

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*).

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.