

# report of the directors

The Directors have pleasure in presenting their annual report and the audited financial statements for the year ended June 30, 2002.

## 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, wholesale and retail distribution, sourcing and licensing of quality life-style products under the internationally known **ESPRIT** brand name in Europe, Asia Pacific and North America, together with Red Earth cosmetics, skin and body care products and the operation of Salon **ESPRIT** in Asia Pacific.

## 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 41 and in the accompanying notes to the financial statements.

The interim dividend of 6.0 Hong Kong cents per share, of which HK\$67,698,259 was paid in cash and 103,603 shares were issued as scrip dividend, was paid on April 26, 2002.

The Directors recommend the payment of a final dividend of 17.0 Hong Kong cents per share and a special dividend of 5.0 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 72.

## SHARE CAPITAL

Details of movements in share capital of 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 LOAN AND OVERDRAFTS

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

## CHARITABLE DONATIONS

During the year, the Group made charitable donations totalling HK\$700,593.

## 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 Bye-law 87 of the Company's Bye-laws, Ms. Connie Wong Chin Tzi, Mr. Simon Lai Sau Cheong and Mr. Raymond Or Ching Fai will retire by rotation subject to re-election at annual general meeting in accordance with the Bye-laws of the Company.

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 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 52, is Chairman and Chief Executive Officer of the Group. Mr. Ying has over 30 years' experience in the apparel industry. He is primarily responsible for the overall direction and formulation of corporate policies of the Group.

**CHHIBBER Surinder**, aged 52, is Deputy Chairman and Chief Executive Officer of the Group's Asia Pacific operations. 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 61, is Chief Executive Officer of the Group's European operations 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 was 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 48, is Chief Financial Officer and Company Secretary of the Group. Mr. Poon is responsible for managing the Group's financial and legal functions including accounting and tax, treasury management, investor relations, strategic and corporate planning, as well as company secretarial affairs. Prior to joining the Group in 1999, he has held executive directorships in other public 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 University of Alberta, Canada with a Bachelor of Arts degree in Economics and a Bachelor of Laws degree.

**Connie WONG Chin Tzi**, aged 54, 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 64, 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 in the United States.

**Alexander Reid HAMILTON**, aged 60, 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, Shangri-La Asia Limited, The Swank Shop Limited and a number of other Hong Kong companies. He was a partner of Price Waterhouse with whom 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 17 years' experience of legal practice.

**Raymond OR Ching Fai**, aged 52, 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 and 2002.

### SENIOR MANAGEMENT

**Thomas GROTE**, aged 39, is Executive Director of Marketing and Sales of Esprit Europe 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's division and was subsequently promoted to managing director. He returned to the Group in June 1996.

**Joris LEEMAN**, aged 38, is Executive Director of Operations and Sourcing of Esprit Europe 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.

**Morris WAGENHEIM**, aged 49, is Managing Director of the Group's Australian and New Zealand operations. He joined the Group in 1994, after having spent the previous four years as general manager of the 150 stores Sportsgirl chain in Australia. Mr. Wagenheim 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 48, is Chief Operation Officer of Salon **ESPRIT**. 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 in Hong Kong. He left the Group in 1993 to establish his own business and rejoined the Group in mid-1997.

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

**SENIOR MANAGEMENT** *continued*

**Günter WARTENBERG**, aged 49, is Executive Director of Finance of Esprit Europe 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 25 years of experience in finance and accounting and had worked with Bertelsmann AG, Henkel KgaA and Facit GmbH before joining the Group.

**Susan WONG Ping**, aged 54, 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 37, 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 arts and culture.

**DIRECTORS’ INTERESTS IN SHARES**

As at June 30, 2002, 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	5,000,385	–	–	–
Jürgen Alfred Rudolf Friedrich	108,907,676	–	51,401	–
Connie Wong Chin Tzi	1,854,597	–	–	–

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

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

## ARRANGEMENT TO PURCHASE SHARES AND DEBENTURES

The Company adopted a share option scheme on November 17, 1993 (the "1993 Share Option Scheme"). In view of the changes to Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") which govern the operation of share option schemes, the Company adopted a new share option scheme ("2001 Share Option Scheme") on November 26, 2001 and the operation of the 1993 Share Option Scheme was terminated on the same day (such that no further options could be offered under the 1993 Share Option Scheme of the Company but the provisions of the 1993 Share Option Scheme continued to govern outstanding options under that scheme).

Summaries of the 2001 Share Option Scheme and the 1993 Share Option Scheme are listed below:

### 2001 Share Option Scheme

#### Purpose

The 2001 Share Option Scheme is a share incentive scheme established to recognize and acknowledge the contributions that selected eligible persons have made or may make to the Group.

#### Eligible persons

Eligible persons include:

- (i) any director, employee of the Group, consultant, customer, supplier, agent, partner or adviser of or contractor to the Group or a company in which the Group holds an interest or a subsidiary of such company ("Affiliate"); or
- (ii) the trustee of any trust the beneficiary of which or any discretionary trust the discretionary objects of which include any director, employee of the Group, consultant, customer, supplier, agent, partner or adviser of or contractor to the Group or an Affiliate; or
- (iii) a company beneficially owned by any director, employee of the Group, consultant, customer, supplier, agent, partner, adviser of or contractor to the Group or an Affiliate.

#### Total number of shares available for issue

The total number of shares available for issue under the 2001 Share Option Scheme is 114,383,717, representing 9.7% of the issued share capital of the Company as at the date of this report.

#### Maximum entitlement of each eligible person

The maximum number of shares in respect of which options may be granted under the 2001 Share Option Scheme (including the total number of the shares issued and to be issued upon exercise of options granted and to be granted to any eligible person) shall not exceed any limits that may be imposed under the Listing Rules from time to time as amended and in force.

#### Minimum period for which an option must be held before it can be exercised

There is no general requirement on the period within which an option must be held before an option can be exercised under the terms of 2001 Share Option Scheme. However, at the time of granting any option, the Board may, on a case by case basis, make such grant subject to such conditions, restrictions or limitations in relation to the minimum period for which the options must be held as the Board may determine in its absolute discretion.

#### Period within which the shares must be taken up under an option

Subject to certain restrictions contained in the 2001 Share Option Scheme, an option which is exercisable pursuant to the 2001 Share Option Scheme and the terms on which such an option is granted may be exercised in accordance with such terms at any time during the applicable option period as may be determined by the Board (which shall not be more than 10 years from the date of grant of such an option).

#### Basis of determining the subscription price

The subscription price for any share under the 2001 Share Option Scheme will be a price determined by the Board and notified to each grantee. Such price will be not less than the highest of (i) the closing price of a share as stated in The Stock Exchange of Hong Kong Limited's ("SEHK's") daily quotations sheet on the date of grant of the relevant option, which must be a Business Day (as defined in the Listing Rules), (ii) an amount equivalent to the average closing price of a share as stated in SEHK's daily quotation sheets for the five Business Days immediately preceding the date of grant of the relevant option and (iii) the nominal value of a share.

#### Remaining life of the 2001 Share Option Scheme

The 2001 Share Option Scheme will remain in force until November 26, 2011.

As at June 30, 2002, the Company has not granted any share option under the 2001 Share Option Scheme.

## **ARRANGEMENT TO PURCHASE SHARES AND DEBENTURES** *continued*

### **1993 Share Option Scheme**

#### **Purpose and eligible persons**

The 1993 Share Option Scheme is a share option scheme for employees of the Company or any subsidiaries (including executive directors of the Company or any subsidiary).

#### **Total number of shares available for issue**

Operation of the 1993 Share Option Scheme was terminated by the Shareholders on November 26, 2001. Therefore, no further options could be offered under the 1993 Share Option Scheme but in all other respects, the provisions of the 1993 Share Option Scheme shall remain in full force and effect until November 17, 2003.

#### **Maximum entitlement of each eligible persons**

The maximum number of shares in respect of which options may be granted to any one person under the 1993 Share Option Scheme, together with shares already issued and issuable under options previously granted to such person, may not exceed 25% of the maximum number of shares in respect of which options may be granted under the 1993 Share Option Scheme from time to time.

#### **Minimum Period for which an option must be held before it can be exercised**

Options were divided into fractional installment(s). The first exercisable date between each installment shall occur at intervals of six calendar months. The earliest exercisable date for the first installment shall occur six months after the date of grant.

#### **Period within which the shares must be taken up under an option**

An option may be exercised in accordance with the terms of the 1993 Share Option Scheme at any time during a period of five years commencing on the first exercisable date and expiring on the last day of the five-year period or November 17, 2003, whichever is the earlier.

#### **Basis of determining the subscription price**

The subscription price for shares in respect of which options are granted will be not less than the higher of the nominal value of the shares and 80% of the average of the closing price of the shares on the SEHK on the five trading days immediately preceding the date of offer of the option.

Details of share options exercised during the year and outstanding share options as at June 30, 2002 granted to and accepted by the eligible employees of the Group (including executive directors of the Company) under the 1993 Share Option Scheme, are as follows:

Eligible Persons	Date of Grant (mm/dd/yyyy)	Exercise Price (HK\$)	Vesting Period (mm/dd/yyyy)	Exercise Period (mm/dd/yyyy)	Number of share options					Weighted Average Closing Price of the Shares Immediately Before the Dates of Exercise (HK\$)
					As at 6.30.2001	Granted	Exercised	Cancelled or Expired	As at 6.30.2002	
<b>Directors</b>										
Michael Ying Lee Yuen	05/26/1997	3.096	05/26/1997 – 11/25/1997	11/26/1997 – 11/25/2002	7,500,000	-	7,500,000	-	-	13.20
	05/26/1997	3.096	05/26/1997 – 05/25/1998	05/26/1998 – 05/25/2003	7,500,000	-	7,500,000	-	-	
					15,000,000	-	15,000,000	-	-	
Chhibber Surinder	01/20/1994	2.640	01/20/1994 – 07/19/1997	07/20/1997 – 07/19/2002	500,000	-	500,000	-	-	14.50
	01/20/1994	2.640	01/20/1994 – 01/19/1998	01/20/1998 – 01/19/2003	500,000	-	500,000	-	-	
	01/28/1997	2.656	01/28/1997 – 07/27/1997	07/28/1997 – 07/27/2002	1,000,000	-	1,000,000	-	-	
	01/28/1997	2.656	01/28/1997 – 01/27/1998	01/28/1998 – 01/27/2003	1,000,000	-	1,000,000	-	-	
	01/28/1997	2.656	01/28/1997 – 07/27/1998	07/28/1998 – 07/27/2003	1,000,000	-	1,000,000	-	-	
	01/28/1997	2.656	01/28/1997 – 01/27/1999	01/28/1999 – 11/16/2003	1,000,000	-	1,000,000	-	-	
	07/24/2000	6.264	07/24/2000 – 05/16/2003	05/17/2003 – 11/16/2003	3,000,000	-	-	-	3,000,000	
					8,000,000	-	5,000,000	-	3,000,000	
Heinz Jürgen Krogner-Kornalik	01/28/1997	2.656	01/28/1997 – 07/27/1998	07/28/1998 – 07/27/2003	2,000,000	-	2,000,000	-	-	13.08
	01/28/1997	2.656	01/28/1997 – 01/27/1999	01/28/1999 – 11/16/2003	2,000,000	-	2,000,000	-	-	
					4,000,000	-	4,000,000	-	-	
John Poon Cho Ming	12/15/1999	6.360	12/15/1999 – 06/14/2000	06/15/2000 – 11/16/2003	1,000,000	-	1,000,000	-	-	13.08
	12/15/1999	6.360	12/15/1999 – 12/14/2000	12/15/2000 – 11/16/2003	1,000,000	-	1,000,000	-	-	
	12/15/1999	6.360	12/15/1999 – 06/14/2001	06/15/2001 – 11/16/2003	1,000,000	-	1,000,000	-	-	
	12/15/1999	6.360	12/15/1999 – 12/14/2001	12/15/2001 – 11/16/2003	1,000,000	-	1,000,000	-	-	
	12/15/1999	6.360	12/15/1999 – 06/14/2002	06/15/2002 – 11/16/2003	1,000,000	-	-	-	1,000,000	
	12/15/1999	6.360	12/15/1999 – 12/14/2002	12/15/2002 – 11/16/2003	1,000,000	-	-	-	1,000,000	
	12/15/1999	6.360	12/15/1999 – 06/14/2003	06/15/2003 – 11/16/2003	1,000,000	-	-	-	1,000,000	
	12/15/1999	6.360	12/15/1999 – 11/15/2003	11/16/2003	1,000,000	-	-	-	1,000,000	
					8,000,000	-	4,000,000	-	4,000,000	

Eligible Persons	Date of Grant (mm/dd/yyyy)	Exercise Price (HK\$)	Vesting Period (mm/dd/yyyy)	Exercise Period (mm/dd/yyyy)	Number of share options					Weighted Average Closing Price of the Shares Immediately Before the Dates of Exercise (HK\$)
					As at 6.30.2001	Granted	Exercised	Cancelled or Expired	As at 6.30.2002	
<b>Employees</b>										
In aggregate	12/13/1995	2.640	12/13/1995 – 06/12/1997	06/13/1997 – 06/12/2002	375,000	-	375,000	-	-	12.34
	12/13/1995	2.640	12/13/1995 – 12/12/1997	12/13/1997 – 12/12/2002	375,000	-	-	-	375,000	
	12/13/1995	2.640	12/13/1995 – 06/12/1998	06/13/1998 – 06/12/2003	375,000	-	-	-	375,000	
	12/13/1995	2.640	12/13/1995 – 12/12/1998	12/13/1998 – 11/16/2003	375,000	-	-	-	375,000	
	12/13/1995	2.640	12/13/1995 – 06/12/1999	06/13/1999 – 11/16/2003	375,000	-	-	-	375,000	
	12/13/1995	2.640	12/13/1995 – 12/12/1999	12/13/1999 – 11/16/2003	375,000	-	-	-	375,000	
	07/05/1996	2.640	07/05/1996 – 01/04/1998	01/05/1998 – 01/04/2003	100,000	-	100,000	-	-	
	07/05/1996	2.640	07/05/1996 – 07/04/1998	07/05/1998 – 07/04/2003	250,000	-	250,000	-	-	
	03/16/1999	2.640	03/16/1999 – 09/15/1999	09/16/1999 – 11/16/2003	250,000	-	250,000	-	-	
	03/16/1999	2.640	03/16/1999 – 03/15/2000	03/16/2000 – 11/16/2003	250,000	-	250,000	-	-	
	03/16/1999	2.640	03/16/1999 – 09/15/2000	09/16/2000 – 11/16/2003	250,000	-	250,000	-	-	
	03/16/1999	2.640	03/16/1999 – 03/15/2001	03/16/2001 – 11/16/2003	250,000	-	250,000	-	-	
	01/27/1997	2.656	01/27/1997 – 01/26/1999	01/27/1999 – 11/16/2003	500,000	-	500,000	-	-	

Eligible Persons	Date of Grant (mm/dd/yyyy)	Exercise Price (HK\$)	Vesting Period (mm/dd/yyyy)	Exercise Period (mm/dd/yyyy)	Number of share options				As at 6.30.2002	Weighted Average Closing Price of the Shares Immediately Before the Dates of Exercise (HK\$)
					As at 6.30.2001	Granted	Exercised	Cancelled or Expired		
	02/17/1999	2.720	02/17/1999 - 02/16/2001	02/17/2001 - 11/16/2003	1,332	-	1,332	-	-	
	02/17/1999	2.720	02/17/1999 - 08/16/2001	08/17/2001 - 11/16/2003	333,333	-	333,333	-	-	
	02/17/1999	2.720	02/17/1999 - 02/16/2002	02/17/2002 - 11/16/2003	333,335	-	333,335	-	-	
	07/11/1999	2.720	07/11/1999 - 07/10/2001	07/11/2001 - 11/16/2003	250,000	-	250,000	-	-	
	07/11/1999	2.720	07/11/1999 - 01/10/2002	01/11/2002 - 11/16/2003	250,000	-	250,000	-	-	
	07/11/1999	2.720	07/11/1999 - 07/10/2002	07/11/2002 - 11/16/2003	250,000	-	-	-	250,000	
	07/11/1999	2.720	07/11/1999 - 01/10/2003	01/11/2003 - 11/16/2003	250,000	-	-	-	250,000	
	07/11/1999	2.720	07/11/1999 - 07/10/2003	07/11/2003 - 11/16/2003	250,000	-	-	-	250,000	
	01/29/1999	2.872	01/29/1999 - 07/28/2000	07/29/2000 - 11/16/2003	500,000	-	500,000	-	-	
	01/29/1999	2.872	01/29/1999 - 01/28/2001	01/29/2001 - 11/16/2003	500,000	-	500,000	-	-	
	09/02/1999	5.140	09/02/1999 - 05/16/2003	05/17/2003 - 11/16/2003	1,000,000	-	-	-	1,000,000	
	09/11/1999	5.140	09/11/1999 - 05/16/2003	05/17/2003 - 11/16/2003	2,500,000	-	-	-	2,500,000	
	09/15/1999	5.140	09/15/1999 - 05/16/2003	05/17/2003 - 11/16/2003	1,000,000	-	-	-	1,000,000	
	09/22/1999	5.140	09/22/1999 - 05/16/2003	05/17/2003 - 11/16/2003	500,000	-	-	-	500,000	
					12,018,000	-	4,393,000	-	7,625,000	
<b>TOTAL</b>					<b>47,018,000</b>	<b>-</b>	<b>32,393,000</b>	<b>-</b>	<b>14,625,000</b>	

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.



### 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 or at any time during the year.

### SUBSTANTIAL SHAREHOLDER

As at June 30, 2002, the following interests 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	42.71

Such interests have also been included as corporate interests of Mr. Michael Ying Lee Yuen 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 any interests in the share capital of the Company that were 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 have 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.

### MAJOR CUSTOMERS AND SUPPLIERS

During the year, less than 12% of the Group's sales were attributable to the five largest customers and less than 16% 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.

### THE 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 Listing Rules throughout the accounting year under review.

### CONNECTED TRANSACTIONS

The following transactions, which occurred in the year under review, constituted connected transactions under Chapter 14 of the Listing Rules:

- On December 18, 2001, the Company, Red Earth Investment Limited ("REInvest") and Red Earth International Holdings Limited ("REIHL") entered into a deed of settlement with Mr. Steven Ko Soon How ("Mr. Ko") and Jackson Management Limited ("Jackson"). Pursuant to the said deed of settlement, (a) Jackson transferred to REInvest its entire 39% interests in REIHL, (b) the proceedings initiated by Jackson against the Company, REInvest and REIHL had been dismissed, and (c) Mr. Ko and Jackson assumed various obligations and responsibilities, in consideration of an aggregate sum of HK\$15,000,000 paid by REInvest. Mr. Ko was then a director and the ex-chief executive officer of REIHL and Jackson was a company controlled by Mr. Ko. Following the completion of the transaction, REIHL became a wholly-owned subsidiary of the Group.
- On February 7, 2002, the Company and its wholly-owned subsidiary Esprit Capital Limited ("ECL") entered into an asset sale and purchase agreement ("Asset Acquisition Agreement") with, inter alia, Esprit de Corp. (currently known as ECOR-SF, Inc.) (the "Seller"), OCM Opportunities Fund, L.P., Columbia/HCA Master Retirement Trust (Oaktree Separate Account I), The Common Fund for Bond Investments, TCW Special Credits Fund IV, TCW Special Credits Plus Fund, TCW Special Credits Trust IV and TCW Special Credits Trust IVA, Cerberus International Ltd. and Cerberus Partners L.P. and Esprit Holdings Inc. (currently known as ECOR-SF Holdings, Inc.). The Seller was then a substantial shareholder (within the meaning of the Listing Rules) holding 37% limited partnership interests in Esprit International which is a subsidiary of the Company. Pursuant to the Asset Acquisition Agreement, the Seller sold to ECL, inter alia, its 37% limited partnership interests in Esprit International, its intellectual property rights as more particularly described in the Asset Acquisition Agreement and certain licenses agreements relating to the use of the intellectual property rights in consideration of US\$150 million (approximately HK\$1,170 million\*).

\* exchange rate: US\$1 = HK\$7.8 (for illustration purpose only)

**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 controls.

**AUDITORS**

The financial statements have been audited by PricewaterhouseCoopers who are due to 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

A handwritten signature in blue ink, appearing to be 'John Poon Cho Ming', written over a light blue horizontal line.

**John Poon Cho Ming**

Executive Director

Hong Kong, September 18, 2002