



**upholding high standards
of corporate governance**

corporate governance

At Esprit, we recognize our responsibilities to shareholders and aim to protect and enhance shareholder values through good corporate governance. By upholding high standards of corporate governance, we believe we create values and maximize returns not only to the Group but to all our stakeholders. Considerable efforts are devoted to identify and formalize the best practices according to international standards. The Group is widely recognized by internationally renowned financial organizations and journals for its commitment to and achievements in reaching high standards of corporate governance practice.

We are committed to ensuring even greater transparency and quality of disclosure. We have long understood that good corporate governance is not just a question of regulatory compliance, but is also a part of the Company's culture. The Board will continue to uphold the appropriate standards of corporate governance within the Group, thereby ensuring that all our businesses are conducted in honest, ethical and responsible manner.

The Board

The Board's primary role is to protect and enhance long-term shareholder value. It sets the overall strategy for the Group, ensures effective management of the highest quality and integrity, and provides proper supervision in business conduct.

We have clearly defined the roles of the Chairman and the Group CEO to reinforce their respective independence, accountability and responsibility. The Chairman is responsible for monitoring the Company's business strategies and is not involved at the operational level while the Group CEO takes the lead in

managing the day-to-day business. At present, all Directors (except the Chairman of the Board) are subject to the general requirement of retirement by rotation of one-third of the Company's board members in each annual general meeting of the Company under the Company's Bye-laws. This year, in accordance with the Company's Bye-laws, John POON Cho Ming, Jerome Squire GRIFFITH, Alexander Reid HAMILTON and Simon LAI Sau Cheong will retire at the forthcoming annual general meeting of the company and all of them, being eligible, offer themselves for re-election.

The Board consists of ten directors, including the Chairman of the Board, five of whom are Executive Directors. There are five Non-Executive Directors, of whom three are independent. The Board benefits from the depth of experience each Director possesses. All Board members understand their duty to represent the interest of all the shareholders and each member attends meetings as regularly as possible. The Board meets at least four times a year and the Group ensures that Board members have access to appropriate business documents and information about the Group on a timely basis.

To assist in the execution of its responsibilities, the Board has established four Board Committees, namely Audit Committee, Nomination Committee, Remuneration Committee and General Committee to oversee particular aspects of the Group's affairs. Independent Non-Executive Directors play a vital role in these committees to ensure that independent and objective views are expressed.

corporate governance

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 Audit 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

In FY2003/2004, the Audit Committee met four 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 attended the meetings in order to answer any questions raised by the Audit Committee.

Nomination Committee

The Board acknowledges the importance of enhancing transparency in the selection process of its Board members. Consequently, in November 2003, it established the Nomination Committee to highlight the fairness of this process. The Nomination Committee members, majority of whom are non-executive directors, include:

Mr. John POON Cho Ming
Mr. Paul CHENG Ming Fun
Mr. Simon LAI Sau Cheong

Remuneration Committee

The primary aim of the Remuneration Committee is to formulate transparent procedures for developing remuneration policies and packages for key executives. The Remuneration Committee comprises three members, the majority of whom are Independent Non-Executive Directors:

Mr. Michael YING Lee Yuen
Mr. Raymond OR Ching Fai
Mr. Alexander Reid HAMILTON

General Committee

The General Committee manages various administrative matters of the Board. The General Committee comprises four members:

Mr. Michael YING Lee Yuen
Mr. Heinz Jürgen KROGNER-KORNALIK
Mr. John POON Cho Ming
Mr. Simon LAI Sau Cheong

Internal Control and Risk Management

Proper internal control not only facilitates the effectiveness and efficiency of operations, ensuring compliance with laws and regulations, but most importantly, it helps to minimize risk exposure for the Group. 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;
- Budgeting and forecasting systems for performance measurement and monitoring of strategic business units;
- A quarterly review of the Group’s performance by the Audit Committee and the Board;
- Protection of the Group’s trademarks globally;
- Group-wide insurance programs; and
- A global cash management system that is deployed to enhance proper control and yield of cash asset.

Code of Best Practice

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

Pro-active Investor Relations

Esprit recognizes the importance of communicating pertinent information to shareholders in a clear, forthcoming, detailed and timely manner. The Group’s performance and operational information are disseminated in the annual and interim reports. Annual general meetings of the Company provide a valuable communication channel between the Board and the shareholders, through which concerns are addressed directly by our Directors.

While our Investor Relations Department communicates with research analysts and institutional investors regularly, management also engages in a pro-active investor relations program to ensure fair disclosure and comprehensive reporting of our performance and business activities. Both our Group CEO and Group CFO meet with research analysts and the press after our results announcements, attend major investors’ conferences and participate in non-deal roadshows worldwide to communicate the Company’s global business strategy. The Group is also committed to practising timely and non-selective dissemination of material information. Our website www.espritholdings.com provides up-to-date information on the Group’s finances and businesses developments, including annual and interim reports, presentations and webcasts, press releases and announcements etc.. This information is updated in a timely manner to ensure that speed, fairness and transparency remain the hallmarks of our disclosure practices.