the second year	519	1,369
– in the third to fifth year inclusive	422	562
	2,244	3,766
Amount due within one year included under current liabilities	(1,303)	(1,835)
	941	1,931

22. LONG-TERM BANK LOAN

	GROUP		COMPANY	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Wholly repayable within 5 years				
– unsecured	–	381,970	–	381,970
Amount due within one year included under current liabilities	–	(155,906)	–	(155,906)
	–	226,064	–	226,064
	GROUP		COMPANY	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
The maturity of the long-term bank loan is as follows:				
– within one year	–	155,906	–	155,906
– in the second year	–	155,906	–	155,906
– in the third to fifth year inclusive	–	70,158	–	70,158
	–	381,970	–	381,970

23. BANK OVERDRAFTS

	GROUP	
	2001 HK\$'000	2000 HK\$'000
Secured	40,865	–
Unsecured	14,739	14,523
	55,604	14,523

24. DEFERRED TAXATION

	GROUP	
	2001 HK\$'000	2000 HK\$'000
At the beginning of the year	82	1,522
Transfer from / (to) profit and loss account (note 5)	2,348	(1,019)
Exchange translation	(43)	(421)
At the end of the year	2,387	82
Provided in the financial statements in respect of:		
Accelerated depreciation allowances	6,819	82
Other timing differences	(4,432)	–
	2,387	82

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

	GROUP	
	2001 HK\$'000	2000 HK\$'000
Accelerated depreciation allowances	2,622	36,401
Tax losses	16,982	59,142
Other timing differences	8,320	9,053
	27,924	104,596

25. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) RECONCILIATION OF PROFIT BEFORE TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2001 HK\$'000	2000 HK\$'000
Profit before taxation	1,159,728	884,097
Interest income	(45,730)	(27,555)
Interest expense	38,035	37,614
Interest element of finance leases	255	298
Amortization of trademarks	20,341	20,341
Depreciation	188,484	166,598
Loss on disposal of fixed assets	9,478	13,983
Profit on disposal of listed investment	(365)	–
Loss on disposal of interest in an associated company	–	2,837
Income from listed investments	(3)	(2)
Share of profits of associated companies	(20,478)	(12,730)
Provision for diminution in value of an unlisted investment	1,887	5,893
Increase in stocks and work in progress	(55,497)	(78,672)
Increase in debtors, deposits and prepayments	(58,871)	(132,398)
Decrease in amounts due from associated companies	10,274	3,359
(Decrease)/increase in creditors and accrued charges	(82,614)	217,864
Effect of foreign exchange rate changes	(80,356)	(12,650)
Net cash inflow from operating activities	1,084,568	1,088,877

25. NOTES TO CONSOLIDATED CASH FLOW STATEMENT *continued*

(b) ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	SHARE CAPITAL (INCLUDING SHARE PREMIUM) HK\$'000	MINORITY INTERESTS HK\$'000	LONG-TERM BANK LOAN HK\$'000	OBLIGATIONS UNDER FINANCE LEASES HK\$'000
Balance at July 1, 1999	1,092,599	1,045	533,445	5,035
Cash inflow/(outflow) from financing	17,018	–	(153,548)	(2,450)
Issue of scrip dividend shares	13,826	–	–	–
Share of exchange reserve	–	1,726	–	–
Increase in interest in subsidiaries	–	9,417	–	–
Waiver of loan from a minority shareholder	–	(9,215)	–	–
Inception of new finance leases	–	–	–	1,510
Share of net profit attributable to minority shareholders	–	74,811	–	–
Distribution to a non-affiliated partner of a limited partnership	–	(60,212)	–	–
Exchange difference	–	87	2,073	(329)
Balance at June 30, 2000	1,123,443	17,659	381,970	3,766
Balance at July 1, 2000	1,123,443	17,659	381,970	3,766
Cash inflow/(outflow) from financing	68,898	–	(382,053)	(1,494)
Issues of scrip dividend shares (<i>note 19(a)</i>)	6,325	–	–	–
Inception of new finance leases	–	–	–	335
Share of net profit attributable to minority shareholders	–	71,940	–	–
Distribution to a non-affiliated partner of a limited partnership	–	(71,399)	–	–
Exchange difference	–	4	83	(363)
Balance at June 30, 2001	1,198,666	18,204	–	2,244

(c) ANALYSIS OF THE BALANCE OF CASH AND CASH EQUIVALENTS

	2001 HK\$'000	2000 HK\$'000
Short-term bank deposits	7,855	160,538
Bank balances and cash	435,697	574,334
Unsecured short-term bank loan	–	(13,223)
Bank overdrafts	(55,604)	(14,523)
	387,948	707,126

26. CONTINGENT LIABILITIES

	COMPANY	
	2001 HK\$'000	2000 HK\$'000
Guarantees given to banks in respect of banking facilities granted to subsidiaries	1,331,346	1,292,625

27. OPERATING LEASE COMMITMENTS

	GROUP	
	2001 HK\$'000	2000 HK\$'000
The total future minimum lease payments under non-cancelable operating leases are as follows:		
Land and buildings		
– within one year	605,132	456,910
– in the second to fifth year inclusive	1,598,340	1,041,498
– after the fifth year	1,364,879	711,548
	3,568,351	2,209,956
Other equipment		
– within one year	14,259	8,214
– in the second to fifth year inclusive	9,047	6,446
– after the fifth year	–	–
	3,591,657	2,224,616

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

The Company did not have any operating lease commitments at June 30, 2001 (2000: Nil).

28. COMMITMENTS

(a) CAPITAL COMMITMENTS

	GROUP	
	2001 HK\$'000	2000 HK\$'000
Contracted but not provided for	175,628	7,432
Authorized but not contracted for	87,814	89,970
	263,442	97,402

The Company did not have any significant capital commitments at June 30, 2001 (2000: Nil).

(b) FOREIGN EXCHANGE CONTRACTS

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

	GROUP	
	2001 HK\$'000	2000 HK\$'000
Forward contracts	170,371	160,452
Option contracts	–	28,765
	170,371	189,217

Foreign exchange contracts are entered into primarily to protect the Group from the impact of currency fluctuation during the normal course of business.

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 the related companies during the year. Details relating to these related party transactions are as follows:

	2001 HK\$'000	2000 HK\$'000
Transactions with Associated Companies		
Sales of finished goods	157,150	140,766
Royalty received	6,175	3,121
Other income	171	202

30. PRINCIPAL SUBSIDIARIES

The following are the principal subsidiaries as at June 30, 2001 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
Aromatic Beauty Products Pty Limited	Australia	59.6%	A\$2	Wholesale distribution of cosmetics and skin and general body care products
Esprit Asia (Distribution) Limited	Hong Kong	100%	HK\$9,000	Investment holding
Esprit Belgie Retail N.V.	Belgium	100%	BEF47,500,000	Retail distribution of apparel and accessories
Esprit Belgie Wholesale N.V.	Belgium	100%	BEF2,500,000	Wholesale distribution of apparel and accessories
Esprit Benelux Wholesale B.V.	The Netherlands	100%	NLG250,000	Wholesale distribution of apparel and accessories
Esprit China Distribution Limited	British Virgin Islands/Hong Kong	100%	US\$100	Investment holding
Esprit Corporate Services Limited	British Virgin Islands/Hong Kong	100%	US\$100	Investment holding
Esprit de Corp (1980) Ltd.	Canada	100%	CAD1,000,100	Distribution of apparel and accessories
Esprit de Corp Denmark A/S	Denmark	100%	DKK10,000,000	Wholesale and retail distribution of apparel and accessories
Esprit de Corp (Far East) Limited	Hong Kong	100%	HK\$1,200,000	Sourcing of apparel and accessories
Esprit de Corp France S.A.	France	100%	FRF20,000,000	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 de Corp (Worldwide) Limited	Hong Kong	100%	HK\$1,000	Sourcing of apparel
Esprit Design und Product Development GmbH	Germany	100%	DM500,000	Design of apparel and accessories
Esprit Distribution Limited	Hong Kong	100%	HK\$2,000,000	Wholesale distribution of apparel and accessories
Esprit Europe AG	Germany	100%	EUR37,000,000	Investment holding
Esprit Europe Services GmbH	Germany	100%	EUR2,500,000	Sourcing of merchandise and placement of orders

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 <i>(note a)</i>	PRINCIPAL ACTIVITIES
Esprit Far East (Investments III) Ltd.	British Virgin Islands/Hong Kong	100%	US\$100	Investment holding
Esprit Handelsgesellschaft mbH	Austria	100%	ATS500,000	Wholesale distribution of apparel and accessories
Esprit Holdings GmbH	Germany	100%	DM10,000,000	Investment holding
Esprit Image & Product Development Limited	United Kingdom	100%	GBP2	Group image direction
Esprit International (limited partnership)	California, U.S.A.	63%	–	Licensing of trademarks
Esprit Nederland Retail B.V.	The Netherlands	100%	NLG250,000	Retail distribution of apparel and accessories
Esprit Retail GmbH	Germany	100%	DM9,000,000	Retail distribution of apparel and accessories
Esprit Retail (Hong Kong) Limited	Hong Kong	100%	HK\$10,000	Retail distribution of apparel and accessories
Esprit Retail Pte Ltd	Singapore	100%	S\$3,000,000	Retail distribution of apparel and accessories
Esprit (Retail) Pty Ltd	Australia	100%	A\$200,000	Retail distribution of apparel and accessories
Esprit Retail (Taiwan) Limited	Hong Kong/Taiwan	100%	HK\$9,000	Retail distribution of apparel and accessories
Esprit Singapore Pte Limited	Singapore	100%	S\$100,000	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, Accessories and Cosmetics Esprit Retail (Macau) Limited	Macau	100%	MOP100,000	Retail distribution of apparel and accessories

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 (Hong Kong) Limited	Hong Kong	92%	HK\$10,000	Retail distribution of cosmetics and skin and general body care products
Red Earth International Holdings Limited	British Virgin Islands/Hong Kong	60.8%	US\$ 1,668,000	Investment holding
Red Earth Licensing Limited	British Virgin Islands/Hong Kong	60.8%	US\$100	Licensing of trademarks
Red Earth New Zealand Limited	New Zealand	59.6%	NZ\$100	Retail distribution of cosmetics and skin and general body care products
Red Earth Production Limited	Hong Kong	60.8%	HK\$10,000	Wholesale distribution of cosmetics and skin and general body care products
Red Earth Pty Limited	Australia	59.6%	A\$100	Retail distribution of cosmetics and skin and general body care products
Red Earth (Taiwan) Limited	Hong Kong/Taiwan	100%	HK\$2	Retail distribution of cosmetics and skin and general body care products
Red Earth Trading Pty Limited	Australia	59.6%	A\$2	Wholesale distribution of cosmetics and skin and general body care products
Sijun Fashion Design (Shenzhen) Co. Ltd.	The People's Republic of China	100%	US\$700,000 registered capital	Sample development

Notes:

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

(b) Except for Red Earth International Holdings Limited which issued a convertible note for the amount of HK\$22,013,100 on August 27, 1998, none of the subsidiaries had any loan capital subsisting at June 30, 2001 or at any time during the year.

(c) Shareholdings in Red Earth International Holdings Limited is being litigated as disclosed in "Connected Transaction" section in the Report of the Directors.

financial summary

RESULTS

	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000	1997 HK\$'000
Turnover	8,109,062	7,277,306	5,993,820	5,087,206	3,351,742
Operating profit	1,177,540	909,279	672,731	546,591	449,222
Finance costs	(38,290)	(37,912)	(48,132)	(57,004)	(48,333)
Profit/(loss) on listed investment held for long-term	–	–	77,662	(125,300)	–
	1,139,250	871,367	702,261	364,287	400,889
Share of results of associated companies	20,478	12,730	1,146	(17,616)	1,053
	1,159,728	884,097	703,407	346,671	401,942
Profit before taxation	1,159,728	884,097	703,407	346,671	401,942
Taxation	(512,459)	(349,225)	(228,381)	(153,916)	(144,000)
	647,269	534,872	475,026	192,755	257,942
Profit after taxation	647,269	534,872	475,026	192,755	257,942
Minority interests	(71,940)	(74,811)	(44,999)	(37,656)	(22,411)
	575,329	460,061	430,027	155,099	235,531
Profit attributable to shareholders	575,329	460,061	430,027	155,099	235,531
Dividends	191,094	167,877	160,845	41,517	125,309

BALANCE SHEETS

	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000	1997 HK\$'000
Trademarks	722,110	742,451	762,792	783,133	803,474
Fixed assets	779,120	596,953	484,457	403,099	463,098
Other investments	7,366	29,327	33,789	93,158	214,263
Associated companies	78,980	58,563	52,714	43,200	12,828
Net current assets	478,320	542,820	486,916	438,669	419,635
	2,065,896	1,970,114	1,820,668	1,761,259	1,913,298
Financed by:					
Share capital	114,251	111,656	110,862	109,255	108,806
Reserves	1,930,113	1,612,722	1,324,650	1,053,810	1,012,137
Shareholders' funds	2,044,364	1,724,378	1,435,512	1,163,065	1,120,943
Minority interests	18,204	17,659	1,045	7,518	14,989
Obligations under finance leases	941	1,931	2,388	8,773	320
Long-term bank loan	–	226,064	380,201	532,537	722,879
Deferred taxation	2,387	82	1,522	49,366	54,167
	2,065,896	1,970,114	1,820,668	1,761,259	1,913,298



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