

STOCK CODE 00330

ANNUAL REPORT

ESPRIT HOLDINGS LIMITED
YEAR ENDED 30 JUNE 2017



ESPRIT



ANNUAL REPORT FY 16/17
ESPRIT HOLDINGS LIMITED

ESPRIT

Corporate information

Chairman

- Raymond OR Ching Fai
Independent Non-executive Director

Deputy Chairman

- Paul CHENG Ming Fun
Independent Non-executive Director

Executive Directors

- Jose Manuel MARTINEZ GUTIERREZ
Group CEO
- Thomas TANG Wing Yung
Group CFO

Non-executive Director

- Jürgen Alfred Rudolf FRIEDRICH

Independent Non-executive Directors

- José María CASTELLANO RIOS
- Alexander Reid HAMILTON
- Carmelo LEE Ka Sze
- Norbert Adolf PLATT

Company Secretary

- Florence NG Wai Yin

Principal bankers

- The Hongkong and Shanghai Banking Corporation Limited
- Deutsche Bank AG
- BNP Paribas
- China Construction Bank Corporation
- The Bank of Tokyo-Mitsubishi UFJ, Ltd.

Auditor

- PricewaterhouseCoopers
Certified Public Accountants

Principal legal advisor

- Baker & McKenzie
- Freshfields Bruckhaus Deringer

Share listing

Esprit's shares are listed on The Stock Exchange of Hong Kong Limited (SEHK). The Company has a Level 1 sponsored American Depositary Receipt (ADR) program.

Stock code

- SEHK : 00330
- ADR : ESPGY

Principal share registrar

MUFG Fund Services (Bermuda) Limited
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Pembroke HM 08
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Hong Kong branch share registrar

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Corporate profile

Founded in 1968, Esprit is an international fashion brand that pays homage to its roots and expresses a relaxed, sunny Californian attitude towards life. Esprit offers inspiring collections for women, men and kids made from high-quality materials paying great attention to detail. All of Esprit's products demonstrate the Group's commitment to make consumers "feel good to look good". The Company's "esprit de corps" reflects a positive and caring attitude towards life that embraces community, family and friends - in that casual, laid-back California style. The Esprit style.

The Group distributes its products directly to end-consumers through directly-managed retail stores and online, and also distributes through third parties, both offline and online. The Group markets its products under two brands, namely the Esprit brand and the edc brand. Listed on the Hong Kong Stock Exchange since 1993, Esprit has headquarters in Germany and Hong Kong.





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01

TO OUR SHAREHOLDERS



Raymond OR Ching Fai

**“We are now stronger, healthier
and better-poised to seize
growth opportunities.”**

01.1 Letter from Chairman

Dear Shareholders,

It is my pleasure to present to you the Esprit Group’s annual results for the financial year ended 30 June 2017 (“FY16/17”). FY16/17 has been a year of good progress and marks the completion of the Strategic Plan that was announced in 2013. Looking back, the changes introduced during these years have empowered the Group with the ability to produce better products and to operate our channels more effectively. Ultimately, these improvements have proven instrumental to driving a steady recovery of the Group’s profitability. More importantly, they have created a more solid platform for Esprit’s future.

From the beginning, we knew that turning around our business would not be easy, but we were convinced that transforming our Group was the right way to regain competitiveness in a market that is also being deeply transformed. While we are still working towards this goal, we are now healthier and better-poised to seize growth opportunities.

Review of FY16/17

Our industry is undergoing very significant changes fueled by the proliferation of ecommerce and the intensification of price competition driven by both pure digital players and fully vertical retailers. In a moment when apparel consumption is lackluster in most markets around the world, the rapid growth of digital and vertical retailers implies a relevant loss of market share for other channels and for many other companies.

As a result, operating conditions remain difficult in the industry, especially for brick & mortar stores. Esprit is no exception to this dynamic and has continued to reduce its total controlled space (-8.5% year-on-year (“yoy”)) and, correspondingly, its topline (-8.7% yoy in local currency). But, beyond the necessary rationalization of our store network, we have taken successful measures to achieve a financial result better than last year’s. These measures focused on profitability and included decisive action to improve gross profit margins as well as strict discipline to decrease our costs. Together, they resulted in a net profit of the Group to HK\$67 million. Considering the relatively small net profit for the financial year, the Board does not recommend the payment of a final dividend at this time.

Although this net profit amount is modest in absolute terms, it is important to highlight that the main factor contributing to the better results this year was the significant improvement in the performance of the Group’s underlying operations, i.e. +HK\$386 million EBIT excluding all exceptional items.

Finally, thanks to prudent cash management, our cash development has remained stable in FY16/17. The Group ended the year with a net cash balance of HK\$5.2 billion, with zero debt. We are proud to see that the Strategic Plan has been completed without significant consumption of cash these years, leaving us with adequate funds to invest in sales growth and further cost restructuring initiatives.

Moving forward

The Board of Esprit systematically reviews the best options to utilize our cash reserves to create long-term value for our shareholders. For the last few years, cash reserves have been preserved to guarantee the successful execution of our Strategic Plan. Moving forward, it is still our top priority to secure that the Group will have the necessary funds to finalize its turnaround process. Esprit must still reach a state of sustained growth and attractive operating margins before we can consider that the Group is fully on track again.

In this sense, we remain fully focused on rejuvenating our brand, elevating our products and improving our distribution network, while, at the same time, pushing more ambitious initiatives to build a leaner organization.

Nevertheless, with improved bottom line and cash flow development from operations, the Board found it appropriate to return some of the Group’s cash reserves back to shareholders. As such, the Company commenced a share repurchase exercise on 9 August 2017, and may continue to do so from time to time, based on prevailing market conditions and other relevant considerations. The share repurchase exercise reflects the Group’s confidence in its long-term business prospects, which ultimately benefit and create value for shareholders.

Sustainability

For us, sustainability is primarily about doing what is right for the people and right for the planet; but not just that. It is also about the future of our industry and our business. We view sustainable products and sustainable operations as a true must and, eventually, as a key competitive advantage in the mid-term and long-term because only those companies that can operate in a way that preserves the environment will be viable in the near future. In this respect, it is our goal to be a leading brand in the different areas of sustainability and we work hard to reduce our carbon footprint, increase our energy efficiency, reduce our water consumption, and reuse and recycle our materials.

In FY16/17, we decided to incorporate the United Nations Sustainable Development Goals (“SDGs”) into our sustainability strategy. The SDGs are an internationally recognized framework that aims to address the three elements of economic growth, social inclusion and environmental protection as part of a broader endeavor to eradicate poverty and advance peace and freedom. Businesses, alongside governments, are encouraged to implement actions in support of these goals in order to achieve the framework’s ambitious goals by 2030. We at Esprit have decided to take on this challenge. We have translated these principles into concrete sustainability commitments that are integrated into our daily practices. To learn more about our initiatives, we encourage you to read our updated Sustainability Report.

Closing

The strength of the Group is built on the hard work and dedication of our over 7,300 employees, whose passion and commitment have also been the driving force behind its transformation during the past years. I would like to sincerely thank them all for their contributions. As we move forward, I remain confident in our future, just as I am grateful to you, our shareholders, for your unwavering confidence; and to our customers and consumers worldwide for their unfaltering support.

Although trading conditions in the year ahead will continue to be challenging, I trust that by focusing on our core priorities and our core strengths, we will see Esprit emerge stronger than before.

A handwritten signature in black ink, appearing to read 'Raymond OR Ching Fai', is positioned above the printed name and date.

Dr Raymond OR Ching Fai//Independent Non-executive Chairman
20 September 2017



Jose Manuel MARTINEZ GUTIERREZ

“Esprit has reached an exciting juncture and I feel positive about the prospects ahead...”

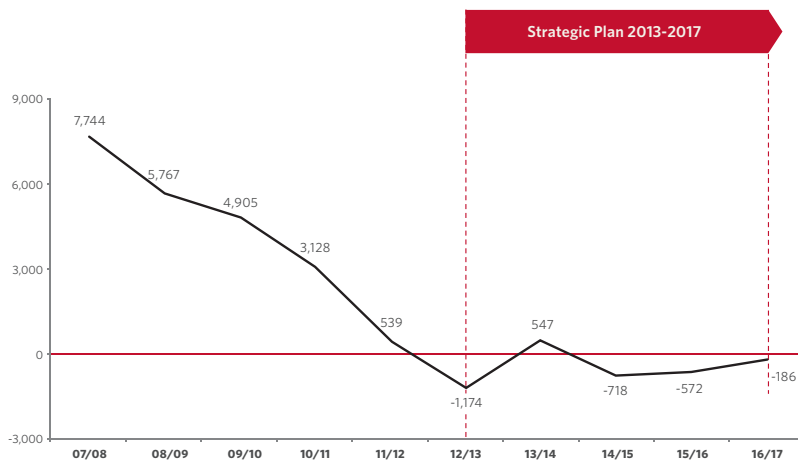
01.2 Letter from Group CEO

Dear Shareholders,

The financial year ended 30 June 2017 (“FY16/17”) has completed the timeline of the Strategic Plan that was presented and launched in 2013. We have come a long way since and there is no doubt that the last four years have been transformational for Esprit. Therefore, it is a good moment to recap what has been achieved and what are our main challenges and opportunities ahead.

Indeed, the most important achievement is to have reversed the rapid decline in the Group’s results. The negative trend of the five years before the Strategic Plan ceased due to improvements made in our underlying operations. This is reflected in the development of the Group’s EBIT excluding all exceptional items, as presented in the following chart:

ESPRIT EBIT/(LBIT) (excl. exceptional items*) - HK\$ million



* Values excluding exceptional items such as impairment of China goodwill, provision for store closures & onerous leases, impairment of fixed assets, one-off costs in relation to staff reduction plan, and net gain on disposal of Hong Kong office and other non-core premises

As explained in our different reports between 2013 and 2016, there are multiple structural changes that have contributed to the improvement of our operational performance. Firstly, the introduction of a new product organization, product development processes and supply chain management, under our “Vertical Model”. Secondly, the integration of the commercial activity and operation of all distribution channels (retail and wholesale, online and offline) through our “Omnichannel Model”. Thirdly, the first steps towards our “Brand Rejuvenation”, with the aim of bringing Esprit to a whole new generation of consumers. And finally, the relevant reduction of our operating expenses (“OPEX”) in order to have lean structures across the Group.

Also important is that our four-year plan has been completed with no significant cash consumption. Our cash level remained very sound at HK\$5.22 billion, as at the end of June 2017, with zero debt, as compared with a net cash position of HK\$4.97 billion on 31 December 2012. All in all, Esprit is today stronger both in financial and operational terms, thus, better poised to capitalize on opportunities.

Moving forward, our primary focus is on two major goals, which we must pursue in parallel:

- Create a stronger foundation to reignite sustained growth, and
- Further restructure the cost base of our operations

But, before talking about plans for the future, I take the chance to briefly comment on the Group’s financial performance in FY16/17.

Continued Improvement of Financial Performance in FY16/17

The Group reported a **Net Profit** of HK\$67 million for FY16/17, representing an increase over last year (2016: HK\$21 million). This was primarily the result of a combination of two factors:

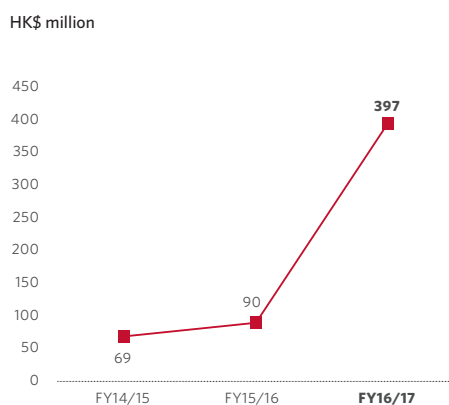
- i) **Improvement in profits from our underlying operations (i.e. excluding exceptional items):** The results of the underlying operations have been significantly better in FY16/17, driven by three major developments this year:
- Faster pace for the elimination of unprofitable spaces, i.e. closure of loss-making retail stores and low-performing wholesale locations
 - Commercial actions to protect our gross profit margin, including a reduction in the level of promotional activities, price markdowns and discounts granted to wholesale partners
 - Decisive reduction of overhead costs that, together with the faster closure of loss making stores, has allowed us to achieve our cost savings target of HK\$1 billion one year ahead of schedule

These measures placed obvious pressure on our topline. As a result, the Group's **revenue** amounted to HK\$15,942 million in FY16/17, representing a -8.7% year-on-year ("yoy") decrease in local currency terms ("LCY"), in line with the corresponding -8.5% yoy reduction in total controlled space.

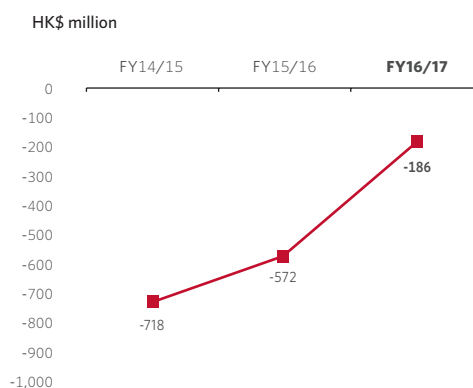
The Group's **gross profit margin** increased to 51.6% (+1.4 percentage points compared to last year), despite the weakness of the Euro for most part of the financial year. And the Group's **regular OPEX** (excluding exceptional items) improved to HK\$8,416 million, representing a reduction of -9.9% yoy in LCY achieved through savings in all key cost lines.

The aggregated impact of our measures in FY16/17 produced the intended improvement in profitability and accelerated the recovery of **EBITDA** (+HK\$307 million yoy) and **EBIT** (+HK\$386 million yoy) from underlying operations, as presented in the following charts:

EBITDA (excl. exceptional items)



LBIT (excl. exceptional items)



- ii) **Positive impact from items not directly related to underlying operations.** Two relevant items deserve a mention, as follows:
- a. Exceptional net gains of HK\$84 million, mainly derived from the sale of non-core properties (+HK\$133 million), partly offset by one-off costs related to staff reduction plans (-HK\$45 million)
 - b. Net taxation credit of HK\$173 million, mainly attributable to (i) the release of deferred tax liability no longer required based on communication received from the relevant tax authority; and (ii) the credit from deferred taxation arising from tax losses to offset future potential profits

Overall, the financial performance in FY16/17 is a continuation of the recovery of the Group's results.

Top priorities moving forward

Although we are encouraged by the aforementioned improvements in our operational and financial performance, Esprit is still far from our target profit level. In this respect, as mentioned above, our primary focus in the immediate future is on creating a stronger foundation for sustained growth and on further restructuring our cost base.

In order to achieve these goals, the Group will devote more resources to key areas of the business that are fundamental to successfully drive growth and profitability. More specifically, we structure our future plans along five key initiatives:

1. Brand Rejuvenation
2. Product Elevation
3. Channels Next Generation
4. Markets Rightsizing and Expansion
5. Cost Reduction

Content for each of these areas is broad and impossible to be fully covered in this letter; therefore, just the main ideas and initiatives are introduced in this chapter.

1. Brand Rejuvenation

The Esprit brand is one of our most valuable assets. We own a unique name and heritage that are loved by our core consumers and have extraordinary potential to attract new ones.

This is exactly the main challenge and the largest opportunity for our brand today: to become a reference brand for a whole new generation of consumers. Over the last years, the customers' base of Esprit has remained highly concentrated on a group of very loyal consumers, which are the center of everything that we do. Our main goal in the near term is to grow this group with new people who come to love our brand as well. And we know that this requires a visible rejuvenation of our image across all the key elements of the business: product, stores, digital, marketing and communications, etc.

Over the course of the last two years, we have started to take steps in this direction, e.g. the collaboration with the young fashion house Opening Ceremony, the introduction of product capsules updating some of the most successful original designs of Esprit, the innovative #ImPerfect campaigns presenting the old time values of Esprit in a modern way, etc. In the years to come, we intend to step up these efforts with more creative actions coordinated throughout the Group.

2. Product Elevation

Since 2015, our products and collections have started to benefit from the advantages of the Vertical Model in our product development and supply chain management work. In the last two financial years, this has contributed to achieve higher sales and gross profit productivity in our full-price stores and Eshop, i.e. in the channels where we sell directly to end consumers.

Nonetheless, we see this performance as just a first step towards the level of excellence that we aspire to achieve. Consequently, we plan to increase the investment in our products, especially with three main objectives: (i) to strengthen our design identity, (ii) to elevate the intrinsic quality of the products, and (iii) to increase the share of sustainable products.

In addition to these ideas, we see room for continued improvements in a number of other fronts and this is why we have recently reorganized our product teams in order to better address those opportunities. More specifically, we have introduced two relevant changes:

- a. Merging the management of the Esprit and edc product lines under one single team, in order to better coordinate our full offering in terms of prices, themes, design, etc., and to improve the overall efficiency of our internal resources.
- b. Establishing a new standalone team responsible for our entire Fast to Market products. This will allow us to better leverage the advantages of a faster supply chain in different ways: (i) having a larger share of our assortment dedicated to on-season reaction to sales, (ii) incorporating latest market trends earlier, (iii) addressing specific needs of our APAC markets, and (iv) building a new “product engine” for the rapid demands of our online channel, which we consider a key project for the future of Esprit.

3. Channels Next Generation

As presented in multiple occasions before, our most important project to maximize the joint performance of all our distribution channels is our Omnichannel Model. I will not repeat again its major components, but rather highlight that we continue to see positive progress in the key performance indicators associated to the central initiatives of the model, as follows:

- +36% increase in active Esprit Friends (i.e. members of the loyalty program who have made purchases in the last 12 months) since June 2015
- 74% share of Esprit Friends in the Group’s retail revenue (+12% vs FY14/15)
- 14% cross-channel Esprit Friends (i.e. members already buying both offline and online)
- +164% increase in sales from smartphones since FY14/15

In addition to the developments under the Omnichannel Model, each of our distribution channels is undergoing a progressive modernization of their existing operations. This process is closely connected to our Brand Rejuvenation plan and it aims to build the Next Generation concepts for our Eshop, our Retail Stores and our Wholesale model.

Our Eshop contributed approximately 25% of our total revenue and generates a double-digit operating margin. Given its strategic importance, we are increasing the resources dedicated to our Eshop in order to keep our online concept development up with the fast innovation pace in the ecommerce arena. We cannot compete directly with giant pure players in this field but we aim to keep adopting the most relevant practices from the market as speedily as possible. Under this philosophy, we know that the Next Generation of our Eshop will be primarily designed for mobile devices.

Our Retail Stores keep being renovated with the introduction of new valuable elements (e.g. digital screens, Omnichannel services). Nonetheless, we consider that our current concept, developed in 2011, needs to be replaced by a new one that goes more in line with the new brand image and, more importantly, that integrates modern elements to actively drive traffic in the stores and in our Eshop. With this in mind, we are convinced that our Next Generation of stores will be about more eventful spaces for our customers and visitors.

Finally, we keep on introducing novelties to our Wholesale model in a process that is proving more of an evolution than a revolution. Following the integration of our franchise partners into the Omnichannel Model, we have continued to test different solutions for productivity growth. We recognize the structural challenges of this channel in the majority of our core markets but we are also totally convinced that it is and will be a critical pillar of our business. Therefore, we will keep testing and adopting the necessary improvements to better support our partners, while maintaining the channel's positive contribution.

4. Markets Rightsizing and Expansion

Our distribution network is still undergoing a downsizing process in our core markets, especially in terms of Retail space. In Europe, and particularly in Germany, we are actively working on renegotiating lease terms or accelerating closures of heavily loss-making stores. These are often stores in excellent locations but of excessive size and with expensive rents.

In APAC, we face a different challenge. Compared to the main international brands in Asia, Esprit's retail space is excessively concentrated in department stores and discount outlets. To correct this, we are selectively abandoning low performance locations, upgrading the look & feel of the most valuable ones, and progressively reducing the weight of our discount outlets over the total revenue in the region. In terms of profitability, store operating losses are fortunately attributable to very few flagship stores, most of which will be closed when their leases expire in the next 2 to 3 years.

Under this scenario, visible expansion is challenging because our openings will likely be offset by the necessary closures, which may represent up to 15% of our existing retail space. Nonetheless, we see room for retail or wholesale openings in countries where we have existing operations but are far from saturation, such as Southern Europe, Eastern Europe or India. Altogether, expansion will only come gradually in the nearest term.

5. Cost Reduction

A restless reduction of OPEX has been instrumental to bringing Esprit back to profitability and to building a more sustainable operation. As mentioned earlier, we have achieved our target to reduce OPEX by HK\$1 billion from the FY15/16 level one year ahead of schedule.

Looking forward, we expect the obvious savings from store closures but also opportunities to further optimize overhead costs. Even if details for these future savings are not yet available, we keep this vital workstream as an integral part of our strategy.

The aforementioned five initiatives together form the basis for our most immediate efforts. We have every confidence that they will result in an enhanced mix of our brand, product and channels for Esprit to win a new generation of consumers, as well as in a leaner organization for the Group to maximize its future financial performance.

Outlook on FY17/18 and closing remarks

All in all, FY16/17 has been a year of good progress. At this stage, with improved bottom line and cash flow developments from our operations, we are assessing the best possible use of our cash in order to fuel growth, increase profitability and create long-term value for our shareholders.

In the short-term, we will continue with our downsizing efforts, as closures of the most unprofitable stores have yet to be completed and low performing wholesale spaces will continue to wind down. Nonetheless, the corresponding pressure on topline is expected to be partly alleviated by selective expansion and space productivity improvements (sales and gross profit per square meter). Overall, the Group's revenue is expected to see a modest decline in FY17/18.

In parallel, we maintain our focus on improving profitability levers. We aim to achieve a slightly higher gross profit margin and to further reduce operating expenses. We expect this improvement in gross profit margin and operating expenses to outweigh the negative impact of revenue decline, to produce a similar improvement in EBIT (excluding exceptional items) as experienced in FY16/17.

In closing, I would like to wholeheartedly thank our shareholders, our business partners and our staff for sharing the Group's beliefs and giving their continuous support in a challenging environment. Esprit has reached an exciting juncture and I feel positive about the prospects ahead if we prove ambitious and fast enough to leverage the enormous potential of the brand in the market. I look forward to sharing with all of you our progress on this journey.

A handwritten signature in black ink, appearing to read 'Jose Manuel' with a stylized flourish at the end.

Jose Manuel MARTINEZ GUTIERREZ//Executive Director and Group CEO
20 September 2017



02

HIGHLIGHTS IN FY16/17

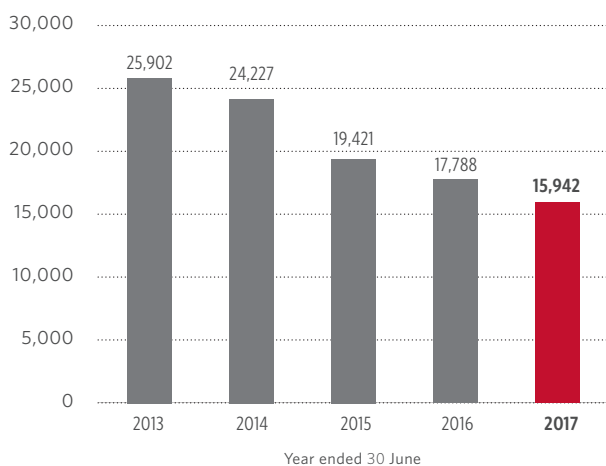
02 HIGHLIGHTS IN FY 16/17

Improvement in profitability

- Positive net income of HK\$67 million (2016: HK\$21 million)
- Results of underlying operations (LBIT excluding exceptional items*) improved by HK\$386 million to -HK\$186 million (2016: -HK\$572 million)
- EBITDA excluding exceptional items* of HK\$397 million (2016: HK\$90 million)

Revenue

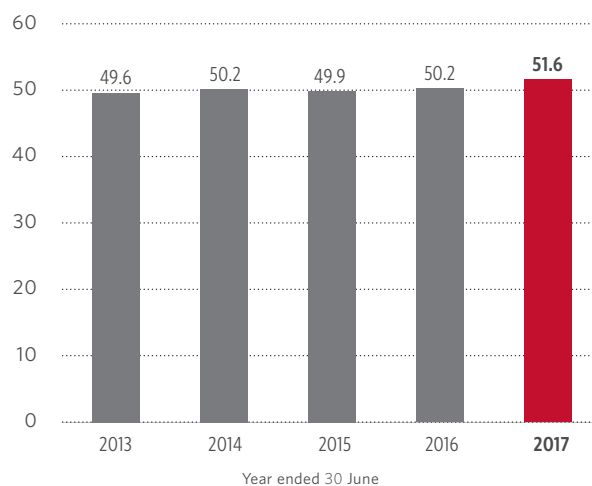
HK\$ million



Business performance fully in line with guidance

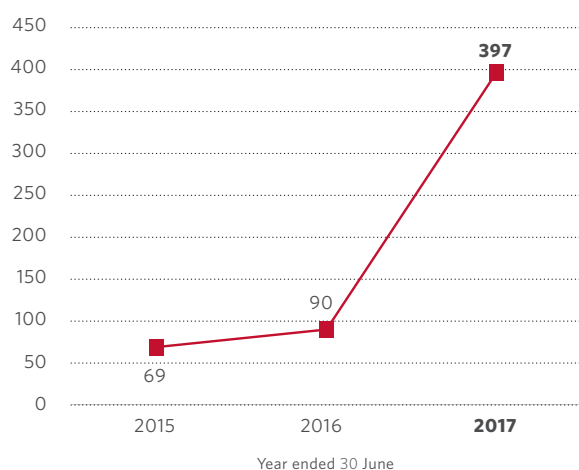
- Revenue development (-8.7% yoy in LCY) in line with total controlled space reduction (-8.5% yoy)
- GP margin improved by +1.4%pts yoy to 51.6%
- Regular OPEX reduced by -9.9% yoy in LCY
- Net cash position of HK\$5.22 billion with zero debt

Gross profit margin (%)



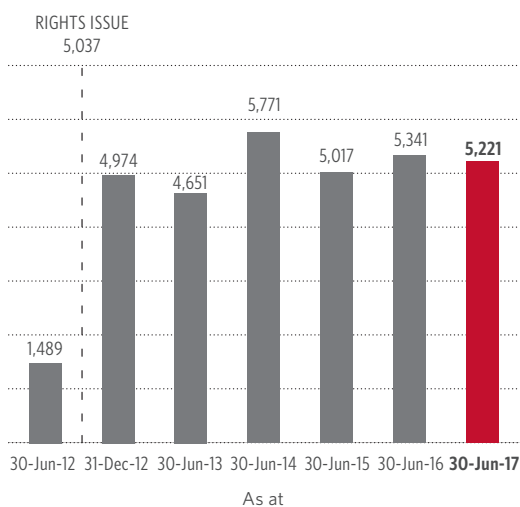
EBITDA (excl. exceptional items*)

HK\$ million



Net cash

HK\$ million



* Values excluding exceptional items such as impairment of China goodwill, provision for store closures & onerous leases, impairment of fixed assets, one-off costs in relation to staff reduction plan, and net gain on disposal of Hong Kong office and other non-core premises

Revenue (HK\$ million)

Group Revenue 15,942 ▼ 8.7 % in LCY	Retail (excl. eshop) Revenue 6,718 ▼ 12.7 % in LCY	Wholesale (excl. eshop) Revenue 5,064 ▼ 8.8 % in LCY	Eshop Revenue 4,032 ▼ 1.0 % in LCY
Total Controlled Space (Sqm) (retail & wholesale combined) 592,932 ▼ 8.5 %	Retail Controlled Space (Sqm) 272,496 ▼ 6.5 %	Wholesale Controlled Space (Sqm) 320,436 ▼ 10.2 %	

▲ | ▼ year-on-year change



We have completed 343 factory audits in FY16/17



All Esprit products containing feathers and downs are certified according to the Responsible Down Standard



We have switched to paper bags in 100% of our retail markets



We know the compliance status of 100% of our direct suppliers



75% of our products are made at 114 factories



38% of our wet processes facilities took part in our internal chemical management audit program

Our Sustainability Accomplishments



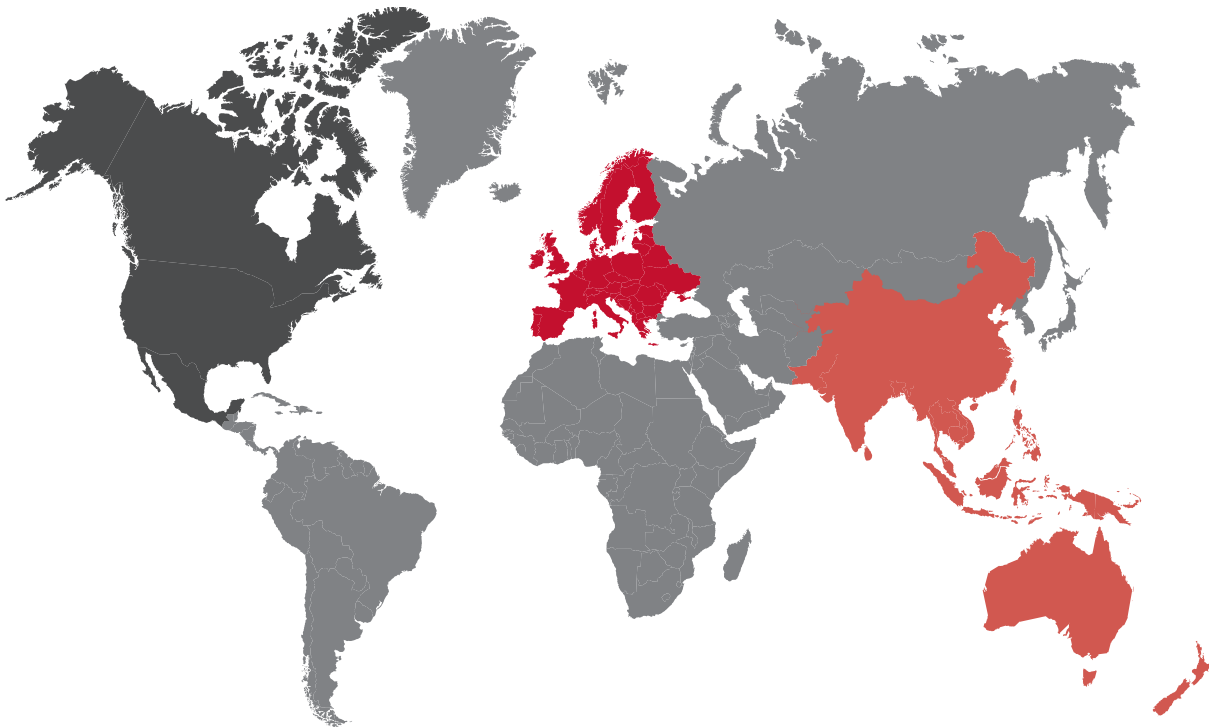
ResponsibleDown.org
CU 844593



BCI Better Cotton Initiative™
bettercotton.org

Our international distribution network

To date, Esprit's collections are distributed via an international network covering around 40 countries worldwide through our directly managed retail stores, third-party online platforms, own eshops and wholesale points of sales.



40 countries
20 eshops
666 retail stores
6,037 wholesale POS

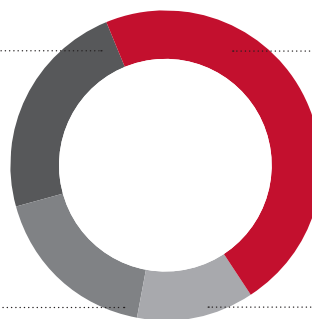
Our business across four major product groups

The Group markets its products under two brands, namely “Esprit” and “edc”, both of which offer apparel and lifestyle products for women, men and kids. In this Annual Report, products are categorized into four major groups: Esprit Women, Esprit Men, edc, and Lifestyle and others.

HK\$ million // % of Group revenue // % local currency growth

edc

3,662 // 23.0% // -3.7%



ESPRIT WOMEN

women casual

5,141 // 32.2% // -4.2%

women collection

2,072 // 13.0% // -3.3%

trend#

315 // 2.0% // -26.6%

LIFESTYLE AND OTHERS*

2,822 // 17.7% // -17.0%

ESPRIT MEN

men casual

1,582 // 9.9% // -16.5%

men collection

348 // 2.2% // -19.4%

The Trend Division was set up as a laboratory to test our fast-to-market product development processes. The lessons we have learned have been applied to other product divisions under the Women segment, hence it is more meaningful to interpret the combined performance of these product divisions

* Lifestyle and others mainly include bodywear, accessories, shoes, and the sales and royalty income from licensed products such as kidswear, timewear, eyewear, jewelry, bed & bath and houseware

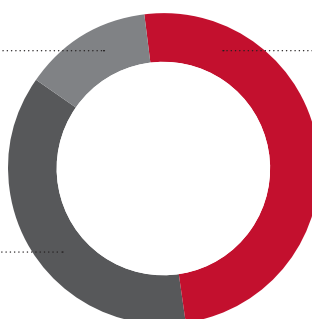
Our business in three major markets

Geographically, the majority of the Group’s business is generated in Europe and Asia Pacific. In this Annual Report, the countries in which we operate are grouped along three major regions: “Germany”, “Rest of Europe” (including America and the Middle East) and “Asia Pacific”.

HK\$ million // % of Group revenue // % local currency growth

ASIA PACIFIC

2,144 // 13.4% // -17.5%



GERMANY

7,932 // 49.8% // -5.6%

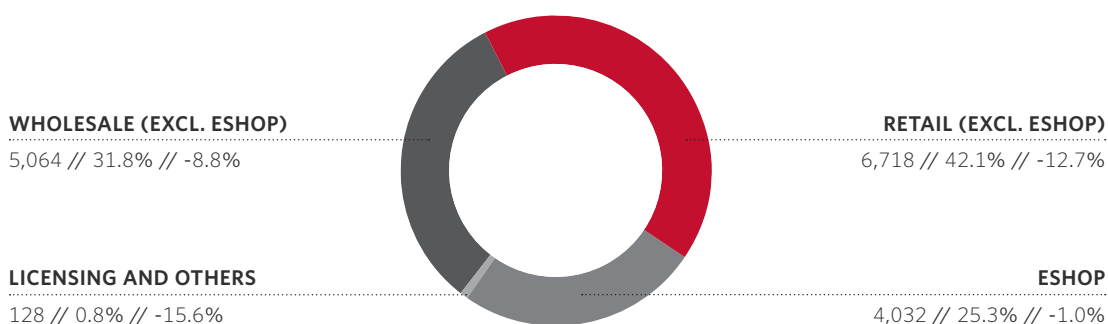
REST OF EUROPE

5,866 // 36.8% // -9.2%

Our business through four distribution channels

We distribute our products primarily through directly managed retail stores, points of sales (“POS”) managed by third parties and eshop. Directly managed retail stores include standalone stores, concession counters in department stores and outlets, which together are reported under the retail (excl. eshop) channel. POS managed by third parties include franchise stores, shop-in-stores and identity corners in multi-labels, which together are reported under the wholesale (excl. eshop) channel. Eshop comprises our directly managed ecommerce business in European and Asia Pacific countries and sales to third-party online platforms in Asia Pacific.

HK\$ million // % of Group revenue // % local currency growth



Breakdown of Group revenue

	For the year ended 30 June				
	2017	2016	2015	2014	2013
Geographical mix (%)					
Germany	50	48	47	48	45
Rest of Europe [@]	37	37	37	37	37
Asia Pacific [#]	13	15	16	15	18
Operation mix (%)					
Retail (excl. eshop)	42	44	44	43	42
Wholesale (excl. eshop)	32	32	35	36	39
Eshop	25	23	20	20	18
Licensing and others	1	1	1	1	1
Product mix (%)					
women casual	32	31	29	30	29
women collection	13	12	12	11	11
trend	2	2	3	2	1
men casual	10	11	12	12	12
men collection	2	2	3	3	4
accessories [^]	5	5	5	5	5
bodywear [^]	6	5	4	5	5
shoes [^]	3	4	4	4	4
kids	1	3	3	3	3
others [*]	3	3	3	3	3
edc women	18	17	17	18	18
edc men	5	5	5	4	5

[@] The Rest of Europe region includes our business in America and the Middle East
[#] Since the year ended 30 June 2014, wholesale revenue from Chile, Colombia and the Middle East has been re-grouped from Asia Pacific to Rest of Europe. Figures for the years ended 30 June 2013 have been restated accordingly
[^] Include revenue from edc product category
^{*} Others include mainly the sales and royalty income from licensed products like kidswear, timewear, eyewear, jewelry, bed & bath and houseware





03

MANAGEMENT DISCUSSION AND ANALYSIS

03 MANAGEMENT DISCUSSION AND ANALYSIS

03.1 REVENUE ANALYSIS

For the financial year ended 30 June 2017 (“FY16/17” or “Financial Year Under Review”), Group revenue amounted to HK\$15,942 million (2016: HK\$17,788 million), a decline of -8.7% year-on-year (“yoy”) in local currency (“LCY”), in line with the corresponding reduction in total controlled space of -8.5% yoy. Three major factors have affected the revenue development during this financial year.

(i) Reduction in controlled space

As the Group continues to rationalize its distribution footprint, the Group reduced total controlled space (retail and wholesale combined) by 55,392 sqm in FY16/17, representing a yoy reduction of -8.5%.

From the perspective of **Retail (excl. eshop)**, the closure of unprofitable stores is fundamental to improving the results of the Group and to creating a healthier platform for future growth in this channel. As such, the Group executed a net closure of 19,076 sqm of retail sales area during the financial year, representing a yoy reduction of -6.5%. As at 30 June 2017, approximately 15% of our total retail sales area remained to be closed, and we expect to close about half of this space within the next two financial years.

Retail (excl. eshop) distribution channel by region (directly managed retail stores)

	As at 30 June 2017				
	No. of stores	Net change in no. of stores [^]	Net sales area (m ²)	Net change in net sales area since 1 July 2016	
				(m ²)	(%)
Germany	146	(1)	116,305	(2,294)	-1.9%
Rest of Europe	136	(7)	82,157	(4,333)	-5.0%
Asia Pacific	384	(87)	74,034	(12,449)	-14.4%
Total	666	(95)	272,496	(19,076)	-6.5%

[^] Net change since 1 July 2016

With respect to **Wholesale (excl. eshop)**, the channel continues to face persistent pressure and we continue to see elimination of non-performing locations by our partners. As a result, wholesale controlled space was reduced by a total of 36,316 sqm in FY16/17, representing a yoy reduction of -10.2%. Nevertheless, the corresponding revenue declined by a lesser extent (-8.8% yoy in LCY), reflecting underlying gain in productivity driven by improved order intakes from both offline and online partners. While commercial measures could be taken to slow down the decline of controlled space in this channel (e.g. increasing financial support to partners or increasing the inventory risk for Esprit), the Group is opting for a more focused approach, where we concentrate our efforts on improving the performance of the viable locations and remain strict about investments, costs and financial risk on those points of sale (“POS”) with highly uncertain potential.

Wholesale (excl. eshop) distribution channel by region (controlled space only)

	As at 30 June 2017				
	No. of stores	Net change in no. of stores [^]	Net sales area (m ²)	Net change in net sales area since 1 July 2016	
				(m ²)	(%)
Germany	3,743	47	171,224	(8,528)	-4.7%
Franchise stores	247	(11)	56,792	(6,423)	-10.2%
Shop-in-stores	2,314	(56)	91,330	(3,432)	-3.6%
Identity corners	1,182	114	23,102	1,327	6.1%
Rest of Europe	2,155	(279)	133,764	(19,970)	-13.0%
Franchise stores	451	(34)	87,308	(13,018)	-13.0%
Shop-in-stores	830	(98)	25,526	(3,891)	-13.2%
Identity corners	874	(147)	20,930	(3,061)	-12.8%
Asia Pacific	139	(63)	15,448	(7,818)	-33.6%
Franchise stores	139	(63)	15,448	(7,818)	-33.6%
Total	6,037	(295)	320,436	(36,316)	-10.2%
Franchise stores	837	(108)	159,548	(27,259)	-14.6%
Shop-in-stores	3,144	(154)	116,856	(7,323)	-5.9%
Identity corners	2,056	(33)	44,032	(1,734)	-3.8%

[^] Net change since 1 July 2016

(ii) Reduction of promotional activities, price markdowns and wholesale discounts

During the last financial year, management took decisive actions to increase the gross profit margin across all channels and regions, as part of the measures to restoring our brand equity and to growing the profitability of the Group. Those actions have been instrumental to bringing an overall improvement to our bottom line in FY16/17, despite their negative impact on our topline development.

For **Retail (excl. eshop)**, the intensity of promotional activities was reduced in many ways, e.g. by shortening the duration of the Mid-Season Sale period, delaying the start of the End-of-Season Sale, eliminating discount promotions in certain countries and specific product categories, and applying a smoother approach to certain promotional events such as Black Friday. In addition to this, regular price markdowns in our full-price stores were also reduced and the prices in our off-price outlets were increased. All this had an evident impact on sales and we saw a yoy decline in comparable stores sales.

Retail comparable stores sales growth (excl. eshop) in LCY

	1H FY16/17		2H FY16/17		FY16/17	
	No. of comp-store	Comp-store sales growth	No. of comp-store	Comp-store sales growth	No. of comp-store	Comp-store sales growth
Germany	126	-6.8%	118	-7.8%	118	-7.1%
Rest of Europe	117	0.1%	114	-1.7%	114	-0.6%
Asia Pacific	233	-9.2%	209	-9.6%	209	-9.3%
Total	476	-4.9%	441	-6.0%	441	-5.2%

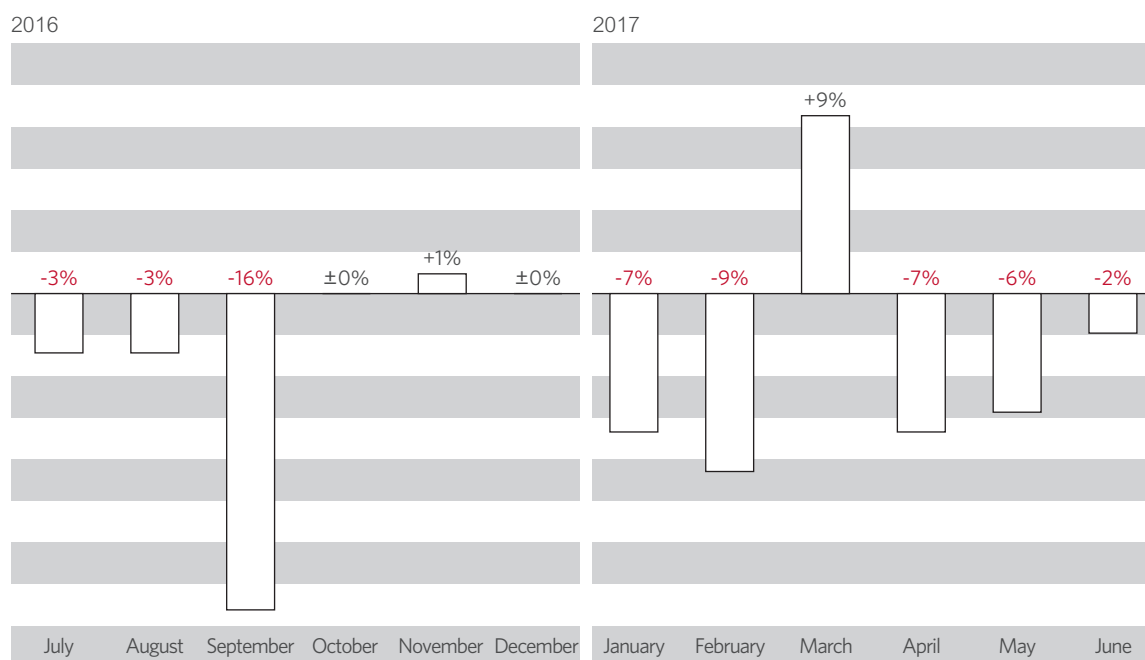
In **Wholesale (excl. eshop)** operations, actions taken to improve gross profit margins were milder and mainly directed at eliminating excessive discounts for selected partners. Consequently, the impact on the sales performance of the channel was less significant.

Overall, the above approach in our different channels contrasted with the increasingly aggressive promotions and markdowns offered by competitors, but we consider that the benefits of our measures have clearly outweighed their negative aspects.

(iii) Weak general conditions in our largest market

During the last financial year, sales performance of the German apparel market was well below last year's level. Virtually every month (based on the market data published by TextilWirtschaft) developed negatively or flat compared to the same period of the previous year, except for the month of March 2017 due to the shift effect of Easter.

Sales performance of the German apparel market compared to previous year



Source: TextilWirtschaft, TW-Testclub

Although we do not have the same reference indicator for the market's performance in every country, we have observed a very similar development of customers' traffic and sales in most of our European core countries.

Revenue by product

The Group markets its products under two brands, namely the “Esprit” brand and “edc” brand, both offering apparel and lifestyle products for women, men as well as kids. For the purpose of this management discussion and analysis, products are categorized into four major groups: Esprit Women (47.2% of Group revenue), Esprit Men (12.1% of Group revenue), Lifestyle and others (17.7% of Group revenue), and edc (23.0% of Group revenue).

Revenue by product

Product division	For the year ended 30 June					
	2017		2016		Change in %	
	HK\$ million	% to Group Revenue	HK\$ million	% to Group Revenue	HK\$	Local currency
Esprit Women	7,528	47.2%	8,083	45.4%	-6.9%	-5.2%
women casual	5,141	32.2%	5,462	30.7%	-5.9%	-4.2%
women collection	2,072	13.0%	2,184	12.3%	-5.1%	-3.3%
trend #	315	2.0%	437	2.4%	-27.8%	-26.6%
Esprit Men	1,930	12.1%	2,374	13.4%	-18.7%	-17.0%
men casual	1,582	9.9%	1,932	10.9%	-18.1%	-16.5%
men collection	348	2.2%	442	2.5%	-21.2%	-19.4%
Lifestyle and others *	2,822	17.7%	3,457	19.4%	-18.4%	-17.0%
edc	3,662	23.0%	3,874	21.8%	-5.5%	-3.7%
Total	15,942	100.0%	17,788	100.0%	-10.4%	-8.7%

* The Trend Division was set up as a laboratory to test our fast-to-market product development processes. The lessons we have learned have been applied to other product divisions under the Women segment, hence it is more meaningful to interpret the combined performance of these product divisions

* Lifestyle and others mainly include bodywear, accessories, shoes, and the sales and royalty income from licensed products such as kidswear, timewear, eyewear, jewelry, bed & bath and houseware

Esprit Women and edc

Esprit Women and edc, together representing 70.2% of the Group’s revenue, recorded yoy decline in revenue of -5.2% and -3.7% in LCY respectively. Comparable retail sales (including eshop) declined -3.1% yoy in LCY for Esprit Women, while they increased by +1.6% yoy in LCY for edc. It is worth mentioning that we continued to see our women apparel divisions developing positively (visibly better than our total space development) despite all the factors described in the beginning of this “Revenue Analysis” section.

With the goal to further improve their performance, we have recently introduced two relevant changes to our product organization. Firstly, we have merged the Esprit and edc women apparel lines under one single head and team. Secondly, we have established a strong new team to maximize the potential of our fast-to-market product development and supply chain.

Esprit Men

Esprit Men, representing 12.1% of the Group’s revenue, recorded yoy decline in revenue of -17.0% in LCY. Unfortunately, we are not seeing in our men apparel divisions the benefits of our vertical model, as we see them in the women’s. Due to their weak performance, the space allocated to men’s products in our retail stores was reduced by -4.1% yoy in FY16/17. From an organizational point of view, we have also merged the Esprit and edc men apparel lines under one single head and team.

Lifestyle and others

Lifestyle and others, representing 17.7% of the Group’s revenue, recorded -17.0% yoy decline in LCY. This product group comprises mainly bodywear, accessories, shoes, and the sales and royalty income from licensed products such as kidswear, timewear, eyewear, jewelry, bed & bath, and houseware. The largest decline in revenue in this product group came from the Kids division (-68.9% yoy in LCY) due to the licensing of this business to Groupe Zannier since January 2016. This change largely reduces our topline because the majority of the revenue are now booked by our license partner, while Esprit’s income is derived mostly from the corresponding royalties. Nonetheless, the licensing of this business clearly benefits the bottom line performance of Esprit Kids. Excluding the Kids division, the Lifestyle and others’ revenue decline was -8.9% yoy in LCY.

Revenue by region and distribution channel

Geographically, the majority of the Group’s business is generated in Europe and in Asia. In our analysis, the countries in which we operate are grouped along three major regions: “Germany”, “Rest of Europe” (including America and the Middle East) and “Asia Pacific”.

The business in these markets is mainly generated through three distribution channels: “Retail (excl. eshop)”, “Wholesale (excl. eshop)” and “Eshop”.

Before analyzing the detailed revenue performance by region and by distribution channel, Retail (excl. eshop) and Wholesale (excl. eshop) deserve some comments on their overall development. Eshop is addressed separately later in this section.

Retail (excl. eshop) experienced revenue decline of -12.7% yoy in LCY in FY16/17, which is the consequence of the three major factors described in the beginning of the “Revenue Analysis” section. It is worth noting that, despite the reduction of promotional activities and price markdowns, the level of sales per square meter productivity of our full price retail stores only lowered by -1.3% yoy in LCY, and most of the decline of sales productivity in FY16/17 was caused by the off-price outlets (-10.6% yoy in LCY). Moreover, the negative impact of lower sales per square meter was outweighed by the increase of gross profit margin, which resulted in higher gross profit value generated by each full-price retail square meter by +5.4% yoy in LCY. In other words, the profitability of our full-price retail space kept on growing in FY16/17.

Regarding our off-price outlets, their significant revenue decline is caused by deep changes in our approach to this channel. More specifically we are raising prices of the off-season merchandise and reducing the share of merchandise developed for the outlets.

As for **Wholesale (excl. eshop)**, the channel’s profitability also improved in FY16/17. The closure of non-performing locations is increasing the average sales productivity of the remaining controlled space. For this reason, the revenue decline of -8.8% yoy in LCY is smaller than the corresponding yoy reduction in wholesale controlled space of -10.2%. Gross profit margin of the wholesale (excl. eshop) channel also improved during the financial year.

These dynamics in Retail (excl. eshop) and Wholesale (excl. eshop) were common to all our markets in FY16/17; therefore we will not repeat the same explanations when describing the development of each channel in each region during the rest of this section.

The following table sets forth the breakdown of revenue across the three regions and the different distribution channels.

Revenue by region and by distribution channel

For the year ended 30 June							
	2017		2016		Revenue Change in %		Net change in net sales area [^]
	HK\$ million	% to Group Revenue	HK\$ million	% to Group Revenue	HK\$	Local currency	
Germany	7,932	49.8%	8,559	48.1%	-7.3%	-5.6%	-3.6%
Retail (excl. eshop)	2,781	17.4%	3,079	17.3%	-9.7%	-8.1%	-1.9%
Wholesale (excl. eshop)	2,741	17.2%	2,978	16.8%	-8.0%	-6.3%	-4.7%
eshop	2,385	15.0%	2,480	13.9%	-3.8%	-2.0%	n.a.
Licensing	25	0.2%	22	0.1%	9.6%	11.4%	n.a.
Rest of Europe	5,866	36.8%	6,581	37.0%	-10.9%	-9.2%	-10.1%
Retail (excl. eshop)	2,133	13.4%	2,440	13.7%	-12.6%	-11.1%	-5.0%
Wholesale (excl. eshop)	2,204	13.9%	2,499	14.0%	-11.8%	-10.0%	-13.0%
eshop	1,426	8.9%	1,512	8.5%	-5.7%	-4.0%	n.a.
Licensing and others	103	0.6%	130	0.8%	-20.4%	-20.3%	n.a.
Asia Pacific	2,144	13.4%	2,648	14.9%	-19.0%	-17.5%	-18.5%
Retail (excl. eshop)	1,804	11.3%	2,306	13.0%	-21.8%	-20.6%	-14.4%
Wholesale (excl. eshop)	119	0.7%	181	1.0%	-34.2%	-32.4%	-33.6%
eshop	221	1.4%	161	0.9%	36.9%	43.1%	n.a.
Total	15,942	100.0%	17,788	100.0%	-10.4%	-8.7%	-8.5%
Retail (excl. eshop)	6,718	42.1%	7,825	44.0%	-14.1%	-12.7%	-6.5%
Wholesale (excl. eshop)	5,064	31.8%	5,658	31.8%	-10.5%	-8.8%	-10.2%
eshop	4,032	25.3%	4,153	23.3%	-2.9%	-1.0%	n.a.
Licensing and others	128	0.8%	152	0.9%	-16.0%	-15.6%	n.a.

[^] Net change since 1 July 2016
n.a. Not applicable

Germany

As the largest market of the Group (representing 49.8% of total Group revenue), Germany recorded HK\$7,932 million revenue in FY16/17, representing a -5.6% yoy decline in LCY (-6.3% in First Half and -5.0% in Second Half). In terms of distribution channels, Retail (excl. eshop), Wholesale (excl. eshop), Eshop and Licensing business contributed to 35.1%, 34.5%, 30.1% and 0.3% of its revenue, respectively.

Germany Retail (excl. eshop) recorded revenue of HK\$2,781 million, representing a yoy decline of -8.1% in LCY against a sales area reduction of -1.9% yoy, which is below our expectation due to the longer lease terms in Germany compared to those in other markets, which make the leases more difficult to terminate.

Germany Wholesale (excl. eshop) recorded revenue of HK\$2,741 million, representing a yoy decline of -6.3% in LCY. The rate of decline in controlled space has narrowed to -4.7% yoy as compared to -8.5% yoy last year (excluding the transfer of 713 POS under the kids division to our new licensing partner). While traditional wholesale partners continue to suffer from structural pressure in the channel, we observe significant growth in order intake from online wholesale partners.

Rest of Europe

Rest of Europe comprises countries in Europe (except Germany), in America and in the Middle East (representing 36.8% of total Group revenue). The region recorded revenue of HK\$5,866 million in FY16/17, representing a yoy decline of -9.2% in LCY (-10.8% in First Half and -7.5% in Second Half). In terms of distribution channels, Retail (excl. eshop), Wholesale (excl. eshop), Eshop and Licensing businesses contributed to 36.3%, 37.6%, 24.3% and 1.8% of the region's revenue, respectively.

Rest of Europe Retail (excl. eshop) recorded revenue of HK\$2,133 million, representing a yoy decline of -11.1% in LCY. As for our sales area under Rest of Europe Retail (excl. eshop), there was a reduction of -5.0% yoy mainly attributable to the successful closure of unprofitable stores in France.

Rest of Europe Wholesale (excl. eshop) recorded -10.0% yoy in LCY revenue decline, which compares favorably against controlled space reduction of -13.0% yoy. The improvement in sales productivity reflects better order intakes from online and offline partners in the region.

Asia Pacific

Asia Pacific ("APAC") comprises mainly China, Australia and New Zealand, Hong Kong, Singapore, Malaysia, Taiwan and Macau (representing 13.4% of total Group revenue). The region recorded revenue decline of -17.5% yoy in LCY in FY16/17 (-18.8% in the First Half and -16.0% in the Second Half).

As discussed in our previous annual report, Esprit faces in APAC certain difficulties that are different from our challenges in Europe. Firstly, in China, our largest market, retail space is concentrated both in POS in department stores that suffer from declining traffic, and in off-price outlets that are usually brand dilutive. To this end, we are implementing an aggressive restructuring of our network in the country and have made good progress, closing -29.7% yoy of total controlled space (retail and wholesale combined) during FY16/17. Moreover, a new concept has been developed to adapt to the small spaces in these POS. Secondly, APAC faces specific product requirements compared to Europe, which we address by complementing our Global collections with a dedicated product line for APAC.

Asia Pacific Retail (excl. eshop), representing 11.3% of total Group revenue, declined by -20.6% yoy in LCY against sales area reduction of -14.4% yoy. The sales area decline is in line with our plan to accelerate the restructuring of the store network. Fortunately, lease terms in APAC are generally short, and the leases of the majority of the heavy loss-making stores will be expiring in the next two financial years. It is also relevant to highlight the fact that we had the most drastic reduction of the promotional activity in APAC, which explains the -9.3% yoy in LCY revenue decline in comparable retail stores. Despite this significant revenue drop, we had a positive development of the channel's bottom line, as we benefited from the gross profit margin recovery and OPEX reduction.

Asia Pacific Wholesale (excl. eshop), representing 0.7% of total Group revenue, declined by -32.4% yoy in LCY due to the controlled space reduction of -33.6% yoy. The majority of the space loss took place in China, while we see opportunities to expand the wholesale business in new countries within the region. Importantly, Esprit has re-entered the India market in FY16/17 through the partnership with a leading online retailer of fashion and lifestyle products in the country. The Group has also entered into new markets during the year, including Nepal (November 2016) and Myanmar (March 2017). These new businesses have contributed to smooth our wholesale sales performance in the region in the second half (First Half: -42.6% yoy in LCY; Second Half: -13.7% yoy in LCY).

Eshop

Eshop comprises our directly managed ecommerce business in European and APAC countries, and the sales to third-party online platforms in APAC. In FY16/17, the channel generated HK\$4,032 million in revenue and kept growing its already large share of revenue (25.3% of total Group revenue). Revenue of the channel was virtually flat (-1.0% yoy in LCY) comparing against a very successful development last year (+15.3% yoy in LCY).

Eshop Germany and Rest of Europe, contributing 94.5% of the Group's total Eshop revenue in FY16/17, had a yoy decline of -2.8% yoy in LCY. This drop in revenue was driven by a very weak First Half (First Half: -4.8% yoy in LCY vs Second Half: -0.7% yoy in LCY). Nonetheless, the channel remains highly productive and profitable, and we continued to develop our Omnichannel solutions with positive results during the financial year:

- Increased number of active Esprit Friends (i.e. members of the program who have purchased in the last 12 months) by +7.0% vs last year
- Rapid growth of sales initiated from smartphones, up by 43% vs last year
- Shorter delivery times for our customers after completing the ramp up phase of our new automated distribution center
- A higher level of personalization of the consumer experience
- Improved service to our customers after the roll-out of our integrated online/offline features, including click & collect of orders from our stores and the capability to reserve store products online and return Eshop products in the stores

Eshop APAC reached HK\$221 million revenue in FY16/17, representing an increase of +43.1% yoy in LCY notwithstanding a high base last year of +72.2% yoy in LCY. China represented over 80% of the Eshop revenue in the region and recorded revenue growth of +42.1% yoy in LCY, fueled by actions such as the integration of Esprit Friends loyalty program into our Eshop, the strengthening of our operations with Tmall, the expansion of our online presence in China through local platforms such as Weibo or Wechat, and the collaboration with celebrities and key opinion leaders through our social media.

03.2 PROFITABILITY ANALYSIS

The table below presents the results of the Group for FY16/17 and FY15/16, with a differentiation of “Regular OPEX” and “Exceptional Items”. Regular OPEX comprises recurring expenses of the underlying operation (“Underlying Operation”). Exceptional Items are exceptional gains and expenses arising from non-regular operational activities of the Group, comprising those relating to the net provisions for store closures and onerous leases, impairment of fixed assets on loss-making stores, as well as relevant expenses/gains that are expected to be non-recurring (e.g. one-off costs in relation to staff reduction plans).

	For the year ended 30 June			
	2017	2016	Change in %	
	HK\$ million	HK\$ million	HK\$	Local currency
Revenue	15,942	17,788	-10.4%	-8.7%
Cost of goods sold	(7,712)	(8,859)	-12.9%	-11.3%
Gross profit	8,230	8,929	-7.8%	-6.2%
<i>Gross profit margin</i>	51.6%	50.2%	1.4% pts	1.4% pts
Regular OPEX				
Staff costs	(2,851)	(3,018)	-5.5%	-4.1%
Occupancy costs	(2,496)	(2,793)	-10.6%	-9.2%
Logistics expenses	(957)	(1,022)	-6.4%	-4.6%
Marketing and advertising expenses	(814)	(1,015)	-19.7%	-18.1%
Depreciation	(518)	(591)	-12.5%	-10.9%
Other operating costs	(780)	(1,062)	-26.5%	-25.2%
Subtotal	(8,416)	(9,501)	-11.4%	-9.9%
(LBIT) of Underlying Operations	(186)	(572)		
Exceptional items				
i) One-off costs in relation to staff reduction plans	(45)	(462)		
ii) Net provision for store closures and leases	(12)	(186)		
iii) Write back of/(impairment of) fixed assets	8	(59)		
iv) Impairment of IT applications of Esprit Kids Division	-	(48)		
v) Net gain on disposal of Hong Kong office premises	-	731		
vi) Net gain on disposal of properties in Shenzhen and Hong Kong	133	-		
Subtotal	84	(24)		
(LBIT) of the Group	(102)	(596)	82.9%	83.4%
Net interest (expense)/income	(4)	11		
(Loss) before taxation	(106)	(585)		
Net taxation credit	173	606		
Net profit	67	21		

For FY16/17, the Group recorded a **Gross Profit margin** of 51.6%, representing a yoy increase of +1.4% points and resulting in Gross Profit value of HK\$8,230 million (2016: HK\$8,929 million). The improvement in gross profit margin was observed across all channels, regions and key product divisions, and was mainly the result of management’s actions to reduce the level of promotional activities, price markdowns and wholesale discounts (as described in the beginning of the “Revenue Analysis” section). The benefits of these actions were partly offset by the pressure from weakness of the Euro for most part of the financial year.

Regular OPEX (excluding Exceptional Items) was reduced to HK\$8,416 million (2016: HK\$9,501 million), representing a yoy reduction of -9.9% in LCY. The Group has achieved its target to reduce operating expenses (“OPEX”) by HK\$1 billion (excluding exchange rate impact) one year ahead of schedule. Savings were achieved across all key cost lines mainly through the accelerated closure of loss-making stores, the implementation of overhead cost restructuring measures and the normalized marketing and advertising expenditure after the strong push last year.

Exceptional Items refers to exceptional gains and expenses arising from non-regular operational activities of the Group. As detailed in the table at the beginning of this section, there was a net exceptional gain of HK\$84 million in the financial year primarily related to the sale of non-core properties (+HK\$133 million) partly offset by one-off costs for staff reduction (-HK\$45 million) to reduce overhead costs.

EBIT of Underlying Operations (i.e. excluding Exceptional Items) was a loss of -HK\$186 million, an improvement from the EBIT loss of -HK\$572 million last year. After including the Exceptional Items, EBIT was a loss of -HK\$102 million in FY16/17, also an improvement from the EBIT loss of -HK\$596 million in the same period last year.

Interest was a net expense of HK\$4 million (2016: Net Interest income of HK\$11 million), the results of a combination of i) interest earned on cash, bank balances and deposits of HK\$44 million, representing an effective interest rate of 0.8% per annum (2016: 0.8%), offset by ii) non-cash interest expenses primarily related to time value of provision for onerous contracts and store closure. As a consequence, **Loss before taxation** was HK\$106 million (2016: Loss before taxation of HK\$585 million).

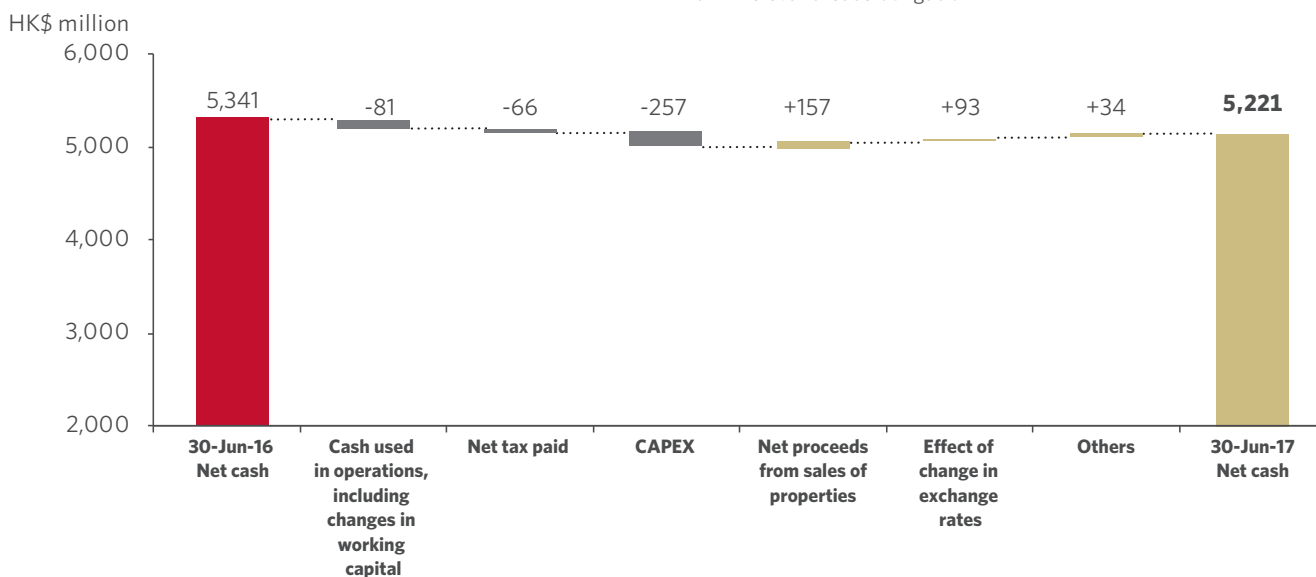
Taxation was a net tax credit of HK\$173 million, a significant reduction from HK\$606 million of last year. The tax credit is mainly attributable to i) the release of deferred tax liability no longer required based on communication received from the relevant tax authority; and ii) the credit from deferred taxation arising from tax losses to offset future potential profits.

Net profit was HK\$67 million, an improvement from HK\$21 million last year, resulting from the improvement of the financial performance of the Group's underlying operations, partly offset by less favorable taxation credit as compared to last year.

03.3 LIQUIDITY AND FINANCIAL RESOURCES ANALYSIS

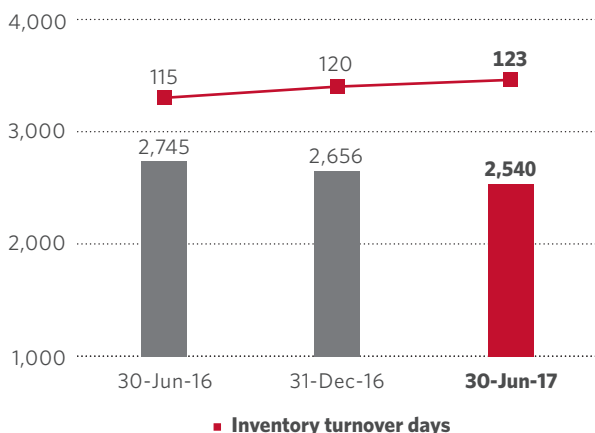
The Group remained prudent to maintain a sound financial position that enables the execution of our growth efforts over the coming years.

Cash: As at 30 June 2017, the Group remained debt free with **cash, bank balances and deposits** totaling HK\$5,221 million, almost flat as compared to the HK\$5,341 million at the beginning of the financial year. Operating cash flow before change in working capital was an inflow of HK\$405 million. The decrease in net cash was primarily due to increase in working capital as results of i) decrease in creditors and accrued charges mainly related to utilization of provision for staff reduction plan and ii) decrease in provision for store closure and onerous leases as the provision was utilized to fulfill relevant lease obligation.



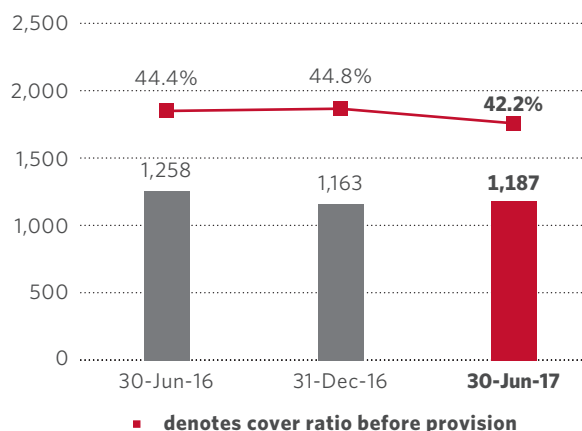
Inventories: Our inventory balance amounted to HK\$2,540 million (30 June 2016: HK\$2,745 million), representing a yoy reduction of -7.4%, despite the +3.4% yoy appreciation in EUR/HKD closing rate. Inventory turnover days was 123 days, an increase of 8 days as compared to a year ago (30 June 2016: 115 days) mainly due to the higher share of our Retail channels (Retail stores and Eshop) and the lower revenue of the Group this year. Management is mindful of this increase and has taken measures to quickly align inventory level with sales. In terms of aging profile, inventory (in terms of units) aged over six months increased slightly to 22.9% (30 June 2016: 20.6%).

Inventories (HK\$ million)



Net trade debtors was HK\$1,187 million (30 June 2016: HK\$1,258 million), representing a yoy decrease of -5.6% despite the appreciation in EUR/HKD closing rate of +3.4% yoy. The cover ratio before provision (the amount of insured and secured gross trade debtors including VAT over total gross trade debtors including VAT) decreased to 42.2% (30 June 2016: 44.4%).

Net trade debtors (HK\$ million)



Capital expenditure (CAPEX): We remain cautious in CAPEX investments as we stay vigilant in cash flow management and cost control. The Group invested HK\$257 million (2016: HK\$262 million) in CAPEX in FY16/17, approximately the same as last year. We invested HK\$50 million in new store opening, HK\$48 million in store refurbishment, HK\$48 million in IT projects, and HK\$111 million in Office and others. These CAPEX included approximately EUR9.1 million for the extension of our distribution center in Mönchengladbach (“DC Extension”) to enable stock replenishment capability. The DC extension was completed in May 2017. It is currently in testing phase and will be fully operational by Fall/Winter 2017.

HK\$ million	For the year ended 30 June	
	2017	2016
New stores	50	71
Refurbishment	48	75
IT projects	48	44
Office & others	111	72
Purchase of property, plant and equipment	257	262

Total interest bearing external borrowings: As at 30 June 2017, the Group had no interest bearing external borrowings (30 June 2016: nil).

Foreign Exchange Risk Management

The Group faces foreign exchange risk arising from exposure to various currencies, primarily with respect to the Euro.

While the majority of the Group’s revenue is denominated in Euro, we report our financial results in Hong Kong Dollars. As a result, fluctuations in the value of the Euro against the Hong Kong Dollar could affect our revenue, which is reported in Hong Kong Dollar. In addition, while our revenue are generated primarily in Euro, the finished goods purchases in Euro only account for a small portion of our total purchases, therefore fluctuations in the value of the Euro against the Hong Kong Dollar could also affect our gross profit margin. Although we currently use foreign currency forward contracts to hedge exposure to the foreign exchange risk related to our purchases, fluctuations in the value of the Euro against other currencies, mostly against the US Dollar, could affect our margins and profitability.

Human Resources

As at 30 June 2017, the Group employed over 7,300 full-time equivalent staff (30 June 2016: over 8,300) around the globe. Competitive remuneration packages that take into account business performance, market practices and competitive market conditions are offered to employees in compensation for their contribution. In addition, share options, awarded shares and discretionary bonuses are also granted based on the Group’s and individual’s performances. All employees around the world are connected through the Group’s newsletters and global intranet.

Dividend

The Board maintains the dividend payout ratio of 60% of basic earnings per share. In view of a small net profit recorded by the Group for the year ended 30 June 2017, the Board has not recommended the distribution of a final dividend for the year ended 30 June 2017 (2016: nil).

03.4 OUTLOOK FOR FY17/18

FY16/17 has been a year of good bottom line improvement. At this stage, with improved bottom line and cash flow developments from operations, we are reassessing the best possible use of our cash in order to create long term value for our shareholders through sales growth and further reduction of structural costs.

As previously guided, growth will only come progressively as the Group still faces a downsizing process in its wholesale and retail space (as loss-making retail stores still need to be closed). We expect to partly counter this with growth in our online channels, with better sales and/or gross profit productivity improvements in our existing stores, with selective retail store openings and with new wholesale partnerships.

All in all, we expect a single-digit decline of **controlled space** and a modest decline of **total revenue**.

Regarding **gross profit margin**, we aim to achieve a modest increase as we continue our decisive measures to reduce markdowns and promotions.

As for **OPEX**, we believe that there is opportunity to further reduce costs, although not as fast as in FY16/17. As such, we expect a single-digit decrease in operating expenses.

Overall, the improvement in gross profit margin and operating expenses is expected to outweigh the negative impact of revenue decline to produce similar improvement in EBIT (excluding exceptional items) as experienced in FY16/17.

APPENDIX

Revenue by Country

Country ^{^^}	2017		2016		Revenue change in %		Net change in net sales area [^]
	HK\$ million	% to Group Revenue	HK\$ million	% to Group Revenue	HK\$	Local currency	
Germany #	7,932	49.8%	8,559	48.1%	-7.3%	-5.6%	-3.6%
Rest of Europe	5,866	36.8%	6,581	37.0%	-10.9%	-9.2%	-10.1%
Benelux #	1,895	11.9%	2,121	11.9%	-10.6%	-9.0%	-10.2%
France	977	6.1%	1,128	6.4%	-13.4%	-11.9%	-11.2%
Switzerland	926	5.8%	984	5.5%	-5.9%	-4.6%	-3.0%
Austria	735	4.6%	832	4.7%	-11.6%	-10.0%	-4.4%
Sweden	225	1.4%	262	1.5%	-14.3%	-10.9%	-28.7%
Spain	216	1.4%	216	1.2%	-0.2%	1.7%	-6.6%
Finland	209	1.3%	233	1.3%	-10.0%	-8.5%	-12.6%
Italy	116	0.7%	131	0.7%	-11.8%	-10.4%	-10.1%
United Kingdom	94	0.6%	151	0.8%	-37.8%	-31.7%	-19.8%
Denmark	89	0.6%	111	0.7%	-20.0%	-18.7%	-15.2%
Poland	75	0.5%	73	0.4%	2.6%	4.8%	-0.9%
Ireland	7	0.0%	7	0.0%	-13.2%	-11.8%	-46.6%
Norway	3	0.0%	4	0.0%	-24.4%	-24.4%	-
Portugal	1	0.0%	1	0.0%	-9.2%	-7.5%	-
Others ^{##}	298	1.9%	327	1.9%	-8.5%	-8.2%	-12.8%
Asia Pacific	2,144	13.4%	2,648	14.9%	-19.0%	-17.5%	-18.5%
China	871	5.4%	1,182	6.6%	-26.3%	-22.0%	-29.7%
Australia and New Zealand	297	1.9%	324	1.8%	-8.2%	-11.6%	-8.1%
Hong Kong	265	1.7%	332	1.9%	-20.3%	-20.3%	-16.7%
Singapore	227	1.4%	256	1.4%	-11.4%	-11.1%	-0.1%
Malaysia	169	1.1%	192	1.1%	-12.3%	-9.1%	-3.0%
Taiwan	165	1.0%	188	1.1%	-12.0%	-15.5%	-0.4%
Macau	86	0.5%	102	0.6%	-15.5%	-15.5%	-14.5%
Others [@]	64	0.4%	72	0.4%	-11.1%	-11.1%	-12.0%
Total	15,942	100.0%	17,788	100.0%	-10.4%	-8.7%	-8.5%

[^] Net change since 1 July 2016

^{^^} Country as a whole includes retail, eshop, wholesale and licensing operations

[#] Includes licensing

^{##} Others under Rest of Europe include i) retail (incl. eshop) revenue from Czech Republic, Hungary, Slovakia, Latvia, Slovenia, Malta, Estonia, Greece, Romania, Croatia and Bulgaria; ii) wholesale (excl. eshop) revenue from other countries mainly Chile, Colombia, Canada and the Middle East, as well as iii) third party licensing income that comes from Asia Pacific, Europe other than Germany and America

[@] Others under Asia Pacific include wholesale (excl. eshop) revenue from other countries mainly Thailand and the Philippines

Retail (excl. eshop) revenue by country

For the year ended 30 June							
Country	2017		2016		Revenue change in %		Net change in net sales area [^]
	HK\$ million	% to Total Revenue	HK\$ million	% to Total Revenue	HK\$	Local currency	
Germany	2,781	41.4%	3,079	39.4%	-9.7%	-8.1%	-1.9%
Rest of Europe	2,133	31.7%	2,440	31.2%	-12.6%	-11.1%	-5.0%
Benelux	769	11.4%	891	11.4%	-13.6%	-12.1%	-0.9%
Switzerland	579	8.6%	602	7.7%	-3.9%	-2.7%	0.4%
Austria	351	5.2%	402	5.1%	-12.7%	-11.2%	-3.0%
France	260	3.9%	321	4.1%	-18.9%	-17.4%	-20.0%
Poland	58	0.9%	65	0.8%	-10.3%	-8.2%	-0.9%
Sweden	54	0.8%	85	1.1%	-37.1%	-34.2%	-32.0%
Finland	47	0.7%	54	0.7%	-12.4%	-10.9%	-
Denmark	15	0.2%	15	0.2%	-1.0%	0.5%	-
United Kingdom	-	-	5	0.1%	-100.0%	-100.0%	-
Asia Pacific	1,804	26.9%	2,306	29.4%	-21.8%	-20.6%	-14.4%
China	636	9.6%	939	12.0%	-32.3%	-28.3%	-23.5%
Australia and New Zealand	272	4.0%	304	3.9%	-10.4%	-13.7%	-8.1%
Hong Kong	264	3.9%	331	4.2%	-20.4%	-20.4%	-16.7%
Singapore	216	3.2%	253	3.2%	-14.6%	-14.2%	-0.1%
Malaysia	167	2.5%	191	2.4%	-12.7%	-9.5%	-3.0%
Taiwan	163	2.4%	186	2.4%	-12.3%	-15.9%	-0.4%
Macau	86	1.3%	102	1.3%	-15.5%	-15.5%	-14.5%
Total	6,718	100.0%	7,825	100.0%	-14.1%	-12.7%	-6.5%

[^] Net change since 1 July 2016

Directly managed retail stores by country - movement since 1 July 2016

As at 30 June 2017						
Country	No. of stores	Net opened stores [^]	Net sales area (m ²)	Net change in net sales area [^]	No. of comp stores (excl. eshop)	Comp-store sales growth (excl. eshop)
Germany	146	(1)	116,305	-1.9%	118	-7.1%
Rest of Europe	136	(7)	82,157	-5.0%	114	-0.6%
Switzerland	38	1	17,186	0.4%	34	-2.9%
Belgium	22	-	16,190	-	21	4.2%
Netherlands	20	-	14,202	-2.0%	18	0.4%
Austria	19	-	14,841	-3.0%	16	-2.6%
France	16	(5)	9,712	-20.0%	15	-6.2%
Poland	11	-	3,245	-0.9%	-	n.a.
Sweden	4	(3)	2,542	-32.0%	4	19.8%
Luxembourg	3	-	1,869	-	3	-2.5%
Finland	2	-	1,745	-	2	3.3%
Denmark	1	-	625	-	1	0.5%
Asia Pacific	384	(87)	74,034	-14.4%	209	-9.3%
China	178	(72)	31,999	-23.5%	92	-7.9%
Taiwan	68	(5)	6,593	-0.4%	40	-16.5%
Australia	63	(3)	7,306	-9.6%	37	-10.8%
Malaysia	32	(3)	12,523	-3.0%	19	-5.5%
Singapore	21	-	6,622	-0.1%	10	-9.7%
Hong Kong	10	(4)	5,391	-16.7%	3	-10.6%
New Zealand	8	-	1,564	-0.4%	6	-9.1%
Macau	4	-	2,036	-14.5%	2	-4.1%
Total	666	(95)	272,496	-6.5%	441	-5.2%

[^] Net change since 1 July 2016

n.a. Not applicable

Directly managed retail stores by store type - movement since 1 July 2016

Store type	No. of stores					Net sales area (m ²)				
	As at	vs 1 July 2016		As at	Net change	As at	vs 1 July 2016		As at	Net change
	30 June 2017	Opened	Closed	1 July 2016		30 June 2017	Opened	Closed	1 July 2016	
Stores	370	27	(41)	384	(14)	212,326	7,378	(18,035)	222,983	-4.8%
- Germany	130	2	(6)	134	(4)	101,878	1,361	(4,642)	105,159	-3.1%
- Rest of Europe	125	3	(10)	132	(7)	73,848	975	(5,308)	78,181	-5.5%
- Asia Pacific	115	22	(25)	118	(3)	36,600	5,042	(8,085)	39,643	-7.7%
Concession counters	216	9	(81)	288	(72)	21,491	2,010	(8,152)	27,633	-22.2%
- Germany	5	3	-	2	3	1,781	987	-	794	124.3%
- Asia Pacific	211	6	(81)	286	(75)	19,710	1,023	(8,152)	26,839	-26.6%
Outlets	80	3	(12)	89	(9)	38,679	1,138	(3,415)	40,956	-5.6%
- Germany	11	-	-	11	-	12,646	-	-	12,646	-
- Rest of Europe	11	-	-	11	-	8,309	-	-	8,309	-
- Asia Pacific	58	3	(12)	67	(9)	17,724	1,138	(3,415)	20,001	-11.4%
Total	666	39	(134)	761	(95)	272,496	10,526	(29,602)	291,572	-6.5%

Wholesale (excl. eshop) revenue by country

Country	For the year ended 30 June						
	2017		2016		Revenue change in %		Net change in net sales area [^]
	HK\$ million	% to Total Revenue	HK\$ million	% to Total Revenue	HK\$	Local currency	
Germany	2,741	54.1%	2,978	52.6%	-8.0%	-6.3%	-4.7
Rest of Europe	2,204	43.5%	2,499	44.2%	-11.8%	-10.0%	-13.0%
Benelux	566	11.2%	651	11.5%	-13.0%	-11.4%	-17.6%
France	493	9.7%	545	9.7%	-9.6%	-8.1%	-8.1%
Spain	201	4.0%	202	3.6%	-0.4%	1.5%	-6.6%
Austria	185	3.6%	227	4.0%	-18.5%	-17.0%	-6.0%
Sweden	139	2.7%	148	2.6%	-5.8%	-1.9%	-27.3%
Finland	135	2.7%	147	2.6%	-8.7%	-7.2%	-14.5%
Switzerland	120	2.4%	132	2.3%	-8.8%	-7.7%	-11.8%
Italy	108	2.1%	123	2.2%	-12.2%	-10.8%	-10.1%
United Kingdom	48	1.0%	91	1.6%	-47.1%	-37.9%	-19.8%
Denmark	38	0.7%	53	0.9%	-28.0%	-26.9%	-18.9%
Ireland	4	0.1%	5	0.1%	-24.7%	-23.7%	-46.6%
Norway	3	0.1%	4	0.1%	-24.5%	-24.5%	-
Others [#]	164	3.2%	171	3.0%	-4.2%	-4.0%	-12.8%
Asia Pacific	119	2.4%	181	3.2%	-34.2%	-32.4%	-33.6%
China	55	1.1%	109	1.9%	-49.4%	-46.5%	-48.9%
Other [@]	64	1.3%	72	1.3%	-11.1%	-11.1%	-12.0%
Total	5,064	100.0%	5,658	100.0%	-10.5%	-8.8%	-10.2%

[^] Net change since 1 July 2016

[#] Others under Rest of Europe include wholesale (excl. eshop) revenue from other countries mainly Chile, Colombia, Canada, and the Middle East

[@] Others under Asia Pacific include wholesale (excl. eshop) revenue from other countries mainly Thailand and the Philippines

Wholesale distribution channel by country (controlled space only) - movement since 1 July 2016

As at 30 June 2017

Country	Franchise stores				Shop-in-stores				Identity corners				Total			
	No. of stores	Net sales area (m ²)	Net opened stores [^]	Net change in net sales area [^]	No. of stores	Net sales area (m ²)	Net opened stores [^]	Net change in net sales area [^]	No. of stores	Net sales area (m ²)	Net opened stores [^]	Net change in net sales area [^]	No. of stores	Net sales area (m ²)	Net opened stores [^]	Net change in net sales area [^]
Germany	247	56,792	(11)	-10.2%	2,314	91,330	(56)	-3.6%	1,182	23,102	114	6.1%	3,743	171,224	47	-4.7%
Rest of Europe	451	87,308	(34)	-13.0%	830	25,526	(98)	-13.2%	874	20,930	(147)	-12.8%	2,155	133,764	(279)	-13.0%
Benelux	90	26,178	(9)	-13.3%	69	3,136	(61)	-41.5%	173	4,650	(87)	-17.7%	332	33,964	(157)	-17.6%
France	126	21,411	(3)	-10.0%	259	5,816	(2)	-1.0%	156	4,262	(11)	-7.6%	541	31,489	(16)	-8.1%
Austria	55	8,900	(3)	-9.2%	95	3,363	2	2.7%	38	896	(1)	-3.2%	188	13,159	(2)	-6.0%
Sweden	19	5,471	(7)	-26.3%	-	-	-	-	27	723	(17)	-34.5%	46	6,194	(24)	-27.3%
Finland	20	4,790	1	-1.1%	56	2,331	(22)	-33.6%	94	2,721	(6)	-13.8%	170	9,842	(27)	-14.5%
Switzerland	20	3,207	(3)	-12.3%	45	2,148	(3)	-12.1%	18	395	(2)	-6.2%	83	5,750	(8)	-11.8%
Italy	12	2,313	(3)	-26.8%	35	1,046	-	-	229	3,697	15	1.5%	276	7,056	12	-10.1%
Spain	21	2,419	2	-15.6%	172	5,361	(5)	1.6%	61	1,769	(9)	-15.2%	254	9,549	(12)	-6.6%
Denmark	6	1,532	(1)	-9.2%	2	28	-	-	19	524	(17)	-38.7%	27	2,084	(18)	-18.9%
Norway	1	242	-	-	-	-	-	-	-	-	-	-	1	242	-	-
United Kingdom	2	152	-	6.3%	9	349	(5)	-39.7%	52	1,208	(11)	-14.3%	63	1,709	(16)	-19.8%
Portugal	-	-	-	-	-	-	-	-	2	35	-	-	2	35	-	-
Ireland	-	-	-	-	1	82	(2)	-46.1%	5	50	(1)	-47.4%	6	132	(3)	-46.6%
Others *	79	10,693	(8)	-14.7%	87	1,866	-	-	-	-	-	-	166	12,559	(8)	-12.8%
Asia Pacific	139	15,448	(63)	-33.6%	-	-	-	-	-	-	-	-	139	15,448	(63)	-33.6%
China	52	6,963	(41)	-48.9%	-	-	-	-	-	-	-	-	52	6,963	(41)	-48.9%
Thailand	65	5,219	(20)	-15.2%	-	-	-	-	-	-	-	-	65	5,219	(20)	-15.2%
Philippines	16	2,150	(5)	-25.0%	-	-	-	-	-	-	-	-	16	2,150	(5)	-25.0%
Others	6	1,116	3	78.3%	-	-	-	-	-	-	-	-	6	1,116	3	78.3%
Total	837	159,548	(108)	-14.6%	3,144	116,856	(154)	-5.9%	2,056	44,032	(33)	-3.8%	6,037	320,436	(295)	-10.2%

[^] Net change since 1 July 2016

* Others under Rest of Europe include controlled wholesale POS and space in countries outside Europe, mainly Colombia, Chile, the Middle East and Canada



04
SUSTAINABILITY



04 SUSTAINABILITY

OUR APPROACH

#WeAtEsprit

Esprit emerged from a unique time and place in history: San Francisco in the 1960s. This period is forever linked with the values of social engagement, environmental stewardship, positivity, and authenticity—ideals that have always defined our identity and our values. We are proud to share how we are making these ideals tangible and actionable through our four sustainability commitments, covering the focus areas of both PEOPLE and PLANET:



In FY 16/17 we updated our sustainability strategy, and we decided to incorporate the United Nations Sustainable Development Goals (SDGs) into our approach. The SDGs are an internationally recognized framework that aims to address the three elements of economic growth, social inclusion and environmental protection as part of a broader endeavor to eradicate poverty and strengthen peace and freedom across the globe. We at Esprit aim to support the framework's ambitious goals by aligning our approach to creating a more sustainable business with all 17 of the SDGs.



Integrating more sustainability into our business and our processes is a long-term goal, and a difficult one that intersects with the areas of culture, government, technology, and many other aspects of human and business interactions. It will continue to be a challenge for many years to come, which underscores why we need to be working on it now. On the following pages we would like to highlight some of the sustainability initiatives we have undertaken over the past business year, focusing on three of our four commitments:

- “We are Responsible”
- “We Choose Sustainable Materials”
- “We Protect our Planet”

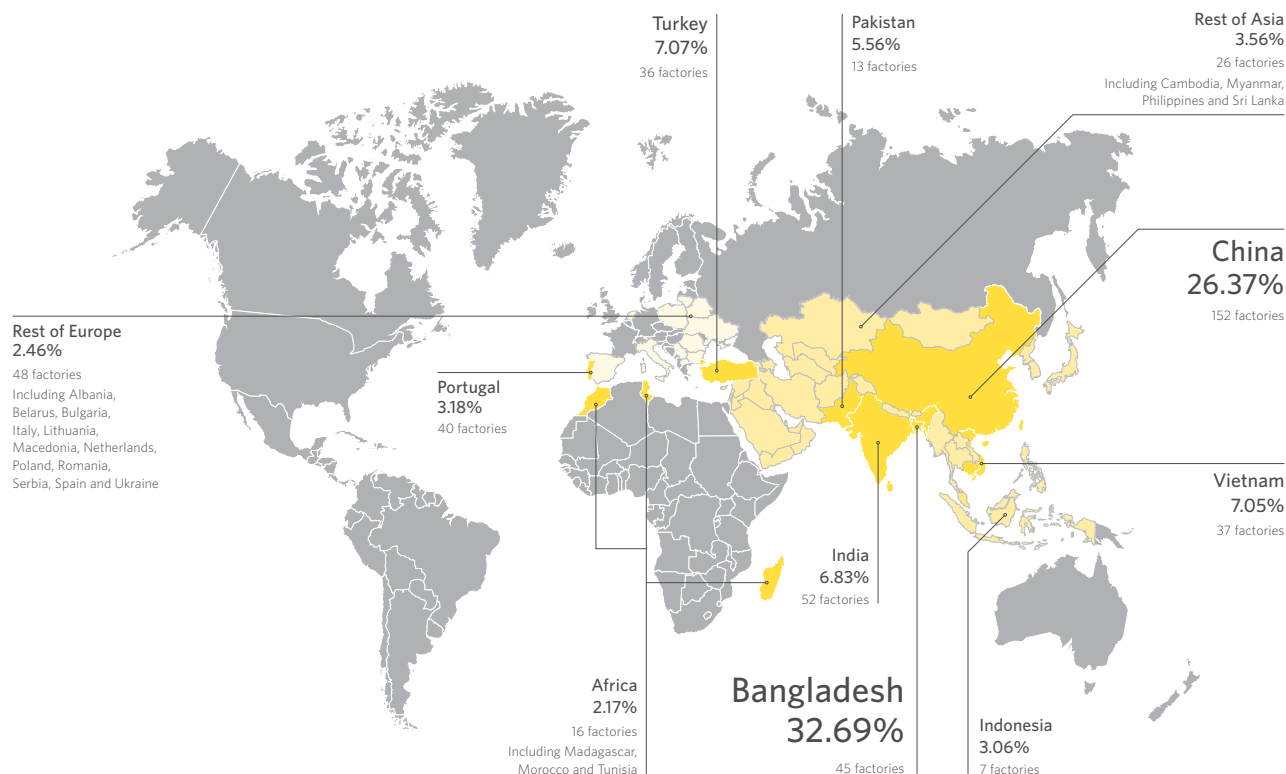
For the full picture of our sustainability work across all four of our commitments, please read our Sustainability Report.

We are Responsible

Over 525,000 people around the world work to create Esprit garments every year, and we believe it is our duty to make sure that all people who touch our products, whether it be on the fields or in the stores, work in a safe and healthy environment. To this objective, over the past year we have focused on building stronger relationships with our suppliers, clarifying our supplier expectations, and creating a more transparent way of working. This is all aimed at creating a safer and more positive working environment within our supply chain.

WHERE OUR PRODUCTS ARE MADE*

*based on quantity



Transparency

Over the past year we published our Tier 1 and Tier 2 supplier list in alignment with our push toward greater transparency. We did this in several phases over the year and in a way that fulfilled the requirements of key industry initiatives we participate in, including our Detox Commitment as well as the Human Rights Watch (HRW) Supply Chain Transparency Pledge. We will update our supplier list every six months and make it publicly available on our website. It is our goal to cover all suppliers we know of.

Positive Working Environment

Esprit has clear requirements for all factories producing Esprit garments, which are outlined in our Supplier Code of Conduct. This is part of a basic supplier agreement that all of our suppliers must sign, and is overseen by an internal team that conducts on-site audits to ensure compliance with this Code. In all our high-risk regions, we conducted at least one audit during FY16/17. Because we value partnering with factories rather than simply withdrawing from the relationship for minor issues, each audit is followed up by a time-bound corrective action plan so that the factory knows what steps to take to address any problems identified. Corrections will be confirmed by our internal audit team or through one of our collaborations, detailed below. Additionally, Esprit complies with leading industry standards to ensure that working conditions in our suppliers' factories are appropriate, safe, and meet legal requirements. This ensures that the people working in these factories are treated fairly and with respect. These collaborations let us reduce the auditing burdens and costs for our partners while amplifying our voice to push for improvements. In 21 of our sourcing countries we participate in the Business Social Compliance Initiative program. We are a Global Buying Partner in the Better Work program by the ILO and IFC.

Living Wage

A major challenge in the global apparel sector is that wages in factories are often too low, which can mean that workers making apparel do not earn enough money to live on. Calculating a living wage is complex, however, and the debate is often stopped by lack of consensus on methods or failure to properly consult workers on the issue. To make progress on this difficult problem, Esprit joined with other brands in signing a memorandum of understanding with IndustriALL Global Union to form ACT (Action, Collaboration, Transformation). ACT seeks to address the problem of low wages in the apparel industry by allowing workers to have a voice in wage-setting through industry-wide, national collective bargaining agreements in key apparel producing countries.

To this end, ACT members review our buying practices to ensure that our actions and processes support payment of a living wage. Our buying team took part in a pilot self-assessment in March 2017, paving the way for a larger assessment of buying practices across ACT brands to identify what needs to be changed in the future to help the workers in factories achieve a living wage enough to support themselves and their families.

We Choose Sustainable Materials

We at Esprit aim to choose materials that are produced in more sustainable and ethical ways. We have set targets, made progress, and joined powerful platforms covering our key materials including cotton, cellulose, and animal-derived materials such as down and leather. Please find the highlights of our sustainable materials program in our Sustainability Report.

Cotton

In order to improve the environmental profile of cotton, Esprit became a member of the Better Cotton Initiative (BCI) in February 2016. BCI is a non-profit organization that takes a holistic approach to sustainable cotton production by training farmers on how to best manage the environmental, social and economic aspects of cotton production. In addition to BCI, we also focus on using more organic cotton. Less than 1% of the world's total cotton production is organic, which makes sourcing organic cotton a challenge. Nevertheless, Esprit has increased the range of organic cotton in our collections and we are using the Organic Content Standard (OCS) to trace and certify our organic cotton.

By the end of 2020, we aim to have at least 50% of our cotton coming from more sustainable sources, including BCI, certified organic cotton, and certified recycled cotton.

Recycled Materials

Esprit incorporates recycled materials as a strategy to reduce waste and emissions, and to encourage more thoughtful material selection. Esprit uses the Recycled Claim Standard (RCS) to affirm the presence and amount of recycled material in a finished garment. Starting in fall 2017, we will begin increasing the use of recycled materials throughout our product range.

Cellulosics

Cellulosic materials such as viscose, rayon and lyocell are derived from natural sources of cellulose, often trees, and go through a chemically-intensive process to become soft fabric. In order to responsibly source these fabrics, the cellulose needs to come from properly managed forests and the chemical processes should be as non-toxic and efficient as possible, aiming for a closed-loop system. We partnered with the environmental non-profit organization CanopyStyle in September 2015 to ensure that our cellulose fabrics do not come from endangered or old-growth forests.

More Sustainable Synthetic Leather

Some of our customers prefer to avoid animal-derived materials, and so we offer products made from synthetic leather, which is generally polyurethane-based, in addition to genuine leather. However, conventional polyurethane (PU) manufacturing requires a solvent called dimethylformamide (DMF), which can be hazardous for workers and can pollute the environment. We are working to shift our production from conventional PU to water-based PU that does not use DMF. Throughout FY16/17, we have been researching alternatives and working closely with chemical suppliers to identify and further develop these innovative alternatives. In FY17/18 we plan to start with the first styles that will use water-based PU. Our target is to switch all synthetic leather to water-based PU by 2025.

Down

Esprit strongly condemns force-feeding animals and plucking feathers and down from live birds. To ensure a high level of transparency, since fall 2016 all Esprit products containing feathers and down must be certified according to the Responsible Down Standard (RDS). The standard covers all links in the down supply chain - from duck and goose farms to Esprit itself - to make sure that no live-plucked feathers and down are used in Esprit's garments.

Wool

To enhance our work in guaranteeing the welfare of sheep, Esprit worked with Textile Exchange and other brands to develop the Responsible Wool Standard (RWS). The RWS seeks to ensure that the sheep in our supply chain are treated with respect and in accordance with the Five Freedoms of the Farm Animal Welfare Committee (FAWC). The standard also addresses sustainable management of grazing land. In 2017, Esprit funded the RWS Kickstarter program to support the implementation of the RWS in textile supply chains. We are currently working on bringing RWS certified wool into our products, and we have set the goal that 50% of our virgin sheep wool will be sourced according to the Responsible Wool Standard by 2022. Since 2012, Esprit has expressly prohibited surgical mulesing of sheep in our supply chain.

We Protect our Planet

Water, energy and chemicals are all used to create clothing. In order to reduce water and energy use and minimize the use of harmful chemicals within our supply chain, we at Esprit promote cleaner production, which is a way of working that emphasizes measurement, process control, resource management, and optimization. We support this approach through our work with the Sustainable Apparel Coalition's HIGG Index, our membership in the Zero Discharge of Hazardous Chemicals (ZDHC) Joint Roadmap, and our shifts to safer chemicals, detailed here. Overall, throughout these various initiatives, we emphasize measurement, improvement, and transparency. Please find more insights on our program in our Sustainability Report.

Our Detox Commitment

In December 2012, Esprit signed a commitment with the Greenpeace Detox Campaign to eliminate eleven classes of chemicals from the textile supply chain. To help realize this commitment, we are an active member of the Zero Discharge of Hazardous Chemicals Group (ZDHC), working alongside like-minded industry peers to develop the tools and protocols to achieve the long-term aim of the ZDHC Group's 'Roadmap to Zero': Zero discharge of hazardous chemicals by 2020. In January 2017 we published a review of our Detox Commitment, which gives an overview of what has already been achieved and outlines our targets for the future.

Chemicals: The first step to fulfil the Detox commitment is the adoption of a Manufacturing Restricted Substances List (MRSL), outlining chemicals not to be used in the manufacturing of our products, which each supplier has been required to follow since 2013. At that time, we merged the MRSL together with our existing Restricted Substances List (RSL). The RSL defines the requirements that finished products and packaging must meet with regard to chemicals. We also included the limits in terms of chemicals in wastewater into this combined list. We then developed a tool called the RSL & MRSL Supplier Guideline to better support our suppliers in understanding and implementing these requirements.

Mapping: To fulfil our Detox commitment, we have mapped out our Tier 2 and wet process supply chains. We do not place orders directly with these factories, so relationships with these suppliers had not generally been established. As part of our shift toward greater transparency and stronger relationships, and to better manage our chemical requirements, we mapped our actual supply chain for the first time in July 2016. We have established a process to update the mapping in an ongoing basis, and we are committed to publishing an updated version on our website every six months.

Assessing: Once we had visibility to our second-tier suppliers, we launched a series of one day audits at these facilities that covered chemical management, process quality control and waste water management and solid waste. Over the course of the year our internal team audited 149 wet process factories. In addition to these audits, 21 supplier factories were chosen for a follow-up assessment focusing more deeply on chemical handling and waste water management.

Improving: We learned a lot about our factories through this process. One thing we discovered was that some factories manage chemicals and waste water in a way that allows them to fully support Esprit's Detox Commitment, and many others have gaps in their systems - some serious. In total 18% factories had serious gaps, while 41% had moderate gaps, and 41% were able to meet our expectations.

Controlling the Waste Water: Esprit adopted the ZDHC Wastewater Guidelines in February 2016, which outlines expectations for suppliers regarding their wastewater testing and treatment. By adopting those guidelines, rather than developing our own, Esprit is able to take advantage of experience across the industry and to allow our factories to work on one standard instead of a separate standard for each of their customers. The next step is that we will require our suppliers to upload their waste water testing data on the IPE or the ZDHC Gateway by April 30, 2018. Esprit is cooperating with a third-party testing laboratory to develop a training and testing program. This program will provide factories with the training they need to manage chemicals and waste water treatment appropriately, and to have waste water testing done in compliance with Esprit's Wastewater Testing Guidelines.

05

CORPORATE GOVERNANCE

05.1 Corporate governance report

Esprit is committed to achieving high standards of corporate governance. The Esprit Corporate Governance Code adopted by the board of directors (the "Board" or the "Director(s)") of the Company sets out a range of governance principles and practices to direct and guide the business conducts and affairs of the Company and its subsidiaries (the "Group"). It aims at providing greater transparency, quality of disclosure as well as more effective risk management and internal control. The execution and enforcement of the Company's corporate governance system is monitored by the Board. The Board will review the current practices at least annually, and make appropriate changes where considered necessary. We believe our commitment in high standard practices will translate into long-term value and ultimately maximizing returns to shareholders. Management pledge to building long-term interests for shareholders via, for example, conducting business in a socially responsible and professional manner.

The Board has reviewed the corporate governance practices of the Company. The Company has applied the principles of, and complied with, the applicable code provisions of the Corporate Governance Code and Corporate Governance Report ("CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") during the financial year ended 30 June 2017, except for certain deviations as specified with considered reasons for such deviations as explained below.

Board of Directors

Composition of the Board

The Directors of the Company during the financial year and up to the date of this report are:

Executive Directors

Jose Manuel MARTINEZ GUTIERREZ (Group Chief Executive Officer)
Thomas TANG Wing Yung (Group Chief Financial Officer)

Non-executive Director

Jürgen Alfred Rudolf FRIEDRICH

Independent Non-executive Directors

Dr Raymond OR Ching Fai (Chairman)
Paul CHENG Ming Fun (Deputy Chairman)
Dr José María CASTELLANO RIOS
Alexander Reid HAMILTON
Carmelo LEE Ka Sze
Norbert Adolf PLATT

Meetings attended/held

The Board conducts at least four regular Board meetings a year and additional meetings are held as and when required to discuss significant events or important issues. Sufficient notice is given for regular Board meetings to all Directors enabling them to attend and reasonable notice will be given in case of special Board meetings. 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 the discharge of their duties.

The individual attendance records of each Director at the Board meetings, Board Committees meetings and general meetings of the Company during the financial year ended 30 June 2017 is set out in the table below:

	Non-executive Board Directors	Audit Committee	Nomination Committee	Remuneration Committee	Risk Management Committee	General Committee	Annual general meeting
Executive Directors							
Jose Manuel MARTINEZ GUTIERREZ	8/8			4/4		3/3	1/1
Thomas TANG Wing Yung	8/8				3/3	3/3	1/1
Non-executive Director							
Jürgen Alfred Rudolf FRIEDRICH	8/8	1/1		4/4			1/1
Independent Non-executive Directors							
Raymond OR Ching Fai (Chairman)	8/8	1/1	2/2				1/1
Paul CHENG Ming Fun (Deputy Chairman)	8/8	1/1	2/2	4/4			1/1
José María CASTELLANO RIOS	8/8	1/1	4/4		2/3		1/1
Alexander Reid HAMILTON	8/8	1/1	4/4	2/2			1/1
Carmelo LEE Ka Sze	8/8	1/1	2/2	4/4	3/3		1/1
Norbert Adolf PLATT	8/8	1/1	4/4	4/4			1/1

Board meetings and minutes

Minutes of the Board meetings and Board Committees meetings have been recorded in sufficient detail including any matters considered in the meetings, decisions reached and concerns or queries raised by the Directors or dissenting views expressed. Draft and final versions of minutes of meetings of the Board and Board Committees are sent to the Directors or Board Committee members for comments and records respectively within a reasonable time after the meeting. Minutes of meetings of the Board and Board Committees are kept by the Company Secretary, which are open for inspection following reasonable notice by any Director.

Board of Directors (continued)

Clear distinction between the responsibilities of the Board and management

The Board oversees the overall management of the Group, including oversight of the Group's operations, whilst allowing management substantial autonomy to run and develop the business.

Decisions reserved for the Board are mainly related to:

- The long-term objectives and strategy of the Group;
- Monitoring the performance of management;
- Ensuring that appropriate and effective risk management and internal control systems are established and maintained to enable risks to be assessed and managed;
- Monitoring the quality and timeliness of external reporting;
- Monitoring the policies and practices on the compliance with applicable laws and regulations; and
- Approving the Company's policies and practices on corporate governance.



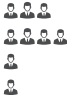

Board independence

Throughout the year and up to the date of this report, the Company has six Independent Non-executive Directors, representing more than one-third of the Board. At least one of the Independent Non-executive Directors has the appropriate professional qualifications or accounting or related financial management expertise under rule 3.10 of the Listing Rules. The Company has received confirmation of independence from each Independent Non-executive Director as set out in rule 3.13 of the Listing Rules and continues to consider each of them to be independent. In addition, no controlling shareholder is present on the Board ensuring decisions are made fairly and without conflicts of interest.

In assessing the independence of the Independent Non-executive Directors, the Nomination Committee and the Board would consider the character and the judgment demonstrated by the Director's contribution to the Board during the years of services, the relationship with the Group other than being a Director, the past and present directorships and important appointments of the Director outside the Group. Further appointment of an Independent Non-executive Director who serves more than nine years shall be subject to a separate resolution to be approved by the shareholders.

Board effectiveness

The Board has adopted a board diversity policy (the "Board Diversity Policy") setting out the approach to achieve diversity on the Board with the aims of enhancing the quality of its performance and ensuring orderly succession for appointments. The Company considers aspects of board diversity including but not limited to gender, ethnicity, age, professional experience, skills and knowledge. The ultimate decision will be based on merit and contribution that the individual will bring to the Board.

Gender		Male (100%)
Ethnicity		Chinese (44%) European (56%)
Age		Over 70 years old (33.5%) 61 to 70 years old (44.5%) 51 to 60 years old (11%) 41 to 50 years old (11%)
Length of service		More than 10 years (44%) 0 to 6 years (56%)

Note: () denotes relevant percentage out of the total number of Directors

The Directors come from diverse business and professional backgrounds appropriate to the requirement of the business of the Company. The Board endeavours to support the expansion of the Board membership by identifying appropriate candidates who will bring further skills, insights and value to the business so that we have a well-balanced composition of Executive Directors and Non-executive Directors.

Continuous professional development

Each newly appointed Director receives comprehensive, formal and tailored induction program to ensure that he/she has an overview of the business and operations of the Group and a proper understanding of the Esprit Corporate Governance Code, his/her responsibilities and obligations under the Listing Rules and applicable laws and regulatory requirements.

Continuous professional development programs are provided for Directors to develop and refresh their knowledge, skills and understanding of the business and markets in which the Group operates. All Directors were provided with Esprit and industry news, monthly updates, research reports and other reading materials of the Group's business and the industry and regulatory environments in which the Group operates.

Participation in Director's continuous professional development program during the financial year is summarized as follows:

	Reading materials/ attending professional briefings or seminars or conferences relating to regulatory updates and directors' duties	Reading materials/ attending professional briefings or seminars or conferences relating to business and industry
Executive Directors		
Jose Manuel MARTINEZ GUTIERREZ	✓	✓
Thomas TANG Wing Yung	✓	✓
Non-executive Director		
Jürgen Alfred Rudolf FRIEDRICH	✓	✓
Independent Non-executive Directors		
Raymond OR Ching Fai	✓	✓
Paul CHENG Ming Fun	✓	✓
José María CASTELLANO RIOS	✓	✓
Alexander Reid HAMILTON	✓	✓
Carmelo LEE Ka Sze	✓	✓
Norbert Adolf PLATT	✓	✓
Company Secretary		
Florence NG Wai Yin	✓	✓

Chairman and Group Chief Executive Officer

Dr Raymond OR Ching Fai is the Chairman of the Board and Mr Jose Manuel MARTINEZ GUTIERREZ is the Group Chief Executive Officer. The role of the Board's Chairman is to provide leadership in order to enable the Board to discharge its function effectively, while the Group Chief Executive Officer focuses on managing and controlling the business of the Group. The roles of the Board's Chairman and the Group Chief Executive Officer are clearly outlined to ensure there is a key distinction between the two positions and are exercised by different individuals.

Non-executive Directors

During the year, the Non-executive Directors (a majority of whom are independent) provided the Group with a wide range of expertise and experience. Their active participation in the Board meetings and Board Committees meetings brought independent judgment on issues relating to the Group's strategy, performance and management process, taking into account the interests of all shareholders of the Company.

Non-executive Directors of the Company have not been appointed for a specific term. Under code provision A.4.1 of the CG Code, non-executive directors should be appointed for a specific term, subject to re-election. Nevertheless, under bye-law 87 of the Company's Bye-laws, all Directors, including Non-executive Directors, of the Company are subject to retirement by rotation and re-election in the annual general meeting of the Company ("AGM") and each Director is effectively appointed under an average term of not more than three years.

Directors' responsibilities for the consolidated financial statements

The Directors are responsible for overseeing the preparation of the consolidated financial statements for the year ended 30 June 2017, to ensure that they give a true and fair view of the state of affairs of the Group and of its profit and cash flows for that financial year. In respect of the consolidated financial statements for the year ended 30 June 2017, the Directors are satisfied that management have selected appropriate accounting policies, applied them consistently in accordance with the International Financial Reporting Standards and made judgments and estimates that are prudent and reasonable, and have prepared the consolidated financial statements on the going concern basis.

The Directors are responsible for ensuring the maintenance of proper accounting records, safeguarding of the assets of the Company and taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' securities transactions

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 of the Listing Rules. The Company has made specific enquiry with all Directors and all of them confirmed that they have complied with the required standard set out in the Model Code for the financial year ended 30 June 2017.

Furthermore, the Company has established written guidelines in respect to securities transactions by the Directors and relevant employees to ensure there are no improper dealings.

Board committees

To oversee particular aspects of the Company's affairs and to assist in the execution of its responsibilities, the Board has established five Board Committees, namely the Audit Committee, the Nomination Committee, the Remuneration Committee, the Risk Management Committee and the General Committee. Terms of reference of the Audit Committee, the Nomination Committee and the Remuneration Committee are available on the Company's website and HKExnews website. The terms of reference are updated from time to time with reference to best corporate governance practices in the market and the Listing Rules. A summary of the membership and responsibilities and duties of each Board Committee performed during the year is included below.

Audit Committee

Members:
Alexander Reid HAMILTON (Chairman)
José María CASTELLANO RIOS
Norbert Adolf PLATT

Responsibilities include, amongst other things, the following:

- Provide an independent review of the effectiveness of the financial reporting process including the adequacy of the resources, qualifications, experience of staff of the accounting, internal audit and financial reporting function, and their training programs and budget;
- Review of the internal control system, including the whistleblowing arrangements, and risk management system;
- Review of financial information of the Company;
- Oversee the audit process and the Company's relations with the auditors; and
- Perform other duties as assigned by the Board.

The Audit Committee currently comprises three Independent Non-executive Directors. The Audit Committee met four times during the year. The attendance record of the Audit Committee members is recorded in the "Meetings attended/held" section above. The Audit Committee is provided with sufficient resources to discharge its duties and meets regularly with management, internal auditors and external auditors and reviews their reports. The Audit Committee also has established a whistleblowing policy and system. Our Group Chief Financial Officer, external auditors, internal auditors and senior management are invited to attend the meetings to answer questions raised by the Audit Committee.

Audit Committee (continued)

Duties performed during the year include, amongst other things, the following:

- Reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal control, and financial reporting matters including the review of the interim results and annual results of the Group for the year ended 30 June 2017;
- Reviewed the nature, scope and findings of internal and external audits, and the Company's treasury activities, tax issue and liquidity; and
- Reviewed the fees for audit and non-audit services to the external auditors.

Auditor's remuneration

The Audit Committee has reviewed the fees for audit and non-audit services to the external auditors for the financial years ended 30 June 2017 and 2016. A summary of which is as follows:

	2017 HK\$ million	2016 HK\$ million
Nature of the services		
Audit services	15	15
Other services	2	2
	17	17

Internal audit function

The Company's internal audit function ("Internal Audit") reports directly to the Audit Committee. Internal Audit is responsible for performing regular and systematic reviews of the risk management and internal control systems. The reviews provide reasonable assurance that the risk management and internal control systems continue to operate satisfactorily and effectively within the Group and the Company. Where specialist skills are required, Internal Audit engages an outside professional firm to assist them in their reviews. The attainment of such objectives involves the following activities being carried out by Internal Audit:

- Reviewing and appraising the soundness, adequacy and application of operational, financial, compliance and other controls and promoting effective internal control in the Group and the Company;
- Appraise the risk management system to ensure the full compliance with the requirements under the risk management policy (the "Risk Management Policy") adopted by the Board;
- Ascertaining the extent of compliance with established policies, procedures and statutory requirements;
- Ascertaining the extent to which the Group's and the Company's assets are accounted for, managed, and safeguarded from losses of all kinds;
- Appraising the reliability and usefulness of information for reporting to management;
- Recommending improvements to the existing systems of risk management and internal control; and
- Carrying out investigations and special reviews requested by management and/or the Audit Committee of the Board.

Nomination Committee

Members:

Raymond OR Ching Fai (Chairman)
Paul CHENG Ming Fun
Alexander Reid HAMILTON
Carmelo LEE Ka Sze

Responsibilities include, amongst other things, the following:

- Review and recommend the structure, size and composition of the Board;
- Review and monitor the implementation of the Board Diversity Policy to ensure its effectiveness;
- Identify and recommend individuals suitably qualified to become Board member(s), selection of candidates for nomination to the Board will be based on the aforesaid aspects of diversity;
- Assess the independence of Independent Non-executive Directors;
- Recommend to the Board on relevant matters relating to the appointment or re-election of Directors and succession planning for Directors;
- Keep under review the leadership needs of the organization with a view to ensuring the Company can compete effectively in the market place; and
- Make recommendations concerning membership of the Audit Committee, the Nomination Committee, the Remuneration Committee, the Risk Management Committee and the General Committee.

The Nomination Committee currently comprises four Independent Non-executive Directors. The Nomination Committee met twice during the year. The attendance record of the Nomination Committee members is set out in the "Meetings attended/held" section above.

Duties performed during the year:

- Reviewed the structure, size and composition of the Board;
- Assessed the independence of the Independent Non-executive Directors;
- Reviewed the implementation of the Board Diversity Policy. More information on the diversity of the Board is set out in the "Board effectiveness" section above;
- Provided recommendation to the Board on the re-election of Directors standing for re-election at the 2016 AGM; and
- Reviewed the succession plan of senior management of the Group.

Remuneration Committee

Members:

Paul CHENG Ming Fun (Chairman)
Jose Manuel MARTINEZ GUTIERREZ
Jürgen Alfred Rudolf FRIEDRICH
Carmelo LEE Ka Sze
Norbert Adolf PLATT

Responsibilities include, amongst other things, the following:

- Recommend to the Board on the Group's policy and structure for all Directors' and senior management's remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;
- Determine specific remuneration packages of all individual Executive Directors and senior management;
- Review and approve the compensation payable to Executive Directors and senior management for any loss or termination of office or appointment; and those for dismissal or removal of Directors for misconduct;
- Recommend to the Board on the remuneration for Non-executive Directors;
- Review and approve management's remuneration proposals with reference to the Board's corporate goals and objectives;
- Review the design of share incentive schemes for approval by the Board and shareholders; and
- Ensure that no Director or any of his associates is involved in deciding his own remuneration.

The Remuneration Committee currently comprises four Non-executive Directors, three of whom are independent, and one Executive Director. The Remuneration Committee met four times during the year. The attendance record of the Remuneration Committee members is set out in the "Meetings attended/held" section above.

Duties performed during the year:

- Reviewed and determined the remuneration packages of the Executive Directors and senior management;
- Reviewed and approved key performance indicators for the bonus opportunity of the Executive Directors and senior management for the financial year ending 30 June 2018;
- Reviewed the proposal for grant of share options to eligible persons of the Company and the Group pursuant to the share option scheme of the Company; and
- Reviewed the proposal for grant of awarded shares to selected employees of the Company and the Group.

Remuneration policy

The fundamental policy of the Group's remuneration and incentive scheme is to link total compensation of Executive Directors, senior management and employees with reference to the corporate goals and objectives set by the Board. Remuneration package is performance-based and takes into account business performance, market practice and competitive market conditions in order to attract, motivate and retain talent. The Remuneration Committee should consult the Chairman of the Board and/or the Group Chief Executive Officer about the remuneration proposals for other Executive Directors. The recommended remuneration package comprises salaries, bonus opportunity and long-term incentive plans.

Non-executive Directors are compensated with the aim to fairly represent their efforts and time dedicated to the Board and Board Committee matters and reference is made to the level of remuneration for non-executive directors of listed companies with global operation. The recommended remuneration package comprises annual directorship fee, fee for representation on Board Committees, where appropriate, chairmanship fee and share options.

Risk Management Committee

Members:

Carmelo LEE Ka Sze (Chairman)
Thomas TANG Wing Yung
José María CASTELLANO RIOS

Responsibilities include, amongst other things, the following:

- Review the effectiveness of the Group's risk management function;
- Review and assess the Group's risk appetite annually;
- Review and monitor the Group's risk profiles and ensure an appropriate risk control environment is enforced and maintained;
- Review and assess the methodologies employed by management to identify, measure, manage and/or control risks that may have an impact on the business in accordance with the Group's risk appetite and the Risk Management Policy;
- Review half-yearly risk management report, which shall include, amongst other things, a confirmation from management on the effectiveness of the risk management system; and
- Review and assess the Risk Management Policy.

The Risk Management Committee currently comprises two Independent Non-executive Directors and one Executive Director. The Risk Management Committee met three times during the year. The attendance record of the Risk Management Committee members is set out in the "Meetings attended/held" section above. The Chairman of the Board, Group Chief Executive Officer, Group Chief Financial Officer, senior management, the heads of risk, compliance and internal auditors and external advisors may be invited to attend the meetings as and when appropriate.

The Board has adopted the Risk Management Policy with key objective of ensuring a consistent basis for measuring, controlling, monitoring and reporting risks across the Group at all levels to support the achievement of the organization's strategic objective. It ensures the implementation of a structured risk management framework across the Group, where the responsibilities for identifying, assessing, and managing risks will be shared with frontline staff or business unit owners on an ongoing basis.

Risk Management Committee (continued)

Duties performed during the year:

- Reviewed the half-yearly risk management report (including, amongst other things, confirmation from management the effectiveness of the Group's risk management function);
- Reviewed and assessed the Group's risk appetite;
- Reviewed the top 10 risks of the Group; and
- Reviewed the conclusion of the risk management audit conducted by Internal Audit.

More information about risk management practices of the Group may be found in the "Risk Management and Internal Control" section below.

General Committee

Members:

Jose Manuel MARTINEZ GUTIERREZ
Thomas TANG Wing Yung

Responsibilities include, amongst other things, the following:

Discuss, consider and approve routine corporate administrative matters of the Company such as:

- Routine administration of the 2001 Share Option Scheme and the 2009 Share Option Scheme;
- Issue of new shares upon exercise of share options granted under the share option schemes adopted by the Company;
- Implement share repurchase strategy upon approval by the Board in accordance with the delegated authority;
- Determine at the request of management any person or persons who may be regarded as "relevant employees" pursuant to the Guidelines Regarding Securities Transactions by Employees of the Company;
- Respond to routine enquiries from The Stock Exchange of Hong Kong Limited relating to the continuing obligations of the Company under the Listing Rules;
- Issue statements regarding unusual movements in price and/or trading volume of the shares of the Company; and
- Other administrative matters.

The General Committee currently comprises two Executive Directors. The General Committee met three times during the year. The attendance record of the General Committee members is set out in the "Meetings attended/held" section above.

Duties performed during the year:

- Approved the opening of securities account of the Company; and
- Approved certain banking facilities.

Corporate governance function

The Board is responsible for performing corporate governance duties. The duties of the Board in respect of the corporate governance functions include:

- Developing and reviewing the Company's policies and practices on corporate governance;
- Reviewing and monitoring the training and continuous professional development of Directors and senior management;
- Reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements; and
- Reviewing the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

During the financial year ended 30 June 2017 and up to the date of this report, the Board has performed the corporate governance duties in accordance with the CG Code.

Risk management and internal control

The Board is responsible for the risk management and internal control systems. Risk management is an existing practice of Esprit. Previously, annual High Level Risk Assessment exercises were conducted to evaluate Esprit's risks. In 2015, Esprit implemented the Risk Management Policy to formally outline its risk management and internal control systems in form of a "Three Lines of Defense Model".

First line of defense

The systems begin with management, made up of business unit owners who identify, assess, mitigate and monitor risks as an integral part of Esprit's day-to-day operations. Documentation and reporting of the individual risks and their respective risk ratings and controls is done in the form of Risk Registers which are updated regularly. Members of the senior management whom the business unit owners report into review the Risk Registers and escalate key risks under their purview to the Risk Manager, Mr Thomas TANG Wing Yung (the Group Chief Financial Officer).

In addition, management confirms that they have:

- reviewed Risk Registers of relevant business units across the Group;
- assessed and documented risks in the Risk Registers based on the methodologies and the risk parameters stated in the Risk Management Policy; and
- completed the Risk Registers, established relevant controls, and considered the risk appetite to be appropriate for the Group based on their best knowledge.

Thus, management collectively own, manage and oversee a magnitude of risks, which represent the first line of defense in the "Three Lines of Defense Model".

Risk management and internal control (continued)

Second line of defense

The Risk Manager is responsible for the implementation and maintenance of risk management processes across the Group. Throughout the year, the Risk Manager provides training to management on risk assessment methodologies, reviews the Risk Management Policy, and facilitates a regular risk assessment process and timely communication to the Risk Management Committee. Based on management's assessments, the Risk Manager selects the Top 10 Risks of the Group in consultation with the Group Chief Executive Officer, and reports to the Risk Management Committee. This is the second line of defense in the "Three Lines of Defense Model".

Third line of defense

Internal Audit independently appraises the risk management and internal control systems and reports the results and its opinion to the Audit Committee. This process represents the third line of defense in the "Three Lines of Defense Model".

Governing bodies

The Risk Management Committee in turn reports to the Board, which determines Esprit's risk appetite, evaluates the level of risk Esprit should take and monitors and addresses top risks regularly.

Based on the reports from the Risk Management Committee and the Audit Committee, the Board considers the risk management and internal control systems to be satisfactory as at 30 June 2017 and operating effectively according to the Risk Management Policy.

Company Secretary

The Company Secretary is responsible for, among other things, ensuring that Board procedures are observed, and that the Company's Bye-laws, applicable laws, relevant rules and regulations are complied with. She assists the Chairman of the Board and the Board in implementing and strengthening corporate governance practices and processes of the Company. All Directors have access to the advice and services of the Company Secretary.

The Company Secretary assists the Chairman of the Board in ensuring efficient information flow within the Board and Board Committees and between Directors and senior management. She is responsible for facilitating induction program of new Directors and the continuous professional development of existing Directors. She assists the Chairman of the Board and Chairmen of the Board Committees in the development of the agendas for the Board meetings and Board Committee meetings. She also attends and prepares minutes for Board meetings and Board Committee meetings.

Shareholders' rights and investor relations

Shareholders communication policy

The Company has adopted a shareholders communication policy to ensure that shareholders, and in appropriate circumstances, the investment community at large, are provided with ready, equal and timely access to balanced and understandable information about the Company (including its financial performance, strategic goals and plans, material developments, governance and risk profile), in order to enable shareholders to exercise their rights in an informed manner, and to allow shareholders and the investment community to engage actively with the Company.

Enquiries of shareholders

Enquiries of shareholders can be sent to the Company either by email at esprit-ir@esprit.com or by post to the Company's Hong Kong headquarters at 45/F, Enterprise Square Three, 39 Wang Chiu Road, Kowloon Bay, Kowloon, Hong Kong. Shareholders can also make enquiries to the Board directly at the general meetings of the Company.

How shareholders can convene a special general meeting

Shareholders holding at the date of the deposit of the requisition not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company can at all times submit a signed written requisition, specifying the purpose, to the Board or the Company Secretary to require the convening of a special general meeting ("SGM") and deposit the requisition at the Company's Hong Kong headquarters at 45/F, Enterprise Square Three, 39 Wang Chiu Road, Kowloon Bay, Kowloon, Hong Kong; and such meeting shall be held within two months after the deposit of such requisition. Upon receiving a valid request from shareholder(s), the Board shall within twenty-one days of such deposit proceed to convene a SGM. If within twenty-one days of such deposit the Board fails to proceed to convene the SGM, the requisitioner(s), or any of them representing more than one half of the total voting rights of all of them, themselves may convene a SGM, but any SGM so convened shall not be held after the expiration of three months from twenty-one days of the deposit.

Shareholders' rights and investor relations (continued)

Procedures for putting forward proposals at general meeting

Shareholders representing not less than one-twentieth of the total voting rights of all shareholders having a right to vote at the AGM at the date of the requisition or who are no less than 100 shareholders can submit a written requisition to the Board or the Company Secretary to propose a resolution at the AGM. The written requisition must state the resolution, accompanied by a statement of not more than one thousand words with respect to the matter referred to in the proposed resolution or the business to be dealt with at the AGM and contain the signatures of all the requisitionist(s) (which may be contained in one document or in several documents in like form). Such requisition must be deposited at the Company's Hong Kong headquarters at 45/F, Enterprise Square Three, 39 Wang Chiu Road, Kowloon Bay, Kowloon, Hong Kong not less than six weeks before the AGM in the case of a requisition requiring notice of a resolution and not less than one week before the AGM in the case of any other requisition and be accompanied by a sum of money reasonably sufficient to meet the Company's expenses in serving the notice of the resolution and circulating the statement given by the requisitionists to all shareholders in accordance with the requirements under the applicable laws and rules. Provided that if, after a copy of the requisition requiring notice of a resolution has been deposited at the Company's Hong Kong headquarters, an AGM is called for a date six weeks or less after the copy has been deposited, the copy though not deposited within the time required shall be deemed to have been properly deposited for the purposes thereof.

Voting by poll

The Company's shareholders are adequately informed of their rights and the procedures to demand voting by poll in general meetings at which their approvals are sought through disclosure in the Company's circulars to shareholders.

At the 2016 AGM, the Chairman of the meeting demanded voting by poll on all resolutions put forth at the meeting. The detailed procedures for conducting a poll were explained to the shareholders on commencement of the 2016 AGM. Tricor Secretaries Limited, the Company's branch share registrar in Hong Kong, was appointed as the scrutineer for voting by poll at the 2016 AGM to ensure the votes were properly counted.

While it was only since 2009 that rule 13.39(4) of the Listing Rules has become effective which sets out that any vote of shareholders at a general meeting must be taken by poll, we have been voting by poll on all resolutions put forth to the shareholders since 2003.

Transparency and disclosure

The Company recognizes the importance of timely quarterly trading updates, interim and non-selective disclosure of information. Latest information of the Company including annual and interim reports, announcements and press releases, constitutional documents, presentations, and webcasts are updated on Esprit's Investor Relations website (www.espritholdings.com) in a timely manner.

Esprit actively distributes information on the annual and interim results, and the first and the third quarter trading updates through email alerts. In addition, a results briefing is organized to ensure that members of the public has access to first-hand information on the results announcement. A live webcast is available along with an archive of the webcast on Esprit's Investor Relations website so that the results briefing is easily and readily accessible to individuals all over the world in English.

Esprit is committed to a timely disclosure of information. Aside from annual and interim reports, since 2009, Esprit has voluntarily commenced releasing quarterly trading update to further increase the transparency of the Company. Since 2004, Esprit has adopted the International Financial Reporting Standards in order for the financial results to be comprehended by international audiences in a consistent manner. Another illustration of the Company's efforts in enhancing shareholders' understanding in its operation is the inclusion of a glossary of the terms commonly used within Esprit since Annual Report FY08/09.

Maintaining a two-way communication with shareholders is one of the main goals of Esprit and the Company's AGM is one platform for shareholders to exchange views directly with the Board. Poll results are made publicly available on the same day of the meeting, typically in the space of a few hours, again to ensure the timely disclosure of information.

Pro-active investor relations

To ensure our investors have a better understanding of the Company, our management engages in a pro-active investor relations program. Our Group Chief Financial Officer and Investor Relations Department communicate with research analysts and institutional investors in an on-going manner. In addition, our Executive Director(s) meet with research analysts and the press after our results announcements, attend major investors' conferences, participate in international non-deal roadshows ("NDRs"), and host Investor Relations Day and Analysts Day to communicate the Company's financial performance and strategic priorities.

Shareholders' rights and investor relations (continued)

Conferences and NDRs attended in FY16/17

Date	Event	Organizer	Location
September 2016	FY15/16 Post Final Results Roadshow	UBS	Hong Kong
		Deutsche Bank	Boston New York
		J.P. Morgan	London Edinburgh
November 2016	Morgan Stanley Fifteenth Annual Asia Pacific Summit	Morgan Stanley	Singapore
February - March 2017	FY16/17 Post Interim Results Roadshow	HSBC	London
		UBS	Boston New York San Francisco
March 2017	Morgan Stanley Seventh Annual Hong Kong Investor Summit	Morgan Stanley	Hong Kong

American depositary receipt program

The Company has established a Level 1 sponsored American Depositary Receipt program with details as stated hereunder.

Symbol	ESPGY
CUSIP	29666V204
ISIN	US29666V2043
Ratio	2 ordinary shares: 1 ADR
Country	Hong Kong
Effective Date	18 November 2009
Depository	Deutsche Bank Trust Company Americas

Other stakeholders

In addition to its investors, the Company is concerned about other stakeholders and for years has factored in corporate social responsibility into every business decision. In an effort to provide more clarity on the Company's corporate social responsibility efforts, a summary of Sustainability Report of the Company has been incorporated into this Annual Report in the section headed "Sustainability". The Sustainability Report is available on the Company's website at <http://www.esprit.com/sustainability>.

Professional advice

The Company has established a policy enabling all Directors to seek independent professional advice in appropriate circumstances, at the Company's expense. The Board provides separate independent professional advice to Directors to assist the relevant Director or Directors to discharge their duties to the Company as and when requested or necessary.

05.2 Report of the Directors

The Directors present their annual report and the audited consolidated financial statements of the Group for the year ended 30 June 2017.

Principal activities

The Company is an investment holding company. The activities of the principal subsidiaries are shown in note 32 to the consolidated financial statements. The Group is principally engaged in retail and wholesale distribution and licensing of quality fashion and non-apparel products designed under its own internationally-known Esprit brand name in Germany, Rest of Europe, Asia Pacific and via eshop platforms.

Results and appropriations

The results of the Group and appropriations of the Company are set out in the consolidated income statement on page 77 of this annual report and in the accompanying notes to the consolidated financial statements.

The Directors maintain the dividend payout ratio of 60% of basic earnings per share. In view of a small net profit recorded by the Group for the year ended 30 June 2017, the Directors have not recommended the distribution of a final dividend for the year ended 30 June 2017 (FY15/16: nil). Relevant information is set out in note 9 to the consolidated financial statements.

Reserves

Movements in reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on page 81 of this annual report and in note 31 to the consolidated financial statements respectively.

Business review

A fair review of the business of the Group as required pursuant to Schedule 5 to the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) (the "Companies Ordinance"), comprising an analysis of the Group performance using financial key performance indicators during the year, description of the principal risks and uncertainties facing the Group, particulars of important events affecting the Group that have occurred since the end of the financial year as well as indication of likely future development in the business of the Group are set out in the sections headed "To our shareholders", "Highlights in FY16/17" and "Management discussion and analysis" on pages 8 to 24 and pages 28 to 39 of this annual report respectively. Discussions on the environmental policies and performance of the Group, compliance by the Group with the relevant laws and regulations that have a significant impact on the Group and the account of the Group's key relationships with its stakeholders are contained in the summary of Sustainability Report of the Company in the section headed "Sustainability" on pages 42 to 45 of this annual report. Full version of the Sustainability Report of the Company for FY16/17 is available on the Company's website at <http://www.esprit.com/sustainability>.

Share capital

During the year, no ordinary share of the Company of HK\$0.10 each was issued in relation to the share option scheme adopted on 26 November 2001 (the "2001 Share Option Scheme") and the share option scheme adopted on 10 December 2009 (the "2009 Share Option Scheme").

Further details of movements in share capital of the Company are set out in note 19 to the consolidated financial statements.

Financial summary

A summary of the consolidated results and the consolidated statement of financial position of the Group for the last ten financial years is set out on pages 118 and 119 of this annual report respectively.

Property, plant and equipment

Details of movements in property, plant and equipment of the Group during the year are set out in note 14 to the consolidated financial statements.

Pension schemes

Particulars of pension schemes of the Group are set out in note 11 to the consolidated financial statements.

Principal subsidiaries

Particulars of the Company's principal subsidiaries as at 30 June 2017 are set out in note 32 to the consolidated financial statements.

Charitable donations

During the year, the Group made charitable donations totaling HK\$0.4 million.

Major customers and suppliers

During the year, less than 30% of the Group's sales were attributable to the five largest customers and less than 30% of the Group's purchases were attributable to the Group's five largest suppliers.

Equity-linked agreements

No equity-linked agreements were entered into by the Company during the financial year or subsisted at the end of the financial year, save for the 2001 Share Option Scheme, the 2009 Share Option Scheme and the Share Award Scheme as disclosed in "Share option schemes" section and "Share award scheme" section below.

Directors

The Directors of the Company during the financial year and up to the date of this report are:

Executive Directors

Jose Manuel MARTINEZ GUTIERREZ (Group Chief Executive Officer)
Thomas TANG Wing Yung (Group Chief Financial Officer)

Non-executive Director

Jürgen Alfred Rudolf FRIEDRICH

Independent Non-executive Directors

Dr Raymond OR Ching Fai (Chairman)
Paul CHENG Ming Fun (Deputy Chairman)
Dr José María CASTELLANO RIOS
Alexander Reid HAMILTON
Carmelo LEE Ka Sze
Norbert Adolf PLATT

Under bye-law 87(1) of the Company's Bye-laws, one-third of the Directors must retire, thus becoming eligible for re-election at each AGM. Furthermore, any Director who was not elected or re-elected at each of the preceding two AGMs must retire, thus becoming eligible for re-election at the AGM. This year, Mr Thomas TANG Wing Yung, Mr Jürgen Alfred Rudolf FRIEDRICH and Dr José María CASTELLANO RIOS will retire at the forthcoming AGM and being eligible, offer themselves for re-elections. The biographical details of the retiring Directors will be set out in a circular to shareholders of the Company to assist shareholders in making an informed decision on their re-elections. None of the Directors standing for re-election at the forthcoming AGM 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). They have no fixed term of service with the Company and are subject to retirement by rotation and re-election in accordance with the Company's Bye-laws.

Directors' emoluments

Particulars of the remuneration of the Director and senior management for the financial year disclosed pursuant to section 383 of the Companies Ordinance and Appendix 16 of the Listing Rules are set out in note 12 to the consolidated financial statements. The interests of the Directors in share options and awarded shares are set out in "Share option schemes" section and "Share award scheme" section below. Information about the remuneration policy of the Group is set out in the section headed "Corporate governance report" on pages 48 to 56 of this annual report.

Long-term incentive schemes

The Company has two share option schemes and the share award scheme at different times to recognize the contribution of certain employees and help to retain them for the Group's operations and further development. One of the share option schemes had been terminated and no further share options could thereafter be granted. However, all remaining provisions of such share option scheme remain in full force and effect to govern the exercise of all the share options granted under such share option scheme prior to its expiration.

Directors' material interests in transactions, arrangements or contracts

No transactions, arrangement and contracts 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 save as disclosed in "Related party transactions and connected transactions" section below.

Permitted indemnity provision

The Company's Bye-laws provide that the Directors, secretary and other officers of the Company for the time being shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they or any of them shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty. Such provisions were in force during the course of the financial year and remained in force as of the date of this report.

Directors' interests and short positions in shares, underlying shares and debentures

As at 30 June 2017, the interests or short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) ("SFO")) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code contained in Appendix 10 of the Listing Rules, were as follows:

Name of Directors	Capacity	Beneficial interest in shares	Beneficial interest in unlisted underlying shares (Note 6)	Total number of shares	Approximate percentage of aggregate interest to total issued share capital
Jose Manuel MARTINEZ GUTIERREZ	Beneficial owner	1,500,000	5,800,000	9,369,984	0.48%
	Beneficiary of a trust under the Share Award Scheme	2,069,984	-		
Thomas TANG Wing Yung	Beneficial owner	100,000	2,900,000	3,717,014	0.19%
	Beneficiary of a trust under the Share Award Scheme	717,014	-		
Raymond OR Ching Fai	Beneficial owner (Note 1)	3,000,000	450,000	3,450,000	0.17%
Paul CHENG Ming Fun	Beneficial owner (Note 2)	881,836	280,000	2,043,778	0.10%
	Interest of spouse (Note 3)	881,942	-		
Jürgen Alfred Rudolf FRIEDRICH	Beneficial owner (Note 4)	45,500,000	110,000	45,663,669	2.34%
	Interest of spouse (Note 5)	53,669	-		
Alexander Reid HAMILTON	Beneficial owner	-	110,000	110,000	0.00%
Carmelo LEE Ka Sze	Beneficial owner	-	100,000	100,000	0.00%
Norbert Adolf PLATT	Beneficial owner	-	110,000	110,000	0.00%

Notes:

- The interests of 200,000 shares were held jointly by Dr Raymond OR Ching Fai and his spouse, Mrs OR WONG Lai Ning.
- The shares were held jointly by Mr Paul CHENG Ming Fun and his spouse, Mrs Janet Mary CHENG.
- The shares were deemed to be held by the spouse of Mr Paul CHENG Ming Fun, Mrs Janet Mary CHENG.
- Mr Jürgen Alfred Rudolf FRIEDRICH has entered into a securities lending agreement with a third party for the interest of 10,000,000 shares beneficially owned by him.
- The shares were held by the spouse of Mr Jürgen Alfred Rudolf FRIEDRICH, Mrs Anke Beck FRIEDRICH.
- The interests of the Directors and chief executives of the Company in the underlying shares of equity derivatives in respect of share options and awarded shares of the Company are detailed in sections of "Share option schemes" and "Share award scheme" below respectively.
- All interests disclosed above represent long position in the shares and underlying shares of the Company.

Save as disclosed above, as at 30 June 2017, none of the Directors and chief executives of the Company or their respective associates had any interests or short positions, whether beneficial or non-beneficial, in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Share option schemes

2001 Share Option Scheme

The Company adopted the 2001 Share Option Scheme on 26 November 2001 and the scheme was terminated on 10 December 2009. Notwithstanding its termination, the share options which were granted and remained outstanding and/or committed as of that date continued to follow the provisions of the 2001 Share Option Scheme and the Listing Rules. Particulars of the 2001 Share Option Scheme are set out in note 19 to the consolidated financial statements. A summary of the movements of the outstanding share options under the 2001 Share Option Scheme during the year is as follows:

	Date of grant (dd/mm/yyyy)	Exercise price (HK\$)	Vesting date (dd/mm/yyyy)	Exercise period (dd/mm/yyyy)	Number of share options				As at 30/06/2017
					As at 01/07/2016	Granted	Exercised	Lapsed	
Employees	09/12/2010	37.92	09/12/2011	09/12/2011 - 08/12/2016	60,000	-	-	60,000	-
			09/12/2012	09/12/2012 - 08/12/2016	60,000	-	-	60,000	-
			09/12/2013	09/12/2013 - 08/12/2016	60,000	-	-	60,000	-
			09/12/2014	09/12/2014 - 08/12/2016	60,000	-	-	60,000	-
			09/12/2015	09/12/2015 - 08/12/2016	60,000	-	-	60,000	-
	13/12/2010	38.10	13/12/2011	13/12/2011 - 12/12/2016	51,000	-	-	51,000	-
			13/12/2012	13/12/2012 - 12/12/2016	51,000	-	-	51,000	-
			13/12/2013	13/12/2013 - 12/12/2016	51,000	-	-	51,000	-
			13/12/2014	13/12/2014 - 12/12/2016	51,000	-	-	51,000	-
			13/12/2015	13/12/2015 - 12/12/2016	51,000	-	-	51,000	-
	11/02/2011	40.40	11/02/2012	11/02/2012 - 10/02/2017	60,000	-	-	60,000	-
			11/02/2013	11/02/2013 - 10/02/2017	60,000	-	-	60,000	-
			11/02/2014	11/02/2014 - 10/02/2017	60,000	-	-	60,000	-
			11/02/2015	11/02/2015 - 10/02/2017	60,000	-	-	60,000	-
			11/02/2016	11/02/2016 - 10/02/2017	60,000	-	-	60,000	-
	09/12/2011	11.09	09/12/2012	09/12/2012 - 08/12/2017	60,000	-	-	-	60,000
			09/12/2013	09/12/2013 - 08/12/2017	60,000	-	-	-	60,000
			09/12/2014	09/12/2014 - 08/12/2017	60,000	-	-	-	60,000
			09/12/2015	09/12/2015 - 08/12/2017	60,000	-	-	-	60,000
			09/12/2016	09/12/2016 - 08/12/2017	60,000	-	-	-	60,000
Total					1,155,000	-	-	855,000	300,000

Note:
No share options were canceled under the 2001 Share Option Scheme during the year.

Share option schemes (continued)

2009 Share Option Scheme

The Company adopted the 2009 Share Option Scheme on 10 December 2009. Particulars of the 2009 Share Option Scheme are set out in note 19 to the consolidated financial statements. A summary of the movements of the outstanding share options under the 2009 Share Option Scheme, including the share options granted during the year is as follows:

	Date of grant (dd/mm/yyyy)	Exercise price (HK\$)	Vesting date (dd/mm/yyyy)	Exercise period (dd/mm/yyyy)	Number of share options				As at 30/06/2017
					As at 01/07/2016	Granted	Exercised	Lapsed	
Directors									
Jose Manuel MARTINEZ GUTIERREZ	11/03/2013	10.04	11/03/2016	11/03/2016 - 10/03/2023	3,000,000	-	-	-	3,000,000
			11/03/2017	11/03/2017 - 10/03/2023	1,000,000	-	-	-	1,000,000
			11/03/2018	11/03/2018 - 10/03/2023	1,000,000	-	-	-	1,000,000
	04/11/2013	14.18	04/11/2016	04/11/2016 - 03/11/2023	400,000	-	-	-	400,000
	31/10/2014	10.124	31/10/2017	31/10/2017 - 30/10/2024	400,000	-	-	-	400,000
	In aggregate				5,800,000	-	-	-	5,800,000
Thomas TANG Wing Yung	11/03/2013	10.04	11/03/2016	11/03/2016 - 10/03/2023	1,500,000	-	-	-	1,500,000
			11/03/2017	11/03/2017 - 10/03/2023	400,000	-	-	-	400,000
			11/03/2018	11/03/2018 - 10/03/2023	400,000	-	-	-	400,000
	04/11/2013	14.18	04/11/2016	04/11/2016 - 03/11/2023	300,000	-	-	-	300,000
	31/10/2014	10.124	31/10/2017	31/10/2017 - 30/10/2024	300,000	-	-	-	300,000
	In aggregate				2,900,000	-	-	-	2,900,000
Raymond OR Ching Fai	30/06/2014	11.00	30/06/2015	30/06/2015 - 29/06/2024	450,000	-	-	-	450,000
Paul CHENG Ming Fun	30/06/2014	11.00	30/06/2015	30/06/2015 - 29/06/2024	280,000	-	-	-	280,000
Jürgen Alfred Rudolf FRIEDRICH	30/06/2014	11.00	30/06/2015	30/06/2015 - 29/06/2024	110,000	-	-	-	110,000
Alexander Reid HAMILTON	30/06/2014	11.00	30/06/2015	30/06/2015 - 29/06/2024	110,000	-	-	-	110,000
Carmelo LEE Ka Sze	30/06/2014	11.00	30/06/2015	30/06/2015 - 29/06/2024	100,000	-	-	-	100,000
Norbert Adolf PLATT	30/06/2014	11.00	30/06/2015	30/06/2015 - 29/06/2024	110,000	-	-	-	110,000
Employees	27/09/2010	43.00	27/09/2013	27/09/2013 - 26/09/2020	2,080,000	-	-	480,000	1,600,000
	27/09/2011	8.76	27/09/2014	27/09/2014 - 31/01/2017	300,000	-	-	300,000	-
			(Note 2)	(Note 2)					
			27/09/2014	27/09/2014 - 26/09/2021	5,175,000	-	-	1,125,000	4,050,000
12/12/2012	12.32	12/12/2015	12/12/2015 - 31/01/2017	150,000	-	-	150,000	-	
		(Note 3)	(Note 3)						
		12/12/2015	12/12/2015 - 11/12/2022	3,365,000	-	-	550,000	2,815,000	

Share option schemes (continued)

2009 Share Option Scheme (continued)

	Date of grant (dd/mm/yyyy)	Exercise price (HK\$)	Vesting date (dd/mm/yyyy)	Exercise period (dd/mm/yyyy)	Number of share options				
					As at 01/07/2016	Granted	Exercised	Lapsed	As at 30/06/2017
Employees (continued)	11/03/2013	10.04	11/03/2016	11/03/2016 - 31/01/2017	45,000	-	-	45,000	-
			(Note 4)	(Note 4)					
			11/03/2016	11/03/2016 - 10/03/2023	4,929,000	-	-	210,000	4,719,000
			11/03/2017	11/03/2017 - 10/03/2023	1,623,000	-	-	50,000	1,573,000
			11/03/2018	11/03/2018 - 10/03/2023	1,623,000	-	-	50,000	1,573,000
	04/11/2013	14.18	04/11/2016	04/11/2016 - 31/01/2017	150,000	-	-	150,000	-
			(Note 5)	(Note 5)					
			04/11/2016	04/11/2016 - 03/11/2023	7,480,000	-	-	700,000	6,780,000
			04/11/2017	04/11/2017 - 03/11/2023	660,000	-	-	-	660,000
			04/11/2018	04/11/2018 - 03/11/2023	660,000	-	-	-	660,000
	21/03/2014	13.592	21/03/2017	21/03/2017 - 20/03/2024	300,000	-	-	-	300,000
			21/03/2018	21/03/2018 - 20/03/2024	100,000	-	-	-	100,000
			21/03/2019	21/03/2019 - 20/03/2024	100,000	-	-	-	100,000
	30/06/2014	11.00	30/06/2017	30/06/2017 - 29/06/2024	180,000	-	-	-	180,000
			30/06/2018	30/06/2018 - 29/06/2024	60,000	-	-	-	60,000
			30/06/2019	30/06/2019 - 29/06/2024	60,000	-	-	-	60,000
	31/10/2014	10.124	23/03/2015	23/03/2015 - 30/10/2024	60,000	-	-	-	60,000
			23/03/2015	23/03/2015 - 30/10/2024	20,000	-	-	-	20,000
			23/03/2015	23/03/2015 - 30/10/2024	20,000	-	-	-	20,000
			31/10/2017	31/10/2017 - 30/10/2024	8,195,000	-	-	1,000,000	7,195,000
			31/10/2018	31/10/2018 - 30/10/2024	40,000	-	-	-	40,000
			31/10/2019	31/10/2019 - 30/10/2024	40,000	-	-	-	40,000
	13/10/2015	6.55	13/10/2018	13/10/2018 - 12/10/2025	8,550,000	-	-	900,000	7,650,000
			13/10/2019	13/10/2019 - 12/10/2025	600,000	-	-	-	600,000
			13/10/2020	13/10/2020 - 12/10/2025	600,000	-	-	-	600,000
			23/12/2015	13/10/2018 - 12/10/2025	125,000	-	-	-	125,000
	03/05/2016	6.82	03/05/2019	03/05/2019 - 02/05/2026	240,000	-	-	-	240,000
			03/05/2020	03/05/2020 - 02/05/2026	80,000	-	-	-	80,000
			03/05/2021	03/05/2021 - 02/05/2026	80,000	-	-	-	80,000
			31/10/2016	31/10/2019 - 30/10/2026	-	6,350,000	-	250,000	6,100,000
Total					57,550,000	6,350,000	-	5,960,000	57,940,000

Notes:

- The closing price of the shares of the Company immediately before the share options granted on 31 October 2016 was HK\$6.91.
- With effect from 23 February 2016, the exercise period of 300,000 share options at exercise price of HK\$8.76 was changed from the period of 27 September 2014 to 26 September 2021 to the period of 27 September 2014 to 31 January 2017.
- With effect from 23 February 2016, the exercise period of 150,000 share options at exercise price of HK\$12.32 was changed from the period of 12 December 2015 to 11 December 2022 to the period of 12 December 2015 to 31 January 2017.
- With effect from 23 February 2016, the exercise period of 45,000 share options at exercise price of HK\$10.04 was changed from the period of 11 March 2016 to 10 March 2023 to the period of 11 March 2016 to 31 January 2017.
- With effect from 23 February 2016, the exercise period of 150,000 share options at exercise price of HK\$14.18 was changed from the period of 4 November 2016 to 3 November 2023 to the period of 4 November 2016 to 31 January 2017.
- No share options were canceled under the 2009 Share Option Scheme during the year.

Share award scheme

The Board of Directors has adopted the Employees' Share Award Scheme (the "Share Award Scheme") on 17 March 2016. Particulars of the Share Award Scheme are set out in note 19 to the consolidated financial statements. A summary of the movements of the outstanding awarded shares under the Share Award Scheme, including the awarded shares granted during the year is as follows:

	Date of grant (dd/mm/yyyy)	Vesting date (dd/mm/yyyy)	Number of awarded shares				As at 30/06/2017
			As at 01/07/2016	Granted	Vested	Lapsed	
Directors							
Jose Manuel	29/04/2016	13/10/2017	758,932	-	-	-	758,932
MARTINEZ	31/10/2016	31/10/2018	-	655,526	-	-	655,526
GUTIERREZ	31/10/2016	31/10/2019	-	655,526	-	-	655,526
	In aggregate		758,932	1,311,052	-	-	2,069,984
Thomas TANG							
Wing Yung	29/04/2016	13/10/2017	347,844	-	-	-	347,844
	31/10/2016	31/10/2018	-	184,585	-	-	184,585
	31/10/2016	31/10/2019	-	184,585	-	-	184,585
	In aggregate		347,844	369,170	-	-	717,014
Employees							
	29/04/2016	13/10/2017	2,276,796	-	-	-	2,276,796
	31/10/2016	31/10/2018	-	1,737,731	-	-	1,737,731
	31/10/2016	31/10/2019	-	1,737,731	-	-	1,737,731
Total			3,383,572	5,155,684	-	-	8,539,256

Accounting treatment for share options and awarded shares

Details of accounting treatment for share options and awarded shares are set out in note 19 to the consolidated financial statements.

Directors' rights to acquire shares or debentures

Save as disclosed above, at no time during the year was the Company or its subsidiaries a party to any arrangement that enabled the Directors of the Company or any of their spouses or children under the age of 18 to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Substantial shareholders' interests

As at 30 June 2017, the following shareholders (other than the Directors and chief executives of the Company whose interests or short positions in the shares and underlying shares of the Company disclosed above) had interests or short positions in the shares and underlying shares of the Company which were recorded in the register required to be kept by the Company under section 336 of the SFO:

Name of shareholders	Capacity	Number of shares (Long position)	Approximate percentage of aggregate interest to total issued share capital	Number of shares (Short position)	Approximate percentage of aggregate interest to total issued share capital
Massachusetts Financial Services Company (Note 1)	Investment manager	234,700,754	12.07%	-	-
Sun Life Financial, Inc. (Note 1)	Investment manager	234,700,754	12.07%	-	-
HSBC International Trustee Limited (Notes 2 and 3)	Trustee	212,199,541	10.91%	-	-
Total Market Limited (Notes 2 and 3)	Beneficial owner	211,822,656	10.89%	-	-
Spring Forest International Limited (Notes 2 and 3)	Interest in a controlled corporation	211,822,656	10.89%	-	-
YFT Group Limited (Notes 2 and 3)	Interest in a controlled corporation	211,822,656	10.89%	-	-
YFT Holdings Limited (Notes 2 and 3)	Interest in a controlled corporation	211,822,656	10.89%	-	-
Michael YING Lee Yuen (Notes 2 to 4)	Interest in a controlled corporation	211,822,656	10.89%	-	-
Marathon Asset Management LLP (Note 5)	Investment manager	187,797,483	9.65%	-	-

Notes:

1. Massachusetts Financial Services Company ("MFS") is a subsidiary of Sun Life Financial, Inc. ("SLF"). Accordingly, SLF was deemed to be interested in the shares held by MFS and its direct and indirect subsidiaries.
2. The entire issued share capital of Total Market Limited ("Total Market") is held by Spring Forest International Limited, which in turn is a wholly-owned subsidiary of YFT Group Limited ("YFT Group"). YFT Group is a wholly-owned subsidiary of YFT Holdings Limited ("YFT Holdings"). HSBC International Trustee Limited ("HITL") controls 100% of YFT Holdings.
3. HITL, in its capacity as trustee of the discretionary trust set up by Mr Michael YING Lee Yuen ("Mr YING") as settlor and other trusts, was directly interested or deemed to be interested in the shares held by Total Market and in the remaining 376,885 shares respectively pursuant to Part XV of the SFO.
4. Mr YING was deemed to be interested in the shares held by Total Market pursuant to Part XV of the SFO.
5. Marathon Asset Management LLP is 40.05%, 40.05% and 19.90% controlled by Mr William ARAH, Mr Neil OSTRER and Marathon Asset Management (Services) Ltd respectively.

Save as disclosed hereinabove and in the "Directors' interests and short positions in shares, underlying shares and debentures" section above, the Company has not been notified by any person who had interest or short position in the shares or underlying shares of the Company as at 30 June 2017 which were required to be notified to the Company pursuant to Part XV of the SFO or which are recorded in the register required to be kept by the Company under section 336 of the SFO.

Purchase, sale or redemption of the Company's shares

Save as disclosed in this report with regard to the purchase of existing share(s) by the trustee appointed for the administration of the Share Award Scheme, Computershare Hong Kong Trustees Limited, in accordance with such share award scheme, neither the Company nor any of its subsidiaries have purchased, sold or redeemed any of the Company's shares during the year under review.

Subsequent to the financial year end, from 9 August 2017 to 18 August 2017, the Company repurchased a total of 13,351,400 ordinary shares of the Company on the Stock Exchange at an aggregate consideration of approximately HK\$57 million.

Pre-emptive rights

There are no provisions for pre-emptive rights under the Company's Bye-laws.

Public float

As at the date of this report and insofar as the Directors are aware, the Company maintained sufficient public float as required under the Listing Rules.

Management contracts

No contracts 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.

Related party transactions and connected transactions

Details of the significant related party transactions undertaken in the normal course of business are provided under note 29 to the consolidated financial statements. None of these related party transactions constitutes a connected transaction as defined in the Listing Rules.

Corporate governance

Particulars of the Company's corporate governance practices are set out on pages 48 to 56 of this annual report.

Auditor

The consolidated financial statements have been audited by PricewaterhouseCoopers who are due to retire and, being eligible, offer themselves for re-appointment at the forthcoming AGM.

On behalf of the Board
ESPRIT HOLDINGS LIMITED



Dr Raymond OR Ching Fai
Chairman

Hong Kong, 20 September 2017

05.3 Directors and senior management profile

Executive Directors

Jose Manuel MARTINEZ GUTIERREZ, aged 47, has been an Executive Director of the Company and Group Chief Executive Officer since September 2012. He is responsible for the overall management and control of the business of the Group. He is a member of the Remuneration Committee and the General Committee of the Board, a director of certain subsidiaries and a trustee of a trust of the Company.

Mr MARTINEZ obtained a Bachelor's Degree in Business Administration from Universidad Autónoma de Madrid, and a Master in Business Administration Degree (Honours with Distinction) from J.L. Kellogg Business School, Northwestern University.

His professional career spans investment banking, strategy consulting and senior management positions in the global retail and consumer goods industries. Prior to joining Esprit, Mr MARTINEZ was the group director of distribution and operations for Industria De Diseño Textil, S.A. ("Inditex") based in Spain. Prior to joining Inditex, Mr MARTINEZ spent 8 years at McKinsey & Company leading the firm's retail and consumer goods practice in Spain, and advising clients in Europe and South America on strategy, category management and store operations.

Thomas TANG Wing Yung, aged 62, has been an Executive Director of the Company and Group Chief Financial Officer since May 2012. He is a member of the Risk Management Committee and the General Committee of the Board and a director of certain subsidiaries of the Company. Mr TANG obtained a Bachelor of Science degree in Modern Mathematics from Surrey University, United Kingdom. He has been an associate member of The Institute of Chartered Accountants in England and Wales since 1981. He is also a fellow member of The Hong Kong Institute of Certified Public Accountants (Practising) and has over 36 years of experience in accounting and finance.

Prior to joining the Company, Mr TANG was executive director and chief financial officer of Sino Land Company Limited and Sino Hotels (Holdings) Limited, and chief financial officer of Tsim Sha Tsui Properties Limited until his resignation in March 2012. He first joined these three companies as chief financial officer in November 2003. All these companies are listed on the main board of the Stock Exchange. Prior to joining the Sino group, he was a managing director of an investment and financial advisory services firm that is a member of an international group, overseeing operations in the Asia-Pacific region. Mr TANG started his career as an accountant working for Peat Marwick (KPMG) in London and Hong Kong.

Non-executive Directors

Dr Raymond OR Ching Fai, aged 67, has been an Independent Non-executive Director of the Company since 1996 and became Chairman of the Board since June 2012. He is the Chairman of the Nomination Committee of the Board, a director of a subsidiary and a trustee of a trust of the Company. He was conferred an Honorary Doctor of Social Science by the City University of Hong Kong in November 2014. Dr OR is an executive director, chief executive officer and chairman of China Strategic Holdings Limited and an independent non-executive director of Chow Tai Fook Jewellery Group Limited, Industrial and Commercial Bank of China Limited, Regina Miracle International (Holdings) Limited and Television Broadcasts Limited. All these companies are listed on the Stock Exchange. He is a non-executive director and deputy chairman of Aquis Entertainment Limited, a company listed on the Australian Securities Exchange. He was the former vice chairman and chief executive of Hang Seng Bank Limited, the former chairman of Hang Seng Life Limited and a director of The Hongkong and Shanghai Banking Corporation Limited, Cathay Pacific Airways Limited and Hutchison Whampoa Limited until his retirement in May 2009. Dr Or was the former vice chairman and independent non-executive director of G-Resources Group Ltd. until his retirement on 30 June 2017.

Paul CHENG Ming Fun, aged 80, has been an Independent Non-executive Director of the Company since November 2002 and became Deputy Chairman of the Board since July 2008. He is the Chairman of the Remuneration Committee and a member of the Nomination Committee of the Board, a director of a subsidiary and a trustee of a trust of the Company. Mr CHENG obtained his Bachelor of Arts degree from Lake Forest University (Illinois, USA) and Master of Business Administration degree from the Wharton School of the University of Pennsylvania. Mr CHENG is an independent non-executive director of Chow Tai Fook Jewellery Group Limited, a company listed on the Stock Exchange. He is an independent non-executive director of Global Logistic Properties Limited, a company listed on the Singapore Stock Exchange. He is also an independent non-executive director of Pacific Alliance China Land Ltd., a company listed on the AIM Board of the London Stock Exchange. Mr CHENG was a former member of the Hong Kong Legislative Council as well as the former chairman of Inchcape Pacific Limited, N M Rothschild & Sons (Hong Kong) Ltd., The Link Management Limited (Link Asset Management Limited) and the Hong Kong General Chamber of Commerce. He is currently an Honorary Steward of the Hong Kong Jockey Club.

Jürgen Alfred Rudolf FRIEDRICH, aged 79, founded Esprit's European operations in 1976 and has been a Non-executive Director of the Company since 1997. He is a member of the Remuneration Committee of the Board. Mr FRIEDRICH has over 32 years of experience in the apparel distribution and marketing business and is currently retired in Switzerland.

Non-executive Directors (continued)

Dr José María CASTELLANO RIOS, aged 70, has been an Independent Non-executive Director of the Company since December 2014. He is a member of the Audit Committee and the Risk Management Committee of the Board. He was the deputy chairman, chief executive officer and director of Inditex, the Spanish listed company owner of Zara and several other fashion apparel brands, which he served from 1985 to 2005. After being in the industry of international fashion and apparel for around 30 years, Dr CASTELLANO became the president, chief executive officer and director of Grupo Corporativo ONO, S.A. and Cableuropa S.A.U. from 2006 to 2009. He was also the vice-chairman of N M Rothschild in Spain for a number of years starting from 2007. Most recently, Dr CASTELLANO was the chairman and president of Nova Caixa Bank between 2011 and 2014.

Dr CASTELLANO obtained a Bachelor of Art degree in Economics from the University of Santiago de Compostela in Spain and a Doctor of Philosophy degree in Economics from the University of Madrid in Spain. He was a professor of financial economics and accounting at the University of A Coruña in Spain until 2013.

Alexander Reid HAMILTON, aged 75, has been an Independent Non-executive Director of the Company since August 1995. He is the Chairman of the Audit Committee and a member of the Nomination Committee of the Board. Mr HAMILTON is an independent non-executive director of COSCO SHIPPING International (Hong Kong) Co., Ltd. and Shangri-La Asia Limited. Both companies are listed on the Stock Exchange. Mr HAMILTON is also a director of Octopus Cards Limited and other Hong Kong companies. He was an independent non-executive director of CITIC Limited. He was a partner of Price Waterhouse with whom he practiced for 16 years.

Carmelo LEE Ka Sze, aged 57, has been an Independent Non-executive Director of the Company since July 2013. He is the Chairman of the Risk Management Committee and a member of the Nomination Committee and the Remuneration Committee of the Board. He is a partner of Messrs. Woo Kwan Lee & Lo, Solicitors & Notaries. Mr LEE is a member of the SFC (HKEC Listing) Committee. Mr LEE was appointed as a convenor and member of the Financial Reporting Review Panel of the Financial Reporting Council of Hong Kong in July 2016. He is a member of the Campaign Committee and a Co-Chairman of the Corporate Challenge Half Marathon of The Community Chest of Hong Kong. He served as the chairman of the Listing Committee of the Stock Exchange from 2012 to 2015 after serving as deputy chairman and member of the Listing Committee of the Stock Exchange from 2009 to 2012 and from 2000 to 2003 respectively. He also served as a member of the Disciplinary Panels of the Hong Kong Institute of Certified Public Accountants from 2009 until 1 February 2017.

Mr LEE obtained a Bachelor of Laws degree and Postgraduate Certificate in Laws from The University of Hong Kong and qualified as a solicitor in Hong Kong, England and Wales, Singapore and Australian Capital Territory, Australia.

Mr LEE is a non-executive director of Hopewell Holdings Limited, CSPC Pharmaceutical Group Limited, Yugang International Limited, Safety Godown Company Limited and Termbray Industries International (Holdings) Limited and an independent non-executive director of KWG Property Holding Limited and China Pacific Insurance (Group) Co., Ltd., all these companies are listed on the Stock Exchange. He was a non-executive director of Y.T. Realty Group Limited from September 2004 to February 2016 and an independent non-executive director of Ping An Insurance (Group) Company of China, Ltd. from June 2009 to June 2015.

Norbert Adolf PLATT, aged 70, has been an Independent Non-executive Director of the Company since December 2012. He is a member of the Audit Committee and the Remuneration Committee of the Board. He has 40 years of extensive experience in the industry of luxury goods. Mr PLATT was the chief executive officer of the Richemont group from October 2004 to March 2010. The Richemont group's luxury goods interests encompass a portfolio of internationally renowned brands including Cartier, Van Cleef & Arpels, Piaget, Montblanc, Chloé and Alfred Dunhill. Under his leadership, the Richemont group recorded significant growth in turnover and profits. Mr PLATT was also a non-executive director of Compagnie Financière Richemont SA (the holding company of the Richemont group which is listed in Switzerland) until his retirement on 13 September 2017.

Prior to acting as chief executive officer of the Richemont group, Mr PLATT was the chief executive officer of Montblanc International GmbH ("Montblanc International") between 1987 and 2004. Mr PLATT successfully transformed Montblanc International from a maker of writing instruments into a diversified and globally renowned manufacturer of luxury goods. Under his leadership, Montblanc International recorded remarkable growth in its turnover. Mr PLATT remained as the chairman of Montblanc Simple GmbH based in Hamburg, Germany until 30 June 2013. From 1972 to 1987, Mr PLATT held various chief executive positions in Rollei Singapore and Germany.

Mr PLATT graduated with a Master of Science Degree in Precision Mechanical Engineering, and attended business management and marketing programs at Harvard Business School of Harvard University and INSEAD.

Senior management

Juan Antonio CHAPARRO VAZQUEZ, aged 48, is Chief Supply Chain Officer of the Group. He is responsible for developing and operating all supply chain functions of the Group, including global buying, global sourcing, product planning, global quality control, sustainability, and inbound logistics. In January 2016, he has also undertaken the responsibility over the Esprit Men Product Division, where he leads the product direction and manages the development of the collections. Mr CHAPARRO brings with him a rich background in product development, vertical supply chain management and apparel retailing. Prior to joining the Group in February 2013, he was the buying director of Zara, the main brand of Inditex, where he spent over 12 years in various positions. In the period between 2005 and 2009, he managed his own apparel company and provided retail management consulting services to several top brands. Mr CHAPARRO obtained a Master's degree in Business Management and Marketing Management from Business & Marketing School of ESIC University in Spain. Additionally, Mr CHAPARRO serves as a professor at ISEM Fashion Business School as well as at IE Business School, both located in Madrid, Spain.

Leif ERICHSON, aged 37, is Chief Operations Officer of the Group. He manages the Omnichannel Operations as well as the implementation of the Omnichannel Strategy and is responsible for the logistics and global IT systems of the Group. Mr ERICHSON joined Esprit in 2003 and worked in several positions in the merchandise management area before he developed into area of e-commerce operations in 2009. In 2010, Mr ERICHSON was appointed as Vice President - Head of e-Commerce Operations where he successfully transformed the e-commerce operations into leading edge operations in the fashion industry. Between 2014 and 2015, he was the Senior Vice President - Head of Omnichannel, where he built up the seamless integration between the digital and bricks and mortar customer experience with services such as Click & Collect. He was the Chief Operations & Systems Officer between July 2015 and July 2017 until his recent promotion in August 2017. He obtained a Master of Business Administration (Diplom-Kaufmann) from the University of Applied Sciences Cologne, Germany.

Simon HECKSCHER, aged 36, is General Manager Outlets of the Group. He manages the Global Outlet Strategy and is responsible for the profit and loss of the Group's outlet business (excluding APAC). For more than 2 years, he was Senior Vice President - Head of Corporate Strategy of the Group and was responsible for strategic initiatives including the implementation of a vertical business model. Prior to joining Esprit in September 2013, Mr HECKSCHER has spent almost 7 years at The Boston Consulting Group (BCG). He has worked on various strategic projects in the apparel industry, banking and industrial goods sector across Europe and the Middle East, including the support of the Group's transformation plan from 2011 to 2013. Mr HECKSCHER obtained a Master of Business Administration degree with Dean's Honors and Distinction from Columbia University in the City of New York, USA, a Master of Business Administration degree (Diplom-Kaufmann) from the University of Mannheim, Germany, and a Master of International Business degree from the University of Sydney, Australia.

Elena LAZCANOTEGUI LARRARTE, aged 43, is Chief Product Officer APAC/F2M of the Group. Prior to joining the Group in December 2012, she was leading the fast-to-market product development in Zara (women). During her 15 years in Zara, she held various management positions in supply chain management, product management and store management. She obtained Bachelor Degree of Business Administration from the University of Deusto in Spain and studied international business at Adolfo Ibáñez University in Chile.

Dieter MESSNER, aged 46, is General Manager Europe & Americas. He has overall profit and loss responsibility for the retail and wholesale businesses in these regions. Prior to joining the Group in June 2015, he spent the last 10 years in the DIY retail industry as board member responsible for the international business of OBI. Between 1995 and 2004, Mr MESSNER worked for McKinsey & Company leading and managing various retail projects across Europe. He has more than 15 years of non-food retail experience and has a profound knowledge of many Central, Western and Eastern European markets. Mr MESSNER graduated from the Vienna University of Economics and Business Administration and obtained a Master of Business Administration degree from the Kellogg Graduate School of Management.

Jürgen MICHELBERGER, aged 52, is Chief Digital Officer of the Group. He manages the implementation of the Omnichannel strategy and is responsible for the profit and loss of the Group's e-commerce business. Mr MICHELBERGER joined Esprit in 1993 as Shop-in-Store Manager Germany and was promoted to Retail Partnership Manager Europe in 1996, where he successfully rolled out the shop-in-store and franchise expansion in Europe. In 2000, he was assigned to build up the Group's European e-commerce business and introduced the Esprit Friends customer loyalty scheme in 2001. In 2012, he was appointed as Senior Vice President - Head of Global e-commerce, followed by promotion to Chief Digital Officer in 2014. Prior to joining Esprit, he worked in retail operations management at Hugo Boss and later managed his family's retail business. He is a trained trade merchant and obtained a Master's degree in Textile Business Management from LDT Nagold Academy of Fashion Management in Germany.

Rafael PASTOR ESPUCH, aged 47, is Chief Product Officer of the Group. He is responsible for managing the product creation and design of all product divisions of the Esprit brand. Prior to joining the Group in November 2013, Mr PASTOR's extensive experience spans commercial strategy, product design, production, planning and distribution during his almost 18 years in Inditex. For 12 years, February 2001 to January 2013, he was executive director of "Zara Basic", a woman product division of Zara, where he managed over two billion euro sales, reaching over 80 countries and 5 continents, with consistent like-for-like sales growth over the past recent years. Prior to this role, between 1995 and 2001, he served as product manager for Zara shoes, as the international clothing product manager for the United States, Greece and the Middle East market, and as controller of another woman division. Mr PASTOR obtained a Bachelor degree in Economic and Business Studies from the University of Madrid, Spain.

Senior management (continued)

José Antonio RAMOS CALAMONTE, aged 45, is Chief Commercial Officer of the Group. After signing on with the Group as Chief Strategy Officer in January 2013, he is now responsible for the multichannel department commercial distribution which incorporates the centralized management related to the different channels of retail, wholesale and e-commerce (including planning, merchandise management, allocation and commercial model definition) and the management of the different multichannel support services (including sales operations, logistics, go to market). Prior to joining the Group, he was a member of the executive board of Carrefour Spain, responsible for the food business after having managed the textile & home business for a few years. Preceding his move to Carrefour, he held key positions at Zara (Inditex) in the product divisions and in the distribution unit for several years. He started his career as a strategy consultant with McKinsey & Company. He obtained a MBA (Focus on Finance and Risk Management) from the MIT Sloan School of Management, Cambridge, USA in addition to a Double Degree in Business Administration and Law from the University ICADE (U.P.C.), Madrid, Spain - Dublin, Ireland.

Guillaume THERY, aged 55, is General Manager Asia Pacific. He has overall profit and loss responsibility of Asia Pacific. Mr THERY has extensive experience in retail and luxury sectors across Asia. Prior to joining the Group in September 2015, he spent most of his career in retail business with a specific focus on Asian markets for the past 15 years while holding several positions within the LVMH group. His last role was president of the LVMH Fashion Group for Asia, taking care of the development of several brands such as Celine, Givenchy, Kenzo, Marc Jacobs, Loewe. Mr THERY started his career in Marks & Spencer in the United Kingdom, followed by several European retail functions in Fnac (Kering group) and a general management role of an independent French airline company.

Ernst-Peter VOGEL, aged 52, is Chief Financial Operations Officer of the Group. He is primarily responsible for the Group's operational finance functions including the Group's statutory and management reporting as well as the non-merchandising procurement functions and general administrative functions for the German companies. He joined the Group in 2003 as Senior Vice President - Finance Europe and has been overseeing various global finance projects and major IT projects of the Group in the past years, including the introduction of SAP to replace the former European ERP system. Before joining the Group, he headed the finance team of an international lifestyle group for 5 years. He has over 15 years of extensive experience in finance and tax matters, and possesses a qualification as a German Certified Public Accountant (Wirtschaftsprüfer) and tax advisor (Steuerberater). He obtained a Master of Business Administration degree (Diplom-Kaufmann) from the University of Frankfurt.

Dr Marion WELP, aged 46, is Chief HR & Legal Affairs Officer of the Group. Dr WELP is responsible for leading the Global HR, Legal and Compliance teams. Her prime focus is on global organizational effectiveness achieved by optimizing the Esprit resources and driving operational excellence and capability. She joined Esprit in 2007, and has built up the European legal department and later taking on responsibility for Group legal & compliance function globally. Prior to joining the Group, Dr WELP was a corporate attorney at Ecolab GmbH & Co. KG from 2000 to 2007. She obtained her juris doctorate degree from the University of Münster, Germany and the Master of Laws degree from the Dickinson School of Law, Pennsylvania, USA. Dr WELP is an admitted member of the German as well as the New York Bar Association, is a nominated executive board member of the German In-house Counsel Association (Bundesverbands der Unternehmensjuristen) and was recognized in 2015 as one of Germany's leading in-house counsels by "Legal 500".

06

FINANCIAL SECTION

06.1 Independent auditor's report

TO THE SHAREHOLDERS OF ESPRIT HOLDINGS LIMITED
(incorporated in Bermuda with limited liability)

Opinion

What we have audited

The Consolidated Financial Statements ("Consolidated Financial Statements") of Esprit Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 77 to 115, which comprise:

- the consolidated statement of financial position as at 30 June 2017;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the Consolidated Financial Statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the Consolidated Financial Statements give a true and fair view of the consolidated financial position of the Group as at 30 June 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the Consolidated Financial Statements of the current period. These matters were addressed in the context of our audit of the Consolidated Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarized as follows:

- China business impairment assessment
- Provision for store closures and leases
- Valuation of inventory at net realizable value
- Deferred tax assets and income taxes

Key Audit Matter	How our audit addressed the Key Audit Matter
<p>China business impairment assessment</p> <p><i>Refer to note 13 “Intangible assets” and Accounting Policies notes 2(g) & 2(h) and Critical Accounting Estimates and Judgments in note 4(b) to the Consolidated Financial Statements.</i></p> <p>There is HK\$734 million goodwill on the consolidated statement of financial position as at 30 June 2017, of which HK\$644 million arose from the 2010 acquisition of the remaining interests of the associated companies in China (“China goodwill”). The China goodwill has been allocated to the Wholesale, Retail (excluding eshop) and eshop operating segments, which are considered as separate cash generating units (“CGU”). The China operation has been underperforming in recent years, resulting in a loss of part of the wholesale customer base and closure of non-profitable retail stores. Impairment charges of HK\$4.5 billion to the China goodwill have been recognized in prior years.</p> <p>Goodwill is required to be assessed for impairment at least annually or when an impairment indicator exists. For the impairment assessment of the China business, the carrying values include goodwill, customer relationships and other operating assets. Management has estimated the recoverable amount using fair value less costs of disposal (“FVLCD”) calculations based on discounted cash flow projections (“DCF”). Management has concluded that there is no impairment in respect of the China goodwill this year.</p> <p>We have focused on this area since the determination of whether or not an impairment charge in respect of goodwill is necessary involves significant management judgments, particularly as the region’s retail market growth is slowing down which may be an indicator for further impairment for the China goodwill.</p>	<p>For the China business impairment assessment, we evaluated management’s valuation models by assessing the appropriateness of the valuation methodology, the process by which the valuation models were constructed and compared with the underlying inputs to the latest approved business plans. We also compared historic actual results to those budgeted to assess the quality of management’s forecasting.</p> <p>Our audit procedures also included an assessment of:</p> <ul style="list-style-type: none"> ▪ the risk adjusted discount rate used: we assessed this against the cost of capital of the Company and industry/country specific comparables to consider whether the discount rate fell within a range of acceptable discount rates based on market data; ▪ the terminal growth rates used by comparing them to the long term China economic growth forecast. <p>We found these were within acceptable industry benchmarks.</p> <p>We have also focused on management’s key assumptions used in the business plans. The forecast performance assumes a gradual turnaround of the China business over the next 7 years. We noted that sales growth was the most sensitive assumption to driving the future profitability of the China business. We compared management’s sales growth assumptions against external retail industry outlook reports and Esprit China and Group’s historical performance.</p> <p>We also performed sensitivity analysis around the key assumptions to ascertain the extent of change, either individually or collectively that would indicate an impairment. We considered the likelihood of such changes in key assumptions and found that the recoverable amount was within a range of plausible sensitised valuations.</p> <p>Given the latest FVLCD calculations indicate there is a limited headroom, we have assessed the relevant disclosures in the financial statements and considered these were adequate.</p> <p>We consider that the management’s judgments and assumptions used in the calculations of recoverable value are supportable based on the available evidence.</p>

Key Audit Matter	How our audit addressed the Key Audit Matter
Provision for store closures and leases	
<i>Refer to note 21 "Provision for store closures and leases" and Accounting Policies note 2(q) and Critical Accounting Estimates and Judgments in note 4(f) to the Consolidated Financial Statements.</i>	We obtained management's full list of stores and their assessment of those stores requiring provisions. We checked whether all stores in the portfolio were considered in the process.
<p>The Group's portfolio of retail stores are held under operating leases, and, as a result, the Group is committed to significant future lease payments. Management considers each store to be a cash generating unit and has performed a review of the trading results of its stores for the year to assess whether there is a need for an onerous lease provision, or a provision where a store has been identified for closure.</p>	<p>We also gained an understanding of the process and basis of calculations used by management in determining the need for onerous lease provisions. We focused on assessing the key assumptions adopted in the calculations and on a sample basis selected individual store assessments where we have:</p>
<p>A provision for an onerous lease is based on the estimated unavoidable costs of meeting the lease terms and other obligations, net of economic benefits expected to be received from the store.</p>	<ul style="list-style-type: none">▪ checked key inputs to the calculations such as details of the rental obligations to rental agreements and reperformed such calculations,▪ compared the forecast sales performance to the approved business plan,▪ compared estimated running costs to the existing store's performance, and▪ discussed with management the action plans in place and evaluated the reasonableness of those plans.
<p>For store closures, the provision takes into account the estimated amount of compensation payment to the landlord, which is based on a number of factors such as past experience of payouts, current rent, exit terms, location of the store and management's estimate of when the lease can be terminated early, net of any estimated benefits to be received (such as from subletting income).</p>	<p>We compared management's estimates of store closure provisions to the latest correspondence with landlords. For stores where the compensation to landlord has not yet been finalized, we assessed the reasonableness of the estimate made by management with reference to historic payout trends or supporting correspondence from property consultants.</p>
<p>We focused on this area because there are significant judgments and estimates made by management in determining such provisions.</p>	<p>We consider that the provisions made by management in respect of store closures and onerous leases are supportable based on the available evidence.</p>
Valuation of inventory at net realizable value	
<i>Refer to note 16 "Inventories" and Accounting Policies note 2(i) and Critical Accounting Estimates and Judgments in note 4(d) to the Consolidated Financial Statements.</i>	<p>We tested a sample of inventory items categorized into different seasons of the year to test whether the inventory were correctly categorized in terms of the ageing of inventory, and recalculated the mathematical accuracy of the provision percentage applied.</p>
<p>The net inventory balance at 30 June 2017 was HK\$2,540 million. Inventory is carried in the Consolidated Financial Statements at the lower of cost and net realizable value. The net realizable value of inventory in the fashion and apparel industry is difficult to estimate and could be impacted by changes in the economic condition of countries where the Group operates, as well as changes in customer tastes and competitor actions in response to changes in market conditions.</p>	<p>We examined the Group's historical trading patterns of inventory sold at full price, inventory marked down during a sale period and inventory transferred to a clearance process in outlets. We assessed the reasonableness of the provisions by comparing management's projections on current trends and demands for the remaining inventories, with reference to historical sales experience and related margins in each of these channels.</p>
<p>We focused on this area due to the inherent complexity and judgment in estimating the amount of inventory provisions required.</p>	<p>We consider the estimates made by management in respect of the inventory provisions are supportable based on the available evidence.</p>

Key Audit Matter	How our audit addressed the Key Audit Matter
<p>Deferred tax assets and income taxes</p> <p><i>Refer to notes 8 and 22 to the Consolidated Financial Statements and Accounting Policies notes 2(o) and Critical Accounting Estimates and Judgments in note 4(e) to the Consolidated Financial Statements.</i></p> <p>The Group has recognized HK\$822 million deferred tax assets on the consolidated statement of financial position, the recognition of which involves judgment by management as to the likelihood of the realization of these deferred tax assets. The expectation that the benefit of these assets will be realized is dependent on a number of factors, including appropriate taxable temporary timing differences, and whether there will be sufficient taxable profits in future periods to support such recognition. We focused on this area because of the inherent uncertainties involved in forecasting future taxable profits.</p> <p>The Group has a wide geographic footprint and is subject to tax laws in a number of jurisdictions. We focus on income tax provisions because tax provisioning requires subjective judgments to be made by management about the expected ultimate settlement, if any, of anticipated tax audit issues.</p>	<p>We evaluated management's assessment as to whether there will be sufficient taxable profits in future periods to support the recognition of deferred tax assets by evaluating management's forecasts, and the process by which they were constructed, including testing the underlying calculations and assumptions and comparing them to the latest financial budgets. We also evaluated management's assessment as to whether the unused tax losses could be carried forward and utilized before their expiry dates.</p> <p>We considered that the assumptions and judgments made by management were supported by sufficient supporting evidence.</p> <p>Together with our tax specialists, we held meetings with Group and local management to understand the latest tax developments and risks in significant locations where the Group operates and the status of tax audits. We reviewed correspondence with taxation authorities and opinions and other advice received from external tax advisors used by management in arriving at their estimates on the level of tax provisions required.</p> <p>We consider the assumptions and judgments made by management in the provisions for income tax liabilities are supportable based on the available evidence.</p>

Other Information

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the Consolidated Financial Statements and our auditor's report thereon.

Our opinion on the Consolidated Financial Statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Consolidated Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Consolidated Financial Statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and Audit Committee for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the Consolidated Financial Statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of Consolidated Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Consolidated Financial Statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the Consolidated Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Consolidated Financial Statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Consolidated Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Consolidated Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the Consolidated Financial Statements, including the disclosures, and whether the Consolidated Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Consolidated Financial Statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the Consolidated Financial Statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Tse Ming Yee.



PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 20 September 2017

06.2 Consolidated income statement

	Notes	For the year ended 30 June	
		2017 HK\$ million	2016 HK\$ million
Revenue	5	15,942	17,788
Cost of goods sold		(7,712)	(8,859)
Gross profit		8,230	8,929
Staff costs	11	(2,896)	(3,480)
Occupancy costs		(2,496)	(2,793)
Logistics expenses		(957)	(1,022)
Marketing and advertising expenses		(814)	(1,015)
Depreciation		(518)	(591)
Reversal of impairment of/(impairment of) property, plant and equipment		8	(107)
Additional provision for store closures and leases, net	21	(12)	(186)
Gain on disposal of a subsidiary/subsidiaries	27	33	731
Gain on disposal of a property	28	100	-
Other operating costs		(780)	(1,062)
Operating loss (LBIT)	6	(102)	(596)
Interest income		44	40
Finance costs	7	(48)	(29)
Loss before taxation		(106)	(585)
Taxation credit	8	173	606
Profit attributable to shareholders of the Company		67	21
Earnings per share			
- Basic and diluted	10	HK\$0.03	HK\$0.01

The notes on pages 83 to 115 form an integral part of these consolidated financial statements.

06.3 Consolidated statement of comprehensive income

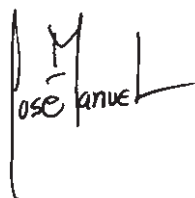
	For the year ended 30 June	
	2017 HK\$ million	2016 HK\$ million
Profit attributable to shareholders of the Company	67	21
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Fair value loss on cash flow hedge, net of tax	(77)	(152)
Exchange translation	138	(373)
	61	(525)
Total comprehensive income for the year attributable to shareholders of the Company, net of tax	128	(504)

The notes on pages 83 to 115 form an integral part of these consolidated financial statements.

06.4 Consolidated statement of financial position

		As at 30 June	
	Notes	2017 HK\$ million	2016 HK\$ million
Non-current assets			
Intangible assets	13	2,851	2,902
Property, plant and equipment	14	1,900	2,159
Investment properties	15	23	19
Other investments		7	7
Debtors, deposits and prepayments	17	174	220
Deferred tax assets	22	822	745
		5,777	6,052
Current assets			
Inventories	16	2,540	2,745
Debtors, deposits and prepayments	17	1,438	1,571
Tax receivable		359	331
Cash, bank balances and deposits	18	5,221	5,341
		9,558	9,988
Current liabilities			
Creditors and accrued charges	20	3,046	3,495
Provision for store closures and leases	21	393	604
Tax payable		28	60
		3,467	4,159
Net current assets		6,091	5,829
Total assets less current liabilities		11,868	11,881
Equity			
Share capital	19	194	194
Reserves		11,349	11,203
Total equity		11,543	11,397
Non-current liabilities			
Deferred tax liabilities	22	325	484
		11,868	11,881

Approved by the Board of Directors on 20 September 2017.



JOSE MANUEL MARTINEZ GUTIERREZ
Executive Director



THOMAS TANG WING YUNG
Executive Director

The notes on pages 83 to 115 form an integral part of these consolidated financial statements.

06.5 Consolidated statement of cash flows

	Notes	For the year ended 30 June	
		2017 HK\$ million	2016 HK\$ million
Cash flows from operating activities			
Cash used in operations	23	(81)	(394)
Hong Kong profits tax (paid)/refunded, net		(3)	124
Overseas tax paid, net		(63)	(42)
Net cash used in operating activities		(147)	(312)
Cash flows from investing activities			
Purchase of property, plant and equipment		(257)	(262)
Net cash inflow on disposal of a subsidiary/subsidiaries	27	35	913
Proceeds from disposal of property, plant and equipment	23	145	9
Interest received		44	40
Net decrease/(increase) in bank deposits with maturities of more than three months		1,705	(528)
Net cash generated from investing activities		1,672	172
Cash flows from financing activities			
Purchase of shares for Share Award Scheme		(33)	(23)
Net cash used in financing activities		(33)	(23)
Net increase/(decrease) in cash and cash equivalents		1,492	(163)
Cash and cash equivalents at beginning of year		3,485	3,688
Effect of change in exchange rates		93	(40)
Cash and cash equivalents at end of year		5,070	3,485
Analysis of balances of cash and cash equivalents			
Bank balances and cash		3,216	2,856
Bank deposits		2,005	2,485
Cash, bank balances and deposits	18	5,221	5,341
Less: bank deposits with maturities of more than three months		(151)	(1,856)
		5,070	3,485

The notes on pages 83 to 115 form an integral part of these consolidated financial statements.

06.6 Consolidated statement of changes in equity

For the year ended 30 June 2017

	Share capital HK\$ million	Share premium HK\$ million	Shares held for Share Award Scheme HK\$ million	Employee share-based payment reserve HK\$ million	Hedging reserve HK\$ million	Contributed surplus HK\$ million	Translation reserve HK\$ million	Capital reserve HK\$ million	Retained profits HK\$ million	Total HK\$ million
At 1 July 2016	194	8,220	(23)	862	(26)	7	(1,171)	1	3,333	11,397
Exchange translation	-	-	-	-	-	-	138	-	-	138
Fair value loss on cash flow hedge, net of tax	-	-	-	-	-	-	-	-	-	-
- net fair value gain	-	-	-	-	52	-	-	-	-	52
- transferred to income statement	-	-	-	-	-	-	-	-	-	-
- exchange difference	-	-	-	-	-	-	-	-	-	-
- transferred to inventories	-	-	-	-	(161)	-	-	-	-	(161)
- deferred tax effect	-	-	-	-	32	-	-	-	-	32
Profit attributable to shareholders of the Company	-	-	-	-	-	-	-	-	67	67
Total comprehensive income, net of tax	-	-	-	-	(77)	-	138	-	67	128
Transactions with owners										
Employee share-based compensation benefits	-	-	-	51	-	-	-	-	-	51
Purchase of shares for Share Award Scheme	-	-	(33)	-	-	-	-	-	-	(33)
Total transactions with owners	-	-	(33)	51	-	-	-	-	-	18
At 30 June 2017	194	8,220	(56)	913	(103)	7	(1,033)	1	3,400	11,543
Representing:										
Proposed final dividend										-
Balance after proposed final dividend										11,543
At 30 June 2017										11,543

The notes on pages 83 to 115 form an integral part of these consolidated financial statements.

06.6 Consolidated statement of changes in equity

For the year ended 30 June 2016

	Share capital HK\$ million	Share premium HK\$ million	Shares held for Share Award Scheme HK\$ million	Employee share-based payment reserve HK\$ million	Hedging reserve HK\$ million	Contributed surplus HK\$ million	Translation reserve HK\$ million	Capital reserve HK\$ million	Retained profits HK\$ million	Total HK\$ million
At 1 July 2015	194	8,220	-	836	126	7	(798)	1	3,312	11,898
Exchange translation	-	-	-	-	-	-	(373)	-	-	(373)
Fair value loss on cash flow hedge, net of tax										
- net fair value gain	-	-	-	-	23	-	-	-	-	23
- transferred to income statement										
- exchange difference	-	-	-	-	(22)	-	-	-	-	(22)
- transferred to inventories	-	-	-	-	(164)	-	-	-	-	(164)
- deferred tax effect	-	-	-	-	11	-	-	-	-	11
Profit attributable to shareholders of the Company	-	-	-	-	-	-	-	-	21	21
Total comprehensive income, net of tax	-	-	-	-	(152)	-	(373)	-	21	(504)
Transactions with owners										
Employee share-based compensation benefits	-	-	-	26	-	-	-	-	-	26
Purchase of shares for Share Award Scheme	-	-	(23)	-	-	-	-	-	-	(23)
Total transactions with owners	-	-	(23)	26	-	-	-	-	-	3
At 30 June 2016	194	8,220	(23)	862	(26)	7	(1,171)	1	3,333	11,397
Representing:										
Proposed final dividend										-
Balance after proposed final dividend										11,397
At 30 June 2016										11,397

The contributed surplus of the Group represents the difference between the nominal value of the shares of the subsidiaries acquired pursuant to the Group reorganization in 1993 and the nominal value of the Company's shares issued in exchange thereof.

The capital reserve of the Group represents a non-distributable reserve set aside by a subsidiary according to relevant statutory requirements.

The notes on pages 83 to 115 form an integral part of these consolidated financial statements.

06.7 Notes to the consolidated financial statements

For the year ended 30 June 2017

1. General information

Esprit Holdings Limited (the "Company") and its subsidiaries (together the "Group") are principally engaged in retail and wholesale distribution and licensing of quality fashion and non-apparel products designed under its own internationally-known Esprit brand name.

The Company is a limited liability company incorporated in Bermuda. The registered address is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The Company has its primary listing on The Stock Exchange of Hong Kong Limited (stock code: 00330).

The Company's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements are presented in millions of units of Hong Kong Dollars, unless otherwise stated.

These consolidated financial statements have been approved for issue by the Board of Directors on 20 September 2017.

2. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below.

(a) Basis of preparation

These consolidated financial statements of the Group have been prepared in accordance with IFRS and the disclosure requirements of the Hong Kong Companies Ordinance.

In the current year, the Group has adopted the following International Accounting Standards ("IAS") and IFRS effective for the Group's financial year beginning 1 July 2016:

IAS 1 (Amendments)	Disclosure Initiative
IAS 16 and IAS 38 (Amendments)	Clarification of Acceptable Methods of Depreciation and Amortization
IAS 16 and IAS 41 (Amendments)	Agriculture: Bearer Plants
IAS 27 (Amendments)	Equity Method in Separate Financial Statements
IFRS 10, IFRS 12 and IAS 28 (Amendments)	Investment Entities: Applying the Consolidation Exception
IFRS 11 (Amendments)	Accounting for Acquisitions of Interests in Joint Operations
IFRS 14	Regulatory Deferral Accounts
IFRSs (Amendments)	Annual Improvements to IFRSs 2012-2014 Cycle

The adoption of these new standards and amendments to standards has not had any significant impact on the Group's consolidated financial statements.

The Group has not early adopted the following IAS, International Financial Reporting Interpretations Committee ("IFRIC") Interpretation and IFRS that have been issued but are not yet effective.

		Effective for accounting periods beginning on or after
IAS 7 (Amendments)	Disclosure Initiative	1 January 2017
IAS 12 (Amendments)	Recognition of Deferred Tax Assets for Unrealized Losses	1 January 2017
IAS 40 (Amendments)	Transfers of Investment Property	1 January 2018
IFRIC 22	Foreign Currency Transactions and Advance Consideration	1 January 2018
IFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019
IFRS 2 (Amendments)	Classification and Measurement of Share-based Payment Transactions	1 January 2018
IFRS 4 (Amendments)	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	1 January 2018
IFRS 9	Financial Instruments	1 January 2018
IFRS 10 and IAS 28 (Amendments)	Sales or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined
IFRS 15	Revenue from Contracts with Customers	1 January 2018
IFRS 16	Leases	1 January 2019
IFRS 17	Insurance Contracts	1 January 2021
IFRSs (Amendments)	Annual Improvements to IFRSs 2014-2016 Cycle	1 January 2018

The Group will apply these new and revised standards and amendments in the period of initial application. The Group is currently assessing the impact of the adoption of the above new and revised standards and amendments and is not yet in a position to state whether they would have a significant impact on the Group's results of operations and financial position. Amongst these new and revised standards and amendments, IFRS 9, IFRS 15 and IFRS 16 are of higher relevancy to the Group's operations. The following describes the key changes that may impact the consolidated financial statements of the Group.

IFRS 9 "Financial Instruments"

The new standard addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

The new hedge accounting rules will align the accounting for hedging instruments more closely with the Group's established risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, given the standard introduces a more principle-based approach.

2. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

IFRS 9 “Financial Instruments” (continued)

The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortized cost, debt instruments measured at fair value through other comprehensive income, contract assets under IFRS 15 “Revenue from Contracts with Customers”, lease receivables, loan commitments and certain financial guarantee contracts. While the Group has not yet undertaken a detailed assessment of how its impairment provisions would be affected by the new model, management expects it might result in an earlier recognition of credit losses.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group’s disclosures about its financial instruments particularly in the year of adoption of the new standard.

The Group is currently assessing the impact of the adoption of this new standard and does not intend to adopt the standard before its effective date.

IFRS 15 “Revenue from Contracts with Customers”

IFRS 15 will replace IAS 18 “Revenue” and IAS 11 “Construction contracts” and related interpretations. The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer. The new standard permits either a full retrospective or a modified retrospective approach for the adoption.

The Group is currently assessing the impact of the adoption of this new standard and does not intend to adopt the standard before its effective date.

IFRS 16 “Leases”

IFRS 16 requires almost all leases of lessees to be recognized on the statement of financial position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for Group’s operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of **HK\$7,205 million** (Note 24). However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group’s profit and classification of cash flows.

The Group is currently assessing the impact of the adoption of this new standard and does not intend to adopt the standard before its effective date.

When preparing the consolidated financial statements, management has adopted certain accounting, valuation and consolidation methods to comply with IFRS. The preparation of these consolidated financial statements also requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the accounting policies. The areas involving a higher degree of judgment and complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 4 “Critical accounting estimates and judgments”.

These consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain financial instruments and investment properties to fair value. The policies set out below have been consistently applied to all the years presented.

(b) Subsidiaries

(i) Consolidation

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The Group applies the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest’s proportionate share of the acquiree’s net assets. When a business combination is achieved in stages, the Group remeasures its previously held interest in the acquiree at its fair value at the date when control is obtained, with any resulting gain or loss recognized in the income statement.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previously held equity interest in the acquiree over the fair value of the Group’s share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the income statement.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

2. Summary of significant accounting policies (continued)

(b) Subsidiaries (continued)

(i) Consolidation (continued)

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions – that is, as transactions with owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interest are also recorded in equity.

(ii) Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable. In addition, the contribution to the Company's Share Award Scheme Trust (as defined in 32(d)), a controlled structured entity, is stated at cost in "Contribution to Share Award Scheme Trust" first, and then will be transferred to the "Shares held for Share Award Scheme" under equity when the contribution is used for the acquisition for the shares of the Company.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiaries in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

(c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, have been identified as the executive directors that make strategic decisions.

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in the currency of Hong Kong Dollars, which is the Company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

(iii) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (a) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- (b) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (c) all resulting exchange differences are recognized in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income. When a foreign operation is sold, such exchange differences are transferred to the income statement as part of the gain or loss on sale. When an inter-company loan balance which forms part of the net investment in a foreign entity is repaid, such exchange differences are transferred to the income statement.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognized in equity.

(e) Property, plant and equipment

Property, plant and equipment, other than freehold land, are stated at historical cost less accumulated depreciation and accumulated impairment losses (if any). Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Freehold land is not depreciated. Leasehold land and leasehold improvements are depreciated over the initial lease terms. Fixtures are depreciated over the shorter of five years and their estimated useful lives on a straight-line basis. Depreciation on other assets is calculated using the straight-line method to write down their cost to their residual values over their estimated useful lives. The principal annual rates are as follows:

Buildings	3 ¹ / ₃ % - 5%
Plant and machinery	30%
Furniture and office equipment	10% - 33 ¹ / ₃ %
Motor vehicles	25% - 30%

No depreciation is provided for construction in progress until it is completed and ready for use.

2. Summary of significant accounting policies (continued)

(e) Property, plant and equipment (continued)

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2(h)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

(f) Investment properties

Investment properties are interests in land and buildings which are held for long term and/or for capital appreciation. Such properties are carried in the statement of financial position at their fair values. Changes in fair values of investment properties are recognized directly in the income statement in the period in which they arise.

(g) Intangible assets

(i) Goodwill

Goodwill represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previously held equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill included in intangible assets is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

(ii) Trademarks

Trademarks are shown at historical cost. Trademarks with indefinite useful lives are carried at cost less accumulated impairment losses, if any.

Trademarks with indefinite useful lives are not amortized but are tested for impairment (Note 2(h)).

(iii) Customer relationships

Customer relationships acquired in a business combination are recognized at fair value at the acquisition date. The customer relationships have an expected life of 10 years and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method over the expected life of the customer relationships.

(h) Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortization and are tested for impairment annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use.

For the purposes of assessing impairment, assets other than goodwill are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units ("CGUs")). Goodwill is allocated to CGUs for the purposes of impairment testing. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose identified according to operating segment.

An impairment loss recognized in prior periods for an asset other than goodwill is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the assets' carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognized. Any goodwill impairment is recognized immediately as an expense and is not subsequently reversed.

(i) Inventories

Inventories are stated at the lower of cost and net realizable value with cost being determined on a weighted average basis. Cost comprises the direct costs of merchandise, charges that have been incurred in bringing inventories to their current location and condition and the transfer from equity of any gains or losses on qualifying cash flow hedges relating to purchase of inventories. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

(j) Receivables

Receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. If collection of receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are classified as non-current assets. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all the amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flow, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of provision is recognized in the income statement. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited to the income statement.

Receivables denominated in foreign currencies are translated at the year-end exchange rates. The resulting gains or losses are recorded in the consolidated income statement, with the exception of the gains or losses resulting from the translation of inter-company long-term loans, which are considered to form part of the net investment in the related subsidiaries because settlement is neither planned nor likely to occur in the foreseeable future. The impacts of translation of these items have been reflected in other comprehensive income.

2. Summary of significant accounting policies (continued)

(k) Payables

Payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

Payables denominated in foreign currencies are translated at the year-end exchange rates. The resulting gains or losses are recorded in the consolidated income statement, with the exception of the gains or losses resulting from the translation of inter-company long-term loans. The impacts of translation of these items have been reflected in other comprehensive income.

(l) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are shown under current liabilities on the statement of financial position.

(m) Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

Borrowing costs are recognized in the income statement in the period in which they are incurred.

(n) Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or share options are shown in equity as a deduction, net of tax, from the proceeds.

(o) Current and deferred tax

The tax expense for the year comprises current and deferred tax. Tax is recognized in the income statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case the tax is also recognized in other comprehensive income or directly in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the date of the statement of financial position in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the date of the statement of financial position and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(p) Employee benefits

(i) Pension obligations

The Group principally participates in defined contribution plans and pays contributions to publicly or privately administered pension plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due and if applicable, are reduced by contributions forfeited by those employees who leave the scheme or the plan prior to vesting fully in the contributions.

2. Summary of significant accounting policies (continued)

(p) Employee benefits (continued)

(ii) Share options

The Group operates an equity-settled, share-based compensation plan to grant share options to directors, employees and consultants of the Group in exchange for their services provided to the Group. The cost of equity-settled transactions with directors, employees and consultants is measured by reference to the fair value at the date at which they are granted. The fair value of the share options granted is recognized as an expense over the relevant period of the service (the vesting period of the share options). The total amount to be expensed over the vesting period is determined by reference to the fair value of the share options granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of share options that are expected to be vested. The Group recognizes the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity.

When the share options are exercised, the proceeds received net of any directly attributable transactions cost are credited to share capital and share premium.

The grant of share options by the Company over its equity instruments to the employees of subsidiaries is treated as a capital contribution. The fair value of employee services received, measured by reference to the fair value at the date of grant, is recognized over the vesting period as an increase to investment in subsidiaries with a corresponding credit to equity.

(iii) Awarded shares

The Group operates an equity-settled, share-based compensation plan to grant awarded shares to directors and employees of the Group in exchange for their services provided to the Group. The cost of equity-settled transactions with directors and employees is measured by reference to the fair value at the date at which they are granted. The fair value of the awarded shares granted is recognized as an expense over the relevant period of the service (the vesting period of awarded shares). The total amount to be expensed over the vesting period is determined by reference to the fair value of the awarded shares granted; excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of awarded shares that are expected to be vested. The Group recognizes the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity. The consideration paid by the Company through the Share Award Scheme trustee (Note 19(b)) for purchasing the Company's shares from the market, including any directly attributable incremental cost, is presented as "Shares held for Share Award Scheme" and the amount is deducted from total equity.

When the Share Award Scheme trustee transfers the Company's shares to the awardees upon vesting, the related costs of the awarded shares vested are credited to "Shares held for Share Award Scheme", with a corresponding adjustment to equity.

The grant of awarded shares by the Company over its equity instruments to the employees of subsidiaries is treated as a capital contribution. The fair value of employee services received, measured by reference to the fair value at the date of grant, is recognized over the vesting period as an increase to investment in subsidiaries with a corresponding credit to equity.

(iv) Employee leave entitlements

Employee entitlements to annual leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the date of the statement of financial position.

(v) Bonus plans

The Group recognizes a liability and an expense for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

(q) Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

(r) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services, net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group. Revenue is recognized as follows:

(i) Sales of goods – retail

Sales of goods are recognized on sale of a product to the customer. Retail sales are mainly in cash or by credit card.

(ii) Sales of goods – wholesale

Sales of goods are recognized on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to the customer and title has been passed.

(iii) Licensing income

Licensing income is recognized on an accrual basis in accordance with the substance of the relevant agreements.

(iv) Interest income

Interest income is recognized on a time proportion basis using the effective interest method.

2. Summary of significant accounting policies (continued)**(s) Accounting for derivative financial instruments**

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair values. Changes in the fair value of derivative instruments that do not qualify for hedge accounting are recognized immediately in the income statement.

The method of recognizing the resulting gain or loss where the derivative is designated as a hedging instrument depends on the nature of the item being hedged. The Group can designate certain derivatives as either: (i) hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedges); or (ii) hedges of highly probable forecast transactions (cash flow hedges).

The Group is required to document at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group is also required to document its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

(i) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

(ii) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in the income statement.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit or loss (for instance when the forecast sale that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

(t) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessors) are charged to the income statement on a straight-line basis over the period of the lease, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

(u) Dividend distributions

Dividend distributions to the Company's shareholders are recognized as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

(v) Financial guarantee

A financial guarantee contract is a contract that requires the Company to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee contracts are initially recognized at fair value on the date the guarantee was given. Subsequently, the liabilities under such guarantees are measured at the higher of the best estimate of the expenditure required to settle any financial obligation arising at the date of the statement of financial position and the initial measurement. These estimates are determined based on debtors' payment history, supplemented by the judgment of management of the Group.

3. Financial risk management and fair value

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks, mainly foreign exchange risk and credit risk. The Group's overall risk management program focuses on minimizing the potential adverse effects of these risks on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Euro, US Dollar and Renminbi. Foreign exchange risk primarily arises from future commercial transactions and recognized monetary assets and liabilities that are denominated in currencies that are not the functional currencies of the Group's entities.

To minimize the Group's foreign exchange exposure on costs for merchandise produced for Europe in Asia, majority of the suppliers in Asia were asked to quote and settle in US dollar. In addition, to manage the foreign exchange risk arising from future commercial transactions, the Group enters into forward foreign exchange contracts with reputable financial institutions to hedge the foreign exchange risk.

The impact on the Group's post-tax profit or loss and total comprehensive income in response to a 1% strengthening in Euro and Renminbi against US Dollar in relation to monetary items and derivative financial instruments in existence at the date of the statement of financial position, with all other variables held constant, would have been:

	2017 HK\$ million	2016 HK\$ million
Euro against US Dollar		
Impact on post-tax profit or loss: gain	11	9
Impact on total comprehensive income: (loss)	(14)	(19)
Renminbi against US Dollar		
Impact on post-tax profit or loss: gain	7	7
Impact on total comprehensive income: gain	7	7

(ii) Credit risk

The Group's credit risk is primarily attributable to trade and other debtors and deposits with banks.

There is no significant concentration of credit risk with respect to trade debtors as the Group has a large number of internationally dispersed customers. The Group has policies in place to ensure that wholesale sales of products are made to customers with an appropriate credit history. Sales to retail customers are made in cash, bank transfer or by credit card. The Group grants credit for a period which is usually 30 to 60 days to certain wholesale and franchise customers. The Group does not hold any collateral over the trade debtors. The Group manages the credit risk mainly by purchasing credit guarantee insurance and arranging the trade debtors to be covered by letters of credit or bank guarantees. Individual risk limits are set based on internal ratings in accordance with limits set by management. The utilization of credit limits is regularly monitored.

The Group has a group credit control policy in place to promote good practice in credit control procedures across the Group and protect and limit the Group's overall exposure to credit risks. This policy provides the general principle to guide the credit management process by setting forth the general acceptable practices for limiting credit exposures and in particular, the establishment of the regional and country credit limit for control of credit.

The credit risk on deposits with banks is limited because the Group mainly places the deposits in banks with high credit rating and management does not expect any losses from non-performance by banks.

(iii) Liquidity risk

The Group manages liquidity risk by continuously monitoring forecast and actual cash flows, by keeping sufficient cash, bank balances and deposits and by maintaining adequate banking facilities.

The table below analyzes the Group's financial liabilities into relevant maturity groupings based on the remaining period at the date of the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year HK\$ million	Between 1 and 2 years HK\$ million	Between 2 and 5 years HK\$ million
At 30 June 2017			
Creditors and accrued charges	3,046	-	-
At 30 June 2016			
Creditors and accrued charges	3,495	-	-

Note: Included in creditors and accrued charges with a maturity less than 1 year are derivative financial instruments of **HK\$149 million** (2016: HK\$66 million).

3. Financial risk management and fair value (continued)

(a) Financial risk factors (continued)

(iv) Interest rate risk

The Group's interest rate risk arises primarily from bank loans. Bank loans at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The Group earns interest income on cash deposits. The Group has no interest-bearing borrowings as at 30 June 2017.

The Group monitors closely its interest rate risk exposure and considers hedging significant interest rate risk exposure should the need arise.

(b) Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group's capital structure consists of equity, cash, bank balances and deposits as shown in the consolidated statement of financial position.

The Group's capital structure is being reviewed annually to ensure these objectives are to be achieved. In order to maintain or adjust the capital structure, the Group will consider the macroeconomic conditions, prevailing interest rates and adequacy of cash flows generating from operations and may adjust the amounts of dividends paid to shareholders, return capital to shareholders or issue new shares.

The Group monitors capital by maintaining a net cash position throughout the year. Net cash position is calculated by cash, bank balances and deposits less interest bearing borrowings. As at 30 June 2017, the Group maintained a net cash position of **HK\$5,221 million** (2016: HK\$5,341 million).

(c) Fair value estimation

IFRS 7 requires disclosure for financial instruments that are measured at fair value by level of the following fair value measurement hierarchy:

Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value of financial instruments traded in active markets is based on quoted market prices at the date of the statement of financial position. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in Level 1.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

The Group's investment properties measured at fair value are included in Level 2 of the fair value measurement hierarchy (Note 15).

The Group's derivative financial instruments measured at fair value are included in Level 2 of the fair value measurement hierarchy (Note 26).

4. Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Useful life and impairment of trademarks

(i) Indefinite useful life

The Group's acquired Esprit trademarks are classified as an indefinite-lived intangible asset in accordance with IAS 38 "Intangible Assets". This conclusion is supported by the fact that Esprit trademark legal rights are capable of being renewed indefinitely at insignificant cost and therefore are perpetual in duration, relate to a well-known and long established fashion brand since 1968, and based on the future financial performance of the Group, they are expected to generate positive cash flows indefinitely. This view was supported by an independent professional appraiser, who was appointed by the Group to perform an assessment of the useful life of Esprit trademarks in accordance with the requirements set out in IAS 38. Having considered the factors specific to the Group, the appraiser opined that Esprit trademarks should be regarded as an intangible asset with an indefinite useful life. Under IAS 38, the Group re-evaluates the useful life of Esprit trademarks each year to determine whether events and circumstances continue to support the view of indefinite useful life for this asset. Having considered the current circumstances, relevant legal and regulatory factors and business plan, management considers the classification of the trademark as indefinite-lived intangible asset is appropriate.

(ii) Impairment

In accordance with IAS 36 "Impairment of Assets", the Group completed its annual impairment test for Esprit trademarks by comparing their recoverable amount to their carrying amount as at 30 June 2017. The Group conducted an internal valuation of the Esprit trademarks as one corporate asset based on a fair value less costs of disposal calculation as of 30 June 2017. The valuation uses cash flow projections based on financial estimates covering a two-year period, expected royalty rates deriving from the Esprit trademarks in the range of **3% to 5%** (2016: 3% to 5%) and a post-tax discount rate of **16.0%** (2016: 14.7%). The cash flows beyond the two-year period are extrapolated using a steady **3%** (2016: 3%) growth rate. This growth rate does not exceed the long-term average growth rate for apparel markets in which the Group operates. Management has considered the above assumptions and valuation and has also taken into account the business expansion plan going forward, the current wholesale order books and the strategic retail expansion worldwide and believes that there is no impairment in the Esprit trademarks.

(b) Impairment of goodwill

In accordance with IAS 36 "Impairment of Assets", the Group completed its annual impairment test for goodwill allocated to the Group's various CGUs by comparing their recoverable amount to their carrying amount as at the date of the statement of financial position. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of CGUs, or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

The recoverable amount of a CGU is determined based on fair value less costs of disposal calculation. In the current year, the calculation of the recoverable amount of the China business uses cash flow projections based on financial budgets approved by management covering a seven-year period to have a long-term view of China business and a post-tax discount rate of **12%** (2016: 12%). The estimated compound annual sales growth rate is expected to be **16%** (2016: 16%). Cash flows beyond the seven-year period are extrapolated using a steady growth rate of **3%** (2016: 3%) which does not exceed the long term average growth rate in China market. Based on the goodwill impairment assessment, there was no impairment of goodwill for the year ended 30 June 2017 (2016: no impairment charge).

The estimated recoverable amount of the China business approximates its carrying value, consequently a reasonably possible change in key assumptions would, in isolation, eliminate the amount by which recoverable amount of the China business exceeds its carrying amount and cause an impairment loss to be recognized. If the forecast annual sales growth rates in the financial budget covering the seven-year period used in the calculation had been lower by 1.5% points, the recoverable amount of the China business would be decreased by **HK\$167 million**. If the post-tax discount rate used in the calculation had been higher by 1% point, the recoverable amount of the China business would be decreased by **HK\$166 million**.

(c) Impairment of property, plant and equipment

In accordance with IAS 36 "Impairment of Assets", the Group assesses annually whether property, plant and equipment have any indication of impairment. The Group estimates the recoverable amount of the asset if any such indication exists. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. The value in use calculation involves estimating the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and applying the appropriate discount rate to those future cash flows. The estimation of future cash flows and selection of discount rate require the use of judgments and estimates.

(d) Net realizable value of inventories

In accordance with IAS 2 "Inventories", the Group estimates annually the net realizable value of inventories. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. These estimates are based on the current market condition and the historical experience of selling products of similar nature. It could change significantly as a result of changes in customer taste and competitor actions in response to changes in market conditions. Management reassesses these estimates at the end of each reporting period.

4. Critical accounting estimates and judgments (continued)

(e) Income and other taxes

The Group is subject to income and other taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income and other taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes, as current liabilities, liabilities for anticipated tax audit issues based on estimates of whether additional taxes will eventually be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income and other taxes and deferred tax provisions in the period in which such determination is made.

(f) Provision for store closures and leases

The provision for store closures and leases of the Group consists of provisions for store closures and onerous leases for loss-making stores, compensation to staff and other related costs in connection with the announced store closures and provision for onerous contracts for loss-making stores.

The Group recognizes and measures a provision for store closures and leases for loss-making stores as a provision for onerous contract. In accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets", an onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfill it.

The Group recognizes a provision for store closures and leases based on the estimated unavoidable costs of meeting all leases and other obligations under the retail stores, net of economic benefits expected to be received from the stores, if any. The Group estimates the provision based on the amount of compensation payment agreed with the landlord as a result of early termination of leases, unfulfilled lease obligations, and economic benefits estimated to be received from fulfilling the lease contracts. Management also consults with retail agencies for certain locations in respect of the current market trends. The Group also estimates the provision based on past experience of payout ratio of the total compensation to the landlords. Estimates differ depending on the current rent, location, lease exit terms and management's assessment of when the lease term can be terminated early and expected benefits to be received from fulfilling the leases. Except for stores which termination contracts have already been agreed with the landlords, the settlement of these contracts may be different from the Group's estimation subject to the negotiation with the landlords and the economic benefits estimated to be received.

The Group recognizes a provision for compensation to staff when the Group has a detailed formal plan for store closures and has communicated the plan to the employees affected by it. The Group recognizes a provision for other related costs when obligations for direct expenditures necessarily entailed by the plan for store closures and not associated with the ongoing activities of the Group arise.

5. Revenue and segment information

The Group is principally engaged in retail and wholesale distribution and licensing of quality fashion and non-apparel products designed under its own internationally-known Esprit brand name in Germany, Rest of Europe*, Asia Pacific and via eshop platforms.

	2017	2016
	HK\$ million	HK\$ million
Revenue from external customers		
Germany	5,522	6,057
Rest of Europe	4,337	4,939
Asia Pacific	1,923	2,487
eshop	4,032	4,153
Licensing and others	128	152
	15,942	17,788

Operating segments are reported in a manner consistent with the internal management reports provided to the chief operating decision-maker. The chief operating decision-maker who is responsible for assessing performance and allocating resources for the reporting segments has been identified as the Executive Directors of the Group. The Group has been undergoing transformation in the past few years that the management and reporting structures have been reorganized. Currently, the chief operating decision-maker determines that the operating segments are Germany, Rest of Europe, Asia Pacific and global eshop which are consistent with the latest management organization and reporting structures. Corporate services, sourcing and licensing activities are also determined as a separate operating segment. In addition, within the regions, the chief operating decision-maker also reviews the business in the retail and wholesale channel perspective which are also operating segments. The eshops in Germany, Rest of Europe and Asia Pacific are aggregated into one reporting segment under global eshop.

Inter-segment transactions are entered into under the normal commercial terms and conditions that would also be available to unrelated third parties.

* The Rest of Europe region includes our business in America and the Middle East.

5. Revenue and segment information (continued)

	For the year ended 30 June 2017					
	Germany HK\$ million	Rest of Europe HK\$ million	Asia Pacific HK\$ million	eshop HK\$ million	Corporate services, sourcing, licensing and others HK\$ million	Group HK\$ million
Total revenue						
Retail	2,781	2,133	1,804	4,025	-	10,743
Wholesale	2,741	2,204	119	7	-	5,071
Licensing and others	-	-	-	-	8,801	8,801
Total	5,522	4,337	1,923	4,032	8,801	24,615
Inter-segment revenue	-	-	-	-	(8,673)	(8,673)
Revenue from external customers						
Retail	2,781	2,133	1,804	4,025	-	10,743
Wholesale	2,741	2,204	119	7	-	5,071
Licensing and others	-	-	-	-	128	128
Total	5,522	4,337	1,923	4,032	128	15,942
Segment results						
Retail	(438)	(31)	(77)	913	1	368
Wholesale	646	202	(5)	2	4	849
Licensing and others	-	-	-	-	(1,319)	(1,319)
EBIT/(LBIT)	208	171	(82)	915	(1,314)	(102)
Interest income						44
Finance costs						(48)
Loss before taxation						(106)
Capital expenditure						
Retail	20	31	51	1	5	108
Wholesale	2	8	1	-	1	12
Licensing and others	-	-	5	10	122	137
Total	22	39	57	11	128	257
Depreciation						
Retail	81	66	50	2	15	214
Wholesale	12	13	4	-	3	32
Licensing and others	-	-	-	-	272	272
Total	93	79	54	2	290	518
(Reversal of impairment of)/ impairment of property, plant and equipment						
Retail	(2)	(7)	1	-	-	(8)
Total	(2)	(7)	1	-	-	(8)
Additional/(write-back of) provision for store closures and leases, net						
Retail	13	7	(8)	-	-	12
Total	13	7	(8)	-	-	12
Gain on disposal of a subsidiary						
Others	-	-	-	-	(33)	(33)
Total	-	-	-	-	(33)	(33)
Gain on disposal of a property						
Retail	-	-	(100)	-	-	(100)
Total	-	-	(100)	-	-	(100)

5. Revenue and segment information (continued)

	For the year ended 30 June 2016					
	Germany HK\$ million	Rest of Europe HK\$ million	Asia Pacific HK\$ million	eshop HK\$ million	Corporate services, sourcing, licensing and others HK\$ million	Group HK\$ million
Total revenue						
Retail	3,079	2,440	2,306	4,153	-	11,978
Wholesale	2,978	2,499	181	-	-	5,658
Licensing and others	-	-	-	-	15,072	15,072
Total	6,057	4,939	2,487	4,153	15,072	32,708
Inter-segment revenue	-	-	-	-	(14,920)	(14,920)
Revenue from external customers						
Retail	3,079	2,440	2,306	4,153	-	11,978
Wholesale	2,978	2,499	181	-	-	5,658
Licensing and others	-	-	-	-	152	152
Total	6,057	4,939	2,487	4,153	152	17,788
Segment results						
Retail	(366)	(150)	(667)	1,058	11	(114)
Wholesale	608	67	(13)	-	29	691
Licensing and others	-	-	-	-	(1,173)	(1,173)
EBIT/(LBIT)	242	(83)	(680)	1,058	(1,133)	(596)
Interest income						40
Finance costs						(29)
Loss before taxation						(585)
Capital expenditure						
Retail	46	29	75	3	4	157
Wholesale	9	8	4	-	4	25
Licensing and others	1	1	3	13	62	80
Total	56	38	82	16	70	262
Depreciation						
Retail	93	81	73	1	13	261
Wholesale	13	16	7	-	3	39
Licensing and others	-	-	-	-	291	291
Total	106	97	80	1	307	591
Impairment of property, plant and equipment						
Retail	6	22	31	-	-	59
Licensing and others	-	-	-	-	48	48
Total	6	22	31	-	48	107
Additional provision for store closures and leases, net						
Retail	(52)	(102)	200	-	-	46
Wholesale	-	(16)	-	-	-	(16)
Licensing and others	-	(6)	-	-	162	156
Total	(52)	(124)	200	-	162	186
Gain on disposal of subsidiaries						
Others	-	-	-	-	(731)	(731)
Total	-	-	-	-	(731)	(731)

5. Revenue and segment information (continued)

Revenue from external customers is attributed to the following countries based on the location in which the sales originated:

	2017 HK\$ million	2016 HK\$ million
Germany (Note 1)	5,522	6,057
Rest of Europe		
Benelux	1,335	1,542
France	753	866
Switzerland	699	734
Austria	536	629
Spain	201	202
Sweden	193	233
Finland	182	201
Italy	108	123
Poland	58	65
Denmark	53	68
United Kingdom	48	96
Others (Note 2)	171	180
	4,337	4,939
Asia Pacific		
China	691	1,048
Australia and New Zealand	272	304
Hong Kong	264	331
Singapore	216	253
Malaysia	167	191
Taiwan	163	186
Macau	86	102
Others (Note 3)	64	72
	1,923	2,487
eshop		
Germany	2,385	2,480
Benelux	550	568
Switzerland	227	250
France	224	262
Austria	199	203
China	180	134
United Kingdom	46	55
Denmark	36	43
Sweden	32	29
Finland	27	32
Australia and New Zealand	25	20
Spain	15	14
Others	86	63
	4,032	4,153
Licensing and others		
Rest of Europe (Note 4)	103	130
Germany	25	22
	128	152
	15,942	17,788

Note 1: Germany revenue includes wholesale revenue from other European countries mainly from Bosnia-Herzegovina, Slovenia and Romania.

Note 2: Others under Rest of Europe include revenue from other countries mainly Chile, Colombia and Canada.

Note 3: Others under Asia Pacific include wholesale revenue from other countries mainly Thailand and the Philippines.

Note 4: Revenue from Rest of Europe represents licensing income that comes from Asia Pacific, Europe other than Germany, America and the Middle East.

Non-current assets other than deferred tax assets and financial instruments are located in the following countries:

	2017 HK\$ million	2016 HK\$ million
Hong Kong	18	42
Germany	1,512	1,703
Other countries (Note)	3,244	3,335
	4,774	5,080

Note: Non-current assets located in other countries include intangible assets of **HK\$2,851 million** (2016: HK\$2,902 million) (Note 13).

During the year, the revenue from the Group's largest customer amounted to less than 10% of the Group's total revenue (2016: less than 10%).

6. Operating loss (LBIT)

	2017 HK\$ million	2016 HK\$ million
LBIT is arrived at after charging and (crediting) the following:		
Staff costs	2,896	3,480
Auditor's remuneration	15	15
Depreciation	518	591
Amortization of customer relationships	59	62
(Reversal of impairment of)/ impairment of property, plant and equipment	(8)	107
Additional provision for store closures and leases, net	12	186
Gain on disposal of a subsidiary/ subsidiaries (Note 27)	(33)	(731)
Loss on disposal of plant and equipment	12	16
Gain on disposal of a property (Note 28)	(100)	-
Occupancy costs		
- operating lease charge (including variable rental of HK\$184 million (2016: HK\$264 million))	1,968	2,199
- other occupancy costs	528	594
Cash flow hedges:		
- ineffective portion transferred from equity to exchange gains on forward foreign exchange contracts	-	(22)
- ineffective portion recognized in exchange gains on forward foreign exchange contracts not qualifying for hedge accounting	-	(3)
Fair value hedges:		
- exchange loss on hedged items	1	6
Other net exchange gains (Write-back of)/additional provision for obsolete inventories, net	(37)	(131)
Provision for impairment of trade debtors, net	(49)	45
	73	98

7. Finance costs

	2017 HK\$ million	2016 HK\$ million
Imputed interest on financial assets and financial liabilities	48	29

8. Taxation

	2017 HK\$ million	2016 HK\$ million
Current tax		
Hong Kong profits tax		
Provision for current year	2	2
Over-provision for prior years	-	(404)
Overseas taxation		
Provision for current year	24	53
Over-provision for prior years	(10)	(52)
	16	(401)
Deferred tax (Note 22)		
Current year net credit	(198)	(204)
Effect of changes in tax rates	9	(1)
Taxation credit	(173)	(606)

Hong Kong profits tax is calculated at **16.5%** (2016: 16.5%) on the estimated assessable profit for the year, net of tax losses carried forward, if applicable.

Overseas (outside of Hong Kong) taxation has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group companies operate, net of tax losses carried forward, if applicable.

The tax on the Group's profit before taxation differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the Group's subsidiaries. The effective tax rate was **163.8%** (2016: 103.7%).

	2017 HK\$ million	2016 HK\$ million
Loss before taxation	(106)	(585)
Tax calculated at applicable tax rates	(41)	(213)
Expenses not deductible for tax purposes	29	55
Non-taxable income	(34)	(130)
Utilization of previously unrecognized tax losses	(4)	(8)
Tax effect of tax losses not recognized	71	251
Over-provision for prior years, net	(10)	(456)
Tax effect on deferred tax balances due to changes in income tax rates	9	(1)
Temporary differences not recognized	(8)	(10)
Tax on undistributed earnings	(102)	(89)
Recognition of previously unrecognized tax losses	(48)	(5)
Other deferred tax effects from prior years	(35)	-
Taxation credit	(173)	(606)

In June 2014, a subsidiary of the Group in Germany received a letter from the tax authority in relation to a dispute on a value-added-tax ("VAT") matter involving payment of interests totaling approximately HK\$780 million, to which the subsidiary had lodged objection. Based on the advice from the Group's tax advisor, the Board of Directors considers that the payment of interests is unlikely, and therefore no additional provision has been made.

9. Dividends

The Board of Directors did not declare and recommend the distribution of any dividend for the year ended 30 June 2017 (2016: nil).

10. Earnings per share

Basic

Basic earnings per share is calculated by dividing the profit attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the year less shares held for Share Award Scheme.

	2017	2016
Profit attributable to shareholders of the Company (HK\$ million)	67	21
Number of ordinary shares in issue at 1 July (million)	1,944	1,944
Adjustment for shares held for Share Award Scheme (million)	(6)	-
Weighted average number of ordinary shares in issue less shares held for Share Award Scheme (million)	1,938	1,944
Basic earnings per share (HK\$ per share)	0.03	0.01

Diluted

Diluted earnings per share is calculated based on the profit attributable to shareholders of the Company, and the weighted average number of shares in issue during the year less shares held for Share Award Scheme after adjusting for the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares granted under the Company's share option schemes and share award scheme. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares for the year) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options and the vesting of awarded shares.

	2017	2016
Profit attributable to shareholders of the Company (HK\$ million)	67	21
Weighted average number of ordinary shares in issue less shares held for Share Award Scheme (million)	1,938	1,944
Adjustments for share options and awarded shares (million)	3	-
Weighted average number of ordinary shares for diluted earnings per share (million)	1,941	1,944
Diluted earnings per share (HK\$ per share)	0.03	0.01

11. Staff costs (including directors' emoluments)

	2017 HK\$ million	2016 HK\$ million
Salaries and wages	2,276	2,537
Social security costs and other staff costs	502	841
Pensions costs of defined contribution plans	67	76
Employee share-based compensation benefits	51	26
	2,896	3,480

Defined contribution retirement schemes

The Group principally participates in defined contribution plans. In Hong Kong, the Group participates in the Mandatory Provident Fund Scheme operated by HSBC Provident Fund Trustee (Hong Kong) Limited. Contributions at a fixed rate of 5% of the employee's relevant income, subject to a cap of monthly relevant income of HK\$30,000 per employee, are made to the scheme and are vested immediately. The Group also operates several defined contribution retirement plans for its overseas subsidiaries and pays contributions to publicly or privately administered pension plans on a mandatory, contractual or voluntary basis. Contributions to the schemes by the Group and employees are calculated at fixed percentages of employees' basic salaries or at agreed fixed amounts.

Under the defined contribution scheme in some countries, where employees leave the scheme prior to the full vesting of the employer's contributions, the amount of forfeited contributions is used to reduce the contributions payable by the Group. During the year, the Group did not have any contributions forfeited in accordance with the schemes' rules (2016: nil) which have been applied towards the contributions payable by the Group.

12. Directors' and senior management's emoluments

(a) Directors' emoluments

Name of Director	Fees ⁷ HK\$'000	Basic salaries, allowance and benefits in kind HK\$'000	Bonuses ⁸ HK\$'000	Employee share-based compensation benefits HK\$'000	Provident fund contributions/ retirement benefit costs HK\$'000	2017 Total emoluments HK\$'000
Jose Manuel MARTINEZ GUTIERREZ ⁵	-	13,048 (EUR1,541,880)	7,037 (EUR831,620)	8,159 (EUR964,176)	18 (EUR2,127)	28,262 (EUR3,339,803)
Thomas TANG Wing Yung ⁶	-	8,094	1,593	3,436	18	13,141
Raymond OR Ching Fai ^{2,4}	2,150	-	-	-	-	2,150
Paul CHENG Ming Fun ^{2,4,5}	1,465	-	-	-	-	1,465
Jürgen Alfred Rudolf FRIEDRICH ^{1,5}	565	-	-	-	-	565
José María CASTELLANO RIOS ^{2,3,6}	655	-	-	-	-	655
Alexander Reid HAMILTON ^{2,3,4}	735	-	-	-	-	735
Carmelo LEE Ka Sze ^{2,4,5,6}	800	-	-	-	-	800
Norbert Adolf PLATT ^{2,3,5}	665	-	-	-	-	665
Total for the year 2017	7,035	21,142	8,630	11,595	36	48,438

Name of Director	Fees ⁷ HK\$'000	Basic salaries, allowance and benefits in kind HK\$'000	Bonuses ⁸ HK\$'000	Employee share-based compensation benefits HK\$'000	Provident fund contributions/ retirement benefit costs HK\$'000	2016 Total emoluments HK\$'000
Jose Manuel MARTINEZ GUTIERREZ ⁵	-	13,290 (EUR1,542,311)	2,154 (EUR250,000)	6,242 (EUR724,448)	18 (EUR2,089)	21,704 (EUR2,518,848)
Thomas TANG Wing Yung ⁶	-	8,092	-	3,186	18	11,296
Raymond OR Ching Fai ^{2,4}	2,150	-	-	-	-	2,150
Paul CHENG Ming Fun ^{2,4,5}	1,465	-	-	-	-	1,465
Jürgen Alfred Rudolf FRIEDRICH ^{1,5}	565	-	-	-	-	565
José María CASTELLANO RIOS ^{2,3,6}	655	-	-	-	-	655
Alexander Reid HAMILTON ^{2,3,4}	735	-	-	-	-	735
Carmelo LEE Ka Sze ^{2,4,5,6}	800	-	-	-	-	800
Norbert Adolf PLATT ^{2,3,5}	665	-	-	-	-	665
Total for the year 2016	7,035	21,382	2,154	9,428	36	40,035

¹ Non-executive Director

² Independent Non-executive Director

³ Members of the Audit Committee

⁴ Members of the Nomination Committee

⁵ Members of the Remuneration Committee

⁶ Members of the Risk Management Committee

⁷ The amount includes directors' fees of **HK\$6.5 million** (2016: HK\$6.5 million) paid to Independent Non-executive Directors

⁸ During the current year, there was **HK\$8.6 million** discretionary bonus to the directors (2016: Nil)

12. Directors' and senior management's emoluments (continued)

(a) Directors' emoluments (continued)

Directors' retirement benefits

No retirement benefits were provided to or receivable by any director during the year (2016: Nil).

Directors' termination benefits

No termination benefits were provided to or receivable by any director during the year as compensation for the early termination of appointment (2016: Nil).

Consideration provided to third parties for making available directors' services

No consideration was provided to or receivable by third parties for making available directors' services during the year (2016: Nil).

Information about loans, quasi-loans and other dealings in favor of directors, controlled bodies corporate by and connected entities with such directors

There are no loans, quasi-loans or other dealings in favor of the directors, their controlled bodies corporate and connected entities during the year (2016: Nil).

Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included **two** (2016: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining **three** (2016: three) individuals during the year are as follow:

	2017 HK\$'000	2016 HK\$'000
Salaries, housing and other allowances and benefits in kind	20,493	20,579
Bonuses	7,745	1,909
Employee share-based compensation benefits	9,557	7,533
Pensions costs of defined contribution plans	-	337
	37,795	30,358

The emoluments fell within the following bands:

Emoluments band	Number of individuals	
	2017	2016
HK\$7,000,001 - HK\$ 7,500,000	-	1
HK\$7,500,001 - HK\$ 8,000,000	-	1
HK\$10,000,001 - HK\$ 10,500,000	1	-
HK\$11,000,001 - HK\$ 11,500,000	1	-
HK\$15,500,001 - HK\$ 16,000,000	-	1
HK\$16,000,001 - HK\$ 16,500,000	1	-

13. Intangible assets

	Trademarks	Goodwill	Customer relationships	Total
	HK\$ million	HK\$ million	HK\$ million	HK\$ million
Cost				
At 1 July 2016	1,942	4,938	605	7,485
Exchange translation	19	(76)	(9)	(66)
At 30 June 2017	1,961	4,862	596	7,419
Amortization and impairment				
At 1 July 2016	-	4,197	386	4,583
Exchange translation	-	(69)	(5)	(74)
Amortization charge	-	-	59	59
At 30 June 2017	-	4,128	440	4,568
Net book value				
At 30 June 2017	1,961	734	156	2,851
Cost				
At 1 July 2015	1,943	5,272	646	7,861
Exchange translation	(1)	(334)	(41)	(376)
At 30 June 2016	1,942	4,938	605	7,485
Amortization and impairment				
At 1 July 2015	-	4,482	348	4,830
Exchange translation	-	(285)	(24)	(309)
Amortization charge	-	-	62	62
At 30 June 2016	-	4,197	386	4,583
Net book value				
At 30 June 2016	1,942	741	219	2,902

Trademarks

The trademarks are considered to have an indefinite useful life and were tested for impairment at 30 June 2017, as described in note 4(a). The recoverable amount of the Esprit trademarks as at 30 June 2017 was higher than their carrying amount.

Goodwill

The goodwill arising from the business combinations during the year ended 30 June 2010 was allocated to the Group's CGUs identified according to operating segment. An operating segment-level summary of the goodwill allocation as at 30 June 2017 is presented below:

	2017				2016			
	Retail (excluding eshop)		Wholesale	Total	Retail (excluding eshop)		Wholesale	Total
	eshop	eshop			eshop	eshop		
	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million
China (Note)	496	35	113	644	504	36	115	655
Finland	-	-	36	36	-	-	34	34
Total	496	35	149	680	504	36	149	689

Note: Based on the goodwill impairment assessment, there was no impairment of China goodwill for the year ended 30 June 2017 (2016: Nil).

14. Property, plant and equipment

	Freehold land outside Hong Kong HK\$ million	Leasehold land in Hong Kong HK\$ million	Buildings HK\$ million	Leasehold improvements and fixtures HK\$ million	Plant and machinery HK\$ million	Furniture and office equipment HK\$ million	Motor vehicles HK\$ million	Construction in progress HK \$ million	Total HK\$ million
Cost									
At 1 July 2016	20	26	189	3,197	426	3,328	39	37	7,262
Exchange translation	1	-	6	82	15	102	-	4	210
Additions	-	-	-	80	1	70	5	101	257
Transfer	-	-	-	6	-	18	-	(24)	-
Disposals	-	(26)	(26)	(243)	-	(134)	(16)	(5)	(450)
Disposal of subsidiaries (Note 27)	-	-	(6)	-	-	-	-	-	(6)
At 30 June 2017	21	-	163	3,122	442	3,384	28	113	7,273
Depreciation and impairment									
At 1 July 2016	-	11	53	2,532	137	2,346	24	-	5,103
Exchange translation	-	-	1	66	6	84	-	-	157
Depreciation charge for the year	-	-	5	179	34	294	6	-	518
Write-back of impairment charge	-	-	-	(6)	-	(2)	-	-	(8)
Disposals	-	(11)	(19)	(218)	-	(133)	(12)	-	(393)
Disposal of subsidiaries (Note 27)	-	-	(4)	-	-	-	-	-	(4)
At 30 June 2017	-	-	36	2,553	177	2,589	18	-	5,373
Net book value									
At 30 June 2017	21	-	127	569	265	795	10	113	1,900

	Freehold land outside Hong Kong HK\$ million	Leasehold land in Hong Kong HK\$ million	Buildings HK\$ million	Leasehold improvements and fixtures HK\$ million	Plant and machinery HK\$ million	Furniture and office equipment HK\$ million	Motor vehicles HK\$ million	Construction in progress HK\$ million	Total HK\$ million
Cost									
At 1 July 2015	24	196	322	3,631	430	3,667	43	19	8,332
Exchange translation	(1)	-	(3)	(64)	(4)	(40)	-	(1)	(113)
Additions	-	-	-	144	-	81	12	25	262
Transfer	-	-	-	3	-	3	-	(6)	-
Disposals	(3)	-	(27)	(517)	-	(383)	(16)	-	(946)
Disposal of subsidiaries (Note 27)	-	(170)	(103)	-	-	-	-	-	(273)
At 30 June 2016	20	26	189	3,197	426	3,328	39	37	7,262
Depreciation and impairment									
At 1 July 2015	-	53	120	2,818	104	2,371	31	-	5,497
Exchange translation	-	-	(2)	(49)	(1)	(27)	-	-	(79)
Depreciation charge for the year	-	3	8	215	34	324	7	-	591
Impairment charge	-	-	1	50	-	56	-	-	107
Disposals	-	-	(27)	(502)	-	(378)	(14)	-	(921)
Disposal of subsidiaries (Note 27)	-	(45)	(47)	-	-	-	-	-	(92)
At 30 June 2016	-	11	53	2,532	137	2,346	24	-	5,103
Net book value									
At 30 June 2016	20	15	136	665	289	982	15	37	2,159

The leasehold land in Hong Kong is held on medium-term (10 to 50 years) leases and is held under finance leases.

15. Investment properties

	2017 HK\$ million	2016 HK\$ million
At 1 July	19	17
Change in fair value of investment properties	4	2
At 30 June	23	19

The investment properties represent certain medium-term leasehold land and buildings located in the People's Republic of China. An independent professional valuer, D&P China (HK) Limited, valued the properties at 30 June 2017 on an open market value basis at **HK\$23 million** (2016: HK\$19 million).

The fair values of the investment properties have been generally derived using the sales comparison approach. Sales prices of comparable properties in close proximity are adjusted for differences in key attributes such as property size. The most significant input into this valuation approach is sales price per square meter.

The following table presents the carrying value of investment properties measured at fair value according to the levels of the fair value hierarchy defined in IFRS 13 "Fair Value Measurement", with the fair value of each asset and liability categorized based on the lowest level of input that is significant to that fair value measurement.

	Level 1	Level 2	Level 3	Total
	HK\$ million	HK\$ million	HK\$ million	HK\$ million
Recurring fair value measurements:				
Assets				
Investment properties in PRC				
For the year ended 30 June 2017	-	23	-	23
For the year ended 30 June 2016	-	19	-	19

During the year, there were no transfers between Level 1 and Level 2.

The Group's policy is to recognize transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

16. Inventories

	2017 HK\$ million	2016 HK\$ million
Finished goods	2,468	2,673
Consumables	70	71
Raw materials	2	1
	2,540	2,745

17. Debtors, deposits and prepayments

	2017 HK\$ million	2016 HK\$ million
Trade debtors	1,426	1,487
Less: provision for impairment of trade debtors	(239)	(229)
	1,187	1,258
Deposits	144	166
Prepayments	159	188
Other debtors and receivables	122	179
	1,612	1,791
Non-current portion of deposits	(100)	(125)
Non-current portion of prepayments	(48)	(67)
Non-current portion of other debtors and receivables	(26)	(28)
Current portion	1,438	1,571
Maximum exposure to credit risk	1,453	1,603

The aging analysis by invoice date of trade debtors net of provision for impairment is as follows:

	2017 HK\$ million	2016 HK\$ million
0-30 days	790	839
31-60 days	196	157
61-90 days	54	80
Over 90 days	147	182
	1,187	1,258

As of 30 June 2017, trade debtors net of provision for impairment of **HK\$268 million** (30 June 2016: HK\$317 million) were past due but not impaired. The aging analysis of these trade debtors is as follows:

	2017 HK\$ million	2016 HK\$ million
1-30 days	173	148
31-60 days	6	31
61-90 days	14	15
Over 90 days	75	123
Amount past due but not impaired	268	317

The carrying amounts of debtors, deposits and prepayments approximate their fair values.

There is no concentration of credit risk with respect to trade debtors as the Group has a large number of internationally dispersed customers.

Concerning trade debtors that are neither impaired nor past due, there were no indications at the date of the statement of financial position that defaults in payment obligations will occur as these relate to a number of independent customers for whom there is no recent history of default.

17. Debtors, deposits and prepayments (continued)

Movements in provision for impairment of trade debtors are as follows:

	2017 HK\$ million	2016 HK\$ million
At 1 July	229	298
Provision for impairment of trade debtors	121	137
Bad debts written off	(70)	(164)
Unused amounts reversed	(48)	(39)
Exchange translation	7	(3)
At 30 June	239	229

The individually impaired receivables mainly relate to wholesalers which have unexpected liquidity problems.

18. Cash, bank balances and deposits

Cash, bank balances and deposits include the following for the purposes of the consolidated statement of cash flows:

	2017 HK\$ million	2016 HK\$ million
Bank balances and cash	3,216	2,856
Bank deposits with maturities within three months	1,854	629
Bank deposits with maturities of more than three months	151	1,856
	5,221	5,341

No bank deposits with maturities of more than three months are pledged as a security to a bank for granting the bank facility to the Group as at 30 June 2017 (2016: HK\$286 million).

The maximum exposure to credit risk as at 30 June 2017 is the carrying amount of bank balances and bank deposits.

The effective interest rate on cash, bank balances and deposits for the year was determined to be **0.8%** (2016: 0.8%) per annum.

19. Share capital

	Number of shares of HK\$0.10 each million	HK\$ million
Authorized:		
At 30 June 2016 and 30 June 2017	3,000	300

	Number of shares of HK\$0.10 each million	Nominal value HK\$ million
Issued and fully paid:		
At 1 July 2016 and 30 June 2017	1,944	194
At 1 July 2015 and 30 June 2016	1,944	194

(a) Share options

The Company adopted a share option scheme on 26 November 2001 (the "2001 Share Option Scheme"). The 2001 Share Option Scheme was terminated on 10 December 2009, notwithstanding that the share options which were granted and remained outstanding and/or committed as of that date continued to follow the provisions of the 2001 Share Option Scheme and the Listing Rules.

The Company adopted a new share option scheme on 10 December 2009 (the "2009 Share Option Scheme").

Information on the Schemes

The following is a summary of the 2001 Share Option Scheme and the 2009 Share Option Scheme (collectively the "Schemes") disclosed in accordance with the Listing Rules.

Purpose of the Schemes

The Schemes are share incentive schemes and are established to recognize and acknowledge the contributions that eligible persons have made or may make to the Group.

The Schemes provide eligible persons with an opportunity to have a personal stake in the Company with a view to:

- (i) motivating eligible persons to optimize their performance and efficiency for the benefit of the Group; and
- (ii) attracting and retaining or otherwise maintaining ongoing business relationships with eligible persons whose contributions are or will be beneficial to the long term growth of the Group.

19. Share capital (continued)

Participants of the Schemes

The Board of Directors may at its discretion grant share options to:

- (i) any director, employee, 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, 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, consultant, customer, supplier, agent, partner, adviser of or contractor to the Group or an Affiliate.

Total number of shares available for issue under the Schemes and percentage of issued share capital as at 30 June 2017

The total number of shares available for issue upon exercise of all outstanding share options already granted under the Schemes is 58,240,000 shares (2001 Share Option Scheme: 300,000 shares and 2009 Share Option Scheme: 57,940,000 shares), representing 3.00% of the issued share capital of the Company as at 30 June 2017.

The maximum number of shares available for issue upon exercise of share options not yet granted under the Schemes is 45,267,693 shares (2001 Share Option Scheme: Nil and 2009 Share Option Scheme: 45,267,693 shares), representing 2.33% of the issued share capital of the Company as at 30 June 2017.

Maximum entitlement of each participant under the Schemes

The maximum entitlement of each participant under the Schemes shall not exceed any limits that may be imposed under the Listing Rules from time to time as amended and in force.

In accordance with the current Listing Rules, no share options may be granted to any eligible persons which, if exercised in full, would result in the total number of shares issued and to be issued upon exercise of the share options already granted or to be granted to such eligible person under the Schemes or any other schemes of the Company (including exercised, canceled and outstanding share options) in the 12-month period up to and including the date of such new grant exceeding 1% of the issued share capital of the Company at the date of such new grant. Any grant of further share options above this limit is subject to certain requirements as stipulated in the Listing Rules.

The period within which the shares must be taken up under a share option under the Schemes

A share option is exercisable, subject to certain restrictions contained in the Schemes and the terms on which the share option is granted at any time during the applicable share option period which may be determined by the Board of Directors but which shall in no event be more than 10 years from the date of grant of the share option.

The minimum period for which a share option must be held before it can be exercised under the Schemes

There is no general requirement on the minimum period for which a share option must be held or the performance targets which must be achieved before a share option can be exercised under the Schemes. At the time of granting a share option, however, the Board of Directors may, on a case by case basis, make such grant subject to such conditions, restrictions or limitations in relation thereto, including the minimum period for which the share option must be held and/or the performance targets to be achieved, additional to those expressly set forth in the Schemes as the Board of Directors may in its absolute discretion determine.

The amount payable on application or acceptance of the share option and the period within which payments or calls must or may be made or loans for such purposes must be repaid under the Schemes

There is no amount payable on application or acceptance of the share option and the period within which payments or calls must or may be made or loans for such purposes must be repaid.

The basis of determining the subscription price under the Schemes

The price per share at which a grantee may subscribe for shares upon the exercise of a share option is determined by the Board of Directors and shall not be less than the highest of:

- (i) the closing price of the Company's shares as stated in the daily quotations sheet of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date of grant of the relevant share option, which must be a Business Day (as defined in the Listing Rules);
- (ii) an amount equivalent to the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five Business Days immediately preceding the date of grant of the relevant share option; and
- (iii) the nominal value of the Company's shares.

The remaining life of the 2001 Share Option Scheme

On 10 December 2009, the shareholders approved at the annual general meeting of the Company the termination of the 2001 Share Option Scheme and no further share options may be granted to eligible person under the 2001 Share Option Scheme with effect thereof, save and except the share options which were committed prior to such date continued to follow the provisions of the 2001 Share Option Scheme and the Listing Rules.

19. Share capital (continued)

The remaining life of the 2001 Share Option Scheme (continued)

Details of the share options movement during the year and outstanding share options as at 30 June 2017 under the 2001 Share Option Scheme are as follows:

	Number of share options	
	2017	2016
At 1 July	1,155,000	4,610,000
Lapsed during the year	(675,000)	(2,165,000)
Forfeited during the year	(180,000)	(1,290,000)
At 30 June (Note (i))	300,000	1,155,000

Notes:

(i) Share options outstanding at the end of the year have the following terms:

Expiry date	Exercise price HK\$	Number of share options outstanding as at 30 June	
		2017	2016
Employees			
9 December 2016 *	37.92	-	300,000
13 December 2016 *	38.10	-	255,000
11 February 2017 *	40.40	-	300,000
9 December 2017 *	11.09	300,000	240,000
9 December 2017 **	11.09	-	60,000
		300,000	1,155,000

* The share options listed above are vested as of the respective dates of the statement of financial position.

** The share options listed above are not vested as of the respective dates of the statement of financial position.

The remaining life of the 2009 Share Option Scheme

Share options may be granted to eligible persons under the 2009 Share Option Scheme for the period until 9 December 2019.

Details of the share options movement during the year and outstanding share options as at 30 June 2017 under the 2009 Share Option Scheme are as follows:

	Number of share options	
	2017	2016
At 1 July	57,550,000	63,020,000
Granted during the year (Note (i))	6,350,000	10,725,000
Lapsed during the year	(745,000)	(425,000)
Forfeited during the year	(5,215,000)	(15,770,000)
At 30 June (Note (ii))	57,940,000	57,550,000

Notes:

(i) Details of share options granted during the year ended 30 June 2017 are as follows:

Exercise period	Exercise price HK\$	Number of share options
31 October 2019 - 30 October 2026	6.87	6,350,000
		6,350,000

(ii) Share options outstanding at the end of the year have the following terms:

Expiry date	Exercise price HK\$	Number of share options outstanding as at 30 June	
		2017	2016
Directors			
11 March 2023 *	10.04	5,900,000	4,500,000
11 March 2023 **	10.04	1,400,000	2,800,000
4 November 2023 *	14.18	700,000	-
4 November 2023 **	14.18	-	700,000
30 June 2024 *	11.00	1,160,000	1,160,000
31 October 2024 **	10.124	700,000	700,000
Employees			
1 February 2017*	8.76	-	300,000
1 February 2017*	10.04	-	45,000
1 February 2017*	12.32	-	150,000
1 February 2017*	14.18	-	150,000
27 September 2020 *	43.00	1,600,000	2,080,000
27 September 2021 *	8.76	4,050,000	5,175,000
12 December 2022 *	12.32	2,815,000	3,365,000
11 March 2023 *	10.04	6,292,000	4,929,000
11 March 2023 **	10.04	1,573,000	3,246,000
4 November 2023 *	14.18	6,780,000	-
4 November 2023 **	14.18	1,320,000	8,800,000
21 March 2024 *	13.592	300,000	-
21 March 2024 **	13.592	200,000	500,000
30 June 2024 *	11.00	180,000	-
30 June 2024 **	11.00	120,000	300,000
31 October 2024 *	10.124	100,000	100,000
31 October 2024 **	10.124	7,275,000	8,275,000
13 October 2025 **	6.55	8,850,000	9,750,000
13 October 2025 **	8.07	125,000	125,000
3 May 2026 **	6.82	400,000	400,000
31 October 2026 **	6.87	6,100,000	-
		57,940,000	57,550,000

* The share options listed above are vested as of the respective dates of the statement of financial position.

** The share options listed above are not vested as of the respective dates of the statement of financial position.

19. Share capital (continued)

The remaining life of the 2009 Share Option Scheme (continued)

Share option expenses charged to the consolidated income statement are based on valuations determined using the Binomial model. Share options granted during the year were valued based on the following assumptions:

Date of grant	Share option value ¹ HK\$	Share price at the date of grant ² HK\$	Exercise price HK\$	Expected volatility ³	Annual risk-free interest rate ⁴	Life of share option ⁵	Dividend yield ⁶
The 2009 Share Option Scheme							
31 October 2016	1.74	6.40	6.87	37.75%	0.69%	4 years	0.28%

1. Since the share option pricing model requires input of highly subjective assumptions, fair values calculated are therefore inherently subjective and the model may not necessarily provide a reliable measure of share option expense.
2. The share price at the date of grant disclosed is the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the relevant share option; where the date of grant of the relevant share option did not fall on a Business Day (as defined in the Listing Rules), the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet immediately preceding the date of grant was disclosed.
3. As stated in IFRS 2, the issuer can use either (i) implied volatilities obtained from market information; or (ii) historical volatilities as expected volatility input to the Binomial option pricing model. For share options granted under the 2009 Share Option Scheme, Esprit has estimated volatility based on the historical stock prices over the period corresponding to the expected life preceding the date of grant, expressed as an annualized rate and based on daily price changes.
4. The risk-free interest rate was based on the market yield of Hong Kong Exchange Fund notes with a remaining life corresponding to the expected share option life.
5. The expected share option life was determined by reference to historical data of share option holders' behavior.
6. For share options granted under the 2009 Share Option Scheme, dividend yield was based on the average dividend yield (including special dividend) for the three years preceding the year of grant.

(b) Awarded shares

The Board of Directors has adopted the Employees' Share Award Scheme (the "Share Award Scheme") on 17 March 2016. The purpose of the Share Award Scheme is to incentivize and retain selected senior management of the Group.

Pursuant to the rules relating to the Share Award Scheme (the "Scheme Rules"), the Board of Directors shall select any employees of the Group (the "Selected Employees") for participation in the Share Award Scheme and determine the awarded sums or the number of awarded shares. The Company has appointed an independent trustee for the administration of the Share Award Scheme. The trustee shall purchase the relevant number of shares from the market out of the Company's funds paid or to be paid to the trustee. The trustee shall hold such shares on trust for the relevant Selected Employees until they are vested and delivered in accordance with the Scheme Rules and the conditions of the award of such awarded shares (if any).

During the year ended 30 June 2017, the following awarded shares were offered to Selected Employees under the Share Award Scheme:

Date of grant	Number of awarded shares granted	Fair value per share HK\$	Vesting date
31 October 2016	2,577,842	6.40	31 October 2018
31 October 2016	2,577,842	6.40	31 October 2019
	5,155,684		

The fair value of the awarded shares was calculated based on the market price of the Company's shares at the grant date.

Details of the awarded shares movement during the year and outstanding awarded shares as at 30 June 2017 under the Share Award Scheme are as follows:

	Number of awarded shares	
	2017	2016
At 1 July	3,383,572	-
Granted during the year	5,155,684	3,383,572
At 30 June	8,539,256	3,383,572

During the year ended 30 June 2017, the trustee purchased a total of **5,155,700 shares** (2016: 3,383,600 shares) of the Company on the Stock Exchange. The total amount paid to the trustee to purchase the shares was approximately **HK\$33 million** (2016: HK\$23 million).

20. Creditors and accrued charges

	2017 HK\$ million	2016 HK\$ million
Trade creditors	735	1,021
Accruals	1,547	1,827
Other creditors and payables	764	647
	3,046	3,495

The aging analysis by invoice date of trade creditors is as follows:

	2017 HK\$ million	2016 HK\$ million
0-30 days	583	681
31-60 days	100	203
61-90 days	39	80
Over 90 days	13	57
	735	1,021

The carrying amounts of creditors and accrued charges approximate their fair values.

22. Deferred taxation

The following are the deferred tax assets/(liabilities) recognized and movements thereon during the year:

The Group:

	Accelerated accounting/ tax depreciation HK\$ million	Cash flow hedges HK\$ million	Elimination of unrealized profits HK\$ million	Intangible assets HK\$ million	Tax losses HK\$ million	Withholding tax on undistributed earnings HK\$ million	Other deferred tax assets HK\$ million	Other deferred tax liabilities HK\$ million	Total HK\$ million
At 1 July 2015	124	-	44	(317)	239	(191)	247	(96)	50
(Charged)/credited to income statement	(19)	-	(14)	15	175	89	(44)	2	204
Changes in tax rates	-	-	-	1	-	-	-	-	1
Credited to other comprehensive income	-	11	-	-	-	-	-	-	11
Exchange difference recognized in equity	(1)	-	-	5	(5)	-	(5)	1	(5)
At 30 June 2016	104	11	30	(296)	409	(102)	198	(93)	261
(Charged)/credited to income statement	(35)	-	(25)	14	147	102	(51)	46	198
Changes in tax rates	-	-	-	-	(9)	-	-	-	(9)
Credited to other comprehensive income	-	32	-	-	-	-	-	-	32
Exchange difference recognized in equity	2	2	(2)	(3)	15	-	2	(1)	15
At 30 June 2017	71	45	3	(285)	562	-	149	(48)	497

21. Provision for store closures and leases

Movements in provision for store closures and leases are as follows:

	2017 HK\$ million	2016 HK\$ million
At 1 July	604	557
Additional provision for store closures and leases, net	12	186
Amounts used during the year	(227)	(130)
Exchange translation	4	(9)
At 30 June	393	604

During the year, the Group recognized unwinding of discount totaling **HK\$43 million** (2016: HK\$25 million) which was recognized under amounts used during the year.

The provision for store closures and leases was made in connection with the store closures and provision for onerous leases for loss-making stores.

As at 30 June 2017, the provision expected to be settled within twelve months after the date of the statement of financial position is **HK\$95 million** (2016: HK\$145 million) and the provision expected to be settled more than twelve months after the date of the statement of financial position is **HK\$298 million** (2016: HK\$459 million).

22. Deferred taxation (continued)

Deferred tax assets and liabilities are netted off when the taxes relate to the same tax authority and where offsetting is legally enforceable. The following amounts, determined after appropriate offsetting, are shown separately on the consolidated statement of financial position:

	2017	2016
	HK\$ million	HK\$ million
Deferred tax assets	822	745
Deferred tax liabilities	325	484

At 30 June 2017, the Group had unused tax losses of approximately **HK\$4,577 million** (2016: HK\$3,787 million) available for offset against future taxable profits. A deferred tax asset has been recognized in respect of approximately **HK\$1,944 million** (2016: HK\$1,458 million) of such losses. No deferred tax asset has been recognized in respect of the remaining losses of approximately **HK\$2,633 million** (2016: HK\$2,329 million). Included in unrecognized tax losses are losses of approximately **HK\$722 million** (2016: HK\$556 million) that will expire in the next one to ten years. Other losses may be carried forward indefinitely.

Deferred income tax liabilities of **HK\$5 million** (2016: HK\$12 million) have not been recognized for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries. Such amounts are permanently reinvested.

23. Notes to consolidated statement of cash flows

Reconciliation of loss before taxation to cash used in operations:

	2017	2016
	HK\$ million	HK\$ million
Loss before taxation	(106)	(585)
Adjustments for:		
Interest income	(44)	(40)
Finance costs	48	29
Depreciation	518	591
(Reversal of impairment of)/ impairment of property, plant and equipment	(8)	107
Additional provision for store closures and leases, net	12	186
Gain on disposal of a subsidiary/ subsidiaries	(33)	(731)
Loss on disposal of plant and equipment	12	16
Gain on disposal of a property	(100)	-
Increase in fair value of investment properties	(4)	(2)
Employee share-based compensation benefits	51	26
Amortization of customer relationships	59	62
	405	(341)
Changes in working capital:		
Decrease in inventories	205	224
Decrease in debtors, deposits and prepayments	149	296
Decrease in creditors and accrued charges	(806)	(378)
Effect of foreign exchange rate changes	(34)	(195)
Cash used in operations	(81)	(394)

In the consolidated statement of cash flows, proceeds from disposal of property, plant and equipment comprised:

	2017	2016
	HK\$ million	HK\$ million
Net book value	57	25
Gain/(loss) on disposal of property, plant and equipment	88	(16)
Proceeds from disposal of property, plant and equipment	145	9

Note: Proceeds from disposal of property, plant and equipment included **HK\$122 million** from disposal of a property (Note 28).

24. Operating lease commitments

The total future minimum lease payments under non-cancelable operating leases are as follows:

	2017 HK\$ million	2016 HK\$ million
Land and buildings		
- within one year	1,805	1,881
- in the second to fifth year inclusive	4,145	4,567
- after the fifth year	1,248	1,441
	7,198	7,889
Other equipment		
- within one year	6	9
- in the second to fifth year inclusive	1	6
	7	15
	7,205	7,904

The operating lease rentals of certain retail outlets are based on the higher of a minimum guaranteed rental or a sales level based rental. The minimum guaranteed rental has been used to arrive at the above commitments.

The total future minimum lease receipts under non-cancelable subleases in respect of land and buildings at 30 June 2017 are **HK\$164 million** (2016: HK\$195 million).

25. Capital commitments

	2017 HK\$ million	2016 HK\$ million
Property, plant and equipment		
- Contracted but not provided for	53	42

26. Derivative financial instruments

The Group enters into forward foreign exchange contracts in the management of its exchange rate exposures. The instruments purchased are primarily denominated in the currencies of the Group's principal markets.

At 30 June 2017, the fair values of the forward foreign exchange contracts included in other receivables and other payables are as follows:

	2017		2016	
	Assets HK\$ million	Liabilities HK\$ million	Assets HK\$ million	Liabilities HK\$ million
Forward foreign exchange contracts				
Cash flow hedges	-	149	28	66

The fair values of the forward foreign exchange contracts have been determined by using observable forward exchange rates from market for equivalent instruments at the date of the statement of financial position.

The following table presents the carrying value of derivative financial instruments measured at fair value according to the levels of the fair value hierarchy defined in IFRS 13 "Fair Value Measurement", with the fair value of each asset and liability categorized based on the lowest level of input that is significant to that fair value measurement.

	At 30 June 2017			
	Level 1 HK\$ million	Level 2 HK\$ million	Level 3 HK\$ million	Total HK\$ million
Recurring fair value measurements:				
Assets				
Derivative financial instruments:				
- Forward foreign exchange contracts	-	-	-	-
Recurring fair value measurements:				
Liabilities				
Derivative financial instruments:				
- Forward foreign exchange contracts	-	149	-	149

	At 30 June 2016			
	Level 1 HK\$ million	Level 2 HK\$ million	Level 3 HK\$ million	Total HK\$ million
Recurring fair value measurements:				
Assets				
Derivative financial instruments:				
- Forward foreign exchange contracts	-	28	-	28
Recurring fair value measurements:				
Liabilities				
Derivative financial instruments:				
- Forward foreign exchange contracts	-	66	-	66

During the year, there were no transfers between Level 1 and Level 2.

The Group's policy is to recognize transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

At the date of the statement of financial position, the total notional amount of outstanding forward foreign exchange contracts to which the Group has committed is as follows:

	2017 HK\$ million	2016 HK\$ million
Forward foreign exchange contracts	3,609	4,136

26. Derivative financial instruments (continued)

Gains and losses in equity on forward foreign exchange contracts as of 30 June 2017 will be released to the consolidated income statement at various dates between one month to one year from the date of the statement of financial position, to match the recognition of the hedged items in the consolidated income statement.

During the year, there was no material ineffectiveness recorded in the consolidated income statement arising from cash flow hedges (2016: gain of HK\$25 million).

27. Disposal of a subsidiary/subsidiaries

On 24 May 2017, the Group completed the disposal of a wholly-owned subsidiary, which owned the Shenzhen property of the Group to an independent third party.

	2017 HK\$ million
The net assets as at the date of disposal were as follows:	
Property, plant and equipment	2
Net assets disposed of	2
Cash consideration received	39
Net assets disposed of	(2)
Expenses incurred for disposal	(4)
Gain on disposal of a subsidiary	33
Analysis of net cash inflow arising on disposal:	
Cash consideration received	39
Expenses incurred for disposal	(4)
	35

On 21 March 2016, the Group completed the disposal of six of its wholly-owned subsidiaries, which owned the Hong Kong office properties of the Group to independent third parties. On completion of the disposal, the Group is leasing back majority of the properties with an aggregate rent of approximately HK\$2.4 million per month for the first three years and an aggregate rent of approximately HK\$2.9 million per month for the next three years. The Company agreed to guarantee certain obligations under the sales and purchase agreement and the leases.

	2016 HK\$ million
The net assets as at the date of disposal were as follows:	
Property, plant and equipment	181
Debtors, deposits and prepayment	1
Net assets disposed of	182
Cash consideration received	919
Net assets disposed of	(182)
Expenses incurred for disposal	(6)
Gain on disposal of subsidiaries	731
Analysis of net cash inflow arising on disposal:	
Cash consideration received	919
Expenses incurred for disposal	(6)
	913

28. Disposal of a property

On 28 June 2017, the Group sold a property in Hong Kong to an independent third party at a consideration of **HK\$123 million**. The gain on disposal of the property, after deducting related expenses incurred for disposal, amounted to **HK\$100 million** and was recognized in the consolidated income statement. Total consideration amount of **HK\$122 million** were received in cash during the year.

29. Related party transactions

Other than the above and the key management compensation as set out in note 12, the Group had no material related party transactions during the year.

30. Events after the balance sheet date

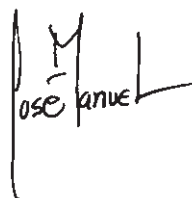
In August 2017, the Company repurchased **13,351,400** of its own ordinary shares at a total consideration of **HK\$57 million** on the Stock Exchange.

31. Statement of financial position and reserve movement of the Company

Statement of financial position of the Company

	As at 30 June		
	Note	2017 HK\$ million	2016 HK\$ million
Non-current assets			
Investments in subsidiaries, unlisted and at cost		1,319	1,280
Current assets			
Amounts due from subsidiaries		10,339	10,395
Cash, bank balances and deposits		4	6
		10,343	10,401
Current liabilities			
Amounts due to subsidiaries		14	12
Accrued charges		8	11
		22	23
Net current assets		10,321	10,378
Total assets less current liabilities		11,640	11,658
Equity			
Share capital	19	194	194
Reserves		11,446	11,464
Total equity		11,640	11,658

Approved by the Board of Directors on 20 September 2017.



JOSE MANUEL
MARTINEZ GUTIERREZ
Executive Director



THOMAS
TANG WING YUNG
Executive Director

31. Statement of financial position and reserve movement of the Company (continued)

Reserve movement of the Company

	Share premium HK\$ million	Shares held for Share Award Scheme HK\$ million	Employee share-based payment reserve HK\$ million	Contributed surplus HK\$ million	Retained profits HK\$ million	Total HK\$ million
At 1 July 2016	8,220	(23)	862	474	1,931	11,464
Loss attributable to shareholders	-	-	-	-	(36)	(36)
Employee share-based compensation benefits	-	-	51	-	-	51
Purchase of shares for Share Award Scheme	-	(33)	-	-	-	(33)
At 30 June 2017	8,220	(56)	913	474	1,895	11,446
Representing:						
Proposed final dividend						-
Balance after proposed final dividend						11,446
At 30 June 2017						11,446
At 1 July 2015	8,220	-	836	474	1,977	11,507
Loss attributable to shareholders	-	-	-	-	(46)	(46)
Employee share-based compensation benefits	-	-	26	-	-	26
Purchase of shares for Share Award Scheme	-	(23)	-	-	-	(23)
At 30 June 2016	8,220	(23)	862	474	1,931	11,464
Representing:						
Proposed final dividend						-
Balance after proposed final dividend						11,464
At 30 June 2016						11,464

The contributed surplus of the Company represents the difference between the underlying net tangible assets of the subsidiaries acquired by the Company and the nominal amount of the share capital issued by the Company arising from the Group reorganization which became effective on 17 November 1993 and the excess of the value of the shares acquired over the nominal value of the shares issued for the acquisition of Esprit Far East Limited and its subsidiaries on 10 January 1997.

Contributed surplus is available for distribution to shareholders under the laws of Bermuda. Distributable reserves of the Company at 30 June 2017 amounted to **HK\$3,282 million** (2016: HK\$3,267 million).

32. Principal subsidiaries

The following are the principal subsidiaries as at 30 June 2017 which, in the opinion of the Directors, principally affect the results and net operating assets of the Group. To give details of other subsidiaries would in the opinion of the Directors result in particulars of excessive length. None of the subsidiaries had issued any debt securities at the end of the year.

Name of subsidiary	Place of incorporation/ operation	Attributable equity interest to the Group (Note a)	Issued and fully paid share capital/ registered capital (Note b)	Principal activities
Esprit Belgie Retail N.V.	Belgium	100%	EUR1,200,000	Retail distribution of apparel and accessories
Esprit Belgie Wholesale N.V.	Belgium	100%	EUR100,000	Wholesale distribution of apparel and accessories
Esprit Card Services GmbH	Germany	100%	EUR25,000	Issuance, accounting of and service in connection with GiftCard, as provided to certain European group subsidiaries and distribution partners in Europe
Esprit China Distribution Limited	British Virgin Islands/ Hong Kong	100%	USD100	Investment holding
Esprit Corporate Services Limited	British Virgin Islands/ Hong Kong	100%	USD100	Financial services
Esprit de Corp Danmark A/S	Denmark	100%	DKK12,000,000	Wholesale and retail distribution of apparel and accessories
Esprit de Corp (Far East) Limited	Hong Kong	100%	HKD1,200,000	Sourcing of apparel and accessories
Esprit de Corp. France SAS	France	100%	EUR63,373,350	Wholesale and retail distribution of apparel and accessories
Esprit de Corp (Malaysia) Sdn. Bhd.	Malaysia	100%	MYR5,000,000	Retail distribution of apparel and accessories
Esprit de Corp. (Spain) S.L.	Spain	100%	EUR10,000	Wholesale distribution of apparel and accessories
Esprit Design & Product Development GmbH	Germany	100%	EUR100,000	Provision of services to the worldwide Esprit group in relation to the development of designs, styles and prototypes for the sales line of Esprit products
Esprit Europe B.V.	The Netherlands	100%	EUR1,500,000	Investment holding, wholesale and retail distribution of apparel and accessories, and licensing of trademarks
Esprit Europe GmbH	Germany	100%	EUR5,112,919	Management and control function; render of services to Esprit group

32. Principal subsidiaries (continued)

Name of subsidiary	Place of incorporation/ operation	Attributable equity interest to the Group (Note a)	Issued and fully paid share capital/ registered capital (Note b)	Principal activities
Esprit Europe Services GmbH	Germany	100%	EUR2,700,000	Sourcing, purchase and sale of merchandise, distribution of merchandise and other logistic functions, including customs dealing and quality control; holding and licensing of trademarks
Esprit GB Limited	United Kingdom	100%	GBP150,001	Wholesale distribution of apparel and accessories
Esprit Global Image GmbH	Germany	100%	EUR25,000	Design and image directions; conceptualization and development of global uniform image; conceptualization and development of global image direction within product development
Esprit Global Limited	British Virgin Islands/ Hong Kong	100%	USD500	Investment holding
Esprit Handelsgesellschaft mbH	Austria	100%	EUR100,000	Wholesale and retail distribution of apparel and accessories
Esprit (Hong Kong) Limited	Hong Kong	100%	HKD1	Management and control function; render of services to Esprit group
Esprit International (limited partnership)	United States	100%	N/A	Holding and licensing of trademarks
Esprit International (GP) Inc.	United States	100%	USD1,000	General partner of Esprit International (limited partnership)
Esprit IP Limited	British Virgin Islands/ Hong Kong	100%	USD1	Holding and licensing of trademarks
Esprit Ireland Distribution Ltd.	Republic of Ireland	100%	EUR1	Wholesale distribution of apparel and accessories
Esprit Italy Distribution S.R.L.	Italy	100%	EUR12,750	Wholesale distribution of apparel and accessories
Esprit Luxembourg S.à r.l.	Luxembourg	100%	EUR250,000	Retail distribution of apparel and accessories
Esprit (Norway) A/S	Norway	100%	NOK16,000,000	Wholesale distribution of apparel and accessories
Esprit Poland Retail Sp. z o.o.	Poland	100%	PLN5,147,200	Retail distribution of apparel and accessories
Esprit Regional Distribution Limited	Hong Kong	100%	HKD10,000	Wholesale distribution of apparel and accessories

32. Principal subsidiaries (continued)

Name of subsidiary	Place of incorporation/ operation	Attributable equity interest to the Group (Note a)	Issued and fully paid share capital/ registered capital (Note b)	Principal activities
Esprit Regional Services Limited	British Virgin Islands/ Hong Kong	100%	USD1	Provision of services
Esprit Retail B.V. & Co. KG (limited partnership)	Germany	100%	EUR5,000,000	Retail and e-commerce distribution of apparel and accessories
Esprit Retail (Hong Kong) Limited	Hong Kong	100%	HKD10,000	Retail distribution of apparel and accessories
Esprit (Retail) Proprietary Limited	Australia	100%	AUD200,000	Wholesale and retail distribution of apparel and accessories
Esprit Retail Pte Ltd	Singapore	100%	SGD3,000,000	Retail distribution of apparel and accessories
Esprit Retail (Taiwan) Limited	Hong Kong/Taiwan	100%	HKD9,000	Retail distribution of apparel and accessories
Esprit Sweden AB	Sweden	100%	SEK500,000	Wholesale and retail distribution of apparel and accessories
Esprit Switzerland Distribution AG	Switzerland	100%	CHF100,000	Wholesale distribution of apparel and accessories
Esprit Switzerland Retail AG	Switzerland	100%	CHF500,000	Retail distribution of apparel and accessories
Esprit Wholesale GmbH	Germany	100%	EUR5,000,000	Wholesale distribution of apparel and accessories
Garment, Accessories and Cosmetics Esprit Retail (Macau) Limited	Macau	100%	MOP100,000	Retail distribution of apparel and accessories
Glory Raise Limited	British Virgin Islands	100%	USD1	Investment holding
Million Success Resources Limited	Hong Kong	100%	HKD2	Investment holding
Solution Services Limited	British Virgin Islands	100%	USD1	Property investment
思環貿易(上海)有限公司	The People's Republic of China (Note c)	100%	USD28,000,000	Wholesale distribution of apparel and accessories
普思埃商業(上海)有限公司	The People's Republic of China (Note c)	100%	USD7,900,000	Retail distribution of apparel and accessories
成都潤捷商業有限公司	The People's Republic of China (Note c)	100%	USD1,200,000	Retail distribution of apparel and accessories
創和捷商貿(北京)有限公司	The People's Republic of China (Note c)	100%	USD5,000,000	Retail distribution of apparel and accessories

32. Principal subsidiaries (continued)

Name of subsidiary	Place of incorporation/ operation	Attributable equity interest to the Group (Note a)	Issued and fully paid share capital/ registered capital (Note b)	Principal activities
廣州特力普思埃商業有限公司	The People's Republic of China (Note c)	100%	USD2,500,000	Retail distribution of apparel and accessories
上海進捷商貿有限公司	The People's Republic of China (Note c)	100%	USD5,000,000	Wholesale distribution of apparel and accessories
重慶埃斯普利特商業有限公司	The People's Republic of China (Note c)	100%	USD1,200,000	Retail distribution of apparel and accessories
捷煦電子商務(上海)有限公司	The People's Republic of China (Note c)	100%	USD1,500,000	Retail distribution of apparel and accessories via e-commerce

Notes:

(a) All subsidiaries were held indirectly by the Company, except Esprit Global Limited.

(b) All are ordinary share capital unless otherwise stated.

(c) Wholly foreign owned enterprise.

(d) Consolidation of a structured entity

Due to the implementation of the Share Award Scheme of the Company mentioned in Note 19(b), the Company has set up a trust ("Share Award Scheme Trust"), and its particulars are as follows:

Structured entity

Share Award Scheme Trust

Principal activities

Administering and holding the Company's shares purchased under the Share Award Scheme which is set up for the benefits of Selected Employees of the Share Award Scheme

07

TEN-YEAR FINANCIAL SUMMARY

Consolidated statement of financial position items

	As at 30 June 2017 HK\$ million	As at 30 June 2016 HK\$ million	As at 30 June 2015 HK\$ million	As at 30 June 2014 HK\$ million
Intangible assets	2,851	2,902	3,031	5,670
Property, plant and equipment	1,900	2,159	2,835	3,972
Investment properties	23	19	17	16
Other investments	7	7	7	7
Investments in associates	-	-	-	-
Debtors, deposits and prepayments	174	220	240	312
Deferred tax assets	822	745	649	615
Net current assets	6,091	5,829	5,718	6,979
	11,868	11,881	12,497	17,571
Equity				
Share capital	194	194	194	194
Reserves	11,349	11,203	11,704	16,717
Total equity	11,543	11,397	11,898	16,911
Non-current liabilities				
Bank loans	-	-	-	-
Deferred tax liabilities	325	484	599	660
	325	484	599	660
	11,868	11,881	12,497	17,571

Consolidated income statement items

	Year ended 30 June 2017 HK\$ million	Year ended 30 June 2016 HK\$ million	Year ended 30 June 2015 HK\$ million	Year ended 30 June 2014 HK\$ million
Revenue	15,942	17,788	19,421	24,227
Operating (loss)/profit ((LBIT)/EBIT)	(102)	(596)	(3,683)	361
Interest income	44	40	45	55
Finance costs	(48)	(29)	(29)	(37)
Share of results of associates	-	-	-	-
Gain on measuring equity interest in the associated companies held before the business combination	-	-	-	-
(Loss)/profit before taxation	(106)	(585)	(3,667)	379
Taxation (credit/(charge))	173	606	(29)	(169)
Profit/(loss) attributable to shareholders of the Company	67	21	(3,696)	210

As at 30 June 2013 HK\$ million	As at 30 June 2012 HK\$ million	As at 30 June 2011 HK\$ million	As at 30 June 2010 HK\$ million	As at 30 June 2009 HK\$ million	As at 30 June 2008 HK\$ million
5,763	7,613	7,672	7,345	2,061	2,121
4,363	4,489	4,415	3,976	4,398	3,570
15	13	13	12	-	-
7	7	8	7	7	7
-	-	-	-	522	583
384	402	502	440	559	569
697	549	808	532	408	510
6,158	4,348	5,225	6,662	6,745	8,972
17,387	17,421	18,643	18,974	14,700	16,332
194	129	129	129	125	124
16,402	15,477	16,104	15,943	14,284	15,820
16,596	15,606	16,233	16,072	14,409	15,944
-	1,040	1,560	2,080	-	-
791	775	850	822	291	388
791	1,815	2,410	2,902	291	388
17,387	17,421	18,643	18,974	14,700	16,332

Year ended 30 June 2013 HK\$ million	Year ended 30 June 2012 HK\$ million	Year ended 30 June 2011 HK\$ million	Year ended 30 June 2010 HK\$ million	Year ended 30 June 2009 HK\$ million	Year ended 30 June 2008 HK\$ million
25,902	30,165	33,767	33,734	34,485	37,227
(4,170)	1,171	692	3,786	5,729	7,721
51	28	45	33	87	190
(30)	(37)	(27)	(12)	-	-
-	-	-	81	161	145
-	-	-	1,586	-	-
(4,149)	1,162	710	5,474	5,977	8,056
(239)	(289)	(631)	(1,248)	(1,232)	(1,606)
(4,388)	873	79	4,226	4,745	6,450

Financial summary

Year ended 30 June	2017	2016	2015	2014
Per share data (HK\$)				
Earnings/(loss) per share – basic ^{^^}	0.03	0.01	(1.90)	0.11
Dividend per share				
– Regular dividend	-	-	0.015	0.07
– Special dividend	-	-	-	-
Total	-	-	0.015	0.07
Key statistics (HK\$ million)				
Total equity	11,543	11,397	11,898	16,911
Net current assets [^]	6,091	5,829	5,718	6,979
Cash position (net of overdraft)	5,221	5,341	5,017	6,031
Net cash (outflow)/inflow from operating activities	(147)	(312)	(72)	1,418
Term loans	-	-	-	260
Retail data				
Number of directly managed stores [#]	666	761	890	905
Directly managed selling space [#] (sqm)	272,496	291,572	327,345	330,233
Comparable store sales growth (including eshop)	-3.5%	8.1%	-7.0%	-4.1%
Comparable store sales growth (excluding eshop)	-5.2%	4.3%	-6.3%	-5.7%
Wholesale data				
Number of controlled space POS ^{###}	6,037	6,333	7,680	8,131
Controlled space sales area ^{###} (sqm)	320,436	357,086	419,359	488,870
Other data				
Capital expenditure (HK\$ million)	257	262	349	375
Number of employees ^{##}	7,304	8,306	9,179	9,626
Key ratios				
Return on shareholders' equity (ROE) ^{###}	0.6%	0.2%	-25.7%	1.3%
Return on total assets (ROA) [*]	0.4%	0.1%	-18.2%	0.9%
Net debt to equity ^{**}	net cash	net cash	net cash	net cash
Current ratio [^] (times)	2.8	2.4	2.2	2.2
Inventory turnover ^{***} (days)	123	115	104	90
Operating profit/(loss) before depreciation and amortization margin	3.0%	0.4%	-14.9%	5.2%
Operating (loss)/profit margin	-0.6%	-3.3%	-19.0%	1.5%
(Loss)/profit before taxation margin	-0.7%	-3.3%	-18.9%	1.6%
Net profit/(loss) margin	0.4%	0.1%	-19.0%	0.9%

[#] Include Esprit, Red Earth stores and salon

^{##} After converting the part-time positions into full-time positions based on working hours

^{###} Calculated based on net earnings as a percentage of average shareholders' equity

^{*} Calculated based on net earnings as a percentage of average total assets

^{**} Net debt refers to all interest bearing borrowings less cash and cash equivalents

^{***} Calculated as average inventory (excluding consumables) over average daily cost of goods sold

[^] Comparative figures relating to net current assets in respect of financial years prior to FY09/10 were restated as a result of the adoption of IAS 17 (Amendments) and due to the reclassification of deposits and prepayments in FY09/10

^{^^} Earnings per share – basic for the year ended 30 June 2012 was adjusted in FY12/13 to reflect the effect of a rights issue of the Company. Earnings per share – basic for the year ended 30 June 2009 was restated in FY09/10 to account for approximately 31 million scrip shares issued on 15 January 2010. The basic earnings per share was restated as the scrip shares were treated as if the issue had occurred as at 1 July 2008

^{^^^} With the roll out of the SAP program for the wholesale business, the Group has tightened the definitions of inactive accounts, resulting in the restatement of wholesale POS and controlled space as at 30 June 2010 in FY10/11

	2013	2012	2011	2010	2009	2008
	(2.50)	0.60	0.06	3.35	3.72	5.21
	-	0.41	1.00	1.41	1.52	2.10
	-	-	-	-	1.33	2.10
	-	0.41	1.00	1.41	2.85	4.20
	16,596	15,606	16,233	16,072	14,409	15,944
	6,158	4,348	5,225	6,662	6,745	8,972
	5,171	3,171	4,794	6,748	4,840	6,521
	(757)	730	1,835	5,412	5,272	5,970
	520	1,682	2,080	2,600	-	-
	1,026	1,069	1,146	1,128	804	700
	351,473	363,295	398,829	388,291	314,966	273,801
	-3.3%	-4.1%	-1.1%	-2.4%	3.5%	6.9%
	-9.5%	-9.3%	-6.6%	-4.8%	-4.4%	-1.9%
	9,249	10,827	11,706	12,289	14,067	14,590
	566,776	654,093	704,393	722,825	808,605	746,655
	919	1,420	1,436	1,509	2,011	1,352
	10,732	12,455	14,192	14,172	10,766	10,541
	-27.3%	5.5%	0.5%	27.7%	31.3%	46.0%
	-18.7%	3.4%	0.3%	19.1%	22.8%	33.1%
	net cash	net cash	net cash	net cash	net cash	net cash
	2.1	1.7	1.6	2.2	2.4	2.6
	100	100	76	63	65	54
	-12.5%	6.4%	4.7%	14.0%	18.9%	22.8%
	-16.1%	3.9%	2.0%	11.2%	16.6%	20.7%
	-16.0%	3.9%	2.1%	16.2%	17.3%	21.6%
	-16.9%	2.9%	0.2%	12.5%	13.8%	17.3%

08

GLOSSARY OF TERMS

08 Glossary of terms

A

ADR

American Depositary Receipt

C

Capex

Capital expenditure

Comparable store (comp-store)

A directly managed retail store in existence on 1 July of the previous financial year and is still in operation at the reporting period end date and its total net sales area has been changed by less than 10% within the current reporting period

Comp-store sales growth

Local currency year-on-year change in sales generated by comparable stores

Controlled wholesale space

POS which Esprit wholesale management team has control over the look and feel such as Esprit brand name logo, visual merchandising, etc. Includes franchise stores, shop-in-stores and identity corners with wholesale partners

D

Directly managed retail stores

Standalone stores, concession counters mainly in department stores and off-price outlets fully managed by Esprit

E

EBIT/LBIT

Earnings before interest and tax/Loss before interest and tax

EBITDA

Earnings before interest, tax, depreciation and amortization

EPS

Earnings per share

Eshop

Online store

F

Franchise stores

Standalone stores or concession counters in department stores managed by wholesale partners

I

Identity corners

Controlled wholesale space mainly in multi-label retailers offering a limited range of Esprit products. Esprit has limited involvement in store appearance

Inventory turnover days

Calculated as average inventory (excluding consumables) over average daily cost of goods sold

L

LCY

Local currency

O

Off-price outlets

Situated in the vicinity of major markets. Offer prior season products at a more competitive price and product collection exclusively made for outlets

P

Partnership stores (PSS)

Same as Franchise stores

POS

Point of sales

S

Shop-in-stores

Controlled wholesale space in department stores managed by wholesale partners

Sqm

Square meters

Y

Yoy

Year-on-year





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