

Substance over form

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

The Board

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

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

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

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

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

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

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

Audit Committee

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

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

The Audit Committee currently includes the following directors:

Mr. Alexander Reid HAMILTON - Committee Chairman *

Mr. Jürgen Alfred Rudolf FRIEDRICH

Mr. Raymond OR Ching Fai *

* Independent non-executive director

Rotation of External Audit Partners

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

Risk Management and Internal Control

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

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

Code of Best Practice

In the opinion of the Directors, the Company was in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the accounting year under review.

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

Communication and Investor Relations

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

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

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

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

Information Technology

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

Management

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