Earnings Position

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

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

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

Liquidity and Financial Resources

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

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

During the year, as is our policy, the Group entered into foreign exchange forward contracts to reduce exposure to foreign exchange risks. These agreements were contracted with large and reputable financial institutions, thereby minimizing the credit risk. As at June 30, 2002, outstanding contracts increased to HK$251 million, from HK$170 million last year, which corresponded with the increase in European sourcing orders.

Human Resources

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