

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
	6.30.2000	GRANTED	EXERCISED	EXPIRED	6.30.2001
Michael Ying Lee Yuen	15,000,000	–	–	–	<b>15,000,000</b>
Chhibber Surinder	7,000,000	3,000,000	2,000,000	–	<b>8,000,000</b>
Heinz Jürgen Krogner-Kornalik	8,000,000	–	4,000,000	–	<b>4,000,000</b>
John Poon Cho Ming	8,000,000	–	–	–	<b>8,000,000</b>
Connie Wong Chin Tzi	3,000,000	–	3,000,000	–	<b>–</b>

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