



Esprit is committed to upholding good corporate governance. This year, considerable efforts were made to identify and formalize the best practices according to international standards. The Esprit Corporate Governance Code was adopted by the Board, ensuring greater transparency and quality of disclosure as well as more effective risk control. We believe our commitment to the highest standards of governance will translate into long-term value and ultimately maximize returns to shareholders and stakeholders. Management's commitment to building long term interests for shareholders and to conducting business in a socially responsible and honest manner has earned the Company widespread market recognition. During this financial year, Esprit received the "Asia's Best Retailer" award and was ranked in the top three position for the "Best Managed Company" award and "Best Commitment to Strong Dividend Payments" in Hong Kong award by FinanceAsia Magazine. Esprit was also named as one of Asia's leading companies in "The AWSJ 200" by Asian Wall Street Journal.

### **The Board**

The Board's primary role is to protect and enhance long-term shareholder value. It focuses on the Group's overall strategic policy, monitors performance and provides proper supervision to ensure appropriate business conduct and effective management of the highest quality. The posts of Chairman and Group CEO are held separately to reinforce their respective independence, accountability and responsibility. This separation of posts ensures clearly defined roles between the Chairman's responsibility to monitor the Group's business strategies and the Group CEO's responsibility to manage the day-to-day business.

The Board comprises ten Directors, including the Chairman of the Board, five of them being Executive Directors, and the remaining five Non-executive Directors, of whom three are independent. The Non-executive Directors come from diverse business and professional backgrounds, providing valuable expertise and experience for promoting the best interests of the Group and its shareholders. Independent Non-executive Directors ensure the Board accounts for the interests of all shareholders and that all issues are considered in an objective manner. The Company has received confirmation from each Independent Non-executive Director about his independence under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"), and continues to consider each of them to be independent.

The Board conducts at least four regular Board meetings a year and additional meetings are held as and when required to discuss significant events and important issues. The Group ensures that appropriate and sufficient information is provided to Board members in a timely manner to keep them abreast of the Group's latest developments thereby assisting them in discharging their duties.

Under the Company's existing bye-laws, at least one-third of the Directors must retire at each annual general meeting. This financial year, Mr. Michael Ying, Mr. Thomas Grote and Mr. Raymond Or will retire at the forthcoming annual general meeting of the Company and

are all eligible to offer themselves for re-election. None of the Directors proposed for re-election at the forthcoming annual general meeting has a service contract with any member of the Group which is not determinable by the relevant employer within one year without payment of compensation (other than statutory compensation).

Mr. Michael YING Lee Yuen has entered into a service contract with the Company that does not provide for a fixed period of service and can be terminated by the Company by giving 6 months' notice.

Mr. Raymond OR Ching Fai does not have a service contract with the Company. Mr. Or has no fixed term of service with the Company and is subject to retirement by rotation and re-election in accordance with the Bye-laws of the Company.

Mr. Thomas Johannes GROTE has entered into a service contract with the Group on October 4, 2005 which can be terminated by the Group by giving 12 months' notice provided that such notice shall not be given before July 1, 2006. Prior to the conclusion of his existing service contract, Mr. Grote was employed under a service contract pursuant to which the Company is obliged to pay a sum equal to and which consists of the remainder of his total gross basic salary from the date of termination by notice from the Company until June 30, 2007. The contract was replaced as the provision mentioned above did not comply with the amendments to the Listing Rules effective on March 31, 2004. The amended Listing Rules provide, inter alia, that a director's service contract which expressly requires the Company to give a period of notice of more than one year or to pay compensation of more than one year's emoluments on termination requires prior shareholders' approval.

Mr. Jerome Squire GRIFFITH, another executive director of the Company, also concluded a new service contract with the Company on October 4, 2005 for the same reason.

To oversee particular aspects of the Company's affairs and 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. Non-executive Directors play an important role in these committees to ensure independent and objective views are expressed and to promote critical review and control.

### **Audit Committee**

The Audit Committee was established to assist 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. Terms of reference of the Audit Committee which have been adopted by the Board are posted on the Company's website. All the members of our Audit Committee are Non-executive Directors, with a majority (including the chairman of the Audit Committee) being Independent Non-executive Directors. The committee met four times in FY2004/2005.

During the financial year, the Audit Committee reviewed the accounting principles and practices adopted by the Group, reviewed the nature, scope and findings of internal and external audits in addition to reviewing the Company's treasury activities, liquidity and risks management. Our Group CFO, the external auditors, internal auditors and senior management attended the meetings to answer any questions raised by the Audit Committee.

#### **Nomination Committee**

The Nomination Committee was established to enhance transparency and highlight fairness in the selection and appointment of Board members. The Nomination Committee consists of three members, the majority of which are Non-executive Directors. Terms of reference of the Nomination Committee which have been adopted by the Board are posted on the Company's website. The committee met once during the financial year.

#### **Remuneration Committee**

The responsibility 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 which are Independent Non-executive Directors. Terms of reference of the Remuneration Committee which have been adopted by the Board are posted on the Company's website. The Committee met once during the financial year.

#### **General Committee**

The General Committee reviews various administrative matters of the Board. The General Committee comprises four members, the majority of which are Executive Directors. The committee held 17 meetings in FY2004/2005.

#### **Model Code**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers under the Listing Rules (the "Model Code"). The Company has made specific enquiries of all the Directors and each of the Directors has confirmed that, for the year ended June 30, 2005, they have complied with the required standard set out in the Model Code.

#### **Internal Control and Risk Management**

A sound internal control system mitigates the Group's risk exposure while facilitating the effectiveness and efficiency of operations and ensuring compliance with laws and regulations. The system is independently reviewed on an ongoing basis so that practical and effective control systems are implemented to provide reasonable assurance in relation to protecting material assets and in identifying business risks. 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 tailored organizational and governance structure with clearly defined lines of responsibility;
- Budgeting and forecasting systems for performance measurement and monitoring of 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 deployed to enhance proper control and yield of cash assets.

### **Code of Best Practice**

None of the Directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the year ended June 30, 2005, in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules that was in force prior to January 1, 2005 and remains applicable for the financial period commencing before January 1, 2005.

In November 2004, The Stock Exchange of Hong Kong Limited issued a new Code on Corporate Governance Practices (the "New Code") which comes into effect for the reporting financial year commencing after January 1, 2005. The Company has considered the New Code and has taken steps to comply with the New Code where appropriate.

### **Pro-active Investor Relations**

The Board of Esprit recognizes the importance of maintaining two-way communications with its shareholders. Annual and interim reports offer comprehensive operational and financial performance information to shareholders and the annual general meeting provides a forum for shareholders to exchange views directly with the Board. Our Investor Relations Department communicates with research analysts and institutional investors in an on-going manner and provides them with up-to-date and comprehensive information about the Company's corporate developments. To ensure fair disclosure and comprehensive reporting of our performance and business activities, our management also engages in a pro-active investor relations program. 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 international non-deal roadshows to communicate the Company's financial performance and global business strategy. The Company also practices timely and non-selective dissemination of material information. Current information on the Company including interim and annual reports, announcements and press releases, presentations and webcasts can be retrieved through our investor relations website [www.espritholdings.com](http://www.espritholdings.com). Information on the website is updated in a timely manner to ensure that speed, fairness and transparency remain the hallmarks of our disclosure practices. Our continuing efforts to enhance our investor relations program gained market recognition during the year as the Company was ranked in the top three position for the "Best Investor Relations" in Hong Kong award by FinanceAsia Magazine.



