

our corporate governance

At Esprit, we are determined to foster and maintain high standards of corporate governance. We believe that maximization of long-term returns is best achieved by acting in recognition of the interests of our stakeholders. We therefore devote considerable efforts to identifying and formalizing the best practices according to international standards. The Group's effort and achievements in these areas have won widespread recognition in various sectors, and the Group has received numerous awards from internationally renowned professional organizations and journals for its standards of corporate governance.

the board of directors

The Board is accountable to our shareholders for leading Esprit in a responsible and effective manner. The key responsibilities of the Board include the formulation of the Group's overall strategies, ensuring effective management leadership of the highest quality and integrity, and providing supervision of the proper conduct of the Group's business.

The Board currently consists of 11 members. To continuously enhance corporate governance, Mr. Heinz Jürgen KROGNER-KORNALIK was appointed as the Group CEO in November of 2002, separating the role of the Chairman from that of the Group CEO. This separation of duties provides a clear distinction between the Chairman's responsibility in managing the operations of the Board and the Group CEO's responsibility in running the Group's business. Mr. Paul CHENG Ming Fun has also been appointed as an independent non-executive director, bringing the total number of independent non-executive directors to four. These independent non-executive directors are selected individuals whose objective judgment are not subject to the influence of the Company or of its major shareholders, and are therefore free to take into account the interests of all shareholders. They also bring a wide range of experience and expertise to the Group and have played an active role in the Board.

The Board, together with the Audit Committee, conducts quarterly review of the Group's operational and financial performances. Matters reserved to the Board for decision-making include annual budgets, capital expenditure, dividend, major acquisitions and disposal of assets and key human resources issues. The Board also receives comprehensive reports well in advance of Board meetings for discussions and decision-making.

One third of our directors, apart from the Chairman of the Board, retire by rotation and submit themselves for re-election by shareholders at each Annual General Meeting ("AGM").

the audit committee

The Audit Committee is responsible for assisting the Board in safeguarding the Company's assets by providing an independent review of the effectiveness of the financial reporting process and the internal control and risk management systems of the Company. The committee also oversees the audit process and performs other duties as assigned by the Board.

All the members of our Audit Committee are non-executive directors, with a majority being independent. The Audit Committee members include:

Mr. Alexander Reid HAMILTON* (chairman of the Audit Committee)

Mr. Paul CHENG Ming Fun*

Mr. Jürgen Alfred Rudolf FRIEDRICH

Mr. Raymond OR Ching Fai*

*independent non-executive directors

In FY2002/03, the Audit Committee met five times. During these meetings, the Audit Committee reviewed the nature, scope and findings of internal and external audit reviews. It also reviewed the treasury activities, liquidity and risk management of the Company during the financial year. Our Group CFO, the external auditors, internal auditors and senior management from group finance department attended the meetings in order to answer any questions raised by the Audit Committee.

outsource internal audit

We outsourced the internal audit function to a big-4 international accounting firm, which is not our statutory auditor, in order to ensure the internal auditor's objectivity and enhance the function's efficiency and effectiveness. The internal auditor reports directly to the Audit Committee. So far, this arrangement has been working well. In FY2002/03, the internal auditor issued reports to the Audit Committee and the Board covering various operational and financial issues, including our global sourcing operation and inventory management. As the need arises, it also conducts ad-hoc reviews or investigations.

internal control and risk management

The Board is responsible for ensuring that the management maintains a sound system of internal control to safeguard shareholders' investments and the Group's assets. The Group is committed to the identification, monitoring and management of risks associated with its business activities and has implemented practical and effective control systems. These include:

- A clearly defined organizational structure with approved authority limits;
- Budgeting and forecasting systems for strategic business units for performance measurement and monitoring;
- Quarterly review of the Group's performances by the Audit Committee and the Board;
- Procedures relating to capital expenditure, asset and liability management;
- Protection of the Company's brand globally;
- Policies to manage financial risks, including hedging foreign exchange exposures;
- Group-wide insurance programs; and
- A global cash management system that is deployed to enhance proper control of global cash surpluses and to maximize returns to our shareholders.

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 ("Listing Rules") throughout the accounting year under review.

model code for securities transactions by directors

The Company also complies with the Model Code for Securities Transactions by Directors of Listed Companies contained in Appendix 10 of the Listing Rules. Our Group CFO and Executive Director, Mr. John POON Cho Ming, who is also the Company Secretary, is responsible for ensuring that procedures are followed and that applicable laws and regulations are complied with. These include obligations for directors relating to disclosure of interests in securities, disclosure of any conflict of interest in a transaction involving the Company, prohibitions on dealing in securities and restrictions on disclosure of price-sensitive information. The proposal of grant of share options are subject to approval by the Board.

proactive investor relations

It has always been our top priority to effectively communicate to shareholders and investors the Company's direction, performance and key issues. Therefore, we have a high regard for the AGM, as it provides a valuable channel for communication between the Board and the shareholders where questions raised are addressed by our directors.

We are also committed to fair disclosure and comprehensive reporting of our performances and activities. Both our Group CEO and Group CFO meet with the analysts and the press after our results announcements, regularly attend major investors conferences and actively participate in round-the-world road-shows to personally talk to institutional investors. To further improve on the speed and transparency of disclosure, our enhanced corporate investor relations website (www.espritholdings.com) is constantly updated with current information such as annual and interim reports, presentations and webcasts, press releases and announcements, lists of analysts covering our stock, as well as our share price performance.