HONG KONG STOCK CODE 00330

ANNUAL REPORT

Esprit Holdings Limited
Year ended 30 June 2018

ESPRIT

ANNUAL REPORT FY 17/18

Esprit Holdings Limited

ESPRIT

Corporate information

Executive Chairman
- Dr Raymond OR Ching Fai
  (re-designated from Independent Non-executive Director to Executive Director effective 1 April 2018)

Deputy Chairman
- Paul CHENG Ming Fun
  Independent Non-executive Director

Executive Directors
- Anders Christian KRISTIANSEN
  Group CEO
  (appointed effective 1 June 2018)
- Thomas TANG Wing Yung
  Group CFO
- Jose Manuel MARTINEZ GUTIERREZ
  Group CEO
  (stepped down effective 1 June 2018)

Non-executive Director
- Jürgen Alfred Rudolf FRIEDRICH

Independent Non-executive Directors
- Dr 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
- Mizuho Bank, Ltd
- MUFG Bank, Ltd
- BNP Paribas
- Hang Seng Bank Limited

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
The Belvedere Building
69 Pitts Bay Road
Pembroke HM 08
Bermuda

Hong Kong branch share registrar
Tricor Secretaries Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

Registered office
Clarendon House
Church Street
Hamilton HM 11
Bermuda

Hong Kong headquarters
45/F Enterprise Square Three
39 Wang Chiu Road
Kowloon Bay
Kowloon, Hong Kong
t: + 852 2765 4321
f: + 852 2362 5576

Global business headquarters
Esprit-Allee
40882 Ratingen
Germany
t: + 49 2102 123-0
f: + 49 2102 12315-100

For enquiries from investors and equity analysts, please contact:

Investor relations department
45/F Enterprise Square Three
39 Wang Chiu Road
Kowloon Bay
Kowloon, Hong Kong
t: + 852 2765 4232
f: + 852 2303 4610
e: esprit-ir@esprit.com

Contact person:
Patrick LAU
t: + 852 2765 4232
f: + 852 2303 4610
e: patrick.lau@esprit.com

Website
www.espritholdings.com

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.

Contents

01
To our shareholders

"I am convinced that by aligning the execution of our strategy, the better days of Esprit are ahead of us."

01.1 Letter from Chairman

Dear Shareholders,

This year is my first time to address you as Executive Chairman of the Group. Having served on the Board of Directors of Esprit for some years, I have accompanied Esprit through its ups and downs, and witnessed firsthand the development of the Group against the backdrop of a rapidly changing apparel industry. From the outset, I have been impressed with the resilience of the Esprit brand and the steadfast dedication of our employees, and I am honored to have been selected by the Board to assume this position to play a more active role in the next phase of the Group's strategy. As a shareholder myself, I share your frustration with the longer-than-expected turnaround of the Group. Thus, my primary mission as Executive Chairman is to assist in determining the necessary realignment of our strategic direction and priorities, and to ensure that we have the right talent onboard to drive a timely and efficient execution and deliver positive results. I am absolutely determined to see the Group succeed and I look forward to collaborating closely with the executive management team to steer the Group past these difficult times.

Review of FY17/18

During the financial year FY17/18, Esprit continued to be affected by the rapidly-evolving retail industry, fueled by i) the continuous growth of ecommerce leading to changes in consumer consumption patterns, and ii) the intensification of price competition driven by both pure digital players and fully vertical retailers. As a result, operating conditions remain difficult, especially for brick & mortar stores. Esprit is no exception to this dynamic and our sales performance has been adversely impacted. The corresponding pressure was further aggravated by the decrease in customers' traffic into our retail stores, both online and offline, which lead to a worse than expected revenue for the Group in FY17/18. These negative developments, together with a number of non-recurring provisions and impairments totaling HK$1,344 million (the "Exceptional Items"), majority of which are non-cash items, have resulted in a disappointing result for the year. Although the Group's regular OPEX was reduced by -3.3% yoy in LCY, such savings were not sufficient to outweigh the negative impact from the higher-than-expected decline in revenue. Thus, the Group reported revenue of HK$15,455 million, representing a -11.1% yoy decline in LCY, with a net loss of HK$(2,554) million. Because a net loss was recorded for the financial year, the Board has not recommended the payment of a dividend.

Notwithstanding the net operating loss for the year, the financial position of the Group remains healthy with no debt and a net cash balance of HK$4.5 billion as of 30 June 2018 (30 June 2017: HK$5.2 billion). As a regular exercise, the Board frequently reviews the best options to utilize our cash reserve to create long-term value for our shareholders. While our top priority continues to be reserving necessary funds to support the turnaround process and investing in sales growth initiatives, the Board has deemed it appropriate to repurchase some shares during the year under review to enhance shareholders' value. In this regard, the Company deployed HK$237 million to repurchase shares during the year, representing approximately 2.9% of the issued share capital of the Company.

Moving Forward

We recognize the results of FY17/18 are far from satisfactory and the situation has challenged both the Board of Directors and the executive management team. We believe the fundamentals of the strategic initiatives as presented in our last annual report (namely Brand Rejuvenation, Product Elevation, Channels Next Generation, Markets Rightsizing and Expansion, and Cost Reduction) remain sound and are necessary to recharge the potential of the Group. However, we concede that the progress to date has yet to reignite sales momentum or translate into a positive financial performance. The Group is currently in the midst of undergoing a thorough assessment to address this situation and develop corrective measures to ensure a successful turnaround.

Since our new Group CEO, Anders Kristiansen, joined Esprit on 1 June 2018, we have immediately commenced efforts to establish ambitious medium to long-term goals. To this end, he and his team are already working vigorously on an updated strategic plan (the "Plan") which is expected to be finalized this Fall 2018. In our drive to support growth, we must sharpen the brand identity, create an inspiring omnichannel shopping experience for our customers, and launch stylish and geographically adapted collections to improve sales per square meter productivity. We will continue to leverage on the newly installed dual product engines organization, whereby the main line focuses on catering to existing customers in our core markets, and the fast-to-market line aims to introduce trendier products for the online and Asia markets, particularly China. These efforts will work in tandem with data generated from extensive consumer research to ensure that our brand, products and channels properly resonate with Esprit's target customers. We will bring our customers and what Esprit stands for as a brand to the center of everything we do in order to become more relevant to our customers again and provide them with a strong brand experience. The Board is fully aligned with the direction to push top line performance in the coming years, and I look forward to working with Anders and the executive management team to achieve that goal.

While we see the journey to reinvigorate the Esprit brand to be long and challenging, we believe that ultimately it will be rewarding. In the meantime, I request your support to sail with us through these difficult times as we power ahead and strive to reap harvest in the medium term.

Looking ahead, the operating environment will likely remain challenging in the upcoming financial year with the fallout from the trade war and rising interest rates, which may weigh on consumer sentiment and spending. Nevertheless, we now have the leadership in place and the funds to deliver on our objectives as we make a concerted effort to recapture market share and, ultimately, return the Group to growth. As Executive Chairman of the Group, I can assure you that vigorous efforts will be continued to ensure we produce improved results at a faster pace.

Sustainability

Esprit is proud to carry on its heritage of being a responsible corporate citizen by contributing to the global community. We highlighted in last year's Annual Report that sustainability, to us, means doing what is right for the people and the planet. The incorporation of the UN Sustainable Development Goals into our strategy last year was an important step towards this goal. This year, we have taken our sustainability initiatives one step further by introducing the concept of Circular Fashion. The Circular Fashion concept encourages us to step back from a linear model, which ends with the disposal of old garments, and to start incorporating recycling into every aspect of our business. With a circular approach, we strive to find environmentally friendly solutions which cover all areas of our business, from product development and production, to operations, and also end of life cycle management for our products. As a first step, we have defined a 3-year plan including ambitious targets for each area of the company.

Closing

Last but not least, as the Year 2018 marks the 50th anniversary of Esprit and its 25th anniversary as a listed company on The Stock Exchange of Hong Kong Limited, I would like to take this opportunity to thank all our shareholders, customers, business partners, and everyone else who has participated on this journey to build such a remarkable brand. I also want to acknowledge the hard work, dedication and commitment of employees across the Esprit business, ranging from stores staff to those working in our offices around the world. Their continued contributions are key to our future success.

Finally, I want you to know that I am mindful that time is of the essence in our efforts to revive the Esprit brand. While we certainly have a lot of work in front of us, I am convinced that by aligning the execution of our Plan, the better days of Esprit are ahead of us.

Dr Raymond OR Ching Fai
Executive Chairman
18 September 2018

“Strategy for moving forward is clear and we see great opportunity to realize Esprit’s true potential.”

01.2 Letter from Group CEO

Dear Shareholders,

On 1 June 2018, I had the great privilege of being appointed the CEO of Esprit Group. Since then, I have spent a lot of time listening and learning. Not only have I had conversations with employees in our offices and our stores both in Europe and Asia, but I have also met and visited our wholesale partners and other important business stakeholders. One thing that has encouraged me is that the more I learn about this company, the more I am convinced that we have a fantastic opportunity to realize Esprit’s true potential.

Here are some of my first thoughts and impressions:

- Our **BRAND** and our unique heritage is one of our greatest assets, and we must do more to sharpen and rejuvenate our identity. We must clearly identify both who our customers are today and who our customers will be in the future. Then we must orientate ourselves around those customers and put them at the center of everything we do to become a truly customer-centric organization. The good news is that we already have a unique and extensive Esprit Friend data base. This coupled with the deep surveys and analysis that we are currently engaged in, are helping us to build a very clear picture of who we are working for.

- Once we have properly identified our brand direction and target customers, we can develop the right **PRODUCTS**. We must consider style and design, fashion level, quality and price, and how this position fits in the competitive landscape. This will be accompanied by a critical examination of our product development process aimed at bringing the best products to our customers in the most efficient way possible.

- Our profitable **WHOLESALE** business will play a central role in the new direction of the Group. We want to become "best-in-class" in what we offer to our Wholesale partners in terms of products, marketing and other support. We also see a huge opportunity in maximizing our strategic partnerships with third party wholesale ecommerce partners to capture the growth offered by online channels.

- A key strength of Esprit is our online shop, known as our "**ESHOP**". Our ESHOP has a leading position in the industry, as testified by the best digital fashion store award in Germany[1] we have recently received. To maintain this competitive advantage, we must strive to stay ahead of the rapidly evolving world of ecommerce and keep abreast of the changing ways that our customers discover and shop for products.

- I am excited about the broad **INTERNATIONAL FOOTPRINT** of Esprit. Esprit is well-positioned to exploit the vast potential of the fast-growing Asia region – particularly China. Our efforts in customer definition will form the basis of our success. A dedicated product team is already working on specific products targeted at this important market.

- I am most of all impressed by the quality, commitment and passion of our **EMPLOYEES**. What I am seeking to do is to define their roles more clearly, to empower them to take greater responsibility, and to enable them to make the decisions they feel are best for the business. Similarly, we need to enhance the agility of our organization to maneuver the Group through today's rapidly-changing retail environment. It is crucial to be more nimble about the way we do business and simplify the complicated structures and processes within the organization.

I am now in the process of formulating the Plan to restore Esprit back to sustainable profitability. To help me in this exercise, I have appointed a Chief Transformation Officer who is heading a special task force comprising selected members from within the organization. They have been working closely with me since June this year to gather consumer insights, establish the relevant strategic initiatives, and map out the execution plans. We are achieving good progress on all fronts and I hope to present the Plan to the market later this year at our Investor Day.

As for operations, we continue to realize reduction in operating expenses (excluding Exceptional Items) across all key cost lines, mainly attributable to savings from store closures as well as implementation of restructuring measures to further streamline operations as the existing cost level of the Group is still too high relative to the size of our business; hence cost reduction will remain an integral part of our strategy. Although details of the Plan are yet to be finalized, we have already identified areas where we can further optimize efficiency to reduce overhead costs and achieve additional cost savings.

[1] By the IFH Köln and ECC Köln in April 2018

In closing, I would like to thank all of Esprit's employees and business partners around the world for their continued dedication, commitment and hard work. I am convinced that by working together, we will achieve our common goal of restoring Esprit to sustainable profitability and delivering long-term shareholder value. While the road to recovery is still full of challenges, I am confident that we will advance the Esprit brand forward and become even more relevant to modern customers around the world. I am genuinely excited about the next phase of the turnaround and remain very confident about Esprit's future.

I would like to thank the Board of Directors for their trust in me and for appointing me to this important role. I am truly looking forward to fulfilling my mission, and to bringing Esprit back to success.

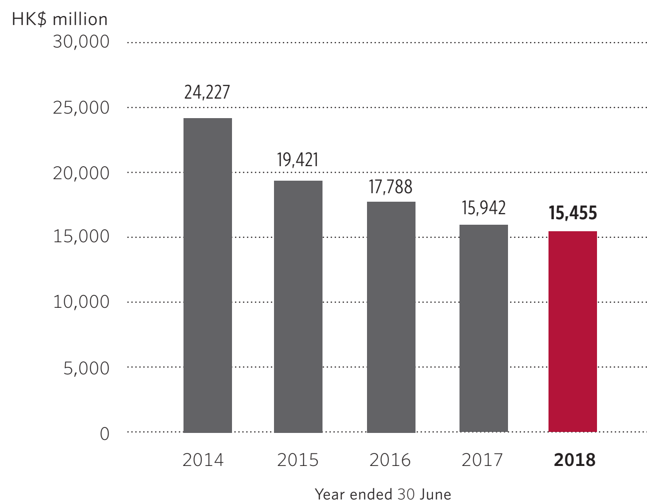
Anders Christian KRISTIANSEN
Executive Director and Group CEO
18 September 2018

02
Highlights in FY17/18

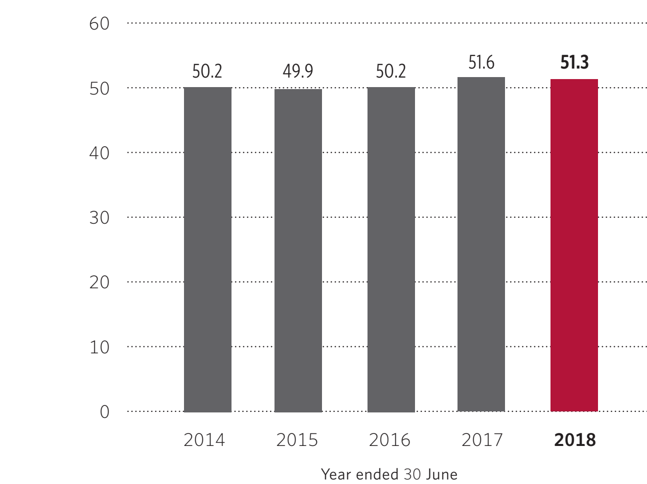
02 Highlights in FY 17/18

- **Revenue** of HK$15,455 million, down -3.1% yoy in HKD term (or -11.1% yoy in LCY), due to the Group's strategic rationalization of distribution footprint and weaker than expected performance of the retail channel
- **Gross profit margin** of 51.3%, similar to last year
- **Regular OPEX** reduced by -3.3% yoy in LCY
- **Results of underlying operation** (LBIT excl. Exceptional Items) of HK$(909) million
- **Net Loss** of HK$(2,554) million, after taking into account the Exceptional Items of HK$(1,344) million comprising mainly pure accounting adjustments with no impact on our cash and operating performance
- **Net Cash** position of HK$4,521 million with zero debt
- **Strategy for moving forward is clear** and management sees great opportunity to realize the brand's true potential

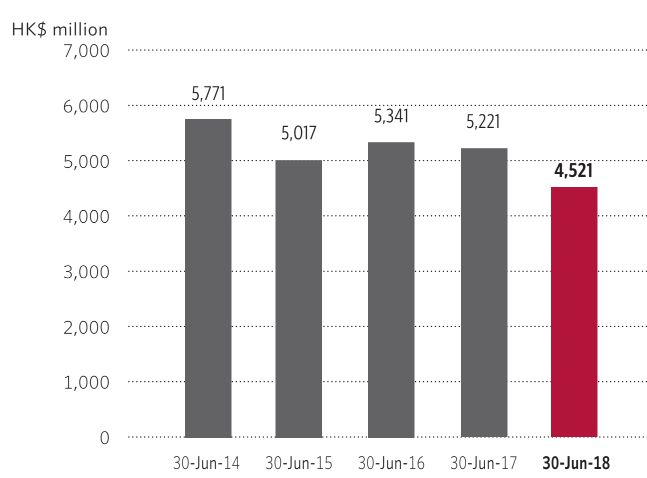
Revenue



Gross profit margin (%)



Net cash



Revenue (HK$ million)

Group Revenue	Retail (excl. eshop) Revenue	Wholesale (excl. eshop) Revenue	Eshop Revenue
15,455	6,251	4,903	4,169
▼ 11.1 % in LCY	▼ 13.8 % in LCY	▼ 11.6 % in LCY	▼ 6.1 % in LCY

Total Controlled Space (Sqm) (retail & wholesale combined)	Retail Controlled Space (Sqm)	Wholesale Controlled Space (Sqm)
537,644	251,207	286,437
▼ 9.3 %	▼ 7.8 %	▼ 10.6 %

▲ | ▼ year-on-year change

Our Sustainability Accomplishments

We have sourced...

13% Better Cotton

5% organic cotton

73% of our wet process mills took part in our capacity assessment initial or re-audit

98% of our re-audited mills could increase their score in our capacity assessment due to improvements

We have developed a first collection of **handbags made of water-based synthetic leather.**

All of our Tier 1 suppliers in India and Bangladesh have set targets to **increase the number of female line supervisors** by the end of 2018.

We have decided to **ban mohair wool** from mid of 2019 onwards.

Waste water testing: **56%** of our wet process mills conducted waste water testing.

96% of our factories have completed their improvement plan by the **Bangladesh Accord**

All our mills we work with based in China take part in a real-time emission mapping provided by the Institute of Public & Environmental Affairs (IPE).

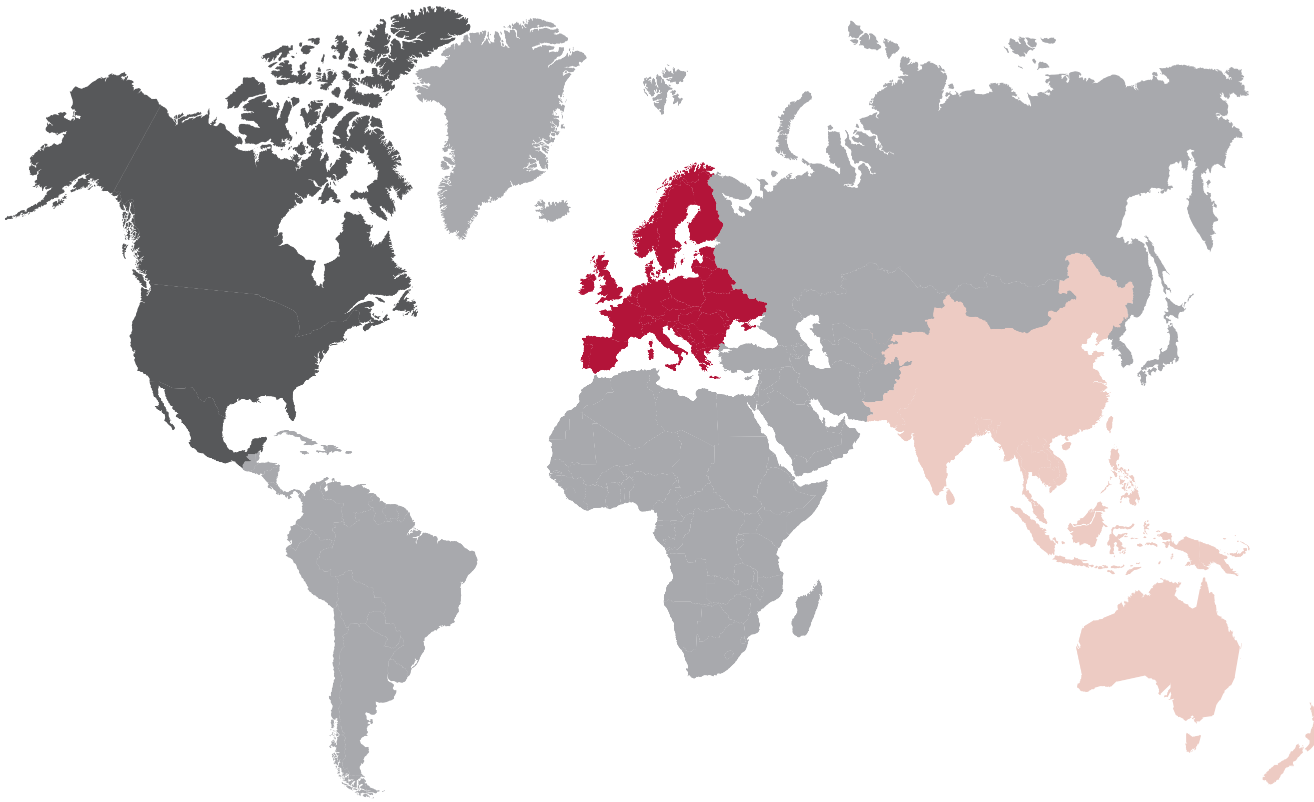
We have committed to join the **Roadmap towards a responsible viscose production** of the Changing Markets Foundation.

We have signed onto the **2018 Transition Accord, successor to the 2013 Bangladesh Accord on Building and Fire Safety** and are member of the Steering Committee.

We have signed a **Global Framework Agreement with IndustriALL Global Union.**

Our international distribution network

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



Over 40 countries

20 eshops

586 retail stores

5,482 wholesale POS

Our business across three 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 three major groups: Women (Esprit & edc), Men (Esprit & edc), and Lifestyle and others.

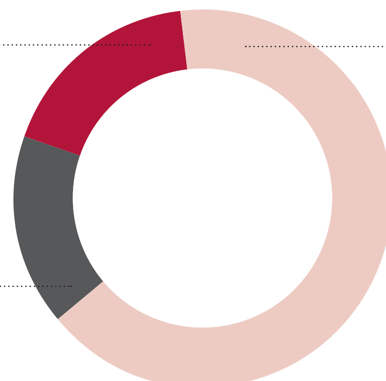
HK$ million // % of Group revenue // % local currency growth

MEN (Esprit & edc)

Men casual
1,471 // 9.5% // -14.3%
Men edc
769 // 5.0% // -12.1%
Men collection
285 // 1.8% // -25.0%

LIFESTYLE AND OTHERS*

2,710 // 17.6% // -12.2%



WOMEN (Esprit & edc)

Women casual
5,117 // 33.1% // -8.5%
Women edc
2,865 // 18.5% // -8.2%
Women collection
2,008 // 13.0% // -11.1%
trend#
230 // 1.5% // -33.4%

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".

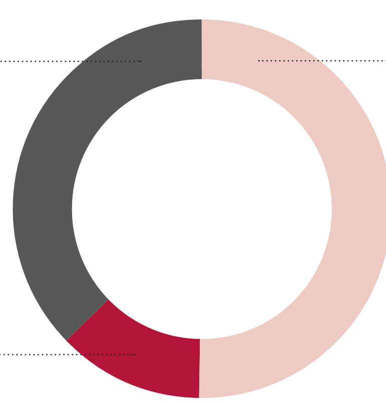
HK$ million // % of Group revenue // % local currency growth

REST OF EUROPE

5,769 // 37.3% // -9.8%

ASIA PACIFIC

1,895 // 12.3% // -15.2%



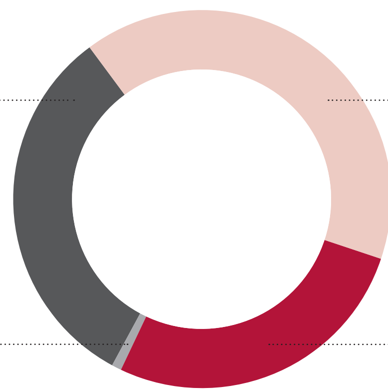
GERMANY

7,791 // 50.4% // -10.9%

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				
	2018	2017	2016	2015	2014
Geographical mix (%)					
Germany	**51**	50	48	47	48
Rest of Europe @	**37**	37	37	37	37
Asia Pacific	**12**	13	15	16	15
Operation mix (%)					
Retail (excl. eshop)	**40**	42	44	44	43
Wholesale (excl. eshop)	**32**	32	32	35	36
Eshop	**27**	25	23	20	20
Licensing and others	**1**	1	1	1	1
Product mix (%)					
Women casual	**33**	32	31	29	30
Women edc	**19**	18	17	17	18
Women collection	**13**	13	12	12	11
trend	**1**	2	2	3	2
Men casual	**9**	10	11	12	12
Men edc	**5**	5	5	5	4
Men collection	**2**	2	2	3	3
bodywear ^	**6**	6	5	4	5
accessories ^	**5**	5	5	5	5
shoes ^	**3**	3	4	4	4
kids	**0**	1	3	3	3
others *	**4**	3	3	3	3

@ The Rest of Europe region includes our business in America and the Middle East
^ 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 2018 ("FY17/18" or "Period Under Review"), the Group recorded revenue of HK$15,455 million (2017: HK$15,942 million), representing a decline of -11.1% yoy in LCY. The decline in Hong Kong dollar terms was less (-3.1% yoy) due to the strengthening of the EUR against HKD (average rate increase of +10.3%) during the year. This decline in revenue was the result of a combination of the impact from (i) our strategic rationalization of distribution footprint (total controlled space -9.3% yoy) to improve bottom line, and (ii) weaker than expected retail sales performance due to decreased customers' traffic.

(i) Strategic Reduction in total controlled space

Rationalizing our distribution footprint by closing down unprofitable retail stores and non-performing wholesale spaces continues to be a paramount strategy to create a healthier platform for future growth. During FY17/18, the Group reduced total controlled space (retail and wholesale combined) by 55,288 sqm, representing a yoy reduction of -9.3%.

In terms of **Retail (excl. eshop)**, the Group executed a net closure of 21,289 sqm in FY17/18, representing a yoy reduction of -7.8%.

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

	As at 30 June 2018				
	No. of stores	Net change in no. of stores^	Net sales area (m²)	Net change in net sales area^ (m²)	Net change in net sales area^ (%)
Germany	**140**	**(6)**	**109,515**	**(6,790)**	**-5.8%**
Rest of Europe	**137**	**1**	**78,616**	**(3,541)**	**-4.3%**
Asia Pacific	**309**	**(75)**	**63,076**	**(10,958)**	**-14.8%**
Total	**586**	**(80)**	**251,207**	**(21,289)**	**-7.8%**

^ Net change since 1 July 2017

In terms of **Wholesale (excl. eshop)**, the channel continues to face structural pressure and we continue to see elimination of non-performing locations by our partners. As a result, wholesale controlled space was reduced by 33,999 sqm in FY17/18, representing a yoy reduction of -10.6%.

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

	As at 30 June 2018				
	No. of stores	Net change in no. of stores^	Net sales area (m²)	Net change in net sales area^ (m²)	Net change in net sales area^ (%)
Germany	**3,356**	**(387)**	**152,498**	**(18,726)**	**-10.9%**
Franchise stores	227	(20)	50,733	(6,059)	-10.7%
Shop-in-stores	2,048	(266)	79,830	(11,500)	-12.6%
Identity corners	1,081	(101)	21,935	(1,167)	-5.1%
Rest of Europe	**2,016**	**(139)**	**122,666**	**(11,098)**	**-8.3%**
Franchise stores	421	(30)	79,006	(8,302)	-9.5%
Shop-in-stores	778	(52)	24,637	(889)	-3.5%
Identity corners	817	(57)	19,023	(1,907)	-9.1%
Asia Pacific	**110**	**(29)**	**11,273**	**(4,175)**	**-27.0%**
Franchise stores	110	(29)	11,273	(4,175)	-27.0%
Total	**5,482**	**(555)**	**286,437**	**(33,999)**	**-10.6%**
Franchise stores	758	(79)	141,012	(18,536)	-11.6%
Shop-in-stores	2,826	(318)	104,467	(12,389)	-10.6%
Identity corners	1,898	(158)	40,958	(3,074)	-7.0%

^ Net change since 1 July 2017

(ii) Weaker than expected retail sales performance

During the Period under Review, the Group reported worse than expected retail sales performance, with a decline in comparable retail store (excl. eshop) sales of -9.6% yoy in LCY and a decline in Eshop revenue of -6.1% yoy in LCY. Such negative development was largely due to decreased customers' traffic to our retail channels, both online and offline.

	Revenue change in % (yoy in LCY)		
	First Half FY17/18	**Second Half FY17/18**	**FY17/18**
By Distribution Channel			
Retail (excl. eshop)	**-13.5%**	**-14.2%**	**-13.8%**
Wholesale (excl. eshop)	**-9.6%**	**-13.9%**	**-11.6%**
Eshop	**-2.5%**	**-9.5%**	**-6.1%**
Licensing and others	**-8.7%**	**8.2%**	**-0.9%**
Total	**-9.6%**	**-12.7%**	**-11.1%**
By Region^			
Germany	**-8.2%**	**-13.9%**	**-10.9%**
Rest of Europe	**-8.7%**	**-10.9%**	**-9.8%**
Asia Pacific	**-17.0%**	**-13.2%**	**-15.2%**
Total	**-9.6%**	**-12.7%**	**-11.1%**

^ Region as a whole includes retail (excl. eshop), Eshop, wholesale (excl. eshop) and licensing operations

Revenue by product

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. As explained in our last annual report, with the goal to improve our products performance, we have merged the Women Esprit and Women edc apparel lines under one single head and team, and similarly for Men, the Men Esprit and Men edc apparel lines are now managed under one single head and team. This will facilitate more coordinated commercial strategies (e.g. reduced overlaps in the assortment) and more efficient product development processes and teams (e.g. operational synergies between both divisions). For the purpose of this management discussion and analysis, products are categorized into three major groups: Women (Esprit & edc) (66.1% of Group revenue), Men (Esprit & edc) (16.3% of Group revenue), and Lifestyle and others (17.6% of Group revenue).

Revenue by product

	For the year ended 30 June					
	2018		2017		Change in %	
Product division	**HK$ million**	**% to Group Revenue**	HK$ million	% to Group Revenue	HK$	Local currency
Women (Esprit & edc)	**10,220**	**66.1%**	10,387	65.2%	-1.6%	-9.7%
Women casual	**5,117**	**33.1%**	5,141	32.2%	-0.5%	-8.5%
Women edc	**2,865**	**18.5%**	2,859	18.0%	0.2%	-8.2%
Women collection	**2,008**	**13.0%**	2,072	13.0%	-3.1%	-11.1%
trend #	**230**	**1.5%**	315	2.0%	-27.1%	-33.4%
Men (Esprit & edc)	**2,525**	**16.3%**	2,733	17.1%	-7.6%	-15.0%
Men casual	**1,471**	**9.5%**	1,582	9.9%	-7.0%	-14.3%
Men edc	**769**	**5.0%**	803	5.0%	-4.2%	-12.1%
Men collection	**285**	**1.8%**	348	2.2%	-18.3%	-25.0%
Lifestyle and others *	**2,710**	**17.6%**	2,822	17.7%	-3.9%	-12.2%
Total	**15,455**	**100.0%**	15,942	100.0%	-3.1%	-11.1%

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

Women (Esprit and edc)

Women (Esprit and edc), represented 66.1% of the Group's revenue for FY17/18, recorded yoy decline in revenue of -9.7% in LCY. This performance is far from satisfactory and is the consequence of the two major factors described in the beginning of this "Revenue Analysis" section. It is our top priority to improve our products in order to increase the appeal to our target customer groups. In that respect, the most important accomplishment this year in terms of product was the establishment of a new product organization along two separate tracks – a main line and a fast-to-market line, whereby the main line focuses on catering to existing customers in our core markets, and the fast-to-market line aims to introduce trendier products for the online and Asia markets, particularly China. These two product engines will work in tandem with the results of consumer analytics to ensure Esprit product offerings meet the taste and preferences of our distinct target customer groups in different regions. The improvements we are making to our products will be centered on three main objectives: (i) further strengthen our design identity, (ii) elevate the intrinsic quality of the products through incorporating better lining, trimmings, finishing and yarn, and (iii) increase the share of sustainable products. The team is working hard to have the first collection of new products reach stores for the Fall-Winter 2018 season ("FW2018").

Men (Esprit & edc)

Men (Esprit & edc), represented 16.3% of the Group's revenue for FY17/18, recorded yoy decline in revenue of -15.0% in LCY. In addition to the factors described in the beginning of this "Revenue Analysis" section, the decline was aggravated by reduced space allocation to men's products in our retail stores (-9.9% yoy) due to its continued weak performance.

Lifestyle and others

Lifestyle and others, representing 17.6% of the Group's revenue, recorded yoy decline in revenue of -12.2% 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 housewear. Excluding the Kids division (-75.2% yoy in LCY) which has been licensed to Kidiliz Group (formerly Groupe Zannier), the Lifestyle and others revenue decline was -8.7% yoy in LCY.

While we acknowledge that the performance in FY17/18 is below our expectation for all product divisions, we are confident that the directions introduced in the Letter from Group CEO will positively contribute to our product performance in the coming future.

Revenue by region and distribution channel

Geographically, the majority of the Group's business is generated in Europe and Asia Pacific. 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" ("APAC").

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) was adversely impacted by intense competition and strategic store closures as described in the beginning of this "Revenue Analysis" section. The revenue decline of -13.8% yoy in LCY in FY17/18, was the results of a combination of i) -9.6% yoy decline in comparable store sales in LCY due to decrease in customers' traffic to our stores; and ii) -7.8% yoy reduction in net sales areas due to rightsizing of our stores network including closure of the most unprofitable retail stores. It is worth noting that gross profit margin of the retail (excl. eshop) channel has improved and OPEX of the channel was reduced yoy, both as planned. Unfortunately, these improvements were outweighed by negative impact from the worse than expected decline in revenue, which led to deleverage effect and deepened operating loss of the business.

Wholesale (excl. eshop) performance was generally in line with management expectation. The revenue decline of -11.6% yoy in LCY is broadly in line with the corresponding yoy reduction in wholesale controlled space of -10.6%. Moreover, gross profit margin of the channel has improved and OPEX of the channel was reduced over last year, both as planned. However, similar to Retail (excl. eshop), improvements in gross profit margin and OPEX were outweighed by deleverage effect as a consequence of revenue decline, and led to a decrease in profitability of the business. Nevertheless, the business remains profitable with a double digit percentage EBIT margin.

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						
	2018		2017		Revenue Change in %		Net change in net sales area^
	HK$ million	% to Group Revenue	HK$ million	% to Group Revenue	HK$	Local currency	
Germany	7,791	50.4%	7,932	49.8%	-1.8%	-10.9%	-8.9%
Retail (excl. eshop)	2,660	17.2%	2,781	17.4%	-4.4%	-13.1%	-5.8%
Wholesale (excl. eshop)	2,621	17.0%	2,741	17.2%	-4.4%	-13.3%	-10.9%
Eshop	2,479	16.0%	2,385	15.0%	3.9%	-5.8%	n.a.
Licensing	31	0.2%	25	0.2%	23.8%	12.2%	n.a.
Rest of Europe	5,769	37.3%	5,866	36.8%	-1.7%	-9.8%	-6.8%
Retail (excl. eshop)	2,031	13.1%	2,133	13.4%	-4.8%	-12.0%	-4.3%
Wholesale (excl. eshop)	2,168	14.0%	2,204	13.9%	-1.6%	-9.8%	-8.3%
Eshop	1,469	9.5%	1,426	8.9%	3.0%	-6.7%	n.a.
Licensing and others	101	0.7%	103	0.6%	-2.0%	-4.0%	n.a.
Asia Pacific	1,895	12.3%	2,144	13.4%	-11.6%	-15.2%	-16.9%
Retail (excl. eshop)	1,560	10.1%	1,804	11.3%	-13.5%	-17.1%	-14.8%
Wholesale (excl. eshop)	114	0.7%	119	0.7%	-4.5%	-5.9%	-27.0%
Eshop	221	1.5%	221	1.4%	0.1%	-5.3%	n.a.
Total	15,455	100.0%	15,942	100.0%	-3.1%	-11.1%	-9.3%
Retail (excl. eshop)	6,251	40.4%	6,718	42.1%	-6.9%	-13.8%	-7.8%
Wholesale (excl. eshop)	4,903	31.7%	5,064	31.8%	-3.2%	-11.6%	-10.6%
Eshop	4,169	27.0%	4,032	25.3%	3.4%	-6.1%	n.a.
Licensing and others	132	0.9%	128	0.8%	3.0%	-0.9%	n.a.

^ Net change since 1 July 2017
n.a. Not applicable

Germany

Germany, the largest market of the Group, accounted for approximately half (50.4%) of total Group revenue in FY17/18. The country recorded revenue of HK$7,791 million in FY17/18, representing a yoy decline of -10.9% in LCY, as compared to corresponding reduction in total controlled space of -8.9% yoy. In terms of distribution channels, Retail (excl. eshop), Wholesale (excl. eshop), Eshop and the Licensing business contributed to 34.1%, 33.7%, 31.8% and 0.4% of its revenue, respectively.

Germany Retail (excl. eshop) recorded revenue of HK$2,660 million, representing a yoy decline of -13.1% in LCY. The revenue decline was primarily attributable to the comparable store sales decline of -10.6% yoy in LCY, as a result of the factors as discussed at the beginning of this "Revenue Analysis" session. As for progress on rightsizing our store network in Germany, there was a visible reduction in net sales areas of -5.8% yoy despite the characteristic of longer lease terms in this market.

Germany Wholesale (excl. eshop) recorded revenue of HK$2,621 million, representing a yoy decline of -13.3% in LCY, against a decline in corresponding controlled space of -10.9% yoy. We continue to observe decline in order intakes from traditional offline partners, as they continue to suffer from structural pressure in the channel.

Rest of Europe

Rest of Europe comprises countries in Europe (except Germany), in America and in the Middle East (representing 37.3% of total Group revenue). The region recorded revenue of HK$5,769 million in FY17/18, representing a yoy decline of -9.8% in LCY. In terms of distribution channels, Retail (excl. eshop), Wholesale (excl. eshop), Eshop and Licensing businesses contributed to 35.2%, 37.6%, 25.5% and 1.7% of the region's revenue, respectively.

Rest of Europe Retail (excl. eshop) recorded revenue of HK$2,031 million, representing a yoy decline of -12.0% in LCY. Similar to Germany, the revenue decline was primarily attributable to decline in comparable store sales of -9.6% yoy in LCY as a result of the factors as discussed at the beginning of this "Revenue Analysis" session. As for progress on rightsizing our store network in the region, there was a reduction in net sales area of -4.3% yoy during FY17/18 (FY16/17: -5.0%).

Rest of Europe Wholesale (excl. eshop) recorded revenue of HK$2,168 million, representing a yoy decline of -9.8% in LCY, broadly in line with the corresponding reduction in controlled space of -8.3% yoy.

Asia Pacific

Asia Pacific comprises mainly China, Australia and New Zealand ("ANZ"), Singapore, Hong Kong, Malaysia, Taiwan and Macau (representing 12.3% of total Group revenue). The region recorded revenue of HK$1,895 million in FY17/18, representing a yoy decline of -15.2% in LCY which was less than the corresponding reduction in total controlled space of -16.9% yoy. In terms of distribution channels, Retail (excl. eshop), wholesale (excl. eshop), and Eshop contributed to 82.3%, 6.0%, and 11.7% of the region's revenue, respectively.

Asia Pacific Retail (excl. eshop), representing 10.1% of total Group revenue, recorded a revenue decline of -17.1% yoy in LCY. This revenue development was primarily due to reduction in net sales area of -14.8% yoy which meets our plan to accelerate the restructuring of the store network in the region, particularly in China, Taiwan, ANZ, and Hong Kong, where the respective net sales areas were reduced by -14.5%, -24.4%, -29.3% and -23.9%. The -29.3% space decline for ANZ reflects the commencement of our work to exit the region whilst the -23.9% space decline for Hong Kong reflects the closure of our flagship store in Tsim Sha Tsui. Other than store closures, the revenue decline of APAC was also attributable to measures aiming to lower the level of discounting in the region in order to restore our brand equity and to ultimately enhance profitability, as well as the underperformance of concession counters in the department stores in China (comparable store sales decline of -11.1% yoy in LCY).

Asia Pacific Wholesale (excl. eshop), representing 0.7% of total Group revenue, recorded a revenue decline of -5.9% yoy in LCY. This revenue development compares favorably against the corresponding reduction in controlled space of -27.0% yoy, thanks to new order intakes from our new APAC wholesale partners in India and Myanmar, as well as improved order intakes from our existing wholesale partner in the Philippines.

Eshop

Eshop accounted for 27.0% of total Group revenue (FY16/17: 25.3%) and comprises our directly managed ecommerce business in European and APAC countries, and the sales to third-party online platforms in APAC. During the Period Under Review, this channel generated HK$4,169 million in revenue, representing a decline of -6.1% yoy in LCY.

Eshop Germany and Rest of Europe, representing 59.5% and 35.2% of the Group's total Eshop revenue in FY17/18, recorded revenue decline of -5.8% and -6.7% in LCY, respectively. Similar to our brick and mortar retail, the negative development was mainly attributable to decrease in customers' traffic aggravated by increased competition from pure play online retailers. Given Eshop's strategic importance, we have created a new fast-to-market line tailored to the specific needs of our online customers in order to drive sales growth. The team is working hard to have the first collection of these new products reach our Eshop for FW2018 season.

Eshop APAC, representing 5.3% of the Group's total Eshop revenue in FY17/18, recorded revenue decline of -5.3% yoy in LCY. This revenue decline is the result of management's decisive actions to focus on higher-profitability model by reducing the level of promotional activities and discounts to increase gross profit margin. That being said, the ecommerce market in APAC, particularly China, is characterized by promotional activities and discounts. As such, tactical promotions were implemented from time to time to help protect market share and drive sales. For instance, during a seasonal sale event in the fourth quarter of FY17/18, the team increased the intensity of promotional activities and discounts decisively to help clear aged inventories, and saw significant growth in revenue for the particular quarter.

03.2 Profitability analysis

The table below presents the results of the Group for FY17/18 and FY16/17, 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, as well as relevant expenses/gains that are expected to be non-recurring (e.g. one-off costs in relation to staff reduction plans etc.).

	For the year ended 30 June			
	2018	2017	Change in %	
	HK$ million	HK$ million	HK$	Local currency
Revenue	**15,455**	15,942	-3.1%	-11.1%
Cost of goods sold	**(7,534)**	(7,712)	-2.3%	-10.5%
Gross profit	**7,921**	8,230	-3.8%	-11.6%
Gross profit margin	**51.3%**	51.6%	-0.4% pt	-0.3% pt
Regular OPEX				
Staff costs	**(2,968)**	(2,851)	4.1%	-3.7%
Occupancy costs	**(2,526)**	(2,496)	1.2%	-6.2%
Logistics expenses	**(1,029)**	(957)	7.6%	-1.9%
Marketing and advertising expenses	**(900)**	(814)	10.5%	0.9%
Depreciation	**(528)**	(518)	2.1%	-6.5%
Other operating costs	**(879)**	(780)	12.6%	3.0%
Subtotal	**(8,830)**	(8,416)	4.9%	-3.3%
(LBIT) of Underlying Operations	**(909)**	(186)		
Exceptional items				
i) Impairment of China goodwill and customer relationships	**(794)**	-		
ii) Net provision for store closures and onerous leases	**(152)**	(12)		
iii) One-off costs in relation to closure of ANZ operations	**(129)**	-		
iv) One-off costs in relation to staff reduction plans	**(119)**	(45)		
v) Inventory provision	**(76)**	-		
vi) (Impairment of)/write back of property, plant and equipment	**(50)**	8		
vii) Provision for SAP applications	**(26)**	-		
viii) Fixed assets impairment for small loss-making stores	**(14)**	-		
ix) Net gain on disposal of properties	**16**	133		
Subtotal	**(1,344)**	84		
(LBIT) of the Group	**(2,253)**	(102)		
Net interest income/(expense)	**27**	(4)		
(Loss) before taxation	**(2,226)**	(106)		
Net (taxation)/taxation credit	**(328)**	173		
Net (loss)/profit	**(2,554)**	67		

For FY17/18, the Group recorded a **Gross Profit** of HK$7,921 million, which resulted in a gross profit margin of 51.3%, more or less the same as compared to last year. The slight decrease of -0.3% point in LCY was mainly due to lower proportion of Retail (excl. eshop) revenue which represents 40.4% of Group revenue this year as compared to 42.1% last year.

Regular OPEX (excluding Exceptional Items) amounted to HK$(8,830) million in FY17/18, representing a yoy decline of -3.3% in LCY. We continue to see reduction in operating expenses, with savings achieved across all the major cost lines, except for a slight increase in marketing and advertising expenses (+0.9% yoy in LCY) to strengthen our customer relationship management ("CRM") program.

In terms of profitability, the improvement in operating expenses was not sufficient to outweigh the negative impact from higher than expected decline in revenue. As a result, **LBIT of underlying operations** (i.e. excluding the Exceptional Items) for FY17/18 was a loss of HK$(909) million (FY16/17: HK$(186) million).

Exceptional Items refers to exceptional gains and expenses arising from non-operational activities of the Group. As detailed in the table at the beginning of this section, there was a net exceptional expense of HK$(1,344) million in FY17/18, majority of which are non-cash items, primarily related to non-recurring provisions, impairments and one-off expenses. The largest Exceptional Items being the full impairment of the remaining balance of the goodwill and customer relationships in association with the China operations of HK$(794) million; additional provisions for store closure and onerous leases due to weaker than expected sales performance of directly managed retail stores of HK$(152) million; the one-off costs related to the divesture of operations in ANZ of HK$(129) million; one-off costs in relation to staff reduction plans of HK$(119) million; additional provision for inventory of HK$(76) million arising from a change in the estimation methodology to reflect more appropriately the net realizable value of aged inventories; and impairment of HK$(26) million in association with obsolete SAP applications that have been capitalized but are no longer in use due to change in internal processes.

After including all the Exceptional Items, **LBIT** of the Group was HK$(2,253)million in FY17/18 as compared to LBIT of HK$(102) million in the same period last year.

Interest was a net income of HK$27 million (FY16/17: Net Interest expense of HK$(4) million), as a result of a combination of i) interest earned on cash, bank balances and deposits of HK$58 million, representing an effective interest rate of 1.2% per annum (FY16/17: 0.8%), offset by ii) non-cash interest expenses primarily related to time value of provision for store closure and onerous leases.

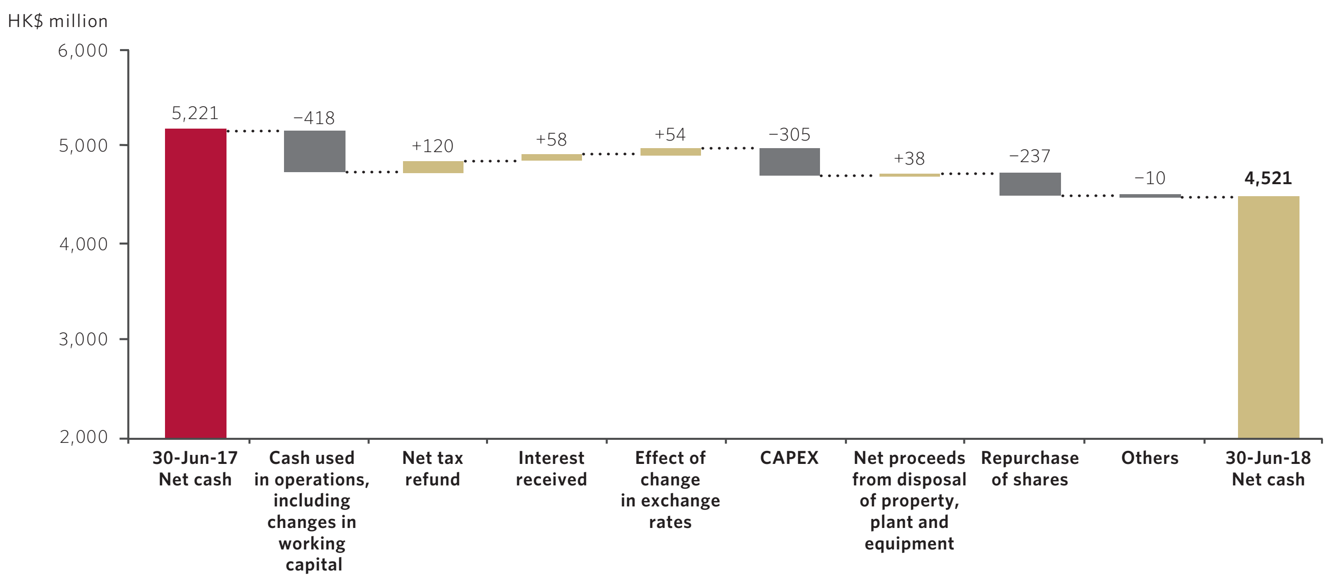
Taxation was a net taxation expense of HK$(328) million (FY16/17: net taxation credit of HK$173 million), mainly comprised of a write down of deferred taxation assets of HK$(193) million in association with the German operations, which is a non-cash item, due to continued decline of the business in recent years.

Net Loss of the Group was HK$(2,554) million, as compared to a net profit of HK$67 million for FY16/17.

03.3 Liquidity and financial resources analysis

The Group continues to be prudent about maintaining a sound financial position that enables the execution of our key strategic initiatives over the coming years.

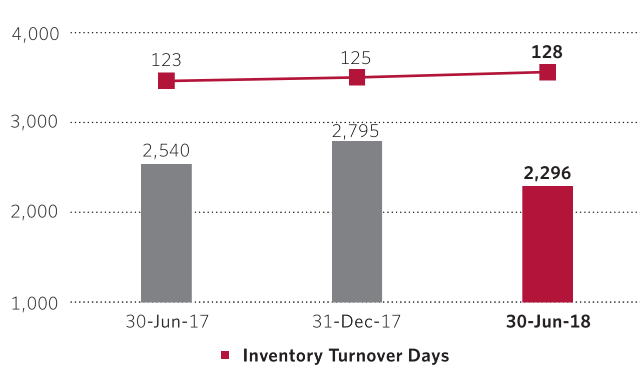
Net Cash: We are seeing some pressure on our cash balance due to the worse than expected decline in revenue. As at 30 June 2018, the Group remained debt free with net cash of HK$4,521 million (30 June 2017: HK$5,221 million), representing a net cash utilization of HK$(700) million for FY17/18, as compared to HK$(120) million for the last financial year. The increase in cash utilization is mainly due to (i) a negative operating cash flow (including changes in working capital) for FY17/18 of HK$(418) million (FY16/17: HK$(81) million); and (ii) cash used in the repurchase of shares of HK$(237) million.



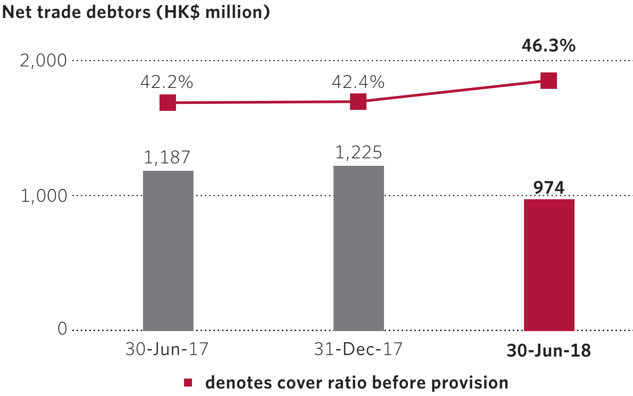
Inventories: Our inventory balance amounted to HK$2,296 million (30 June 2017: HK$2,540 million), representing a yoy reduction of -9.6%, despite the +1.7% yoy appreciation in EUR/HKD closing rate. In terms of unit, the total number of inventory at the end of June 2018 was 32.9 million pieces, a yoy decrease of -4.8% as compared to 34.6 million pieces a year ago. Inventory turnover days was 128 days, an increase of 5 days as compared to a year ago (30 June 2017: 123 days) mainly due to the weaker than expected sales performance of the retail (excl. eshop) and Eshop businesses.

Net trade debtors was HK$974 million (30 June 2017: HK$1,187 million), representing a yoy decrease of -18.0% in LCY, which compares favorably against the Group revenue decline of -11.1% and wholesale (excl. eshop) revenue decline of -11.6% in LCY. The cover ratio before provision (the amount of insured and secured gross trade debtors including VAT over total gross trade debtors including VAT) increased to 46.3% (30 June 2017: 42.2%).

Inventories (HK$ million)



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$305 million in CAPEX in FY17/18 (FY16/17: HK$257 million), representing an increase of 18.7% yoy largely due to the investment in the extension of the distribution center in Mönchengladbach, and the rollout of our omnichannel services in the stores, e.g. installation of instore WiFi.

	For the year ended 30 June	
HK$ million	**2018**	2017
New stores	**30**	50
Refurbishment	**76**	48
IT projects	**45**	48
Office & others	**154**	111
Purchase of property, plant and equipment	**305**	257

Total interest bearing external borrowings: As at 30 June 2018, the Group had no interest bearing external borrowings (30 June 2017: 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, the purchases of finished goods in Euro account for only a small portion of our total purchases of finished goods while our revenue are generated primarily in Euro. 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.

In view of this potential risk, the Group has taken measures to proactively manage its Euro exposure, specifically early hedging of virtually all purchases of finished goods for FY17/18. Owing to the strengthening of the Euro against US Dollar in the past 12 months, average EUR:USD rate hedged for FY18/19 is better than the prevailing market rates. The Group will continuously monitor and review purchases of finished goods as well as potential price adjustment, depending on the movements of relevant exchange rates.

Human Resources

As at 30 June 2018, the Group employed over 6,400 full-time equivalent staff (30 June 2017: over 7,300) 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. As the Group recorded a loss for the year ended 30 June 2018, the Board has not recommended the distribution of a final dividend for the year ended 30 June 2018 (FY16/17: nil).

03.4 Outlook for FY18/19

FY17/18 has been a difficult year, as we have observed decreased customers' traffic to our brick-and-mortar retail stores and increased competition in the ecommerce channel; accordingly we are conscious that the operating environment will continue to be challenging.

Looking ahead, corrective measures are in place to reignite sales momentum to address this situation. An internal taskforce had conducted an in-depth analysis of the situation and diagnosed the problems we are facing. We now have a clear Plan on how we can return Esprit to sustainable growth and profitability. The main initiatives of the plan include: 1) sharpen our brand identity and put the customer at the center of everything we do; 2) improve product offerings and how it relates to our consumer and brand position; 3) reduce complexity and improve accountability in the organization; and 4) become a leaner organization and eliminate loss-making parts of the business to build a stronger foundation for the future. The directions are clear, but the details are still being worked out and are subject to local laws, regulations and negotiation with workers councils. The Plan will be presented to the market later this year at an investor day.

With respect to FY18/19, **Revenue** is expected to decline by low double-digit percentage yoy mainly attributable to two factors: i) continue rationalization of distribution footprint will lead to mid to high single-digit percentage yoy decline in total **controlled space**; and ii) customers' traffic is likely to see decline although at a slightly lower rate than last year amidst implementation of measures to revive store traffic.

Regarding **gross profit margin**, we aim to maintain it at a stable level. While we will continue our decisive measures to reduce markdowns and promotions, the benefit is expected to be offset by a lower proportion of Retail (excl. eshop) revenue which typically enjoys a higher gross margin.

As for **OPEX**, we see opportunities to significantly reduce our operating expenses by restructuring and simplifying the organization, and continuing the closure of loss making stores. Although details of the Plan are yet to be finalized, we have already identified areas where we can further optimize efficiency to reduce overhead and other operating costs. That being said, some upfront costs ("One-off costs") will be incurred in FY18/19 in order to implement the cost reduction measures, and the savings are expected to be fully realized over the next 2 to 3 years. All-in-all, a mid-single digit percentage reduction in OPEX (excluding One-off costs) is expected for FY18/19.

With respect to **CAPEX**, we expect to see a level slightly less than previous year.

APPENDIX

Revenue by Country

	For the year ended 30 June						
	2018		2017		Revenue change in %		Net change in net sales area^
Country ^^	**HK$ million**	**% to Group Revenue**	HK$ million	% to Group Revenue	HK$	Local currency	
Germany #	**7,791**	**50.4%**	7,932	49.8%	-1.8%	-10.9%	-8.9%
Rest of Europe	**5,769**	**37.3%**	5,866	36.8%	-1.7%	-9.8%	-6.8%
Benelux #	**1,910**	**12.4%**	1,895	11.9%	0.8%	-8.6%	-5.4%
France	**906**	**5.9%**	977	6.1%	-7.2%	-15.8%	-14.0%
Switzerland	**838**	**5.4%**	926	5.8%	-9.5%	-13.7%	-3.4%
Austria	**742**	**4.8%**	735	4.6%	0.9%	-8.6%	-5.0%
Spain	**229**	**1.5%**	216	1.4%	6.5%	-3.8%	2.2%
Finland	**224**	**1.5%**	209	1.3%	6.9%	-2.8%	-1.8%
Sweden	**219**	**1.4%**	225	1.4%	-2.6%	-9.7%	-13.1%
Italy	**130**	**0.8%**	116	0.7%	12.0%	1.4%	1.1%
United Kingdom	**112**	**0.7%**	94	0.6%	19.0%	9.6%	-16.0%
Poland	**93**	**0.6%**	75	0.5%	24.3%	11.3%	-0.3%
Denmark	**90**	**0.6%**	89	0.6%	1.6%	-7.8%	-6.8%
Ireland	**7**	**0.0%**	7	0.0%	2.1%	-7.7%	-
Norway	**3**	**0.0%**	3	0.0%	-4.6%	-10.5%	6.2%
Portugal	**1**	**0.0%**	1	0.0%	33.2%	20.2%	-100.0%
Others ##	**265**	**1.7%**	298	1.9%	-11.4%	-13.7%	-12.1%
Asia Pacific	**1,895**	**12.3%**	2,144	13.4%	-11.6%	-15.2%	-16.9%
China	**760**	**4.9%**	871	5.4%	-12.8%	-17.4%	-18.3%
Australia and New Zealand	**262**	**1.7%**	297	1.9%	-11.7%	-14.4%	-29.3%
Singapore	**240**	**1.6%**	227	1.4%	5.8%	0.8%	-7.8%
Hong Kong	**174**	**1.1%**	265	1.7%	-34.2%	-34.2%	-23.9%
Malaysia	**158**	**1.0%**	169	1.1%	-6.7%	-12.6%	-5.6%
Taiwan	**154**	**1.0%**	165	1.0%	-6.8%	-11.7%	-24.4%
Macau	**73**	**0.5%**	86	0.5%	-14.9%	-14.9%	19.8%
Others @	**74**	**0.5%**	64	0.4%	15.9%	15.9%	-20.0%
Total	**15,455**	**100.0%**	15,942	100.0%	-3.1%	-11.1%	-9.3%

^ Net change since 1 July 2017
^^ Country as a whole includes retail (excl. eshop), Eshop, wholesale (excl. eshop) and licensing operations
# Includes licensing
Others under Rest of Europe include i) retail (incl. eshop) revenue from Czech Republic, Hungary, Slovakia, Latvia, Slovenia, Estonia, Malta, Romania, Greece, 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, India and the Philippines

Retail (excl. eshop) revenue by country

	For the year ended 30 June						
	2018		2017		Revenue change in %		Net change in net sales area^
Country	HK$ million	% to Total Revenue	HK$ million	% to Total Revenue	HK$	Local currency	
Germany	**2,660**	**42.5%**	2,781	41.4%	-4.4%	-13.1%	-5.8%
Rest of Europe	**2,031**	**32.5%**	2,133	31.7%	-4.8%	-12.0%	-4.3%
Benelux	**792**	**12.7%**	769	11.4%	3.0%	-6.6%	3.2%
Switzerland	**516**	**8.3%**	579	8.6%	-10.9%	-13.3%	-5.6%
Austria	**346**	**5.5%**	351	5.2%	-1.6%	-10.6%	-0.7%
France	**188**	**3.0%**	260	3.9%	-28.0%	-34.7%	-45.0%
Poland	**65**	**1.0%**	58	0.9%	12.7%	0.5%	-0.3%
Sweden	**61**	**1.0%**	54	0.8%	12.9%	6.0%	40.4%
Finland	**49**	**0.8%**	47	0.7%	4.3%	-4.8%	-9.4%
Denmark	**14**	**0.2%**	15	0.2%	-1.6%	-10.3%	-
Asia Pacific	**1,560**	**25.0%**	1,804	26.9%	-13.5%	-17.1%	-14.8%
China	**545**	**8.7%**	636	9.6%	-14.3%	-18.9%	-14.5%
Australia and New Zealand	**241**	**3.8%**	272	4.0%	-11.4%	-14.0%	-29.3%
Singapore	**222**	**3.6%**	216	3.2%	2.7%	-2.1%	-7.8%
Hong Kong	**173**	**2.8%**	264	3.9%	-34.4%	-34.4%	-23.9%
Malaysia	**155**	**2.5%**	167	2.5%	-7.1%	-13.0%	-5.6%
Taiwan	**151**	**2.4%**	163	2.4%	-7.2%	-12.1%	-24.4%
Macau	**73**	**1.2%**	86	1.3%	-14.9%	-14.9%	19.8%
Total	**6,251**	**100.0%**	6,718	100.0%	-6.9%	-13.8%	-7.8%

^ Net change since 1 July 2017

Directly managed retail stores by country – movement since 1 July 2017

	As at 30 June 2018					
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	**140**	**(6)**	**109,515**	**-5.8%**	**129**	**-10.6%**
Rest of Europe	**137**	**1**	**78,616**	**-4.3%**	**107**	**-9.6%**
Switzerland	36	(2)	16,230	-5.6%	31	-12.2%
Netherlands	24	4	15,505	9.2%	19	-11.1%
Belgium	23	1	15,924	-1.6%	18	-9.6%
Austria	19	-	14,735	-0.7%	17	-10.3%
France	11	(5)	5,342	-45.0%	9	-3.6%
Poland	11	-	3,235	-0.3%	5	11.2%
Sweden	7	3	3,570	40.4%	4	-1.8%
Luxembourg	3	-	1,869	-	3	-2.1%
Finland	2	-	1,581	-9.4%	-	n.a.
Denmark	1	-	625	-	1	-10.4%
Asia Pacific	**309**	**(75)**	**63,076**	**-14.8%**	**151**	**-6.2%**
China	145	(33)	27,345	-14.5%	67	-7.2%
Taiwan	52	(16)	4,985	-24.4%	29	-3.9%
Australia	45	(18)	5,381	-26.3%	20	-1.6%
Malaysia	29	(3)	11,827	-5.6%	18	-12.3%
Singapore	19	(2)	6,103	-7.8%	5	-4.0%
Hong Kong	9	(1)	4,105	-23.9%	5	-7.4%
Macau	5	1	2,440	19.8%	3	-6.8%
New Zealand	5	(3)	890	-43.1%	4	-0.2%
Total	**586**	**(80)**	**251,207**	**-7.8%**	**387**	**-9.6%**

^ Net change since 1 July 2017
n.a. Not applicable

Directly managed retail stores by store type – movement since 1 July 2017

	No. of stores					Net sales area (m^2)				
		vs 1 July 2017					vs 1 July 2017			
Store type	**As at 30 June 2018**	**Opened**	**Closed**	**As at 1 July 2017**	**Net change**	**As at 30 June 2018**	**Opened**	**Closed**	**As at 1 July 2017**	**Net change**
Stores	**353**	22	(39)	370	(17)	**200,510**	6,659	(18,475)	212,326	-5.6%
– Germany	**123**	3	(10)	130	(7)	**95,211**	829	(7,496)	101,878	-6.5%
– Rest of Europe	**128**	12	(9)	125	3	**72,952**	4,096	(4,992)	73,848	-1.2%
– Asia Pacific	**102**	7	(20)	115	(13)	**32,347**	1,734	(5,987)	36,600	-11.6%
Concession counters	**164**	3	(55)	216	(52)	**17,571**	1,041	(4,961)	21,491	-18.2%
– Germany	**5**	1	(1)	5	-	**2,057**	797	(521)	1,781	15.5%
– Asia Pacific	**159**	2	(54)	211	(52)	**15,514**	244	(4,440)	19,710	-21.3%
Outlets	**69**	2	(13)	80	(11)	**33,126**	854	(6,407)	38,679	-14.4%
– Germany	**12**	1	-	11	1	**12,247**	312	(711)	12,646	-3.2%
– Rest of Europe	**9**	1	(3)	11	(2)	**5,664**	390	(3,035)	8,309	-31.8%
– Asia Pacific	**48**	-	(10)	58	(10)	**15,215**	152	(2,661)	17,724	-14.2%
Total	**586**	27	(107)	666	(80)	**251,207**	8,554	(29,843)	272,496	-7.8%

Wholesale (excl. eshop) revenue by country

	For the year ended 30 June						
	2018		2017		Revenue change in %		Net change in net sales area^
Country	**HK$ million**	**% to Total Revenue**	HK$ million	% to Total Revenue	HK$	Local currency	
Germany	**2,621**	**53.5%**	2,741	54.1%	-4.4%	-13.3%	-10.9%
Rest of Europe	**2,168**	**44.2%**	2,204	43.5%	-1.6%	-9.8%	-8.3%
Benelux	**540**	**11.0%**	566	11.2%	-4.6%	-13.6%	-13.7%
France	**487**	**9.9%**	493	9.7%	-1.2%	-10.2%	-4.4%
Spain	**211**	**4.3%**	201	4.0%	4.8%	-5.3%	2.2%
Austria	**189**	**3.8%**	185	3.6%	2.1%	-7.6%	-9.9%
Finland	**147**	**3.0%**	135	2.7%	8.7%	-1.3%	-0.4%
Sweden	**122**	**2.5%**	139	2.7%	-12.3%	-18.6%	-35.1%
Italy	**121**	**2.5%**	108	2.1%	11.8%	1.1%	1.1%
Switzerland	**118**	**2.4%**	120	2.4%	-2.0%	-4.9%	3.0%
United Kingdom	**63**	**1.3%**	48	1.0%	30.6%	22.0%	-16.0%
Denmark	**38**	**0.8%**	38	0.7%	1.0%	-8.2%	-8.9%
Ireland	**3**	**0.1%**	4	0.1%	-8.1%	-16.8%	-
Norway	**3**	**0.0%**	3	0.1%	-4.6%	-10.5%	6.2%
Others #	**126**	**2.6%**	164	3.2%	-23.0%	-23.6%	-12.1%
Asia Pacific	**114**	**2.3%**	119	2.4%	-4.5%	-5.9%	-27.0%
China	**40**	**0.8%**	55	1.1%	-28.1%	-31.1%	-35.6%
Other@	**74**	**1.5%**	64	1.3%	15.9%	15.9%	-20.0%
Total	**4,903**	**100.0%**	5,064	100.0%	-3.2%	-11.6%	-10.6%

^ Net change since 1 July 2017
# 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, India and the Philippines

Wholesale distribution channel by country (controlled space only) – movement since 1 July 2017

As at 30 June 2018

	Franchise stores				Shop-in-stores				Identity corners				Total			
Country	No. of stores	Net sales area (m²)	Net opened stores^	Net change in net sales area^	No. of stores	Net sales area (m²)	Net opened stores^	Net change in net sales area^	No. of stores	Net sales area (m²)	Net opened stores^	Net change in net sales area^	No. of stores	Net sales area (m²)	Net opened stores^	Net change in net sales area^
Germany	**227**	**50,733**	**(20)**	**-10.7%**	**2,048**	**79,830**	**(266)**	**-12.6%**	**1,081**	**21,935**	**(101)**	**-5.1%**	**3,356**	**152,498**	**(387)**	**-10.9%**
Rest of Europe	**421**	**79,006**	**(30)**	**-9.5%**	**778**	**24,637**	**(52)**	**-3.5%**	**817**	**19,023**	**(57)**	**-9.1%**	**2,016**	**122,666**	**(139)**	**-8.3%**
Benelux	80	22,718	(10)	-13.2%	48	2,472	(21)	-21.2%	149	4,130	(24)	-11.2%	277	29,320	(55)	-13.7%
France	118	20,308	(8)	-5.2%	259	5,815	-	-	145	3,967	(11)	-6.9%	522	30,090	(19)	-4.4%
Austria	49	7,721	(6)	-13.2%	95	3,508	-	4.3%	25	631	(13)	-29.6%	169	11,860	(19)	-9.9%
Sweden	9	3,016	(10)	-44.9%	2	98	2	n.a.	37	907	10	25.4%	48	4,021	2	-35.1%
Finland	21	4,843	1	1.1%	57	2,322	1	-0.4%	93	2,636	(1)	-3.1%	171	9,801	1	-0.4%
Switzerland	21	3,308	1	3.1%	45	2,298	-	7.0%	15	317	(3)	-19.7%	81	5,923	(2)	3.0%
Italy	14	2,537	2	9.7%	34	1,025	(1)	-2.0%	236	3,569	7	-3.5%	284	7,131	8	1.1%
Spain	26	2,985	5	23.4%	163	5,253	(9)	-2.0%	53	1,522	(8)	-14.0%	242	9,760	(12)	2.2%
Denmark	6	1,547	-	1.0%	2	28	-	-	14	324	(5)	-38.2%	22	1,899	(5)	-8.9%
Norway	1	242	-	-	-	-	-	-	1	15	1	-	2	257	1	6.2%
United Kingdom	2	150	-	-1.3%	8	330	(1)	-5.4%	44	955	(8)	-20.9%	54	1,435	(9)	-16.0%
Portugal	-	-	-	-	-	-	-	-	-	-	(2)	-100.0%	-	-	(2)	-100.0%
Ireland	-	-	-	-	1	82	-	-	5	50	-	-	6	132	-	-
Others *	74	9,631	(5)	-9.9%	64	1,406	(23)	-24.7%	-	-	-	-	138	11,037	(28)	-12.1%
Asia Pacific	**110**	**11,273**	**(29)**	**-27.0%**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**110**	**11,273**	**(29)**	**-27.0%**
China	32	4,483	(20)	-35.6%	-	-	-	-	-	-	-	-	32	4,483	(20)	-35.6%
Thailand	56	3,968	(9)	-24.0%	-	-	-	-	-	-	-	-	56	3,968	(9)	-24.0%
Philippines	15	1,764	(1)	-18.0%	-	-	-	-	-	-	-	-	15	1,764	(1)	-18.0%
Others	7	1,058	1	-5.2%	-	-	-	-	-	-	-	-	7	1,058	1	-5.2%
Total	**758**	**141,012**	**(79)**	**-11.6%**	**2,826**	**104,467**	**(318)**	**-10.6%**	**1,898**	**40,958**	**(158)**	**-7.0%**	**5,482**	**286,437**	**(555)**	**-10.6%**

^ Net change since 1 July 2017
* Others under Rest of Europe include controlled wholesale point of sales and space in countries outside Europe, mainly Colombia, Chile, Canada and the Middle East

04
Sustainability

04 Sustainability

Our approach towards circularity

Inclusive circularity rests on the respectful use of both material resources and human resources: In an inclusive, circular economy, growth will be based on human capital instead of the extraction of natural resources. Waste is no longer an option.

Ensuring that our actions at Esprit embody this philosophy means rethinking every step of the fashion lifecycle. So we are re-examining the way we approach design, material selection, manufacturing, and distribution, and building or aligning with new streams to support care, collection, resale, recycling, and reutilization.

In FY16/17 Esprit has incorporated the United Nations Sustainable Development Goals (SDGs). The SDGs are an internationally recognized framework that aims to address three elements: economic growth, social inclusion and environmental protection. This is part of a broader endeavor to eradicate poverty and strengthen peace and freedom. By moving towards the circular fashion approach, we are convinced that we can also implement the SDGs better.

Within this chapter, we want to give you an overview of the highlights in our sustainability work in FY17/18. If you want to learn more, please have a look at our Sustainability Report FY17/18 which will be available on the Company's website at http://www.esprit.com/sustainability no later than three months after the publication of the Annual Report.

Due Diligence – How we implement sustainability inside Esprit

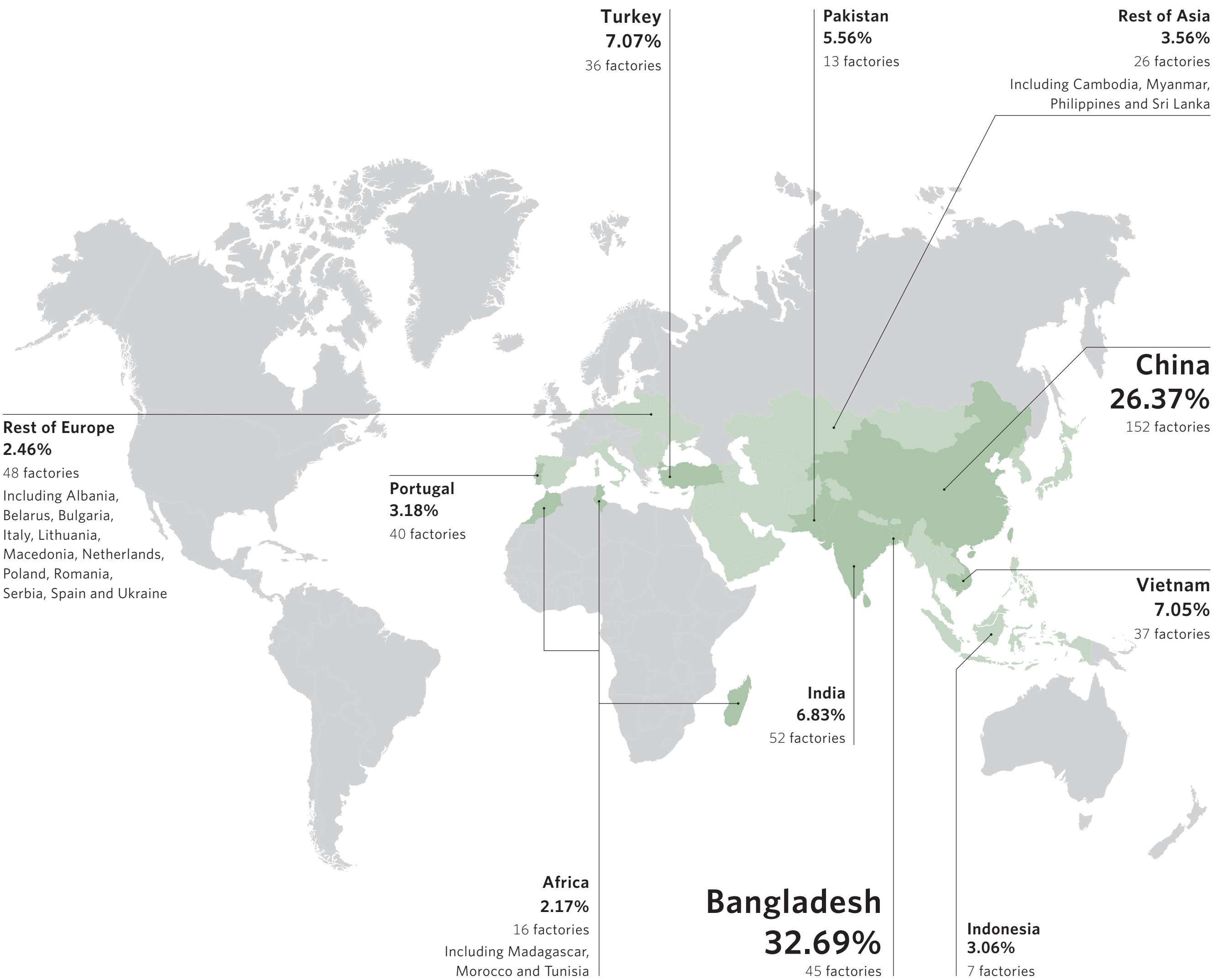
We at Esprit established processes, clear responsibilities and a reporting line to promote sustainability initiatives along our organization. These are the measures to ensure the implementation of sustainability holistically and to reach every business area of the company.

Embedding sustainability

Where Esprit is made

Ensuring that our products are made in a clean and responsible way requires that we know a lot about our supply chain partners.

The figures represent the percentage of our business volume and the amount of factories per region.

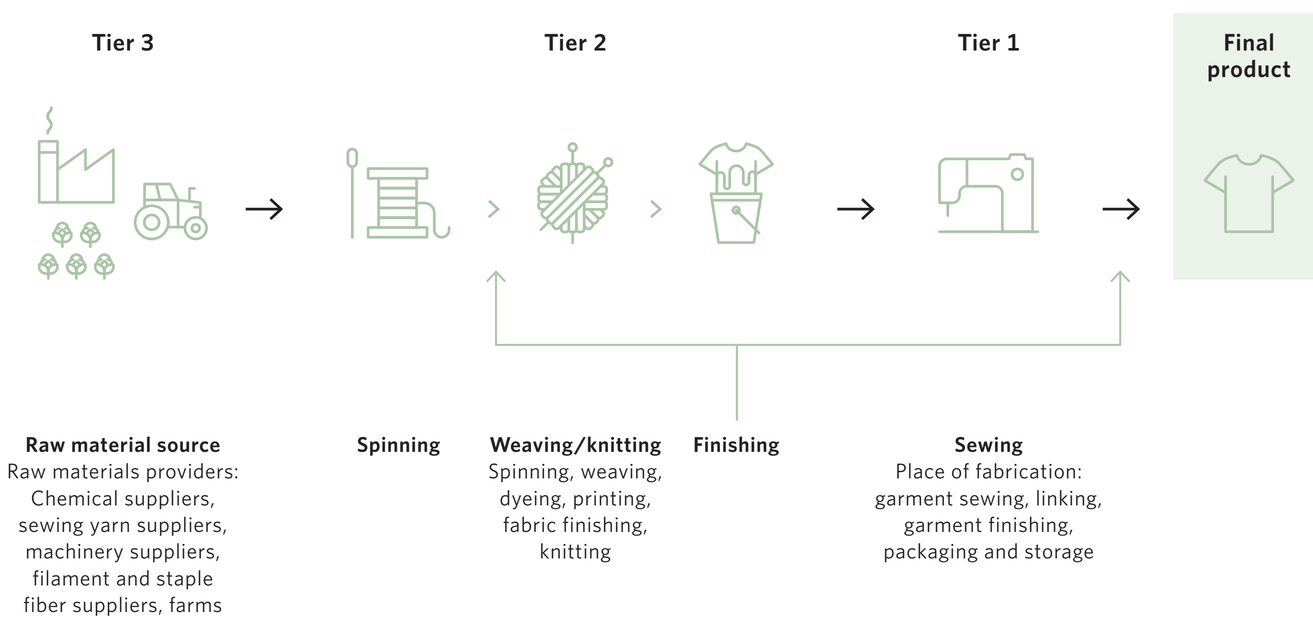


How we choose our suppliers

Our network of suppliers includes hundreds of globally interlinked partners and spread across 24 countries. But supply chain transparency means more than knowing where in the world we produce – it means knowing who our production partners are, how they work, and how we can best support them to work in a clean and responsible way.

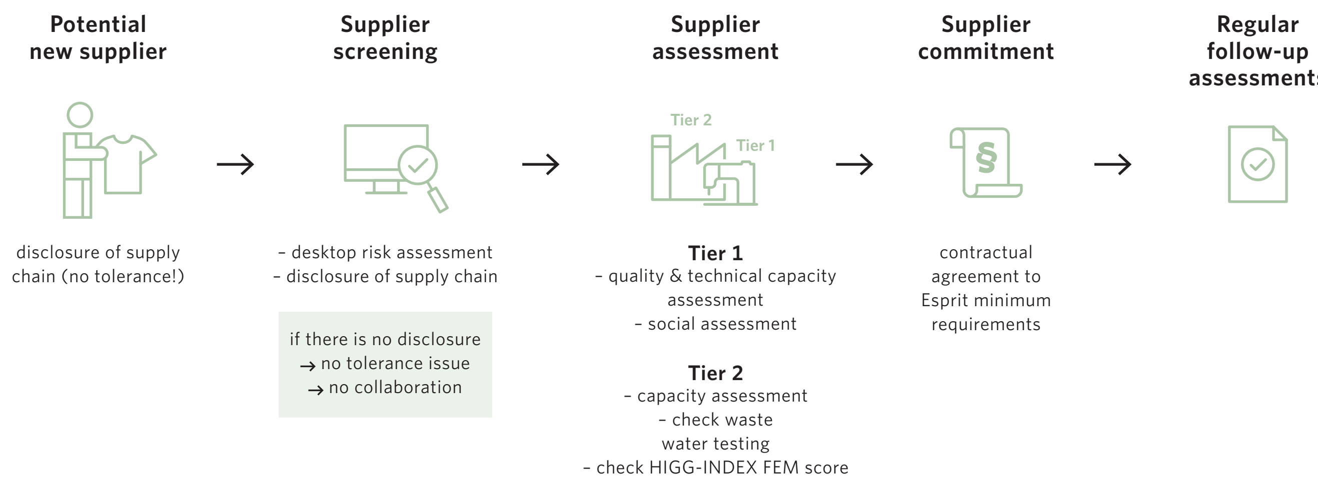
Over recent years we have drastically reduced the number of supply chain partners we work with so that we can create a strong partnership. Working with fewer suppliers enables us to really know them, understand their needs and challenges, and support them to achieve our standards.

We have been focusing on our supply chain mapping process for the past three years. We are very proud that we have established supply chain transparency up to Tier 3, which includes facilities that we do not work directly with, but rather the suppliers and sub-contractors to our suppliers. Every six months we update our supplier map by working with our Tier 1 suppliers to capture and update information about how they work, who their supply chain partners are, and how they are performing. This deeper level of transparency is critical to properly managing the chemicals that are used in processes such as dyeing and printing (Tier 2), and viscose production (Tier 3). Our supplier list, which includes factory names, locations, types of goods produced, and numbers of workers, is publically available. This list fulfills the requirements of the Human Rights Watch (HRW) Transparency Pledge, and we are proud to have been one of the first brands to meet HRW's requirements on Supply Chain Transparency in April 2017. By including our Tier 2 wet processers, our supplier list also meets the requirements of Greenpeace through their Detox campaign, an initiative we committed to in 2012.



How we monitor our suppliers

In addition to demonstrating transparency, we expect that our suppliers commit to our Esprit Minimum Requirements, and that they are willing to work with us to fully and continuously guarantee them. To this end, we have developed an ongoing monitoring and capacity development program that encompasses not only our most direct partners, but also the deeper supply chain.



Besides being a member of several key industry initiatives that conduct monitoring and assessment on behalf of their member brands, we have our own audit teams that visit our suppliers regularly.

Social Compliance Audits

To ensure that all production facilities used by Esprit operate in accordance with the Esprit "Supplier Code of Conduct", the Esprit Social Sustainability team regularly conducts both unannounced and announced audits at the facilities where Esprit products are manufactured.

Capacity Assessments

Our Environmental Sustainability team, which are based in the production countries, assess our Tier 2 suppliers' performance in environmental and chemical management as well as proper process control. This approach helps us ensure compliance with our Restricted Substances List (RSL) & Manufactured Restricted Sunbstances List (MRSL) and our Material Quality Requirements.

No "cut & run"

We don't believe that pulling orders from suppliers who are facing challenges, a practice known as "Cut and run," is the right way to achieve real improvements in the textile supply chain. In the spirit of honoring the sense of community, we want to support our suppliers to improve while upholding the business relationship. When we find shortcomings, we develop a corrective action plan together with the supplier, and conduct regular re-audits to verify improvement. A relationship is only ended if we see that improvements are not made, or there is a lack of willingness to address the issues.

The Esprit Minimum Requirements

Our suppliers are committed to our Esprit Minimum Requirements, which are an integral part of our supplier contracts: The Esprit Minimum Requirements include the following:

- Esprit Supplier Code of Conduct
- Esprit Material Quality Requirements
- Esprit Restricted Substances List (RSL) and Manufacturing Restricted Substances List (MRSL)

Since these requirements cross different functions and roles, in 2015, we created the Esprit Minimum Requirements Steering Committee (EMRSC), including all the departments having a direct impact on sustainability: Environmental Sustainability, Social Sustainability, Product Safety and Quality Assurance. The EMRSC's task is to agree on and create an overarching framework of requirements, guidelines and implementation tools, all of which are aligned among the three departments and binding for all suppliers.

Supplier empowerment

Overall, we want to empower our suppliers and help them grow in both their understanding of what sustainable production looks like, and in their ability to independently identify and implement improvements. One way we support this growth is through the use of self-assessments conducted by our suppliers. To this end, we are member of the Sustainable Apparel Coalition and advocate for the use of the Higg Index Facility Environmental Module throughout our entire supply chain.

Rewarding sustainable suppliers

We believe that good sustainability performance should be incentivized and rewarded. This is why every six months we evaluate our suppliers' sustainability performance using both social and environmental criteria and we assign each supplier a score using our Vendor Scorecard. Our buying teams consider this score as part of their decision-making process when selecting which orders to place with our approved suppliers. This is one way we incentivize our suppliers to ensure fair and safe working conditions, or to scale up their ability to offer sustainable materials or processes.

Cascading the Esprit Minimum Requirements into our supply chain

The factories producing our finished products (Tier 1) are responsible for sourcing components such as fabrics, trims and accessories; however, all components must meet our requirements. Our Tier 1 partners must ensure that their subcontractors are aware of and in compliance with our standards.

In the spirit of our partnership approach, we support our direct suppliers in this endeavor to cascade our requirements through their own supply chains. Working transparently, our suppliers disclose to us who their subcontractors are so that we can directly assess and strengthen the deeper supply chain. We conduct audits through several key industry initiatives, and we also have our own Tier 1 and Tier 2 supplier assessments in place. Through working this way with our direct suppliers, involving them in the assessments, we contribute to increased quality, safety and compliance along the entire supply chain.

How we want to move forward

By expanding the transparency in our supply chain, we are able to better capture potential risks related to environmental and social issues, as well as to work directly with the deeper supply chain on social and environmental improvements.

Moving transparency forward

2013 (–2016)
Reducing supply chain partners (Tier1)

2015
First mapping of Tier2 suppliers and start of monitoring process

2015
First mapping of viscose producers from key nominated fabric suppliers

2016
In August we published our Tier1 and Tier2 suppliers publicly for the first time (updated every 6 months since then)

2017
We have started to extend our Tier1 and Tier2 mapping process to viscose producers

2018
In August we have published our latest supplier list including viscose producers for the first time

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 2018, 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

Dr Raymond OR Ching Fai (Executive Chairman)
(re-designated effective 1 April 2018)
Anders Christian KRISTIANSEN (Group Chief Executive Officer)
(appointed effective 1 June 2018)
Thomas TANG Wing Yung (Group Chief Financial Officer)
Jose Manuel MARTINEZ GUTIERREZ (Group Chief Executive Officer)
(stepped down effective 1 June 2018)

Non-executive Director

Jürgen Alfred Rudolf FRIEDRICH

Independent Non-executive Directors

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 2018 is set out in the table below:

	Board	Non-executive Directors	Audit Committee	Nomination Committee	Remuneration Committee	Risk Management Committee	General Committee	Annual general meeting
Executive Directors								
Raymond OR Ching Fai (Executive Chairman) *(re-designated effective 1 April 2018)*	10/10	1/1		2/2			1/6	1/1
Anders Christian KRISTIANSEN *(appointed effective 1 June 2018)*	2/2				1/1		0/1	
Thomas TANG Wing Yung	10/10					2/2	9/9	1/1
Jose Manuel MARTINEZ GUTIERREZ *(stepped down effective 1 June 2018)*	8/8				3/3		8/8	1/1
Non-executive Director								
Jürgen Alfred Rudolf FRIEDRICH	9/10	1/1			4/4			1/1
Independent Non-executive Directors								
Paul CHENG Ming Fun (Deputy Chairman)	10/10	1/1		2/2	4/4			1/1
José María CASTELLANO RIOS	10/10	1/1	4/4			2/2		1/1
Alexander Reid HAMILTON	10/10	1/1	4/4	1/2				1/1
Carmelo LEE Ka Sze	10/10	1/1		2/2	4/4	2/2		1/1
Norbert Adolf PLATT	9/10	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

The Company currently has five Independent Non-executive Directors (six before the re-designation of Dr Raymond OR Ching Fai as Executive Chairman effective 1 April 2018), 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 (56%) 61 to 70 years old (22%) 51 to 60 years old (22%)
Length of service	More than 10 years (44%) 5 to 10 years (34%) Below 5 years (22%)

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		
Raymond OR Ching Fai *(re-designated effective 1 April 2018)*	✓	✓
Anders Christian KRISTIANSEN *(appointed effective 1 June 2018)*	✓	✓
Thomas TANG Wing Yung	✓	✓
Jose Manuel MARTINEZ GUTIERREZ *(stepped down effective 1 June 2018)*	✓	✓
Non-executive Director		
Jürgen Alfred Rudolf FRIEDRICH	✓	✓
Independent Non-executive Directors		
Paul CHENG Ming Fun	✓	✓
José María CASTELLANO RIOS	✓	✓
Alexander Reid HAMILTON	✓	✓
Carmelo LEE Ka Sze	✓	✓
Norbert Adolf PLATT	✓	✓
Company Secretary		
Florence NG Wai Yin	✓	✓

Executive Chairman and Group Chief Executive Officer

Dr Raymond OR Ching Fai is the Executive Chairman of the Board effective 1 April 2018, Mr Jose Manuel MARTINEZ GUTIERREZ was the Group Chief Executive Officer until 31 May 2018 and Mr Anders Christian KRISTIANSEN is the Group Chief Executive Officer effective 1 June 2018. The role of the Board's Chairman is to provide leadership in order to enable the Board to discharge its function effectively. Furthermore, as an Executive Chairman, Dr OR plays a more active role in the next phase of the Group's strategy, which includes a very ambitious plan for China. The Group Chief Executive Officer focuses on managing and controlling the business of the Group. The roles of the Board's Executive 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 2018, 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 2018, 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 2018.

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.

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 2018;
- 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 2018 and 2017. A summary of which is as follows:

	2018 HK$ million	2017 HK$ million
Nature of the services		
Audit services	**16**	15
Other services	**1**	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 Board Committees, including the Audit Committee, the Nomination Committee, the Remuneration Committee, the Risk Management Committee and the General Committee.

Nomination Committee (continued)

The Nomination Committee is chaired by the Executive Chairman of the Board, and currently comprises three Independent Non-executive Directors and one Executive Director. 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 AGM 2017;
- Considered and recommended the re-designation of Dr Raymond OR Ching Fai from Independent Non-executive Chairman to Executive Chairman; and
- Identified and recommended Mr Anders Christian KRISTIANSEN to the Board for the appointment as Executive Director of the Company and Group Chief Executive Officer.

Remuneration Committee

Members:
Paul CHENG Ming Fun (Chairman)
Anders Christian KRISTIANSEN *(appointed effective 1 June 2018)*
Jürgen Alfred Rudolf FRIEDRICH
Carmelo LEE Ka Sze
Norbert Adolf PLATT
Jose Manuel MARTINEZ GUTIERREZ *(resigned effective 1 June 2018)*

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 their office or appointment;
- 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, including that the remuneration of (i) Dr Raymond OR Ching Fai as Executive Chairman of the Board and Executive Director of the Company effective 1 April 2018[1], and (ii) Mr Anders Christian KRISTIANSEN as Group Chief Executive Officer and Executive Director of the Company effective 1 June 2018[2];
- Reviewed and recommended the compensation payable to Executive Director and senior management for loss or termination of their office to ensure that it is determined consistent with contractual terms and is otherwise fair and not excessive;
- Reviewed and approved key performance indicators for the bonus opportunity of the Executive Directors and senior management for the financial year ending 30 June 2019;
- 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.

Notes:

1. As Executive Chairman of the Board and Executive Director of the Company, Dr Raymond OR Ching Fai is entitled to a salary of HK$11,000,000 per annum with annual guaranteed bonus of HK$4,500,000.

2. Mr Anders Christian KRISTIANSEN is entitled to a salary of EUR1,400,000 per annum with annual discretionary bonus opportunity of EUR1,400,000 of which the first 12 months are guaranteed, and a car allowance of EUR40,000 per annum.

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 twice 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.

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:
Raymond OR Ching Fai *(effective 1 April 2018)*
Anders Christian KRISTIANSEN *(appointed effective 1 June 2018)*
Thomas TANG Wing Yung
Jose Manuel MARTINEZ GUTIERREZ *(resigned effective 1 June 2018)*

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 three Executive Directors. The General Committee met nine 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 equities trading account of the Company;
- Approved the closing of bank accounts of the Company;
- Approved the change of bank authorized signatories;
- Approved certain banking facilities; and
- Approved the change of the Company's registered place of business in Hong Kong.

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 in 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 2018 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:

(i) reviewed the Risk Registers of relevant business units across the Group;
(ii) assessed and documented risks in the Risk Registers based on the methodologies and the risk parameters stated in the Risk Management Policy; and
(iii) 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".

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 2018 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 requisitionist(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.

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 2017 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 2017 AGM. Tricor Secretaries Limited, the Company's branch share registrar in Hong Kong, was appointed as the scrutineer for voting by poll at the 2017 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.

Shareholders' rights and investor relations (continued)

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.

Conferences and NDRs attended in FY17/18

Date	Event	Organizer	Location
September 2017	FY16/17 Post Final Results Roadshow	HSBC	Hong Kong Singapore London
		J.P. Morgan	Boston London
November 2017	Morgan Stanley Sixteenth Annual Asia Pacific Summit	Morgan Stanley	Singapore
March 2018	FY17/18 Post Interim Results Roadshow	UBS	Hong Kong Boston New York London

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
Depositary	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 for FY17/18 will be 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 2018.

Principal activities

The Company is an investment holding company. The activities of the principal subsidiaries are shown in note 33 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 73 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. As the Group recorded a loss for the year ended 30 June 2018, the Directors have not recommended the distribution of a final dividend for the year ended 30 June 2018 (FY16/17: 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 77 of this Annual Report and in note 32 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 FY17/18" and "Management discussion and analysis" on pages 8 to 13, pages 16 to 20 and pages 24 to 35 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 Sustainability Report of the Company. A summary of the Sustainability Report is set out in the section headed "Sustainability" on pages 38 to 42 of this Annual Report. Full version of the Sustainability Report of the Company for FY17/18 will be available on the Company's website at http://www.esprit.com/sustainability no later than three months after the publication of this Annual Report.

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") or the share option scheme adopted on 10 December 2009 (the "2009 Share Option Scheme").

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 notes 11 and 23 to the consolidated financial statements.

Principal subsidiaries

Particulars of the Company's principal subsidiaries as at 30 June 2018 are set out in note 33 to the consolidated financial statements.

Charitable donations

During the year, the Group made charitable donations totaling HK$0.7 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 sections of "Share option schemes" and "Share award scheme" below.

Directors

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

Executive Directors

Dr Raymond OR Ching Fai (Executive Chairman)
(re-designated effective 1 April 2018)
Anders Christian KRISTIANSEN (Group Chief Executive Officer)
(appointed effective 1 June 2018)
Thomas TANG Wing Yung (Group Chief Financial Officer)
Jose Manuel MARTINEZ GUTIERREZ
(Group Chief Executive Officer)
(stepped down effective 1 June 2018)

Non-executive Director

Jürgen Alfred Rudolf FRIEDRICH

Independent Non-executive Directors

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. This year, Mr Paul CHENG Ming Fun and Dr José María CASTELLANO RIOS will retire by rotation at the forthcoming AGM. Mr CHENG, being eligible, has offered himself for re-election while Dr CASTELLANO will not stand for re-election after his retirement by rotation. Accordingly, Dr CASTELLANO will retire as an Independent Non-executive Director of the Company with effect from the conclusion of the forthcoming AGM. Furthermore, under bye-law 86(2) of the Company's Bye-laws, any Director appointed during the year to fill a casual vacancy or as an addition to the existing board should retire at the first general meeting after his appointment. Accordingly, Mr Anders Christian KRISTIANSEN will also retire at the forthcoming AGM and being eligible, offer himself for election. 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-election/election. None of the Directors standing for re-election/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 sections of "Share option schemes" and "Share award scheme" below respectively. Information about the remuneration policy of the Group is set out in the section headed "Corporate governance report" on pages 46 to 54 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 2018, 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 Director	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
Raymond OR Ching Fai	Beneficial owner (Note 1)	3,000,000	8,450,000	11,450,000	0.60%
Anders Christian KRISTIANSEN	Beneficial owner	-	8,000,000	10,000,000	0.52%
	Beneficiary of a trust under the Share Award Scheme	2,000,000	-		
Thomas TANG Wing Yung	Beneficial owner	447,844	2,900,000	3,852,274	0.20%
	Beneficiary of a trust under the Share Award Scheme	504,430	-		
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	2.41%
	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:
1. The interests of 200,000 shares were held jointly by Dr Raymond OR Ching Fai and his spouse, Mrs OR WONG Lai Ning.
2. The shares were held jointly by Mr Paul CHENG Ming Fun and his spouse, Mrs Janet Mary CHENG.
3. The shares were deemed to be held by the spouse of Mr Paul CHENG Ming Fun, Mrs Janet Mary CHENG.
4. 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.
5. The shares were held by the spouse of Mr Jürgen Alfred Rudolf FRIEDRICH, Mrs Anke Beck FRIEDRICH.
6. 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.
7. All interests disclosed above represent long position in the shares and underlying shares of the Company.

Save as disclosed above, as at 30 June 2018, 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:

					Number of share options				
	Date of grant (dd/mm/yyyy)	Exercise price (HK$)	Vesting date (dd/mm/yyyy)	Exercise period (dd/mm/yyyy)	As at 01/07/2017	Granted	Exercised	Lapsed	As at 30/06/2018
Employees	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					**300,000**	**-**	**-**	**300,000**	**-**

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

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:

					Number of share options				
	Date of grant (dd/mm/yyyy)	Exercise price (HK$)	Vesting date (dd/mm/yyyy)	Exercise period (dd/mm/yyyy)	As at 01/07/2017	Granted	Exercised	Lapsed	As at 30/06/2018
Directors									
Raymond OR Ching Fai	30/06/2014	11.00	30/06/2015	30/06/2015 - 29/06/2024	450,000	-	-	-	450,000
	25/06/2018	2.66	25/06/2021	25/06/2021 - 24/06/2028	-	8,000,000	-	-	8,000,000
	In aggregate				450,000	8,000,000	-	-	8,450,000
Anders Christian KRISTIANSEN	25/06/2018	2.66	25/06/2021	25/06/2021 - 24/06/2028	-	8,000,000	-	-	8,000,000
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

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 01/07/2017	Granted	Exercised	Lapsed	As at 30/06/2018
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	1,600,000	-	-	100,000	1,500,000
	27/09/2011	8.76	27/09/2014	27/09/2014 - 26/09/2021	4,050,000	-	-	150,000	3,900,000
	12/12/2012	12.32	12/12/2015	12/12/2015 - 11/12/2022	2,815,000	-	-	300,000	2,515,000
	11/03/2013	10.04	11/03/2016	11/03/2016 - 10/03/2023	4,719,000	-	-	1,002,000	3,717,000
			11/03/2017	11/03/2017 - 10/03/2023	1,573,000	-	-	334,000	1,239,000
			11/03/2018	11/03/2018 - 10/03/2023	1,573,000	-	-	334,000	1,239,000
	04/11/2013	14.18	04/11/2016	04/11/2016 - 03/11/2023	6,780,000	-	-	1,175,000	5,605,000
			04/11/2017	04/11/2017 - 03/11/2023	660,000	-	-	100,000	560,000
			04/11/2018	04/11/2018 - 03/11/2023	660,000	-	-	100,000	560,000
	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	100,000	-	-	-	100,000
			31/10/2017	31/10/2017 - 30/10/2024	7,195,000	-	-	1,075,000	6,120,000
			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	7,650,000	-	-	1,850,000	5,800,000
			13/10/2019	13/10/2019 - 12/10/2025	600,000	-	-	300,000	300,000
			13/10/2020	13/10/2020 - 12/10/2025	600,000	-	-	300,000	300,000
	23/12/2015	8.07	13/10/2018	13/10/2018 - 12/10/2025	125,000	-	-	-	125,000

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 01/07/2017	Granted	Exercised	Lapsed	As at 30/06/2018
Employees (continued)	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	6.87	31/10/2019	31/10/2019 - 30/10/2026	6,100,000	-	-	700,000	5,400,000
	07/11/2017	4.65	07/11/2020	07/11/2020 - 06/11/2027	-	6,790,000	-	50,000	6,740,000
			07/11/2021	07/11/2021 - 06/11/2027	-	230,000	-	-	230,000
			07/11/2022	07/11/2022 - 06/11/2027	-	230,000	-	-	230,000
	25/06/2018	2.66	25/06/2021	25/06/2021 - 24/06/2028	-	9,500,000	-	-	9,500,000
	In aggregate				48,080,000	16,750,000	-	8,370,000	56,460,000
Other	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
Total					**57,940,000**	**32,750,000**	**-**	**8,370,000**	**82,320,000**

Notes:
1. The closing price of the shares of the Company immediately before the share options granted on 7 November 2017 and 25 June 2018 were HK$4.67 and HK$2.47 respectively.
2. 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 01/07/2017	Granted	Vested	Lapsed	As at 30/06/2018
Directors							
Anders Christian KRISTIANSEN	22/06/2018	22/06/2021	–	2,000,000	–	–	2,000,000
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
	03/10/2017	03/10/2019	–	67,630	–	–	67,630
	03/10/2017	03/10/2020	–	67,630	–	–	67,630
	In aggregate		717,014	135,260	347,844	–	504,430
Employees	29/04/2016	13/10/2017	2,276,796	–	1,966,899	309,897	–
	31/10/2016	31/10/2018	1,737,731	–	–	242,592	1,495,139
	31/10/2016	31/10/2019	1,737,731	–	–	242,592	1,495,139
	03/10/2017	03/10/2019	–	820,035	–	48,004	772,031
	03/10/2017	03/10/2020	–	820,035	–	48,004	772,031
	In aggregate		5,752,258	1,640,070	1,966,899	891,089	4,534,340
Other	29/04/2016	13/10/2017	758,932	–	758,932	–	–
	31/10/2016	31/10/2018	655,526	–	–	–	655,526
	31/10/2016	31/10/2019	655,526	–	–	–	655,526
	03/10/2017	03/10/2019	–	327,318	–	–	327,318
	03/10/2017	03/10/2020	–	327,318	–	–	327,318
	In aggregate		2,069,984	654,636	758,932	–	1,965,688
Total			**8,539,256**	**4,429,966**	**3,073,675**	**891,089**	**9,004,458**

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 2018, 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
Marathon Asset Management LLP (Note 1)	Investment manager	236,261,538	12.51%	–	–
Total Market Limited (Note 2)	Beneficial owner	211,822,656	11.22%	–	–
Claudine Lauren YING (Note 2)	Interest in a controlled corporation	211,822,656	11.22%	–	–
Eileen YING (Note 2)	Interest in a controlled corporation	211,822,656	11.22%	–	–
Massachusetts Financial Services Company (Note 3)	Investment manager	210,307,519	11.14%	–	–
Sun Life of Canada (U.S.) Financial Services Holdings, Inc. (Note 3)	Interest in a controlled corporation	210,307,519	11.14%	–	–
Sun Life Financial, Inc. (Note 3)	Investment manager	210,307,519	11.14%	–	–

Notes:
1. 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) Limited respectively.
2. Total Market Limited is 50% and 50% owned by Ms Claudine Lauren YING and Ms Eileen YING respectively.
3. Massachusetts Financial Services Company ("MFS") is a subsidiary of Sun Life of Canada (U.S.) Financial Services Holdings, Inc. ("SLC"), which is a subsidiary of Sun Life Financial, Inc. ("SLF"). Accordingly, SLC and SLF were deemed to be interested in the shares held by MFS and its direct and indirect subsidiaries.

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 2018 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

During the year ended 30 June 2018, the Company repurchased a total of 56,963,000 shares of the Company on the Stock Exchange at an aggregate consideration (excluding expenses) of approximately HK$234 million. All the repurchased shares were subsequently canceled.

Particulars of the repurchases are as follows:

		Purchase price per share	
	Number of shares repurchased	Highest (HK$)	Lowest (HK$)
2017			
August	13,351,400	4.47	4.06
September	11,563,800	4.80	4.35
October	7,182,200	4.30	4.15
November	6,421,200	4.30	3.97
December	4,019,100	4.23	3.97
2018			
January	14,425,300	4.23	3.39

Save as disclosed above and 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.

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 31 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 46 to 54 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
Executive Chairman

Hong Kong, 18 September 2018

05.3 Directors and senior management profile

Executive Directors

Dr Raymond OR Ching Fai, aged 68, is Executive Chairman of the Board and Executive Director of the Company. He was appointed as Independent Non-executive Director of the Company in March 1996 and became Independent Non-executive Chairman of the Board since June 2012 until his re-designation as Executive Chairman and Executive Director effective 1 April 2018. He is also the Chairman of the Nomination Committee and a member of the General Committee of the Board, a director of certain subsidiaries 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 a non-executive director and non-executive chairman of China Strategic Holdings Limited. He is also 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 of Hong Kong Limited (the "Stock Exchange"). Dr OR 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. He was also the former vice chairman and independent non-executive director of G-Resources Group Ltd. and the former deputy chairman and non-executive director of Aquis Entertainment Limited (a company listed on the Australian Securities Exchange). He was the former chief executive officer of China Strategic Holdings Limited until he stepped down on 18 January 2018 and was executive director and executive chairman until his re-designation on 1 April 2018.

Anders Christian KRISTIANSEN, aged 51, has been appointed as Executive Director of the Company and Group Chief Executive Officer effective 1 June 2018. 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. Prior to joining Esprit, he was an industrial advisor for a global private equity fund, Permira. He was previously the chief executive officer and director of New Look, a global fast fashion apparel company based in London, from January 2013 to September 2017. Under his leadership, New Look transformed its business model from a traditional high street retailer to a strong omnichannel player, with an enhanced focus on brand building. Mr KRISTIANSEN was instrumental to the successful execution of a 5-year strategic plan. Prior to this role, he has held various senior executive roles in the Bestseller Fashion Group China, Staples Inc. in China, and in Lyreco, an office supplies company, where he managed the business in Europe and then in Asia Pacific.

Thomas TANG Wing Yung, aged 63, 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 37 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

Paul CHENG Ming Fun, aged 81, 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 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 was an independent non-executive director of Global Logistic Properties Limited until 23 January 2018. He is currently an Honorary Steward of the Hong Kong Jockey Club.

Jürgen Alfred Rudolf FRIEDRICH, aged 80, 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 71, 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 Industria De Diseño Textil, S.A., 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 76, 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 58, 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 convenor and member of the Financial Reporting Review Panel of the Financial Reporting Council of Hong Kong and 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. Mr LEE was a member of the SFC (HKEC Listing) Committee until 1 April 2018.

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.

Norbert Adolf PLATT, aged 71, 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 Simplo 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

Various businesses and functions of the Company are respectively under the direct responsibilities of the Executive Directors who are regarded as senior management of the Company.

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 73 to 115, which comprise:

- the consolidated statement of financial position as at 30 June 2018;
- 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 2018, 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 and provision for closure costs of operations in Australia and New Zealand
- Valuation of inventory at net realizable value
- Deferred tax assets and income taxes

Key Audit Matter	How our audit addressed the Key Audit Matter
China business impairment assessment	
Refer to note 13 "Intangible assets", Accounting Policies notes 2(g) & 2(h) and Critical Accounting Estimates and Judgments in note 4(b) to the Consolidated Financial Statements In 2010, a goodwill arose from the acquisition of the Esprit China business (the "China goodwill") and 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 its wholesale customer base and closure of non-profitable retail stores in China. 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"). During the year, management has concluded and made full impairment losses of HK$664 million and HK$130 million for the entire carrying values of China goodwill and the wholesale customer relationships respectively. We have focused on this area since the determination of, whether or not impairment charges in respect of goodwill and other intangible assets are necessary, involves significant management judgments.	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 key inputs to the latest approved business plans. We also compared historic actual results to those budgeted to assess the quality of management's forecasting. Our audit procedures also included an assessment of: • 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 economic growth forecast. We found these were within acceptable industry benchmarks. We have also focused on management's key assumptions used in the business plans. The forecast performance covered financial projections 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, Esprit China and Group's historical performance and economic growth forecasts. 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. We have assessed the relevant disclosures in the financial statements and considered that these were adequate. We consider that the management's judgments and assumptions used in the calculations of recoverable value are supportable based on the available evidence.

Key Audit Matter	How our audit addressed the Key Audit Matter
Provision for store closures and leases and provision for closure costs of operations in Australia and New Zealand *Refer to note 21 "Provision for store closures and leases", note 22 "Provision for store closure costs of operations in Australia and New Zealand" and Accounting Policies note 2(q) and Critical Accounting Estimates and Judgments in note 4(f) to the Consolidated Financial Statements* 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. 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. 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). During the year, management has decided to close down all the operations in Australia and New Zealand and has made a provision of HK$129 million for costs expected to be incurred on these store closures, including mainly unavoidable lease obligations, staff severance and retention costs and impairment of property, plant and equipment. We focused on this area because there are significant judgments and estimates made by management in determining such provisions.	We obtained management's list of stores and their assessment of those stores requiring provisions. We checked whether the stores in the portfolio were considered in the process. 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: • 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. 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. With respect to the costs to be incurred in closing down the operations in Australia and New Zealand, comprising mainly unavoidable lease obligations, staff severance and retention costs and impairment of property, plant and equipment, we compared management's assessment against the rental obligations and latest correspondence with landlords, assessed the reasonableness of the provision for staff severance and retention costs with reference to employment contracts and assessed the impairment of property, plant and equipment with reference to historical sales performance, respectively. We consider that the provisions made by management in respect of store closures and onerous leases and closures cost of operations in Australia and New Zealand are supportable based on the available evidence.
Valuation of inventory at net realizable value *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* The net inventory balance at 30 June 2018 was HK$2,296 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. We focused on this area due to the inherent complexity and judgment in estimating the amount of inventory provisions required.	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. 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. We consider the estimates made by management in respect of the inventory provisions are supportable based on the available evidence.

Key Audit Matter	How our audit addressed the Key Audit Matter
Deferred tax assets and income taxes	
Refer to notes 8 and 24 to the Consolidated Financial Statements and Principal Accounting Policies notes 2(o) and Accounting Estimates and Judgments in note 4(e) to the Consolidated Financial Statements As at 30 June 2018, the deferred tax assets balance was HK$524 million. 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. Management has estimated the likelihood of the realization of these deferred tax assets based on the latest business budget and projections has concluded that write-down of deferred tax assets by HK$281 million is required during the year as the likelihood of the realization of these deferred tax assets is low due to continuous decline of the business performance in recent years. We focused on this area because of the inherent uncertainties involved in forecasting future taxable profits. 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.	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 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 tax losses could be carried forward and utilized before their expiry dates. We considered that the assumptions and judgments made by management were supported by sufficient supporting evidence. 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. We consider the assumptions and judgments made by management in the provisions for income tax are supportable based on the available evidence.

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.

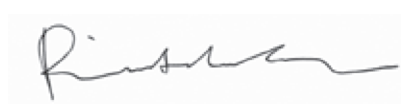
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Consolidated Financial Statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely 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 Ms Shia Yuen Yee.



PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 18 September 2018

06.2 Consolidated income statement

	Notes	2018 HK$ million	2017 HK$ million
		For the year ended 30 June	
Revenue	5	**15,455**	15,942
Cost of goods sold		**(7,534)**	(7,712)
Gross profit		**7,921**	8,230
Staff costs	11	**(3,087)**	(2,896)
Occupancy costs		**(2,526)**	(2,496)
Logistics expenses		**(1,029)**	(957)
Marketing and advertising expenses		**(900)**	(814)
Depreciation		**(528)**	(518)
Impairment of goodwill	13	**(664)**	-
Impairment of customer relationships	13	**(130)**	-
Provision for store closures and leases, net	21	**(152)**	(12)
(Impairment of)/reversal of impairment of property, plant and equipment		**(90)**	8
Provision for closure costs of operations in Australia and New Zealand	22	**(129)**	-
Gain on disposal of a property	29	**16**	100
Gain on disposal of a subsidiary	30	**-**	33
Other operating costs		**(955)**	(780)
Operating loss (LBIT)	6	**(2,253)**	(102)
Interest income		**58**	44
Finance costs	7	**(31)**	(48)
Loss before taxation		**(2,226)**	(106)
Taxation (charge)/credit	8	**(328)**	173
(Loss)/profit attributable to shareholders of the Company		**(2,554)**	67
(Loss)/earnings per share			
– Basic and diluted	10	**HK$(1.35)**	HK$0.03

The notes on pages 79 to 115 form an integral part of these consolidated financial statements.

06.3 Consolidated statement of comprehensive income

	For the year ended 30 June	
	2018 HK$ million	2017 HK$ million
(Loss)/profit attributable to shareholders of the Company	**(2,554)**	67
Other comprehensive income		
Item that will not be reclassified to profit or loss:		
Remeasurements of retirement defined benefit obligations	**(4)**	-
Items that may be reclassified subsequently to profit or loss:		
Fair value gain/(loss) on cash flow hedge, net of tax	**152**	(77)
Exchange translation	**114**	138
	262	61
Total comprehensive income for the year attributable to shareholders of the Company, net of tax	**(2,292)**	128

The notes on pages 79 to 115 form an integral part of these consolidated financial statements.

06.4 Consolidated statement of financial position

	Notes	2018 HK$ million	2017 HK$ million
		As at 30 June	
Non-current assets			
Intangible assets	13	**2,063**	2,851
Property, plant and equipment	14	**1,571**	1,900
Investment properties	15	**24**	23
Other investments		**7**	7
Debtors, deposits and prepayments	17	**140**	174
Deferred tax assets	24	**524**	822
		4,329	5,777
Current assets			
Inventories	16	**2,296**	2,540
Debtors, deposits and prepayments	17	**1,418**	1,438
Tax receivable		**143**	359
Cash, bank balances and deposits	18	**4,521**	5,221
		8,378	9,558
Current liabilities			
Creditors and accrued charges	20	**2,919**	3,046
Provision for store closures and leases	21	**397**	393
Tax payable		**57**	28
		3,373	3,467
Net current assets		**5,005**	6,091
Total assets less current liabilities		**9,334**	11,868
Equity			
Share capital	19	**189**	194
Reserves		**8,837**	11,349
Total equity		**9,026**	11,543
Non-current liabilities			
Retirement defined benefit obligations	23	**26**	-
Deferred tax liabilities	24	**282**	325
		308	325
		9,334	11,868

Approved by the Board of Directors on 18 September 2018.

ANDERS CHRISTIAN **KRISTIANSEN**
Executive Director

THOMAS **TANG** WING YUNG
Executive Director

The notes on pages 79 to 115 form an integral part of these consolidated financial statements.

06.5 Consolidated statement of cash flows

	Notes	2018 HK$ million	2017 HK$ million
		For the year ended 30 June	
Cash flows from operating activities			
Cash used in operations	25	**(418)**	(81)
Hong Kong profits tax paid, net		**(2)**	(3)
Overseas tax refunded/(paid), net		**122**	(63)
Net cash used in operating activities		**(298)**	(147)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(305)**	(257)
Proceeds from disposal of plant and equipment	25	**4**	23
Net proceeds from disposal of a property	25	**34**	122
Net cash inflow on disposal of a subsidiary	30	**–**	35
Interest received		**58**	44
Net (increase)/decrease in bank deposits with maturities of more than three months		**(489)**	1,705
Net cash (used in)/generated from investing activities		**(698)**	1,672
Cash flows from financing activities			
Repurchase of shares	19a	**(237)**	–
Purchase of shares for Share Award Scheme	19c	**(12)**	(33)
Net cash used in financing activities		**(249)**	(33)
Net (decrease)/increase in cash and cash equivalents		**(1,245)**	1,492
Cash and cash equivalents at beginning of year		**5,070**	3,485
Effect of change in exchange rates		**54**	93
Cash and cash equivalents at end of year		**3,879**	5,070
Analysis of balances of cash and cash equivalents			
Bank balances and cash		**2,472**	3,216
Bank deposits		**2,049**	2,005
Cash, bank balances and deposits	18	**4,521**	5,221
Less: bank deposits with maturities of more than three months		**(642)**	(151)
		3,879	5,070

The notes on pages 79 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 2018

	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	Remeasurements of retirement defined benefit obligations HK$ million	Contributed surplus HK$ million	Translation reserve HK$ million	Capital reserve HK$ million	Retained profits HK$ million	Total HK$ million
At 1 July 2017	194	8,220	(56)	913	(103)	-	7	(1,033)	1	3,400	11,543
Exchange translation	-	-	-	-	-	-	-	114	-	-	114
Fair value loss on cash flow hedge, net of tax											
- net fair value loss	-	-	-	-	(45)	-	-	-	-	-	(45)
- transferred to inventories	-	-	-	-	266	-	-	-	-	-	266
- deferred tax effect	-	-	-	-	(69)	-	-	-	-	-	(69)
Remeasurements of retirement defined benefit obligations	-	-	-	-	-	(4)	-	-	-	-	(4)
Loss attributable to shareholders of the Company	-	-	-	-	-	-	-	-	-	(2,554)	(2,554)
Total comprehensive income, net of tax	-	-	-	-	152	(4)	-	114	-	(2,554)	(2,292)
Transactions with owners											
Employee share-based compensation benefits	-	-	-	24	-	-	-	-	-	-	24
Repurchase of shares (Note 19(a))	(5)	(232)	-	-	-	-	-	-	-	-	(237)
Purchase of shares for Share Award Scheme (Note 19(c))	-	-	(12)	-	-	-	-	-	-	-	(12)
Vesting of shares for Share Award Scheme (Note 19(c))	-	-	21	(21)	-	-	-	-	-	-	-
Total transactions with owners	(5)	(232)	9	3	-	-	-	-	-	-	(225)
At 30 June 2018	189	7,988	(47)	916	49	(4)	7	(919)	1	846	9,026
Representing:											
Proposed final dividend											-
Balance after proposed final dividend											9,026
At 30 June 2018											9,026

The notes on pages 79 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	Remeasurements of retirement defined benefit obligations 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 inventories	-	-	-	-	(161)	-	-	-	-	-	(161)
- deferred tax effect	-	-	-	-	32	-	-	-	-	-	32
Remeasurements of retirement defined benefit obligations	-	-	-	-	-	-	-	-	-	-	-
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 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 79 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 2018

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, 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 18 September 2018.

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 2017:

IAS 7 (Amendments)	Disclosure Initiative
IAS 12 (Amendments)	Recognition of Deferred Tax Assets for Unrealised Losses
IFRS 12 (Amendments)	Disclosure of Interests in Other Entities

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") Interpretations and IFRS that have been issued but are not yet effective.

		Effective for accounting periods beginning on or after
IAS 19 (Amendments)	Plan Amendment, Curtailment or Settlement	1 January 2019
IAS 28 (Amendments)	Long-term Interests in Associates and Joint Ventures	1 January 2019
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 9 (Amendments)	Prepayment Features with Negative Compensation	1 January 2019
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 15 (Amendments)	Clarification of IFRS 15	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
IFRSs (Amendments)	Annual Improvements to IFRSs 2015-2017 Cycle	1 January 2019

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.

2. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

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.

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 intends to adopt the standard of IFRS 9 from 1 July 2018 without restatement of prior periods with any effects of implementation recognized as an adjustment to opening retained earnings. Management has assessed the impact of the new standard on the Group's financial statements and has not identified any material impact to the Group.

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 intends to adopt the standard using the modified retrospective approach by adjusting opening retained earnings when it adopts IFRS 15 effective 1 July 2018 without restatement of prior periods. Management has assessed the impact of the new standard on the Group's financial statements and has not identified any material impact to the Group.

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.

As at 30 June 2018, the Group had operating lease commitments of **HK$6,188 million** (Note 26). Upon adoption of IFRS 16 the majority of operating lease commitments will be recognized in the consolidated balance sheet as lease liabilities and right-of-use assets. The lease liabilities would subsequently be measured at amortized cost and the right-of-use asset will be depreciated on a straight-line basis during the lease term.

The Group does not intend to adopt the standard before its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

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.

2. Summary of significant accounting policies (continued)

(b) Subsidiaries (continued)

(i) Consolidation (continued)
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.

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 33(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.

2. Summary of significant accounting policies (continued)

(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.

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 and accumulated impairment losses. Amortization is calculated using the straight-line method over the expected life of the customer relationships. Customer relationships are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable (Note 2(h)).

(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.

2. Summary of significant accounting policies (continued)

(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.

(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, 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.

(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.

2. Summary of significant accounting policies (continued)

(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.

The Group also participates in defined benefit pension plan in a country in Europe. The asset or liability recognized in the statement of financial position in respect of the defined benefit pension plan is the present value of the defined benefit obligations at the end of the reporting period less the fair value of plan assets. The defined benefit obligations are calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligations is determined by discounting the estimated future cash outflows using interest rates of government bonds and high-quality corporate bonds.

The current service cost of the defined benefit plan, recognized in the income statement in employee benefit expense, except where included in the cost of an asset, reflects the increase in the defined benefit obligations results from employee service in the current year, benefit changes, curtailments and settlements.

Past-service costs are recognized immediately in the income statement. Changes in the present value of the defined benefit obligations resulting from plan amendments or curtailments are recognized immediately in the income statement as past service costs.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligations and the fair value of plan assets. This cost is included in employee benefit expense in the income statement.

Remeasurement arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

(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(c)) 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.

2. Summary of significant accounting policies (continued)

(q) Provisions (continued)

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 including eshop
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.

(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.

2. Summary of significant accounting policies (continued)

(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:

	2018 HK$ million	2017 HK$ million
Euro against US Dollar		
Impact on post-tax profit or loss: gain	**10**	11
Impact on total comprehensive income: (loss)	**(3)**	(14)
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.

3. Financial risk management and fair value (continued)

(a) Financial risk factors (continued)

(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 2018			
Creditors and accrued charges	**2,919**	**–**	**–**
At 30 June 2017			
Creditors and accrued charges	3,046	–	–

Note: No derivative financial instruments are included in creditors and accrued charges with a maturity less than 1 year (2017: HK$149 million).

(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 2018.

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 2018, the Group maintained a net cash position of **HK$4,521 million** (2017: HK$5,221 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 28).

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 2018. The Group appointed an independent professional valuer to conduct an external valuation of the Esprit trademarks as one corporate asset based on a value in use calculation as of 30 June 2018. The valuation uses cash flow projections based on financial estimates covering a five-year period, expected royalty rates deriving from the Esprit trademarks **4.5%** (2017: 3% to 5%) and a post-tax discount rate of **16.0%** (2017: 16.0%). The cash flows beyond the five-year period are extrapolated using a steady **3.0%** (2017: 3.0%) 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 and customer relationships

In accordance with IAS 36 "Impairment of Assets", the Group completed its annual impairment test for goodwill and customer relationships 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 and customer relationships 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 and customer relationships are allocated represents the lowest level within the entity at which the goodwill and customer relationships are monitored for internal management purposes. Goodwill and customer relationships are 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%** (2017: 12%). The estimated compound annual sales growth rate is expected to be **9%** (2017: 16%). Cash flows beyond the six-year period are extrapolated using a steady growth rate of **3%** (2017: 3%) which does not exceed the long term average growth rate in China market.

Management reviews the development of the operation and the business plan in China. The operating environment in China continues to be very challenging. The China operations have experienced significant decline in recent years. Based on the current year's assessment, impairment charges of **HK$664 million** was recognized for the remaining balance of the goodwill and **HK$130 million** was recognized for the remaining balance of the customer relationships relating to China. The assessment was made based on management's cash flow projections derived from the latest expected revenue growth and profitability of the China business and the China economy.

(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.

	2018 HK$ million	2017 HK$ million
Revenue from external customers		
Germany	**5,281**	5,522
Rest of Europe	**4,199**	4,337
Asia Pacific	**1,674**	1,923
eshop	**4,169**	4,032
Licensing and others	**132**	128
	15,455	15,942

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 2018					
	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	2,660	2,031	1,560	4,169	–	10,420
Wholesale	2,621	2,168	114	–	–	4,903
Licensing and others	–	–	–	–	7,144	7,144
Total	5,281	4,199	1,674	4,169	7,144	22,467
Inter-segment revenue	–	–	–	–	(7,012)	(7,012)
Revenue from external customers						
Retail	2,660	2,031	1,560	4,169	–	10,420
Wholesale	2,621	2,168	114	–	–	4,903
Licensing and others	–	–	–	–	132	132
Total	5,281	4,199	1,674	4,169	132	15,455
Segment results						
Retail	(569)	(204)	(420)	660	–	(533)
Wholesale	624	202	15	–	(1)	840
Licensing and others	–	–	–	–	(1,766)	(1,766)
	55	(2)	(405)	660	(1,767)	(1,459)
Impairment of goodwill (Note)						
Retail	–	–	(37)	(511)	–	(548)
Wholesale	–	–	(116)	–	–	(116)
Total	–	–	(153)	(511)	–	(664)
Impairment of customer relationships (Note)						
Wholesale	–	–	(130)	–	–	(130)
EBIT/(LBIT)	55	(2)	(688)	149	(1,767)	(2,253)
Interest income						58
Finance costs						(31)
Loss before taxation						(2,226)

Note: An impairment charge of **HK$664 million** for the China goodwill and an impairment charge of **HK$130 million** for customer relationships were recognized during the year ended 30 June 2018 (Note 13).

5. Revenue and segment information (continued)

	For the year ended 30 June 2018					
	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
Capital expenditure						
Retail	32	69	31	21	10	163
Wholesale	7	6	1	–	1	15
Licensing and others	–	1	8	–	118	127
Total	39	76	40	21	129	305
Depreciation						
Retail	72	67	47	8	13	207
Wholesale	12	13	2	–	1	28
Licensing and others	–	–	–	–	293	293
Total	84	80	49	8	307	528
Impairment of property, plant and equipment						
Retail	50	17	8	–	–	75
Licensing and others	–	–	–	–	15	15
Total	50	17	8	–	15	90
Additional/(write-back of) provision for store closures and leases, net						
Retail	124	(1)	29	–	–	152
Total	124	(1)	29	–	–	152
Gain on disposal of a property						
Retail	–	–	(16)	–	–	(16)
Total	–	–	(16)	–	–	(16)
Provision for closure costs of operations in Australia and New Zealand						
Retail	–	–	122	2	–	124
Licensing and others	–	–	–	–	5	5
Total	–	–	122	2	5	129

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)

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
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)

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

	2018 HK$ million	2017 HK$ million
Germany (Note 1)	**5,281**	5,522
Rest of Europe		
Benelux	**1,332**	1,335
France	**675**	753
Switzerland	**634**	699
Austria	**535**	536
Spain	**211**	201
Finland	**196**	182
Sweden	**183**	193
Italy	**121**	108
Poland	**65**	58
United Kingdom	**63**	48
Denmark	**52**	53
Others (Note 2)	**132**	171
	4,199	4,337
Asia Pacific		
China	**585**	691
Australia and New Zealand	**241**	272
Singapore	**222**	216
Hong Kong	**173**	264
Malaysia	**155**	167
Taiwan	**151**	163
Macau	**73**	86
Others (Note 3)	**74**	64
	1,674	1,923
eshop		
Germany	**2,479**	2,385
Benelux	**562**	550
France	**231**	224
Austria	**207**	199
Switzerland	**204**	227
China	**175**	180
United Kingdom	**49**	46
Denmark	**38**	36
Sweden	**36**	32
Finland	**28**	27
Australia and New Zealand	**21**	25
Spain	**18**	15
Others	**121**	86
	4,169	4,032
Licensing and others		
Rest of Europe (Note 4)	**101**	103
Germany	**31**	25
	132	128
	15,455	15,942

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

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, India 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:

	2018 HK$ million	2017 HK$ million
Hong Kong	**19**	18
Germany	**1,256**	1,512
Other countries (Note)	**2,383**	3,244
	3,658	4,774

Note: Non-current assets located in other countries include intangible assets of **HK$2,063 million** (2017: HK$2,851 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 (2017: less than 10%).

6. Operating loss (LBIT)

	2018 HK$ million	2017 HK$ million
LBIT is arrived at after charging and (crediting) the following:		
Staff costs	**3,087**	2,896
Auditor's remuneration	**16**	15
Depreciation	**528**	518
Amortization of customer relationships	**30**	59
Impairment of goodwill (Note 13)	**664**	-
Impairment of customer relationships (Note 13)	**130**	-
Loss on disposal of plant and equipment	**11**	12
Impairment of/(reversal of impairment of) property, plant and equipment	**90**	(8)
Provision for store closures and leases, net (Note 21)	**152**	12
Provision for closure costs of operations in Australia and New Zealand (Note 22)	**129**	-
Gain on disposal of a property (Note 29)	**(16)**	(100)
Gain on disposal of a subsidiary (Note 30)	**-**	(33)
Occupancy costs		
– operating lease charge (including variable rental of **HK$177 million** (2017: HK$184 million))	**1,986**	1,968
– other occupancy costs	**540**	528
Fair value hedges:		
– exchange loss on hedged items	**-**	1
Other net exchange gains	**(31)**	(37)
Additional/(write-back of) provision for obsolete inventories, net	**96**	(49)
Provision for impairment of trade debtors, net	**54**	73

7. Finance costs

	2018 HK$ million	2017 HK$ million
Imputed interest on financial assets and financial liabilities	**31**	48

8. Taxation

	2018 HK$ million	2017 HK$ million
Current tax		
Hong Kong profits tax		
Provision for current year	**-**	2
Overseas taxation		
Provision for current year	**84**	24
Under/(over)-provision for prior years	**49**	(10)
	133	16
Deferred tax (Note 24)		
Current year net charge/(credit)	**195**	(198)
Effect of changes in tax rates	**-**	9
Taxation charge/(credit)	**328**	(173)

Hong Kong profits tax is calculated at **16.5%** (2017: 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 loss 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 **-14.7%** (2017: 163.8%).

	2018 HK$ million	2017 HK$ million
Loss before taxation	**(2,226)**	(106)
Tax calculated at applicable tax rates	**(477)**	(41)
Expenses not deductible for tax purposes	**32**	29
Non-taxable income	**(11)**	(34)
Tax effect of tax losses not recognized	**463**	71
Temporary differences not recognized	**(4)**	(8)
Utilization of previously unrecognized tax losses	**(6)**	(4)
Derecognition/(recognition) of previously recognized/ unrecognized tax losses, net	**281**	(48)
Other deferred tax effects from prior years	**1**	(35)
Tax effect on deferred tax balances due to changes in income tax rates	**-**	9
Under/(over)-provision for prior years, net	**49**	(10)
Tax on undistributed earnings	**-**	(102)
Taxation charge/(credit)	**328**	(173)

During the year, the Group wrote down deferred tax assets in association with the Germany operations due to continued decline of the business in recent years.

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 2018 (2017: nil).

10. (Loss)/earnings per share

Basic

Basic loss or earnings per share is calculated by dividing the loss or 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.

	2018	2017
(Loss)/profit attributable to shareholders of the Company (HK$ million)	**(2,554)**	67
Number of ordinary shares in issue at 1 July (million)	**1,944**	1,944
Adjustment for shares repurchased (million)	**(38)**	–
Adjustment for shares held for Share Award Scheme (million)	**(8)**	(6)
Weighted average number of ordinary shares in issue less shares held for Share Award Scheme (million)	**1,898**	1,938
Basic (loss)/earnings per share (HK$ per share)	**(1.35)**	0.03

Diluted

Diluted loss or earnings per share is calculated based on dividing the loss or 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) adjusted by the dilutive effect of share options and awarded shares.

	2018	2017
(Loss)/profit attributable to shareholders of the Company (HK$ million)	**(2,554)**	67
Weighted average number of ordinary shares in issue less shares held for Share Award Scheme (million)	**1,898**	1,938
Adjustments for share options and awarded shares (million)	**–**	3
Weighted average number of ordinary shares for diluted earnings per share (million)	**1,898**	1,941
Diluted (loss)/earnings per share (HK$ per share)	**(1.35)**	0.03

Diluted loss per share for the year ended 30 June 2018 was the same as the basic loss per share since the share options and awarded shares had anti-dilutive effect.

11. Staff costs (including directors' emoluments)

	2018 HK$ million	2017 HK$ million
Salaries and wages	**2,353**	2,276
Social security costs and other staff costs	**622**	502
Pensions costs of defined contribution plans	**61**	67
Pensions costs of defined benefit plan (Note 23)	**27**	–
Employee share-based compensation benefits	**24**	51
	3,087	2,896

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 (2017: 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[9] HK$'000	Basic salaries, allowance and benefits in kind HK$'000	Bonuses[10] HK$'000	Employee share-based compensation benefits HK$'000	Provident fund contributions/ retirement benefit costs HK$'000	2018 Total emoluments HK$'000
Jose Manuel **MARTINEZ GUTIERREZ**[5,8]	**–**	**14,434 (EUR1,545,788)**	**13,880 (EUR1,486,478)**	**6,132 (EUR656,670)**	**18 (EUR1,928)**	**34,464 (EUR3,690,864)**
Anders Christian **KRISTIANSEN**[5,7]	**–**	**1,121 (EUR120,000)**	**–**	**79 (EUR8,498)**	**–**	**1,200 (EUR128,498)**
Thomas **TANG** Wing Yung[6]	**–**	**8,085**	**2,932**	**1,983**	**18**	**13,018**
Raymond **OR** Ching Fai[2,4]	**1,613**	**2,751**	**–**	**39**	**–**	**4,403**
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 2018	**6,498**	**26,391**	**16,812**	**8,233**	**36**	**57,970**

Name of Director	Fees[9] HK$'000	Basic salaries, allowance and benefits in kind HK$'000	Bonuses[10] 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

1 Non-executive Director
2 Independent Non-executive Director (Dr Raymond OR Ching Fai had been an Independent Non-executive Director until his re-designation as Executive Chairman of the Board and Executive Director effective 1 April 2018)
3 Members of the Audit Committee
4 Members of the Nomination Committee
5 Members of the Remuneration Committee
(a) From 1 July 2014 to 31 May 2018 – Mr Paul CHENG Ming Fun (Chairman), Mr Jose Manuel MARTINEZ GUTIERREZ, Mr Jürgen Alfred Rudolf FRIEDRICH, Mr Norbert Adolf PLATT and Mr Carmelo LEE Ka Sze
(b) From 1 June 2018 to 30 June 2018 – Mr Paul CHENG Ming Fun (Chairman), Mr Anders Christian KRISTIANSEN, Mr Jürgen Alfred Rudolf FRIEDRICH, Mr Norbert Adolf PLATT and Mr Carmelo LEE Ka Sze
6 Members of the Risk Management Committee
7 Mr Anders Christian KRISTIANSEN has been appointed as Executive Director effective 1 June 2018
8 Mr Jose Manuel MARTINEZ GUTIERREZ has stepped down as Executive Director effective 1 June 2018
9 The amount includes directors' fees of **HK$5.9 million** (2017: HK$6.5 million) paid to Independent Non-executive Directors
10 During the current year, there was **HK$16.8 million** discretionary bonus to the directors (2017: HK$8.6 million)

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 (2017: 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 (2017: 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 (2017: 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 (2017: 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** (2017: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining **three** (2017: three) individuals during the year are as follow:

	2018 HK$'000	2017 HK$'000
Salaries, housing and other allowances and benefits in kind	**23,106**	20,493
Bonuses	**16,170**	7,745
Employee share-based compensation benefits	**7,257**	9,557
Pensions costs of defined contribution plans	**8**	–
	46,541	37,795

The emoluments fell within the following bands:

	Number of individuals	
Emoluments band	**2018**	2017
HK$10,000,001 – HK$10,500,000	**–**	1
HK$11,000,001 – HK$11,500,000	**–**	1
HK$13,000,001 – HK$13,500,000	**1**	–
HK$13,500,001 – HK$14,000,000	**1**	–
HK$16,000,001 – HK$16,500,000	**–**	1
HK$19,500,001 – HK$20,000,000	**1**	–

13. Intangible assets

	Trademarks HK$ million	Goodwill HK$ million	Customer relationships HK$ million	Total HK$ million
Cost				
At 1 July 2017	**1,961**	**4,862**	**596**	**7,419**
Exchange translation	**14**	**191**	**24**	**229**
At 30 June 2018	**1,975**	**5,053**	**620**	**7,648**
Amortization and impairment				
At 1 July 2017	**-**	**4,128**	**440**	**4,568**
Exchange translation	**-**	**173**	**20**	**193**
Amortization charge	**-**	**-**	**30**	**30**
Impairment charge (Note)	**-**	**664**	**130**	**794**
At 30 June 2018	**-**	**4,965**	**620**	**5,585**
Net book value At 30 June 2018	**1,975**	**88**	**-**	**2,063**
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

Note: The operating environment in China continues to be very challenging. The China operations have experienced significant decline in recent years. Management has performed an updated impairment assessment based on the revised financial projection. Based on the assessment, impairment charges for the goodwill and customer relationships in association with the China operations of the Group were recognized, amounted to **HK$664 million** and **HK$130 million** respectively (Note 4(b)).

Trademarks

The trademarks are considered to have an indefinite useful life and were tested for impairment at 30 June 2018, as described in note 4(a). The recoverable amount of the Esprit trademarks as at 30 June 2018 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 2018 is presented below:

	2018				2017			
	eshop HK$ million	**Retail (excluding eshop) HK$ million**	**Wholesale HK$ million**	**Total HK$ million**	eshop HK$ million	Retail (excluding eshop) HK$ million	Wholesale HK$ million	Total HK$ million
China	**-**	**-**	**-**	**-**	496	35	113	644
Finland	**-**	**-**	**36**	**36**	-	-	36	36
Total	**-**	**-**	**36**	**36**	496	35	149	680

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 2017	21	-	163	3,122	442	3,384	28	113	7,273
Exchange translation	-	-	3	37	7	46	1	1	95
Additions	-	-	-	100	51	93	14	47	305
Transfer	-	-	-	15	74	20	-	(109)	-
Disposals	(14)	-	(15)	(283)	-	(153)	(8)	-	(473)
At 30 June 2018	7	-	151	2,991	574	3,390	35	52	7,200
Depreciation and impairment									
At 1 July 2017	-	-	36	2,553	177	2,589	18	-	5,373
Exchange translation	-	-	-	29	2	28	1	-	60
Depreciation charge for the year	-	-	5	175	36	305	7	-	528
Impairment charge	-	-	-	70	-	38	-	-	108
Disposals	-	-	(11)	(273)	-	(150)	(6)	-	(440)
At 30 June 2018	-	-	30	2,554	215	2,810	20	-	5,629
Net book value									
At 30 June 2018	7	-	121	437	359	580	15	52	1,571

	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 a subsidiary (Note 30)	-	-	(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 a subsidiary (Note 30)	-	-	(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

15. Investment properties

	2018 HK$ million	2017 HK$ million
At 1 July	**23**	19
Change in fair value of investment properties	**1**	4
At 30 June	**24**	23

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 2018 on an open market value basis at **HK$24 million** (2017: HK$23 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 HK$ million	Level 2 HK$ million	Level 3 HK$ million	Total HK$ million
Recurring fair value measurements:				
Assets				
Investment properties in PRC				
For the year ended 30 June 2018	**-**	**24**	**-**	**24**
For the year ended 30 June 2017	-	23	-	23

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

	2018 HK$ million	2017 HK$ million
Finished goods	**2,257**	2,468
Consumables	**38**	70
Raw materials	**1**	2
	2,296	2,540

17. Debtors, deposits and prepayments

	2018 HK$ million	2017 HK$ million
Trade debtors	**1,178**	1,426
Less: provision for impairment of trade debtors	**(204)**	(239)
	974	1,187
Deposits	**123**	144
Prepayments	**126**	159
Other debtors and receivables	**335**	122
	1,558	1,612
Non-current portion of deposits	**(82)**	(100)
Non-current portion of prepayments	**(46)**	(48)
Non-current portion of other debtors and receivables	**(12)**	(26)
Current portion	**1,418**	1,438
Maximum exposure to credit risk	**1,432**	1,453

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

	2018 HK$ million	2017 HK$ million
0-30 days	**628**	790
31-60 days	**126**	196
61-90 days	**79**	54
Over 90 days	**141**	147
	974	1,187

As of 30 June 2018, trade debtors net of provision for impairment of **HK$169 million** (30 June 2017: HK$268 million) were past due but not impaired. The aging analysis of these trade debtors is as follows:

	2018 HK$ million	2017 HK$ million
1-30 days	**95**	173
31-60 days	**8**	6
61-90 days	**15**	14
Over 90 days	**51**	75
Amount past due but not impaired	**169**	268

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:

	2018 HK$ million	2017 HK$ million
At 1 July	**239**	229
Provision for impairment of trade debtors	**76**	121
Bad debts written off	**(95)**	(70)
Unused amounts reversed	**(22)**	(48)
Exchange translation	**6**	7
At 30 June	**204**	239

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:

	2018 HK$ million	2017 HK$ million
Bank balances and cash	**2,472**	3,216
Bank deposits with maturities within three months	**1,407**	1,854
Bank deposits with maturities of more than three months	**642**	151
	4,521	5,221

The maximum exposure to credit risk as at 30 June 2018 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 **1.2%** (2017: 0.8%) per annum.

19. Share capital

	Number of shares of HK$0.10 each million	HK$ million
Authorized:		
At 30 June 2017 and 30 June 2018	**3,000**	**300**

	Number of shares of HK$0.10 each million	Nominal value HK$ million
Issued and fully paid:		
At 1 July 2017	1,944	194
Shares repurchased and canceled (Note (a))	(57)	(5)
At 30 June 2018	**1,887**	**189**
At 1 July 2016 and 30 June 2017	1,944	194

(a) During the year ended 30 June 2018, the Company repurchased **56,963,000** ordinary shares of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") at a total consideration (including expenses) of **HK$237 million**, all the repurchased shares were canceled.

(b) 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 2018

The total number of shares available for issue upon exercise of all outstanding share options already granted under the Schemes is 82,320,000 shares (2001 Share Option Scheme: nil and 2009 Share Option Scheme: 82,320,000 shares), representing 4.36% of the issued share capital of the Company as at 30 June 2018.

The maximum number of shares available for issue upon exercise of share options not yet granted under the Schemes is 20,887,693 shares (2001 Share Option Scheme: nil and 2009 Share Option Scheme: 20,887,693 shares), representing 1.11% of the issued share capital of the Company as at 30 June 2018.

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 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 2018 under the 2001 Share Option Scheme are as follows:

	Number of share options	
	2018	2017
At 1 July	**300,000**	1,155,000
Lapsed during the year	**(300,000)**	(675,000)
Forfeited during the year	**–**	(180,000)
At 30 June (Note (i))	**–**	300,000

Note:

(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 2018	2017
Employees			
9 December 2017*	11.09	**–**	300,000

* The share options listed above are 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 2018 under the 2009 Share Option Scheme are as follows:

	Number of share options	
	2018	2017
At 1 July	**57,940,000**	57,550,000
Granted during the year (Note (i))	**32,750,000**	6,350,000
Lapsed during the year	**–**	(745,000)
Forfeited during the year	**(8,370,000)**	(5,215,000)
At 30 June (Note (ii))	**82,320,000**	57,940,000

Notes:

(i) Details of share options granted during the year ended 30 June 2018 are as follows:

Exercise period	Exercise price HK$	Number of share options
7 November 2020 – 6 November 2027	**4.65**	**6,790,000**
7 November 2021 – 6 November 2027	**4.65**	**230,000**
7 November 2022 – 6 November 2027	**4.65**	**230,000**
25 June 2021 – 24 June 2028	**2.66**	**25,500,000**
		32,750,000

(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 2018	2017
Directors			
11 March 2023*	10.04	**7,300,000**	5,900,000
11 March 2023**	10.04	**–**	1,400,000
4 November 2023*	14.18	**700,000**	700,000
30 June 2024*	11.00	**1,160,000**	1,160,000
31 October 2024*	10.124	**700,000**	–
31 October 2024**	10.124	**–**	700,000
25 June 2028**	2.66	**16,000,000**	–
Employees			
27 September 2020*	43.00	**1,500,000**	1,600,000
27 September 2021*	8.76	**3,900,000**	4,050,000
12 December 2022*	12.32	**2,515,000**	2,815,000
11 March 2023*	10.04	**6,195,000**	6,292,000
11 March 2023**	10.04	**–**	1,573,000
4 November 2023*	14.18	**6,165,000**	6,780,000
4 November 2023**	14.18	**560,000**	1,320,000
21 March 2024*	13.592	**–**	300,000
21 March 2024**	13.592	**–**	200,000
30 June 2024*	11.00	**240,000**	180,000
30 June 2024**	11.00	**60,000**	120,000
31 October 2024*	10.124	**6,220,000**	100,000
31 October 2024**	10.124	**80,000**	7,275,000
13 October 2025**	6.55	**6,400,000**	8,850,000
13 October 2025**	8.07	**125,000**	125,000
3 May 2026**	6.82	**400,000**	400,000
31 October 2026**	6.87	**5,400,000**	6,100,000
7 November 2027**	4.65	**7,200,000**	–
25 June 2028**	2.66	**9,500,000**	–
		82,320,000	57,940,000

* 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							
7 November 2017	1.24 – 1.81	4.38	4.65	36.69% – 43.75%	1.33% – 1.50%	4 – 6 years	0.07%
25 June 2018	0.88	2.66	2.66	38.79%	2.12%	4 years	0.07%

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.

(c) 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, including Executive Directors of the Company (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).

Details of the awarded shares movement during the year and outstanding awarded shares as at 30 June 2018 under the Share Award Scheme are as follows:

	Number of awarded shares	
	2018	2017
At 1 July	**8,539,256**	3,383,572
Granted during the year (Note (i))	**4,429,966**	5,155,684
Vested during the year (Note (ii))	**(3,073,675)**	–
Lapsed during the year	**(891,089)**	–
At 30 June	**9,004,458**	8,539,256

(i) During the year ended 30 June 2018, the following awarded shares were granted to Selected Employees under the Share Award Scheme:

Date of grant	Number of awarded shares granted	Fair value per share HK$	Vesting date
3 October 2017	1,214,983	4.30	3 October 2019
3 October 2017	1,214,983	4.30	3 October 2020
22 June 2018	2,000,000	2.47	22 June 2021
	4,429,966		

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

(ii) During the year ended 30 June 2018, a total of **3,073,675 shares** (2017: nil) of the Company were transferred to relevant Selected Employees upon vesting. The total cost of the vested shares was **HK$21 million** (including expenses) (2017: nil). During the year, **HK$0.1 million** (2017: nil) was debited to retain earnings in respect of vesting of shares whose fair values were lower than the costs.

During the year ended 30 June 2018, the trustee purchased a total of **3,538,833 shares** (2017: 5,155,700 shares) of the Company on the Stock Exchange. The total amount paid to the trustee to purchase the shares was approximately **HK$12 million** (including expenses) (2017: HK$33 million).

20. Creditors and accrued charges

	2018 HK$ million	2017 HK$ million
Trade creditors	**722**	735
Accruals	**1,436**	1,547
Other creditors and payables	**761**	764
	2,919	3,046

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

	2018 HK$ million	2017 HK$ million
0-30 days	**460**	583
31-60 days	**194**	100
61-90 days	**39**	39
Over 90 days	**29**	13
	722	735

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

As at 30 June 2018, the outstanding provision for closure costs of operations in Australia and New Zealand amounted to **HK$87 million**.

21. Provision for store closures and leases

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

	2018 HK$ million	2017 HK$ million
At 1 July	**393**	604
Provision for store closures and leases, net	**152**	12
Amounts used during the year	**(152)**	(227)
Exchange translation	**4**	4
At 30 June	**397**	393

During the year, the Group recognized a net provision of **HK$152 million** (2017: HK$12 million) for store closures and onerous leases in relation to loss-making stores in Europe and Asia.

During the year, the Group recognized unwinding of discount totaling **HK$27 million** (2017: HK$43 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 2018, the provision expected to be settled within twelve months after the date of the statement of financial position is **HK$57 million** (2017: HK$95 million) and the provision expected to be settled more than twelve months after the date of the statement of financial position is **HK$340 million** (2017: HK$298 million).

22. Provision for closure costs of operations in Australia and New Zealand

In order to allow management to concentrate efforts and resources in developing other markets in Asia with profitable growth opportunities for the future, and avoid incurring further losses from the non-performing operations in Australia and New Zealand, management has decided to divest the operations in Australia and New Zealand. In this connection, the Group has recognized total closure costs of **HK$129 million** which includes impairment of property, plant and equipment of **HK$18 million**, inventory write down of **HK$23 million**, and provision for lease obligations, staff severance and retention, legal and professional fees totaling **HK$88 million**.

23. Retirement defined benefit obligations

The Group's subsidiaries in Switzerland participate in a defined benefit plan which defines the pension benefit that an employee will receive on retirement as a lump-sum or annuity, which depends on several factors such as age of the employee, years of services and salary. The subsidiaries have obligations to provide participating employees with the benefit.

The subsidiaries meet their obligations via entering into contracts with an insurance provider, who is responsible for the investments of the assets and guarantees vested benefit amount to members. Any asset-liability matching strategies are the responsibility of the insurance provider. Risks such as actuarial risk and investment risk are covered by the insurance. The subsidiaries face counterparty risk which occurs when the insurer is unable to meet its obligations and also the risk of insurance contract being canceled.

(a) The amounts recognized in the statement of financial position are as follows:

	2018 HK$ million	2017 HK$ million
Present value of funded obligations	**101**	–
Fair value of plan assets	**(75)**	–
Net defined benefit liabilities	**26**	–

23. Retirement defined benefit obligations (continued)

(b) The movement in the net defined benefit liabilities over the year is as follows:

	Present value of obligations HK$ million	Fair Value of plan assets HK$ million	Total HK$ million
At 1 July 2017	-	-	-
Current service cost	6	-	6
Past service cost (Note)	88	(67)	21
Interest expense/(income)	1	(1)	-
	95	(68)	27
Remeasurements:			
- Gain from change in financial assumptions	(1)	-	(1)
- Experiences loss	5	-	5
	4	-	4
Currency translation differences	(1)	1	-
Contributions:			
- Employers	-	(5)	(5)
- Plan participants	3	(3)	-
At 30 June 2018	**101**	**(75)**	**26**

Note: The past service cost represents present value of obligations and fair value of plan assets arisen from previous years.

There were no plan amendments, curtailments or settlements during the year.

The fair value of the plan assets comprises:

	2018				2017			
	Quoted	**Unquoted**	**Total**	**% of Total**	Quoted	Unquoted	Total	% of Total
Insurance Contracts	**-**	**75**	**75**	**100%**	-	-	-	-

The weighted average duration of retirement defined benefit obligations is **13.8 years**.

Employer and employee saving contributions are defined in terms of an age related sliding scale of percentage of the insured salary. The subsidiaries expect to make contributions of **HK$4 million** to their retirement defined benefit plan in 2019.

The significant actuarial assumptions were as follows:

	2018	2017
Discount rate	**0.80%**	-
Expected future salary increases	**1.25%**	-

The sensitivity of the defined benefit obligations to changes in actuarial assumptions is:

	(Decrease)/increase in defined benefit obligations		
	Change in assumption	**Increase in assumption HK$ million**	**Decrease in assumption HK$ million**
Discount rate	**0.25%**	**(3)**	**3**
Expected future salary increases	**0.25%**	**-**	**(1)**

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligations to significant actuarial assumptions the same method has been applied as when calculating the pension liability recognized within the statement of financial position.

24. 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 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**
(Charged)/credited to income statement	**(10)**	**-**	**49**	**39**	**(332)**	**-**	**44**	**15**	**(195)**
Changes in tax rates	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Debited to other comprehensive income	**-**	**(69)**	**-**	**-**	**-**	**-**	**-**	**-**	**(69)**
Exchange difference recognized in equity	**1**	**4**	**(2)**	**(3)**	**8**	**-**	**1**	**-**	**9**
At 30 June 2018	**62**	**(20)**	**50**	**(249)**	**238**	**-**	**194**	**(33)**	**242**

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:

	2018 HK$ million	2017 HK$ million
Deferred tax assets	**524**	822
Deferred tax liabilities	**282**	325

At 30 June 2018, the Group had unused tax losses of approximately **HK$5,852 million** (2017: HK$4,577 million) available for offset against future taxable profits. A deferred tax asset has been recognized in respect of approximately **HK$884 million** (2017: HK$1,944 million) of such losses. No deferred tax asset has been recognized in respect of the remaining losses of approximately **HK$4,968 million** (2017: HK$2,633 million). Included in unrecognized tax losses are losses of approximately **HK$772 million** (2017: HK$722 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** (2017: HK$5 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.

25. Notes to consolidated statement of cash flows

Reconciliation of loss before taxation to cash used in operations:

	2018 HK$ million	2017 HK$ million
Loss before taxation	**(2,226)**	(106)
Adjustments for:		
Interest income	**(58)**	(44)
Finance costs	**31**	48
Depreciation	**528**	518
Amortization of customer relationships	**30**	59
Impairment of goodwill	**664**	–
Impairment of customer relationships	**130**	–
Loss on disposal of plant and equipment	**11**	12
Gain on disposal of a property	**(16)**	(100)
Gain on disposal of a subsidiary	**–**	(33)
Impairment of/ (reversal of impairment of) property, plant and equipment	**90**	(8)
Provision for store closures and leases, net	**152**	12
Provision for closure costs of operations in Australia and New Zealand	**129**	–
Increase in fair value of investment properties	**(1)**	(4)
Employee share-based compensation benefits	**24**	51
	(512)	405
Changes in working capital:		
Decrease in inventories	**221**	205
Decrease in debtors, deposits and prepayments	**120**	149
Decrease in creditors and accrued charges	**(225)**	(806)
Effect of foreign exchange rate changes	**(22)**	(34)
Cash used in operations	**(418)**	(81)

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

	2018 HK$ million	2017 HK$ million
Net book value	**33**	57
Gain on disposal of property, plant and equipment	**5**	88
Proceeds from disposal of property, plant and equipment	**38**	145

Note: Proceeds from disposal of property, plant and equipment included **HK$34 million** (2017: HK$122 million) from disposal of a property (Note 29).

26. Operating lease commitments

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

	2018 HK$ million	2017 HK$ million
Land and buildings		
– within one year	**1,614**	1,805
– in the second to fifth year inclusive	**3,597**	4,145
– after the fifth year	**974**	1,248
	6,185	7,198
Other equipment		
– within one year	**2**	6
– in the second to fifth year inclusive	**1**	1
	3	7
	6,188	7,205

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 2018 are **HK$168 million** (2017: HK$164 million).

27. Capital commitments

	2018 HK$ million	2017 HK$ million
Property, plant and equipment – Contracted but not provided for	**44**	53

28. 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 2018, the fair values of the forward foreign exchange contracts included in other receivables and other payables are as follows:

	2018		2017	
	Assets HK$ million	**Liabilities HK$ million**	Assets HK$ million	Liabilities HK$ million
Forward foreign exchange contracts Cash flow hedges	**66**	**-**	-	149

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 2018			
	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	**-**	**66**	**-**	**66**
Recurring fair value measurements: **Liabilities** Derivative financial instruments: - Forward foreign exchange contracts	**-**	**-**	**-**	**-**

	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

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.

28. Derivative financial instruments (continued)

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:

	2018 HK$ million	2017 HK$ million
Forward foreign exchange contracts	**1,889**	3,609

Gains and losses in equity on forward foreign exchange contracts as of 30 June 2018 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 to be recorded in the consolidated income statement arising from cash flow hedges (2017: nil).

29. Disposal of a property

On 20 September 2017, the Group sold a property in Taiwan to an independent third party at a consideration of **HK$34 million**. The gain on disposal of the property, after deducting related expenses incurred for disposal, amounted to **HK$16 million** and was recognized in the consolidated income statement for the year ended 30 June 2018. Total consideration amount of **HK$34 million** were received in cash during the year.

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 for the year ended 30 June 2017. Total consideration amount of HK$122 million were received in cash during the year ended 30 June 2017.

30. Disposal of a subsidiary

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

31. 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.

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

Statement of financial position of the Company

		As at 30 June	
	Note	**2018 HK$ million**	2017 HK$ million
Non-current assets			
Investments in subsidiaries, unlisted and at cost		**1,336**	1,319
Current assets			
Amounts due from subsidiaries		**10,028**	10,339
Cash, bank balances and deposits		**22**	4
		10,050	10,343
Current liabilities			
Amounts due to subsidiaries		**11**	14
Accrued charges		**12**	8
		23	22
Net current assets		**10,027**	10,321
Total assets less current liabilities		**11,363**	11,640
Equity			
Share capital	19	**189**	194
Reserves		**11,174**	11,446
Total equity		**11,363**	11,640

Approved by the Board of Directors on 18 September 2018.

ANDERS CHRISTIAN **KRISTIANSEN**
Executive Director

THOMAS **TANG** WING YUNG
Executive Director

32. 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 2017	**8,220**	**(56)**	**913**	**474**	**1,895**	**11,446**
Loss attributable to shareholders	**–**	**–**	**–**	**–**	**(52)**	**(52)**
Repurchase of shares	**(232)**	**–**	**–**	**–**	**–**	**(232)**
Employee share-based compensation benefits	**–**	**–**	**24**	**–**	**–**	**24**
Purchase of shares for Share Award Scheme	**–**	**(12)**	**–**	**–**	**–**	**(12)**
Vesting of shares for Share Award Scheme	**–**	**21**	**(21)**	**–**	**–**	**–**
At 30 June 2018	**7,988**	**(47)**	**916**	**474**	**1,843**	**11,174**
Representing:						
Proposed final dividend						**–**
Balance after proposed final dividend						**11,174**
At 30 June 2018						**11,174**
At 1 July 2016	8,220	(23)	862	474	1,931	11,464
Loss attributable to shareholders	–	–	–	–	(36)	(36)
Repurchase of shares	–	–	–	–	–	–
Employee share-based compensation benefits	–	–	51	–	–	51
Purchase of shares for Share Award Scheme	–	(33)	–	–	–	(33)
Vesting of shares for Share Award Scheme	–	–	–	–	–	–
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

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 2018 amounted to **HK$3,233 million** (2017: HK$3,282 million).

33. Principal subsidiaries

The following are the principal subsidiaries as at 30 June 2018 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

33. 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%	NOK21,800,000	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

33. 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 ecommerce 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, Acessories 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

33. 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
思環貿易（上海）有限公司	The People's Republic of China (Note c)	100%	USD28,000,000	Wholesale, retail, and ecommerce 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
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

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(c), the Company has set up a trust ("Share Award Scheme Trust"), and its particulars are as follows:

Structured entity	Principal activities
Share Award Scheme Trust	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 2018 HK$ million	As at 30 June 2017 HK$ million	As at 30 June 2016 HK$ million	As at 30 June 2015 HK$ million
Intangible assets	**2,063**	2,851	2,902	3,031
Property, plant and equipment	**1,571**	1,900	2,159	2,835
Investment properties	**24**	23	19	17
Other investments	**7**	7	7	7
Investments in associates	**–**	–	–	–
Debtors, deposits and prepayments	**140**	174	220	240
Deferred tax assets	**524**	822	745	649
Net current assets	**5,005**	6,091	5,829	5,718
	9,334	11,868	11,881	12,497
Equity				
Share capital	**189**	194	194	194
Reserves	**8,837**	11,349	11,203	11,704
Total equity	**9,026**	11,543	11,397	11,898
Non-current liabilities				
Bank loans	**–**	–	–	–
Retirement defined benefit obligations	**26**	–	–	–
Deferred tax liabilities	**282**	325	484	599
	308	325	484	599
	9,334	11,868	11,881	12,497

Consolidated income statement items

	Year ended 30 June 2018 HK$ million	Year ended 30 June 2017 HK$ million	Year ended 30 June 2016 HK$ million	Year ended 30 June 2015 HK$ million
Revenue	**15,455**	15,942	17,788	19,421
Operating (loss)/profit ((LBIT)/EBIT)	**(2,253)**	(102)	(596)	(3,683)
Interest income	**58**	44	40	45
Finance costs	**(31)**	(48)	(29)	(29)
Share of results of associates	**–**	–	–	–
Gain on measuring equity interest in the associated companies held before the business combination	**–**	–	–	–
(Loss)/profit before taxation	**(2,226)**	(106)	(585)	(3,667)
Taxation (charge)/credit	**(328)**	173	606	(29)
(Loss)/profit attributable to shareholders of the Company	**(2,554)**	67	21	(3,696)

As at 30 June 2014 HK$ million	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
5,670	5,763	7,613	7,672	7,345	2,061
3,972	4,363	4,489	4,415	3,976	4,398
16	15	13	13	12	–
7	7	7	8	7	7
–	–	–	–	–	522
312	384	402	502	440	559
615	697	549	808	532	408
6,979	6,158	4,348	5,225	6,662	6,745
17,571	17,387	17,421	18,643	18,974	14,700
194	194	129	129	129	125
16,717	16,402	15,477	16,104	15,943	14,284
16,911	16,596	15,606	16,233	16,072	14,409
–	–	1,040	1,560	2,080	–
–	–	–	–	–	–
660	791	775	850	822	291
660	791	1,815	2,410	2,902	291
17,571	17,387	17,421	18,643	18,974	14,700

Year ended 30 June 2014 HK$ million	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
24,227	25,902	30,165	33,767	33,734	34,485
361	(4,170)	1,171	692	3,786	5,729
55	51	28	45	33	87
(37)	(30)	(37)	(27)	(12)	–
–	–	–	–	81	161
–	–	–	–	1,586	–
379	(4,149)	1,162	710	5,474	5,977
(169)	(239)	(289)	(631)	(1,248)	(1,232)
210	(4,388)	873	79	4,226	4,745

Financial summary

Year ended 30 June	**2018**	2017	2016	2015
Per share data (HK$)				
(Loss)/earnings per share – basic ^^	**(1.35)**	0.03	0.01	(1.90)
Dividend per share				
– Regular dividend	**-**	-	-	0.015
– Special dividend	**-**	-	-	-
Total	**-**	-	-	0.015
Key statistics (HK$ million)				
Total equity	**9,026**	11,543	11,397	11,898
Net current assets ^	**5,005**	6,091	5,829	5,718
Cash position (net of overdraft)	**4,521**	5,221	5,341	5,017
Net cash (outflow)/inflow from operating activities	**(298)**	(147)	(312)	(72)
Term loans	**-**	-	-	-
Retail data				
Number of directly managed stores #	**586**	666	761	890
Directly managed selling space # (sqm)	**251,207**	272,496	291,572	327,345
Comparable store sales growth (including eshop)	**-8.1%**	-3.5%	8.1%	-7.0%
Comparable store sales growth (excluding eshop)	**-9.6%**	-5.2%	4.3%	-6.3%
Wholesale data				
Number of controlled space POS #^^^	**5,482**	6,037	6,333	7,680
Controlled space sales area #^^^ (sqm)	**286,437**	320,436	357,086	419,359
Other data				
Capital expenditure (HK$ million)	**305**	257	262	349
Number of employees ##	**6,450**	7,304	8,306	9,179
Key ratios				
Return on shareholders' equity (ROE) ###	**-24.8%**	0.6%	0.2%	-25.7%
Return on total assets (ROA) *	**-18.2%**	0.4%	0.1%	-18.2%
Net debt to equity **	**net cash**	net cash	net cash	net cash
Current ratio ^ (times)	**2.5**	2.8	2.4	2.2
Inventory turnover *** (days)	**128**	123	115	104
Operating (loss)/profit before depreciation and amortization margin	**-10.9%**	3.0%	0.4%	-14.9%
Operating (loss)/profit margin	**-14.6%**	-0.6%	-3.3%	-19.0%
(Loss)/profit before taxation margin	**-14.4%**	-0.7%	-3.3%	-18.9%
Net (loss)/profit margin	**-16.5%**	0.4%	0.1%	-19.0%

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

2014	2013	2012	2011	2010	2009
0.11	(2.50)	0.60	0.06	3.35	3.72
0.07	-	0.41	1.00	1.41	1.52
-	-	-	-	-	1.33
0.07	-	0.41	1.00	1.41	2.85
16,911	16,596	15,606	16,233	16,072	14,409
6,979	6,158	4,348	5,225	6,662	6,745
6,031	5,171	3,171	4,794	6,748	4,840
1,418	(757)	730	1,835	5,412	5,272
260	520	1,682	2,080	2,600	-
905	1,026	1,069	1,146	1,128	804
330,233	351,473	363,295	398,829	388,291	314,966
-4.1%	-3.3%	-4.1%	-1.1%	-2.4%	3.5%
-5.7%	-9.5%	-9.3%	-6.6%	-4.8%	-4.4%
8,131	9,249	10,827	11,706	12,289	14,067
488,870	566,776	654,093	704,393	722,825	808,605
375	919	1,420	1,436	1,509	2,011
9,626	10,732	12,455	14,192	14,172	10,766
1.3%	-27.3%	5.5%	0.5%	27.7%	31.3%
0.9%	-18.7%	3.4%	0.3%	19.1%	22.8%
net cash	net cash	net cash	net cash	net cash	net cash
2.2	2.1	1.7	1.6	2.2	2.4
90	100	100	76	63	65
5.2%	-12.5%	6.4%	4.7%	14.0%	18.9%
1.5%	-16.1%	3.9%	2.0%	11.2%	16.6%
1.6%	-16.0%	3.9%	2.1%	16.2%	17.3%
0.9%	-16.9%	2.9%	0.2%	12.5%	13.8%

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 terms

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

OPEX
Operating expenses

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