

celebrate 10 years of solid financial performances

FOR THE YEAR ENDED JUNE 30	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
OPERATING RESULTS (HK\$ MN)										
turnover	12,381	9,219	8,109	7,277	5,994	5,087	3,352	1,785	1,473	1,145
operating profit (<i>EBIT</i>)	1,721	1,316	1,132	882	656	527	425	198	179	175
profit attributable to shareholders*	1,186	927	575	460	352	280	236	162	141	167
PER SHARE DATA (HK¢)										
earnings per share – basic*	100.5	80.5	51.2	41.3	32.1	25.7	26.1	20.5	18.8	24.0
dividend per share**	70.0	28.0	16.8	15.0	14.5	3.8	11.5	9.8	9.0	8.5
KEY STATISTICS (HK\$ MN)										
shareholders' funds	4,238	3,204	2,181	1,850	1,554	1,163	1,207	713	601	531
working capital	2,042	1,073	615	668	606	439	505	463	384	460
cash position (net of overdraft)	2,097	934	388	707	543	382	530	347	199	318
term loans	776	780	–	382	533	654	728	11	36	–
OTHER DATA										
number of directly managed stores	569	495	485	472	446	432	364	253	174	121
directly managed sales footage (sq.m.)	152,108	141,059	126,796	99,926	80,592	66,369	56,006	27,875	16,735	12,733
monthly sales per square meter (HK\$)	2,848	2,353	3,336	4,154	4,316	4,165	5,058	6,812	8,857	8,588
capital expenditure (HK\$ MN)	333	344	512	323	257	181	79	60	191	55
number of employees	5,751	5,936	5,954	5,208	4,471	4,257	4,377	2,619	2,345	1,988
KEY RATIOS										
return on shareholders' equity* # (<i>ROE</i>) (%)	31.9	34.4	28.5	27.0	25.9	23.7	24.5	24.6	25.0	48.2
return on total assets* ^ (<i>ROA</i>) (%)	18.3	20.0	16.1	13.8	11.8	9.6	11.6	16.7	18.0	33.8
debt to equity*** (%)	18.7	25.9	2.7	22.4	36.6	64.7	64.0	6.4	12.4	3.4
net debt to equity (%)	net cash	net cash	net cash	net cash	net cash	24.7	16.5	net cash	net cash	net cash
interest cover (times)	54.3	96.2	30.8	24.0	14.0	9.6	9.3	24.7	38.6	116.7
current ratio (times)	1.9	1.6	1.5	1.5	1.5	1.4	1.5	2.3	2.7	3.5
stock turnover period**** (days)	51	64	64	67	72	71	89	122	118	111
earnings before interest, taxation, depreciation and amortization (<i>EBITDA</i>) margin (%)	17.0	17.3	16.5	14.7	13.7	13.4	16.3	14.6	15.1	17.2
earnings before interest and taxation (<i>EBIT</i>) margin (%)	13.9	14.3	14.0	12.1	10.9	10.4	12.7	11.1	12.2	15.3
earnings before taxation (<i>EBT</i>) margin* (%)	14.5	14.8	14.3	12.1	10.4	9.3	12.0	11.5	12.5	15.7

* calculated before profit or loss on listed investment held for long term (HK\$78mn exceptional gain for FY1999, HK\$125mn exceptional loss for FY1998)

** calculated after the HK30 cents special dividend for FY2003 and HK5 cents special dividend for FY2002

calculated based on net earnings as a percentage of average shareholders' equity

^ calculated based on net earnings as a percentage of average total assets

*** debt refers to all interest bearing borrowings

**** calculated as average inventory (excluding consumables) over average daily cost of goods sold for the year

earnings position

Gross margin improved 0.8% point to 49.9% (FY2001/02: 49.1%). Contributing positively to the margin was the lower sourcing cost resulting from the appreciation of euro, and the successful execution of our 12 collections-year strategy, which led to increased full price sales. These positive factors were partly offset by price point adjustment or improvement in product quality while keeping price stable.

EBITDA (operating profit before interest, taxation, depreciation and amortization) for the Group improved by 31.7% to HK\$2.10 billion, and EBITDA margin was slightly lowered by 0.3% point to 17.0%. As a percentage of sales, building expenses (which accounted for 27.1% of total operating expenses) decreased by 0.4% point while staff costs remained flat despite the addition of a number of key personnel. Greater economies of scale was offset by charges and provisions for retail space restructuring primarily in Hong Kong, U.K. and Canada.

Depreciation and amortization expenses were HK\$378.9 million, that is HK\$100.4 million or 36.0% higher than last year's. The significant increase was partly due to an additional amortization charge of HK\$48.8 million attributable to intangible assets acquired in the second half of FY2001/02. Both the Financial Accounting Standards Committee of the Hong Kong Society of Accountants and the International Accounting Standards Board are currently reviewing the comments on their proposed accounting treatment of intangible assets including non-amortization of intangible assets with indefinite useful lives but assessing such assets for impairment on a regular basis. Depending on the timing of release of any revised standard in this regard, we will align our accounting policies to be consistent with the standard.

The Group's effective tax rate was 33.8%, which was 2.7% points lower than the year before, excluding the one-time tax benefit of HK\$120.9 million in FY2001/02. The increase in trademark amortization described above, as well as additional tax on the acquired minority interest in Esprit International, was balanced by our continuous efforts in implementing yield enhancement and efficient tax strategies worldwide. Profit attributable to shareholders increased by 27.9% reaching HK\$1.19 billion. Net profit margin, excluding the one-time tax benefit of HK\$120.9 million in FY2001/02, improved 0.9% point to 9.6%.

liquidity and financial resources

Net cash from operating activities increased by 18.3% to HK\$1.57 billion. The Group's net cash (i.e. cash and cash equivalents less long term bank loan which is payable in 2005) as at June 30, 2003 increased HK\$1.17 billion to HK\$1.32 billion after having spent HK\$332.6 million in capital expenditures during the year. Our debt to equity ratio, expressed as a percentage of interest bearing external borrowings over shareholders' funds of HK\$4.24 billion, was 18.7%. The Group had assets of HK\$74.5 million pledged as security for overdraft and short-term revolving facility. The current ratio (current assets divided by current liabilities) improved to 1.9:1 from 1.6:1.

foreign exchange risk management

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 credit risk. As at June 30, 2003, outstanding contracts increased to HK\$375.2 million, from HK\$251.3 million last year, which corresponded with the increase in European and U.S. orders.

dividend policy

For FY2002/03, the Board of Directors has recommended a final dividend of HK32.5 cents per share. Together with the interim dividend of HK7.5 cents per share distributed in April, this represented a total dividend of HK40.0 cents per share for the fiscal year, or a 73.9% increase from last year. The dividend payout ratio, including the proposed final dividend for the year, was approximately 40.0%. It is the intention of the Group to maintain a long-term consistent dividend payout policy and distribute dividend income to our shareholders that is broadly in line with our earnings growth.

In celebration of the 10th listing anniversary of the Group, the Board of Directors also recommended a special dividend of HK30.0 cents per share to be distributed to our shareholders.

human resources

As at June 30, 2003, the Group employed a total of 5,751 people (FY2001/02: 5,936). Since human capital is key to our growth and profitability, heavy emphasis has been placed on staff training and development. The Group also offers competitive remuneration packages to its employees in compensation for their contribution. In addition, share options and discretionary bonuses are also granted based on the Group's and individuals' performance. All employees from around the world are connected in the Esprit community through the quarterly newsletter and the intranet sharing of the Group's vision and values.