HONG KONG STOCK CODE 00330

Annual Report

Esprit Holdings Limited
Year ended 30 June 2019

ESPRIT

ANNUAL REPORT FY 18/19

Esprit Holdings Limited

ESPRIT

Corporate information

Executive Chairman
- Dr Raymond OR Ching Fai

Deputy Chairman
- Paul CHENG Ming Fun
  Independent Non-executive Director
  (retired on 5 December 2018)

Executive Directors
- Anders Christian KRISTIANSEN
  Group CEO
- Thomas TANG Wing Yung
  Group CFO

Non-executive Director
- Jürgen Alfred Rudolf FRIEDRICH

Independent Non-executive Directors
- Alexander Reid HAMILTON
- Carmelo LEE Ka Sze
- Norbert Adolf PLATT
- Dr José María CASTELLANO RIOS
  (retired on 5 December 2018)

Company Secretary
- HUNG Lee Lee

Principal bankers
- The Hongkong and Shanghai Banking Corporation Limited
- Deutsche Bank AG
- BNP Paribas
- Hang Seng Bank Limited
- Mizuho Bank, Ltd

Auditor
- PricewaterhouseCoopers
  Certified Public Accountants

Principal legal advisor
- Baker & Mckenzie
- Freshfields Bruckhaus Deringer

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

Stock code
- SEHK : 00330
- ADR : ESPGY

Principal share registrar
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Hong Kong branch share registrar
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Registered office
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Corporate profile

Fueled by the vision of essential positivity, Esprit was founded in California by couple Susie and Doug Tompkins in 1968. Inspired by the revolutionary spirit of the 60s the brand developed a clear philosophy – always celebrating real people and togetherness, in line with the brand's promise: "We want to make you feel good to look good". The success story of Esprit is based on two pillars: Delivering joy every day through laid-back tailored, high quality essentials and carefully selected fashion-forward pieces while staying true to its core values of sustainability, equality and freedom of choice. Example: In the early 90ies, long before "Eco Fashion" became fashionable, Esprit debuted its first "ecollection" made of 100% organic cotton and featured its own team instead of models in honor of their "Real People Campaign."

Keeping this spirit alive since day one, today Esprit has a presence in over 40 countries around the globe. Esprit's headquarters are located in Germany and Hong Kong, where the brand has been listed on the Hong Kong Stock Exchange since 1993.

Esprit – Keeping it easy, comfortable and looking great. Every day.

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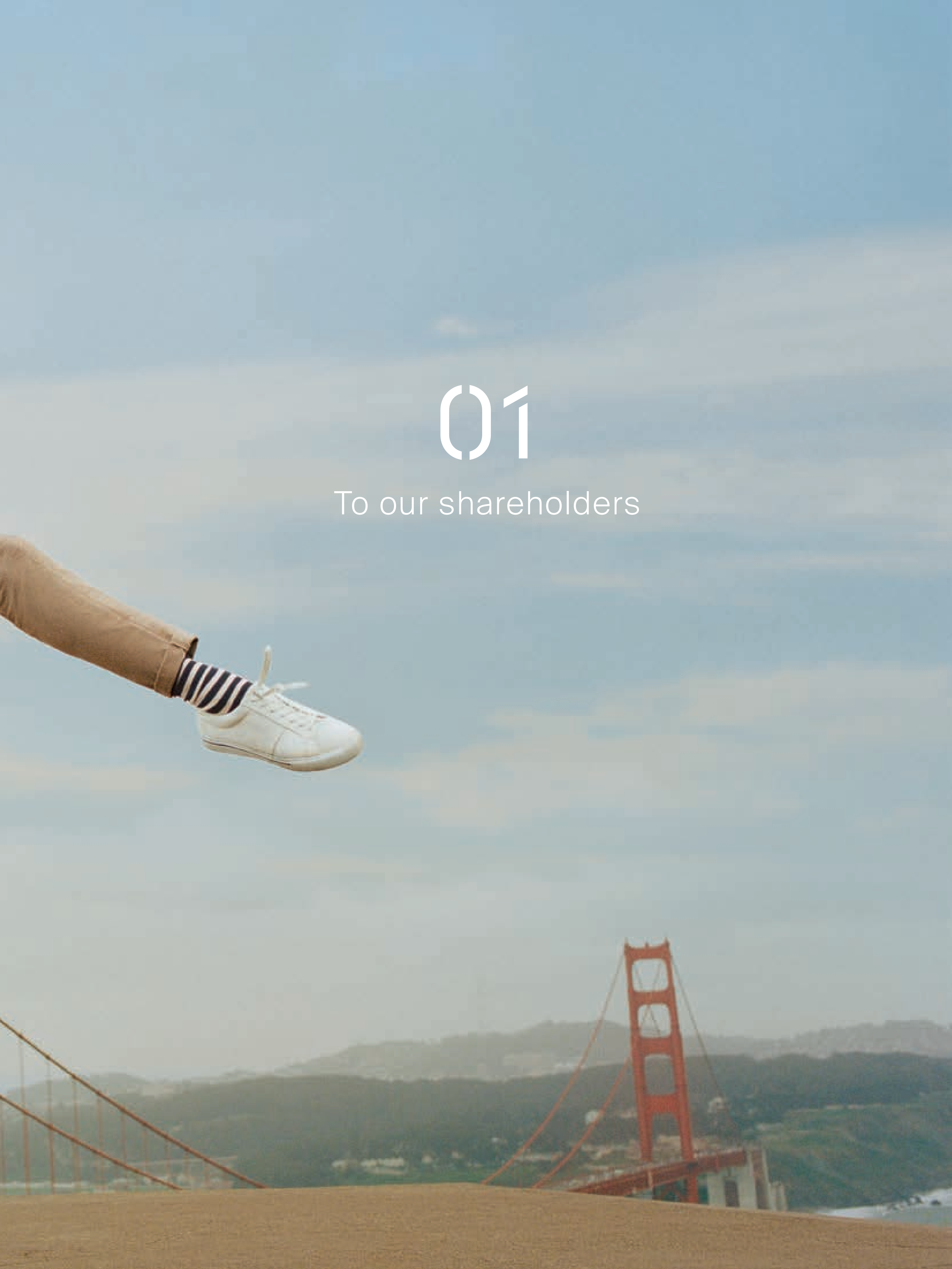
01

To our shareholders



Dr Raymond OR Ching Fai
Executive Chairman

"We have made positive initial progress on our Strategy Plan"

01.1 Letter from Chairman

Dear Shareholders,

The last financial year marked a year of significant changes for the Group and will be remembered as being pivotal towards the turnaround and restoration of the longer-term profitability of Esprit.

Our mission last year was to formulate a plan to realign our strategic direction and priorities, and to ensure that we have the right talent on board to drive a timely and efficient execution in order to deliver positive results. I am delighted to report to you that FY18/19 has been a year of positive initial advances on both fronts. Testimony to this progress is that we now have a clear strategy plan ("Strategy Plan") and the right team in place to return Esprit to sustainable growth and profitability. The concerted efforts of the team in the past year have laid a solid foundation of our future business model and have resulted in early signs of improvement in our business performance.

Strategy

Following appointment of our new Group CEO, Anders Kristiansen, in June 2018, the management team has conducted reviews of the Company's strategy in the context of a rapidly changing market. We realized that it is vital to establish our ability to deliver appealing high-quality products with an attractive price-value proposition and across channels, to ensure the Esprit brand is well placed for the years ahead. The Board and management were united that bold changes were needed to, first and foremost, reduce losses and to right size the organization for high-quality cost-effective execution of our plan and, in parallel, to build a new business model to sharpen our brand, improve our products and enhance our customer and brand experience to regain the confidence of consumers and our competitiveness in the market. We are gratified to see that these changes are already yielding results contributing to improvements in the operational metrics as they have laid the foundation for our road to recovery.

Results and Financial Position

Overall market conditions have remained challenging in the past year. On the one hand, our target customer demographics are evolving rapidly as the industry continues to undergo extensive transition driven by increased digitalization which is intensifying price competition. On the other hand, the macroeconomic picture remains uncertain amid escalation of trade tensions which has damaged economic growth and weighed on consumer sentiment and spending.

Against the backdrop of this challenging operating environment, we have taken effective measures and have achieved a financial result better than last year's performance. The Group's underlying operations reported a loss before exceptional items, interest and taxation ("Underlying LBIT") of HK$(587) million, as compared with HK$(909) million in the previous financial year. It is also important to note that the Strategy Plan and the relevant measures have only started to take effect in the second half of the year, hence the second half of FY18/19 ("2H FY18/19") is more representative of the beneficial effects of the Strategy Plan. To this end, 2H FY18/19 recorded an Underlying LBIT of HK$(255) million, as compared with HK$(773) million for the same period last year, reflecting a positive trend of improvement.

This improvement in performance was primarily the result of our proactive and decisive cost control initiatives highlighted by actions to eliminate loss-making stores as well as bold measures to right-size the organization and our global distribution network, including downsizing of corporate offices so as to achieve savings across all key cost lines ("Restructuring Plan"). Taken as a whole, these initiatives resulted in Regular OPEX savings of HK$(1,742) million or -16.6% yoy in local currency terms ("LCY"); thus we are well on track to achieve the targeted annualized expenses savings of HK$2 billion over two years from the FY17/18 level. These savings have significantly reduced our cost base and will provide a leaner platform that we can leverage in the future as we embark on top-line growth.

As previously announced, the Company has taken provisions for one-off restructuring costs in connection with the Restructuring Plan, which makes up the majority of the net exceptional expense totaling HK$(1,493) million for the year. Taking into account the net exceptional expense, LBIT of the Group was HK$(2,080) million. As the Group recorded a loss for the full financial year, the Board has not recommended the payment of a final dividend.

The Group remains debt free with a net cash balance of HK$3,282 million as at 30 June 2019. While maintaining a healthy financial position, prudent cash management has continued to be our top priority, and during the year, the Group has invested HK$563 million in the Restructuring Plan which is necessary to reduce losses and build a healthy platform for future growth.

Human Resources

As ever, our success is enabled by the passion and commitment of the professionals who work for Esprit. Towards that end, we are happy to see a wealth of new talent join the Esprit family during the year. Most notably in that regard, I would like to welcome our new Chief Product and Brand Officer, our new Regional CEO for Europe and the Americas, and our new Regional CEO for Asia, who have joined us during the year. They are all professionals with extensive experience and expertise in their own respective fields, and I look forward to their contributions in moving the company forward.

Our Board has also evolved during the financial year. Mr Paul Cheng and Dr José María Castellano Ríos have decided to retire from the Board during the financial year. Paul had been an Independent Non-Executive Director of the Company ("INED") since November 2002 and was appointed as Deputy Chairman of the Board since July 2008. He has helped steer the Company through its growth as well as in challenging times. His energy, sincere commitment, steadfast support and industry insight have been second-to-none during his tenure. I would like to personally thank Paul for all that he has contributed to Esprit and he will be missed by us all. I would also like to thank Dr Castellano for his positive contribution to Esprit and we have greatly appreciated his wise counsel since his appointment as INED in December 2014.

We will continue to adjust the composition of our Board in light of our desire for greater diversity, skills and experience to support our strategy, and to ensure that we have the capability to deliver both growth and operational leverage in the future.

Shareholder Engagement

The Board enthusiastically encourages and supports management's efforts to engage more closely with our shareholders to keep closely appraised of their expectations, and to ensure that we exercise judgement in the best interest of the Company, as well as that of our stakeholders. As part of our ongoing Investor Relations efforts, we maintain regular and ongoing conversations with investors and the market in order to provide them with transparent and timely information, especially at this period of business transition. In the first half of this financial year, we conducted an Investors Day in November 2018 to update the market on our strategic focus which was well-received by shareholders, investors and analysts.

Closing

Finally, I would like to thank all our employees for their hard work over the last financial year. Our Company is a global family where the unique contribution of every colleague is highly valued. I would also like to thank our business partners, our customers and our shareholders for their loyalty and support during these challenging times.

Looking ahead, the economic conditions are expected to remain challenging, but the intense efforts exerted over the past year have laid a solid foundation of our future business model and have resulted in positive initial progress. Our commitment to move forward with our strategy plan remains intact as we firmly believe that this plan is vital to creating long-term value for all stakeholders. I have full confidence that with our strengthened management team and razor-sharp focus on achieving our goals, we are well along the road to recovery.

Dr Raymond OR Ching Fai
Executive Chairman
18 September 2019

Anders Christian KRISTIANSEN
Executive Director and Group CEO

"It is encouraging to see how the ESPRIT brand's potential has already begun to unfold"

01.2 Letter from Group CEO

Dear Shareholders,

Looking back over my first year here at Esprit, I am extremely proud of our team and the positive progress we have made across operational and financial metrics.

In November 2018, we formulated and laid out a strategy plan (the "Strategy Plan") to rebuild our business model and create an effective organization, while restructuring our costs base and eliminating loss-making stores. Our vision is to re-establish Esprit to become an iconic brand again. It is evident that bold changes are needed and I strongly believe our ambition can be achieved over time by: (i) sharpening Esprit's brand identity and putting the customer at the center of everything we do; (ii) improving the product offering and how it relates to our customers and brand positioning; (iii) reducing complexity and improving accountability by becoming a leaner and more efficient organization; and (iv) eliminating loss-making areas of the business to build a stronger foundation for the future.

In the first year of implementation, despite the difficult retail environment and global macroeconomic headwinds, the Board and the management team of Esprit have maintained a strong commitment to diligently executing the Strategy Plan. We have taken tough but necessary decisions, and in the process, we unfortunately have had to say farewell to many of our good colleagues, nevertheless we have come far and we have accomplished a lot in a short time. I am very pleased to report that good positive progress has been made and the Strategy Plan is on track.

Amongst the year's highlights: We have closed 169 non-profitable stores and trimmed headcount for non-store employees translating into reduction in cost by almost one-third, including new hires for investment in projects for future growth. We have simplified the organization structure and streamlined work flow to facilitate faster decision making. We have redefined Esprit's positioning based on findings of an in-depth consumer survey and launched new campaigns with points of view that reinforce the new brand direction. With respect to products, we have significantly reduced the number of options and created new in-season collections, quality is back on the top of our agenda, and, most importantly, we have a new product strategy that is game changing and brings us to the market with a fresh start. Our profitable wholesale business is now playing a central role in the new direction of the Group. We strive to be best-in-class in what we offer to our wholesale partners through many initiatives currently in progress. Last but not least, we are forging ahead with our commitment to empowering our leaders and cultivating a solutions-oriented mindset, while fostering a joyful, happy and healthy culture amongst employees around the globe by promoting a vibrantly positive attitude towards everything we do.

While there are still many tasks to complete and we will continue to work hard and diligently on them, the steps we have taken under new management so far are showing promising early signs and contributing to the improvement in the performance across our operation.

Financial Performance

Although Group revenue was affected by bold decisions to close-down unprofitable stores and exit the Australia and New Zealand ("ANZ") markets leading to decline in selling space and therefore revenue, it is encouraging to see that the decline in Group Revenue of -12.9% year-on-year ("yoy") in local currency terms ("LCY") compares favorably against the corresponding reduction in total controlled space of -14.3% yoy. This marks the first time since FY15/16 where the Group recorded a revenue decline that is less than the corresponding space reduction. Another positive note worth mentioning is that the rate of revenue decline has continued to narrow quarter-on-quarter throughout the financial year (Q1: -16.2%, Q2: -12.5%, Q3: -11.6%, Q4: -10.8%), reflecting a positive trend of improvement and such quarter-on-quarter improvement was mainly driven by Germany which accounted for the largest share of the Group revenue.

There was also improvement in comparable store sales. The fourth quarter was a quarter where we recorded positive comparable store sales growth in Europe of +1.4% yoy including both retail and eshop. For European Retail (excluding eshop), comparable store sales growth has substantially improved from -9.9% yoy in LCY in 1H FY18/19 to -1.1% yoy in LCY in 2H FY18/19; the improvement in 2H FY18/19 was mainly driven by the highly positive month of June 2019 where European Retail (excluding eshop) recorded a positive comparable store sales growth of +3.5% (Germany: +4.8% and Rest of Europe: +1.9%). It is worth mentioning that this positive performance was achieved despite having two fewer trading days as compared with the same month last year (one more Sunday and one more public holiday due to shift of Whit Monday from May last year to June this year). Similarly, for Eshop Europe, we were encouraged by the positive performance for the fourth quarter which reported a sales growth of +3.9% yoy in LCY (Q1: -14.1%, Q2: -3.8%, Q3: -6.0%, Q4: +3.9%).

Gross profit margin was 50.3%, lower than last year by -1.1% points in LCY mainly due to clearance of inventory in the 1H FY18/19 as part of the Strategy Plan. We were encouraged by the positive half-on-half development (1H FY18/19: -1.6% points, 2H FY18/19: -0.4% point) primarily driven by fewer markdowns/discounts for the new products partly offset by investment in quality.

With respect to costs, as a result of our bold decision to reduce headcount, closure/resizing of unprofitable stores, and our overall discipline on cost reduction measures, we were able to achieve savings in regular operating expenses ("**Regular OPEX**") of HK$1,742 million yoy or -16.6% yoy in LCY. As a result, we now have a much healthier cost base and are well on track to achieve the announced annualized expense savings target of HK$2 billion over two years from the FY17/18 level.

In terms of profitability, pressure from the decline in revenue and the slightly lower gross profit margin were outweighed by the significant reduction in Regular OPEX. The results show an **Underlying LBIT** of HK$(587) million before exceptional items, much improved compared with the previous financial year FY17/18 of HK$(909) million.

Overall, it is truly encouraging to see how the Strategy Plan is being realized and how the brand's core competencies and potential have already begun to unfold.

Strategic Update

As the financial performance indicates, we have made a positive start to the execution of the Strategy Plan.

Sharpen ESPRIT Brand Identity

The starting point of the Strategy Plan is the new direction of the ESPRIT brand. Based on findings of an in-depth consumer research and market segmentation, we have redefined both the positioning of the ESPRIT brand and who we are targeting as our customer. ESPRIT is not fast fashion. ESPRIT is not a discounter. ESPRIT stands for "Radical Positivity – Loving Our Customer – Quality Always." Our purpose is "To Deliver Joy" and our vision is to "Offer products that make people feel good every day." With this new brand ethos, our mission is to deliver a consistent experience across brand, product and channels with a clear handwriting.

Enhance Customer Experience

We are adopting a brand-based, customer focused, and data driven approach to improve consumers' experience online and offline. On the one hand, we have embarked on brand campaigns (e.g., joining forces with UN Women Germany on the WE ALL campaign to raise awareness for empowerment of women and gender equality) and product collaboration (e.g., teaming up with design duo Craig & Karl on a limited-edition collection comprising unisex pieces in bright colors and bold graphics to promote messages of love, equality and unity) with fashion statements that support the new direction of the brand. On the other hand, we are stepping up efforts to improve direct communication with customers via social media, as well as introducing enhanced and more precisely targeted experiences across key touch points. Our online presence will be refreshed in the second half of FY19/20 to generate increased customer engagement. In terms of brick and mortar retail, a new store concept is under development. The first pilot store has already been opened in Beijing in August 2019 to test run the concept, and roll-out in other countries is expected to commence during FY19/20. We are also revamping our CRM loyalty program from a promotional to a true loyalty tool with data driven marketing capabilities. This series of initiatives clearly shows how we are putting the customer at the center of everything we do.

Improving the Product Offering

Crucial to our future success is our ability to revamp our product offering to ensure everything we do is customer focused and relevant in terms of style, price and quality. In order to assure brand and product consistency, all product design and development as well as execution of the brand strategy across all product divisions and consumer touch points have been more closely integrated. To lead this new function, in March 2019, we welcomed our new Chief Product and Brand Officer, who brings with her a wealth of experience in product design, branding as well as market communication. Under her leadership, the Group has formulated a new product strategy for Esprit. Based on the redefined brand direction, we are creating a unique and easily conveyed brand expression; establishing a clear divisional strategy; launching new labels and product categories; integrating science back into creating our collections; and most importantly, improving quality is back at the top of our agenda. I am tremendously thrilled about this new product strategy because it is a game changer for the brand. We will embark on a fresh start introducing a new and exciting concept to the market. It marks yet another milestone for us.

Best in class Wholesale

Our profitable wholesale business is now playing a central role in the new direction of the Group. Many initiatives are in progress to better serve our wholesale partners. We have performed a thorough segmentation of our partner portfolio to assess improvement in service for each type of customer. Towards that end, we have already adjusted our delivery schedules to ensure our partners receive appropriate priority. We are also well on the way to implementing e-billing which will lead to efficiencies and cost savings. A pilot for our digital ordering tool has been completed in the Nordic countries and rolled out with early successful results. At the same time, stronger collaboration with third party wholesale ecommerce partners is already underway. To demonstrate our determination, we held a major event, "Esprit Partner Day" in Germany last Spring to share and discuss our vision and new directions with them in depth. Their initial response has been highly positive and supportive. Our selected partners have recently improved their order intake; Europe Wholesale (excluding eshop) accounted for 97.5% of total wholesale (excluding eshop) revenue, reported a much lower rate of decline yoy in LCY in the second half as compared to first half (1HFY18/19: -16.2%, 2HFY18/19: -11.1%), reflecting a positive trend of improvement.

Restructure the Cost Base

The Group has undertaken an in-depth review of the entire cost base to identify potential cost saving opportunities. It is evident that our cost base was far too excessive given the current business scale, and bold decisions were needed to eliminate loss-making stores and to rationalize operations so as to become a leaner and more efficient organization. We have conducted comprehensive assessment of the loss-making retail stores to consider measures such as rent reduction, downsizing or closure. While negotiation with some landlords are still ongoing, we have already reached agreements for 206 stores, of which 169 were closed, 14 received rental reduction, 3 resized during the financial year, and the remaining 20 are either expected to be closed or with rent reduction, which is our preference, in FY19/20. Continuous efforts will be made to eliminate loss-making stores in order to improve profitability. With respect to headcount reduction, voluntary programs as well as social plans were rolled out to non-store staff in Europe during the financial year. In Asia, staff reduction efforts along with downsizing of the Hong Kong office and the closure of the ANZ operation have been completed. Overall, we have so far already trimmed headcount of non-store employees by 28% (net of new hires in certain areas to fuel sales growth), well on track to achieve the target for reduction of non-store employees. These savings are already evident in the occupancy and personnel costs lines, which will provide operating leverage in the future.

Build a Powerful Organization

Throughout the financial year, we have redefined the organization structure for best performance as well as building the team to develop and deliver our strategy. The leaner organization structure has simplified decision making and increased efficiency. We now have a streamlined management team with new leadership on brand, product and the geographic markets, i.e., Europe and Asia. We are forging ahead with our commitment to empowering our leaders, promoting a vibrantly positive mindset amongst employees and cultivating a solution-oriented culture. Secondly, the future of Esprit is all about "Radical Positivity"; hence nothing is more important to me than having a team that embraces this same attribute. As such, efforts have been made to advocate a positive and solutions-oriented mind-set within the organization, where we stand united as a family and we support each other to restore the competitiveness of Esprit.

Sustainability Is in Our DNA

Operating our business responsibly and in a sustainable manner has always been an integral part of the Esprit culture, simply because it is good for the planet and right for future generations. This is something that has always been important to Esprit since our inception, and Esprit has always been at the forefront of the topic. We have done a lot of amazing things, but we have probably not talked so much about it in the past. Hence efforts are being made to communicate the relevant initiatives to the market, so that we can build awareness and enthusiasm among our customers and inspire them to act sustainably in their own endeavors.

As we continue to work towards building a circular economy for the fashion sector, taking into account environmental protection, worker well-being, efficiency of resources, and technological innovation, we are also monitoring the latest developments, best practices, customer concerns, and pressing agenda items in the realm of sustainability – even beyond fashion. We are pleased to have passed the 50% mark in terms of our sustainable cotton, on our way to the 100% goal we set for July 2021. Even more broadly, we have seen and been inspired by the actions of young people around the globe who are standing up and taking measures to address climate change and demonstrating to all of us both what passion really is, and what it can accomplish. We have been invigorated by the #FridaysforFuture campaign, and by the increasing alignment between our sustainability concerns, and those of our customers. Together, we are making a difference.

In respect of our efforts on sustainability, the Group is pleased to have been awarded the "ESG Report of the Year Awards, Best in ESG Awards and Best in Reporting Awards" organized by BDO (Binder Dijker Otte) Limited and co-organized by the South China Morning Post. This accolade recognizes the Group's efforts in upholding the best practices in ESG (Environmental, Social and Governance).

Closing

Overall, I am very happy with the progress we have made since we announced our Strategy Plan, and we have delivered on what we set out to achieve this financial year. I am convinced that we are on a far better footing now compared with where we were 12 months ago. From the outset, I have been deeply impressed by the strong passion and enthusiasm of the people at Esprit, and none of this past year's achievements would have been possible without their commitment and hard work. I want to express my sincere gratitude to all of them for their dedication and contributions throughout the year. I would also like to thank the Board of Directors and my colleagues in the Executive Management team for their guidance and support.

While there is much more to do, the positive development for the financial year just past demonstrated the effectiveness of the Strategic Plan and our ability in execution. I believe the future is super bright for Esprit. Our goal for FY19/20 is to continue our transformation journey, implementing the Strategy Plan consistently but rapidly, and continually refining it whenever deemed necessary. Barring unexpected circumstances, we are on plan and on track to achieve our target of EBIT breakeven by FY21/22. The plan is ambitious, and times are challenging, but with the concerted efforts and passion from all our employees, as well as with the continued support from other stakeholders, I have full confidence that Esprit will succeed. Our teams are committed and energized by the opportunity ahead.

Anders Christian KRISTIANSEN
Executive Director and Group CEO
18 September 2019

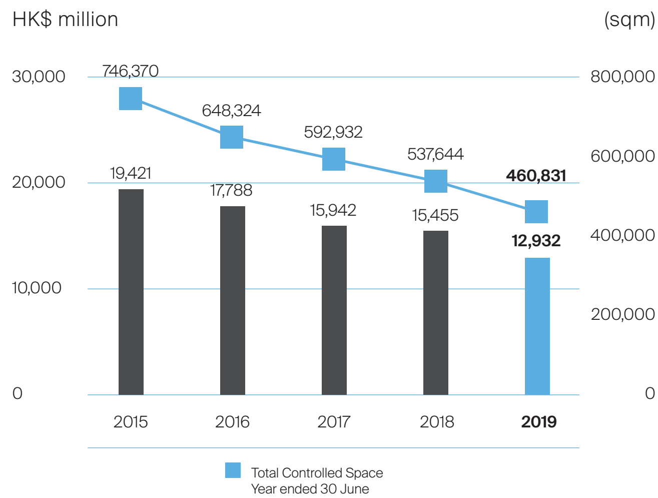
02

Highlights in FY 18/19

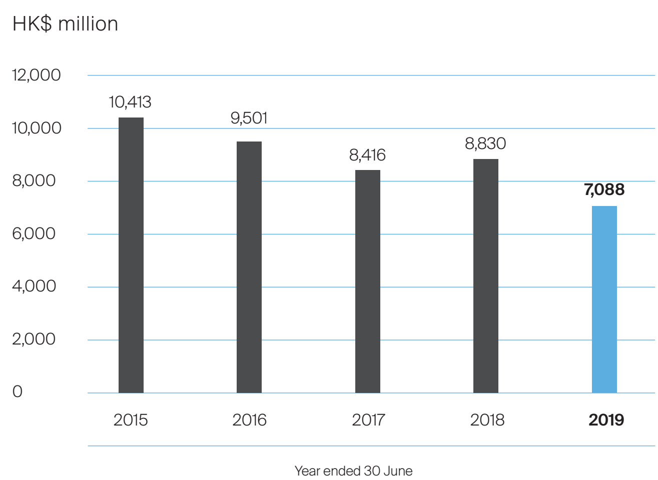
02 Highlights in FY18/19

- During the year, management team had stayed highly focused and began working intensely on the execution of the Strategy Plan announced in the Investor Day in November 2018 to correct the weaknesses of Esprit by bold changes to:
  - ✓ Build a new model for our business in all channel
  - ✓ Build a powerful organization and restructure the cost base
- The Strategy Plan is well underway and has already been yielding results contributing to improvement in operational metrics.
- Positive developments for the first year of implementation have given us encouragement that we are on the right track. Our ability in execution has produced some clear and tangible results, specifically:
  - ✓ **Revenue** of HK$12,932 million, down -12.9% yoy in LCY, compares favourably against the corresponding reduction in total controlled space of -14.3% yoy. Rate of revenue decline continued to narrow quarter-on-quarter throughout the financial year. Retail (including eshop) comparable store sales for Europe returned to positive growth yoy in the fourth quarter.
  - ✓ **Gross Profit Margin** down by -1.1% points in LCY to 50.3% mainly due to clearance of inventory in the first half of FY18/19 as part of the Strategy Plan. Improving trend for gross profit margin in second half of FY18/19 by less discount/markdowns despite investment in quality of products.
  - ✓ **Regular OPEX** reduced by -16.6% yoy in LCY even though relevant measures of the Strategy Plan (e.g. staff reduction and closure/resizing of unprofitable stores) have only started to take effect in the second half of the financial year. Well on track to achieve the announced annualized expense savings target of HK$2 billion over 2 years from FY17/18 level.
  - ✓ **LBIT Underlying Operations** (LBIT excl. exceptional items) improved to a loss of HK$(587) million, much improved compared with that of the last financial year FY17/18 of HK$(909) million.
  - ✓ **Net Loss** was HK$(2,144) million, after taking into account the **Exceptional Items** of HK$(1,493) million primarily comprising one-off non-recurring restructuring costs which are necessary to reduce losses and build a healthier platform for future growth.
  - ✓ **Net Cash** position of HK$3.28 billion with zero debt

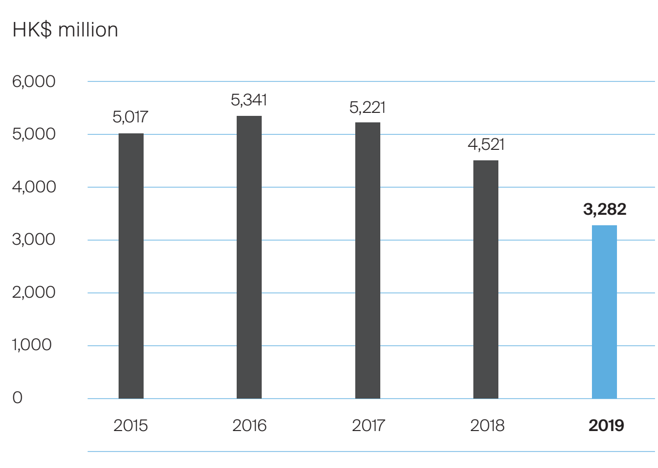
Revenue versus Total Controlled Space



Regular OPEX



Net Cash



Revenue (HK$ million)

Group Revenue	Retail (excl. eshop) Revenue	Wholesale (excl. eshop) Revenue	Eshop Revenue
12,932	5,034	4,053	3,728
12.9% in LCY	16.4% in LCY	13.7% in LCY	6.6% in LCY

Total Controlled Space (Sqm) (retail & wholesale combined)	Retail Controlled Space (Sqm)	Wholesale Controlled Space (Sqm)
460,831	205,708	255,123
14.3%	18.1%	10.9%

Year-on-year decline

Our Sustainability Accomplishments

We have sourced...

38% Better Cotton

14% organic and recycled cotton

61,000 bags

We have developed a first collection of bags **made of water-based PU**

75% of our key wet process mills **took part** in our environmental assessment initial or re-audit

95% of our re-audited mills could **increase their score** in our environmental assessment due to improvements

95% of our factories have completed their **improvement plan by the Bangladesh Accord**

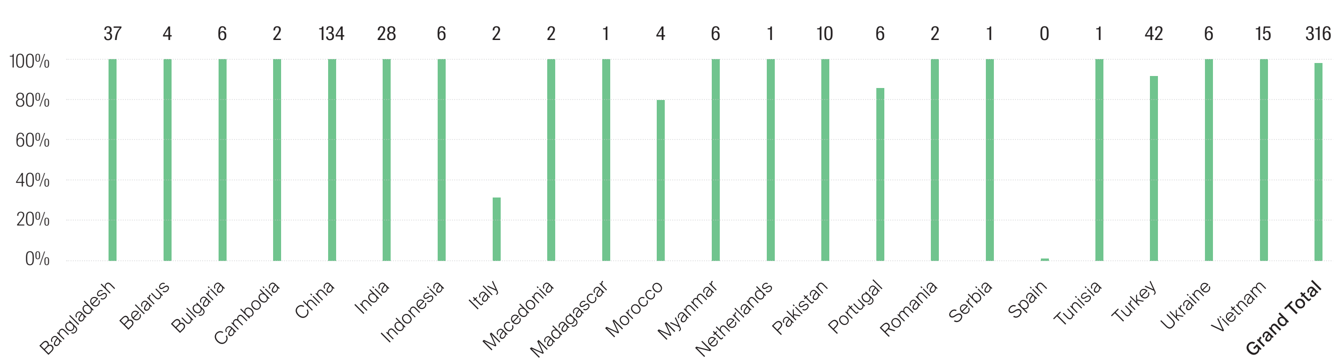
Waste water testing
69% of our key wet processmills conducted waste water testing

61% of our suppliers in India have improved the gender ratio of their management teams, **increasing the number of female line supervisors**

Esprit is ranked 2nd place in the
Fashion Transparency Index 2019

Overview social compliance audits per country

Total number of operations that have completed human rights reviews or human fights impact assessments



We Sta

Radical R

Loving Our

Quality,

and for

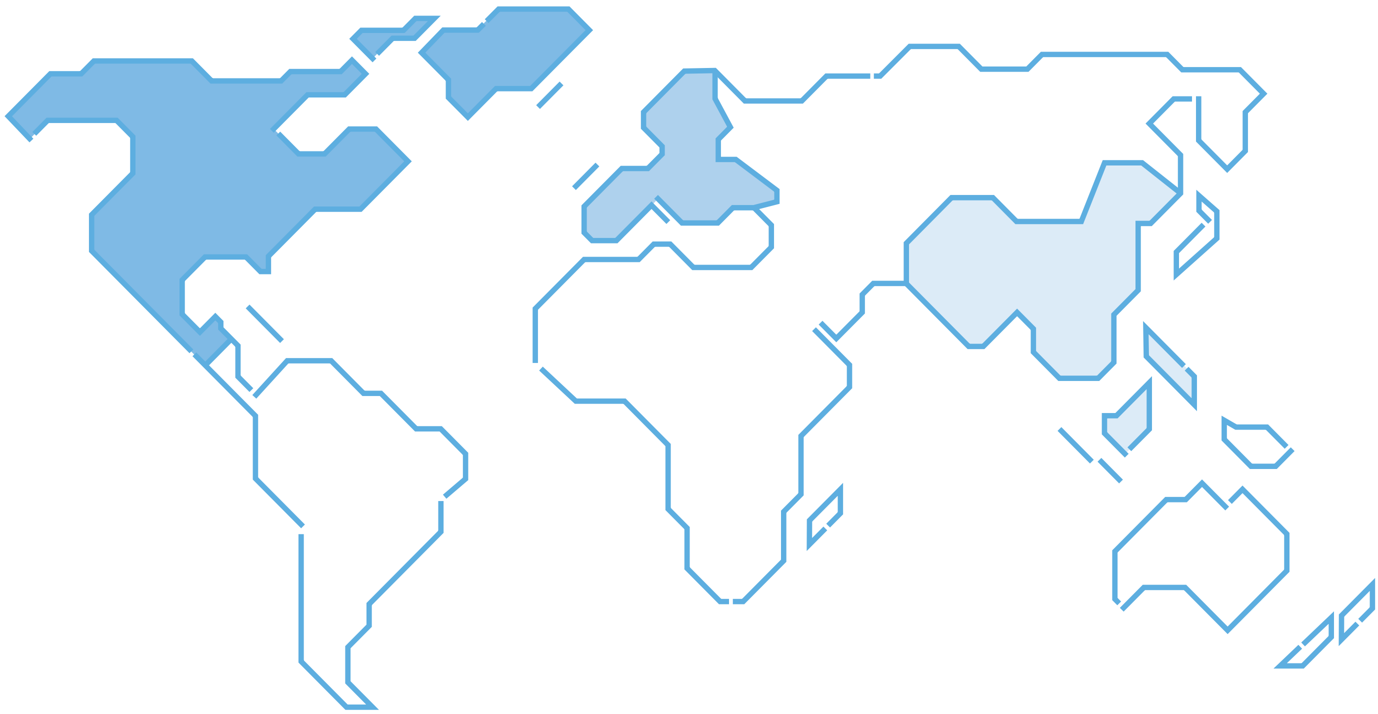
Positivity,

Customer.

Always.

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
19 eshops
429 retail stores
4,970 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.

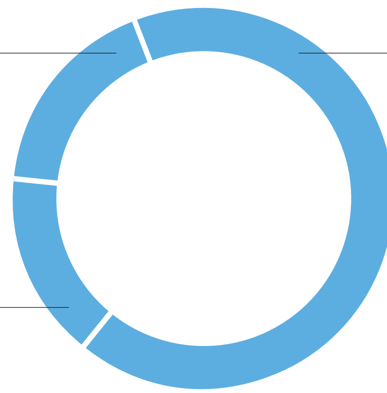
HK$ million // % of Group revenue // % local currency growth

MEN (Esprit & edc)

Men casual
1,319 // 10.2% // -6.6%
Men edc
656 // 5.1% // -11.4%
Men collection
171 // 1.3% // -37.6%

LIFESTYLE AND OTHERS*

2,071 // 16.0% // -20.4%



WOMEN (Esprit & edc)

Women casual#
4,478 // 34.6% // -12.8%
Women edc
2,429 // 18.8% // -11.7%
Women collection
1,808 // 14.0% // -6.0%

\# Women casual is grouped together with Trend in FY18/19 figures, while they were disclosed separately for the same period last year. Comparative figures of women casual are restated accordingly. The Trend Division was set up as a laboratory to test the Group's fast-to-market product development processes. The lessons the Group has learned have been applied to other product divisions under the Women segment

* 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".

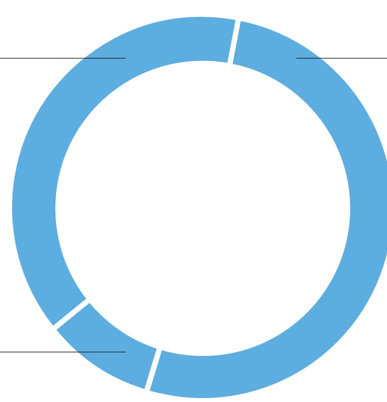
HK$ million // % of Group revenue // % local currency growth

REST OF EUROPE

5,012 // 38.8% // -9.5%

ASIA PACIFIC

1,233 // 9.5% // -33.2%



GERMANY

6,687 // 51.7% // -10.4%

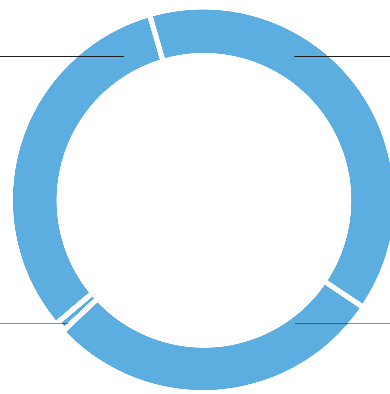
Our business through four distribution channels

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

WHOLESALE (EXCL. ESHOP)
4,053 // 31.4% // -13.7%

RETAIL (EXCL. ESHOP)
5,034 // 38.9% // -16.4%



LICENSING AND OTHERS
117 // 0.9% // -10.3%

ESHOP
3,728 // 28.8% // -6.6%

Breakdown of Group revenue

	For the year ended 30 June				
	2019	2018	2017	2016	2015
Geographical mix (%)					
Germany	**52**	51	50	48	47
Rest of Europe[@]	**39**	37	37	37	37
Asia Pacific	**9**	12	13	15	16
Operation mix (%)					
Retail (excl. eshop)	**39**	40	42	44	44
Wholesale (excl. eshop)	**31**	32	32	32	35
Eshop	**29**	27	25	23	20
Licensing and others	**1**	1	1	1	1
Product mix (%)					
Women casual [#]	**35**	34	34	33	32
Women edc	**19**	19	18	17	17
Women collection	**14**	13	13	12	12
Men casual	**10**	9	10	11	12
Men edc	**5**	5	5	5	5
Men collection	**1**	2	2	2	3
bodywear ^	**6**	6	6	5	4
accessories ^	**4**	5	5	5	5
shoes ^	**3**	3	3	4	4
kids	**0**	0	1	3	3
others *	**3**	4	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
# Women casual is grouped together with Trend in FY18/19 figures, while they were disclosed separately in previous year. Comparative figures of Women casual are restated accordingly

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03

Management discussion and analysis

03 Management Discussion and Analysis

03.1 Overview

During FY18/19, the Group presented and began execution of the Strategy Plan to restore Esprit to sustainable growth and profitability. As mentioned in this financial year's Interim Report, the first two fiscal years of the Strategy Plan are expected to be characterized by the strategic measures to build a leaner organization and resizing the retail store footprint, which will result in a decline in revenue with one-off restructuring costs. Correspondingly, Esprit's business in FY18/19 was impacted by (i) the Group's bold decision to close unprofitable stores and resize the retail store footprint which led to a yoy reduction in total controlled space of -14.3%, and (ii) Exceptional Items totaling HK$(1,493) million primarily related to staff reduction plans, closure of global distribution network (including corporate offices), and writing off of aged inventory.

Taken as a whole, the Group's revenue recorded a yoy decline of -12.9% in LCY, which compares favorably against the corresponding reduction in total controlled space of -14.3% yoy. In terms of profitability, pressure from revenue decline was outweighed by successful reduction in Regular OPEX. As a result of the Group's bold decision to reduce staff headcount and resize or close unprofitable stores, key elements of the overall discipline on cost reduction measures, savings in Regular OPEX of HK$(1,742) million or -16.6% yoy in LCY were achieved. All in all, the results showed an underlying LBIT of HK$(587) million before Exceptional Items, much improved compared with that of the last financial year FY17/18 of HK$(909) million.

It is important to note that the Strategy Plan and the relevant measures only started to take effect in the second half of the financial year, and the business is already showing half-on-half and quarter-on-quarter improvements in different aspects of the underlying operation. Management is encouraged by these promising early signs which inspires confidence that the Group is on the right track.

03.2 Results of Operations

The following table summarizes the results of the Group for FY18/19 and FY17/18, 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 related to the net provisions for store closures and onerous leases, provision for one-off costs in relation to staff reduction plans, inventory provision, impairment of fixed assets, and write-back of one-off costs in relation to closure of Australia and New Zealand ("ANZ") operations.

	For the year ended 30 June			
	2019	2018	Change in %	
	HK$ million	HK$ million	HK$	Local currency
Revenue	**12,932**	15,455	-16.3%	-12.9%
Cost of goods sold	**(6,431)**	(7,534)	-14.6%	-11.1%
Gross profit	**6,501**	7,921	-17.9%	-14.7%
Gross profit margin	***50.3%***	*51.3%*	*-1.0% pt*	*-1.1% pts*
Regular OPEX				
Staff costs	**(2,456)**	(2,968)	-17.2%	-13.9%
Occupancy costs	**(2,088)**	(2,526)	-17.4%	-14.2%
Logistics expenses	**(821)**	(1,029)	-20.2%	-17.2%
Marketing and advertising expenses	**(634)**	(900)	-29.6%	-26.7%
Depreciation	**(455)**	(528)	-13.9%	-10.4%
Other operating costs	**(634)**	(879)	-27.8%	-24.9%
Subtotal	**(7,088)**	(8,830)	-19.7%	-16.6%
(LBIT) of Underlying Operations	**(587)**	(909)		
Exceptional items				
i) Net provision for store closures and onerous leases	**(895)**	(152)		
ii) One-off costs in relation to staff reduction plans	**(354)**	(119)		
iii) Inventory provision	**(159)**	(76)		
iv) Impairment of property, plant and equipment	**(110)**	(50)		
v) Write back of/(additional) provision for one-off costs in relation to closure of ANZ operations	**25**	(129)		
vi) Impairment of China goodwill and customer relationships	**–**	(794)		
vii) Provision for SAP applications	**–**	(26)		
viii) Fixed assets impairment for small loss-making stores	**–**	(14)		
ix) Net gain on disposal of properties	**–**	16		
Subtotal	**(1,493)**	(1,344)		
LBIT of the Group	**(2,080)**	(2,253)		
Net interest income	**14**	27		
Loss before taxation	**(2,066)**	(2,226)		
Net taxation	**(78)**	(328)		
Net loss	**(2,144)**	(2,554)		

03.3 Revenue Analysis

For the financial year ended 30 June 2019 ("FY18/19" or "Period Under Review"), the Group recorded revenue of HK$12,932 million (2018: HK$15,455 million), representing a decline of -12.9% yoy in LCY which compares favorably against the controlled space reduction of -14.3% yoy. This is the first-time since FY15/16 where the Group recorded a revenue decline that is less than the corresponding space reduction.

The decline in Hong Kong dollar terms was moderately higher (-16.3% yoy) due to the slight weakness of the Euro against the Hong Kong Dollar during the Period under Review (average rate decrease of -4.2% compared with last year).

Also worth mentioning is that while FY18/19 recorded a revenue decline, the rate of decline during the year has continued to narrow quarter-on-quarter, reflecting a positive trend of improvement and such sequential improvement was mainly driven by the market in Germany which accounted for the largest share of the Group's revenue. It is worth highlighting that one of the key reasons behind the negative quarter-on-quarter trend seen in Asia Pacific was the closure of the ANZ market.

	Revenue change in % (yoy in LCY)					
	First Quarter	**Second Quarter**	**1H FY18/19**	**Third Quarter**	**Fourth Quarter**	**FY18/19**
By Region ^						
Germany	**-16.8%**	**-11.1%**	**-13.9%**	**-8.6%**	**-4.4%**	**-10.4%**
Rest of Europe	**-14.5%**	**-7.1%**	**-11.0%**	**-8.0%**	**-7.7%**	**-9.5%**
Asia Pacific	**-20.0%**	**-31.2%**	**-26.6%**	**-35.2%**	**-44.9%**	**-33.2%**
Total	**-16.2%**	**-12.5%**	**-14.4%**	**-11.6%**	**-10.8%**	**-12.9%**

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

Revenue by region and by distribution channel

The business is organized into four operating segments: "Germany", "Rest of Europe" (including America and the Middle East), "Asia Pacific" ("APAC") and "Global Eshop". The following table summarizes the breakdown of revenue by operating segments, as well as the changes in each segment's revenue from the comparable period last year.

	For the year ended 30 June						
	2019		2018		Revenue Change in %		Net change in net sales area^
	HK$ million	**% to Group Revenue**	HK$ million	% to Group Revenue	HK$	Local currency	
Germany	**6,687**	**51.7%**	7,791	50.4%	-14.2%	-10.4%	-11.6%
Retail (excl. eshop)	**2,226**	**17.2%**	2,660	17.2%	-16.3%	-12.8%	-14.8%
Wholesale (excl. eshop)	**2,200**	**17.0%**	2,621	17.0%	-16.1%	-12.3%	-9.3%
eshop	**2,232**	**17.2%**	2,479	16.0%	-10.0%	-6.0%	n.a.
Licensing	**29**	**0.3%**	31	0.2%	-3.1%	1.3%	n.a.
Rest of Europe	**5,012**	**38.8%**	5,769	37.3%	-13.1%	-9.5%	-10.8%
Retail (excl. eshop)	**1,805**	**14.0%**	2,031	13.1%	-11.1%	-7.6%	-8.8%
Wholesale (excl. eshop)	**1,754**	**13.6%**	2,168	14.0%	-19.1%	-15.5%	-12.1%
eshop	**1,365**	**10.6%**	1,469	9.5%	-7.1%	-2.8%	n.a.
Licensing and others	**88**	**0.6%**	101	0.7%	-14.1%	-13.8%	n.a.
Asia Pacific	**1,233**	**9.5%**	1,895	12.3%	-34.9%	-33.2%	-33.3%
Retail (excl. eshop)	**1,003**	**7.7%**	1,560	10.1%	-35.7%	-34.0%	-35.5%
Wholesale (excl. eshop)	**99**	**0.8%**	114	0.7%	-12.7%	-12.1%	-20.7%
eshop	**131**	**1.0%**	221	1.5%	-40.7%	-38.2%	n.a.
Total	**12,932**	**100.0%**	15,455	100.0%	-16.3%	-12.9%	-14.3%
Retail (excl. eshop)	**5,034**	**38.9%**	6,251	40.4%	-19.5%	-16.4%	-18.1%
Wholesale (excl. eshop)	**4,053**	**31.4%**	4,903	31.7%	-17.3%	-13.7%	-10.9%
eshop	**3,728**	**28.8%**	4,169	27.0%	-10.6%	-6.6%	n.a.
Licensing and others	**117**	**0.9%**	132	0.9%	-11.5%	-10.3%	n.a.

^ Net change since 1 July 2018
n.a. Not applicable

Germany, the largest market of the Group, accounted for 51.7% of total Group's revenue, recorded revenue of HK$6,687 million in FY18/19, representing a yoy decline of -10.4% in LCY. In terms of distribution channels, Retail (excluding eshop), Wholesale (excluding eshop), eshop and the Licensing businesses contributed 33.3%, 32.9%, 33.4%, and 0.4% of revenue in Germany, respectively.

- **Germany Retail (excluding eshop)** recorded revenue of HK$2,226 million, representing a decline of -12.8% yoy in LCY, which compares favorably against the reduction in net sales area of -14.8% yoy. The reduction in net sales area is in line with the Strategy Plan of the Group for closure of unprofitable retail stores. It is worth noting that while comparable store sales for the full financial year recorded a decline of -6.3% yoy in LCY, the rate of decline significantly narrowed from -10.7% yoy in LCY in the first half ("1H FY18/19") to -1.2% yoy in LCY in the second half ("2H FY18/19"). The improvement was mainly driven by the very positive month of June 2019 where Germany retail recorded a positive comparable stores growth of +4.8% yoy in LCY. What is more encouraging is that this positive performance was achieved despite having two fewer trading days as compared with the same month last year (one more Sunday and one more public holiday due to shift of Whit Monday from May last year to June this year).

- **Germany Wholesale (excluding eshop)** recorded revenue of HK$2,200 million, representing a yoy decline of -12.3% in LCY. While there was a decline, we saw significant improvement in the 2H FY18/19 with the decline in revenue significantly narrowed to -6.8% yoy in LCY (1HFY18/19: -17.4% yoy in LCY), due to many initiatives in progress to build a best-in-class wholesale model to better serve the Group's wholesale customers in the region.

Rest of Europe comprises countries in Europe except Germany but includes America and Middle East accounted for 38.8% of the Group's total revenue. The region recorded revenue of HK$5,012 million in FY18/19, representing a yoy decline of -9.5% in LCY. In terms of distribution channels, Retail (excl. eshop), Wholesale (excl. eshop), eshop, and Licensing businesses contributed 36.0%, 35.0%, 27.2% and 1.8% of the region's revenue, respectively.

- **Rest of Europe Retail (excluding eshop)** recorded revenue of HK$1,805 million, representing a yoy decline of -7.6% in LCY, better than the corresponding space reduction of -8.8%. Similar to Germany, while comparable store sales for the full financial year recorded a decline of -5.3% yoy in LCY, the rate of decline narrowed significantly from -9.1% yoy in LCY in the 1H FY18/19 to -1.0% yoy in LCY in the 2H FY18/19. Such half-on-half improvement was mainly driven by the very positive month of June 2019 where Rest of Europe retail recorded a positive comparable store sales growth of +1.9% yoy in LCY.

- **Rest of Europe Wholesale (excluding eshop)** recorded revenue of HK$1,754 million, representing a yoy decline of -15.5% in LCY (1H FY18/19: -14.8%, 2H FY18/19: -16.2%). The revenue decline was mainly attributable to Benelux where we lost a few customers and recorded a revenue decline of -25.1% yoy in LCY against a reduction in controlled space of -23.4%.

Asia Pacific ("APAC") comprising mainly China, Singapore, Hong Kong, Malaysia, Taiwan, Macau, Thailand, India, Myanmar and the Philippines, accounted for 9.5% of the Group's total revenue. The region recorded revenue of HK$1,233 million, representing a yoy decline of -33.2% in LCY. In terms of distribution channels, Retail (excluding eshop), Wholesale (excluding eshop), and eshop businesses contributed 81.3%, 8.1%, and 10.6% of the region's revenue, respectively.

- **Asia Pacific Retail (excluding eshop)** recorded revenue of HK$1,003 million, accounting for 7.7% of total Group's revenue, representing a decline of -34.0% yoy in LCY, mainly due to (i) reduction in net sales area of -35.5% yoy, and (ii) a decline in comparable store sales of -6.2% yoy in LCY (China: -15.8%, Rest of APAC: -0.2%) due to decline in customer traffic. The significant reduction in net sales area include management's decision to exit the ANZ market. Excluding the ANZ market, where all stores were closed since the end of September 2018, Asia Pacific Retail (excluding eshop) revenue declined by -24.8% yoy in LCY, with a corresponding space reduction of -28.4% yoy.

- **Asia Pacific Wholesale (excluding eshop)** recorded revenue of HK$99 million, accounting for 0.8% of total Group's revenue, representing a decline of -12.1% yoy in LCY. The revenue development compares favorably against the corresponding controlled space reduction of -20.7% yoy, due to improved order intake from wholesale partner in Thailand partly offset by reduced order intake from others for some expected store closures.

Global Eshop, accounting for 28.8% of total Group's revenue (2018: 27.0%), comprises its directly managed ecommerce business in European and APAC countries including sales to third party online distributors in APAC. In FY18/19, this channel generated HK$3,728 million in revenue, representing a decline of -6.6% yoy in LCY.

- **Eshop Europe** (Germany and Rest of Europe) accounted for 96.5% of Global Eshop revenue and reported a decline of -4.8% yoy in LCY. Whilst there was a decline in revenue for the full financial year, we were encouraged by the positive performance for the fourth quarter which recorded a revenue growth of +3.9% yoy in LCY.

Eshop Europe

	Change in % (yoy in LCY)			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenue	**-14.1%**	**-3.8%**	**-6.0%**	**3.9%**

- **Eshop APAC** recorded revenue of HK$131 million, representing a decline of -38.2% yoy in LCY, accounting for 3.5% of Global Eshop revenue in FY18/19. The decline was mainly due to (i) the closure of Eshop in July 2018 for the ANZ market, and (ii) the decline in consumer traffic to the Eshop on Tmall.

03.4 Profitability Analysis

Gross Profit margin was 50.3%, lower than last year by -1.1% points in LCY. While there was a yoy decline in gross profit margin for the financial year, the decline was mainly attributable to the decline in the 1H FY18/19 (-1.6% points) when the Group was clearing old inventory as part of the Strategy Plan. The situation has much improved in the 2H FY18/19 where the gross profit margin decline had significantly narrowed to -0.4% point, thanks to less discount and markdown for the new products partly offset by investment in quality.

Regular OPEX (excluding Exceptional Items) include staff costs, occupancy costs, logistics expenses, marketing and advertising expenses, depreciation and other operating costs. Regular OPEX amounted to HK$(7,088) million in FY18/19, representing a significant yoy decline of -16.6% in LCY. Benefiting from the restructuring program, the Group continues to reduce operating expenses, with savings achieved across all of the major cost lines, including personnel cost (-13.9% yoy in LCY), occupancy costs (-14.2% yoy in LCY), logistic expenses (-17.2% yoy in LCY) and marketing & advertising expenses (-26.7% yoy in LCY). The Group now has a much healthier cost base and are well on track to achieve the announced annualized expense savings target of HK$2 billion over two years from the FY17/18 level.

LBIT of Underlying Operations (i.e., excluding the Exceptional Items) was HK$(587) million, much improved compared with HK$(909) million last year. Decrease in revenue and lower gross profit margin were outweighed by the significant reduction in Regular OPEX.

Exceptional Items of HK$(1,493) million were recorded primarily in connection with the one-off restructuring costs as mentioned at the beginning of this "Management Discussion and Analysis" section, comprising of: i) a net additional provision for store closures and onerous leases & impairment of fixed assets totaling HK$(1,005) million; ii) a one-off cost in relation to staff reduction plans of HK$(354) million; iii) an inventory provision of HK$(159) million, and iv) a write-back of one-off costs in relation to closure of ANZ operations of HK$25 million. These restructuring costs are necessary to reduce losses and build a healthy platform for future growth.

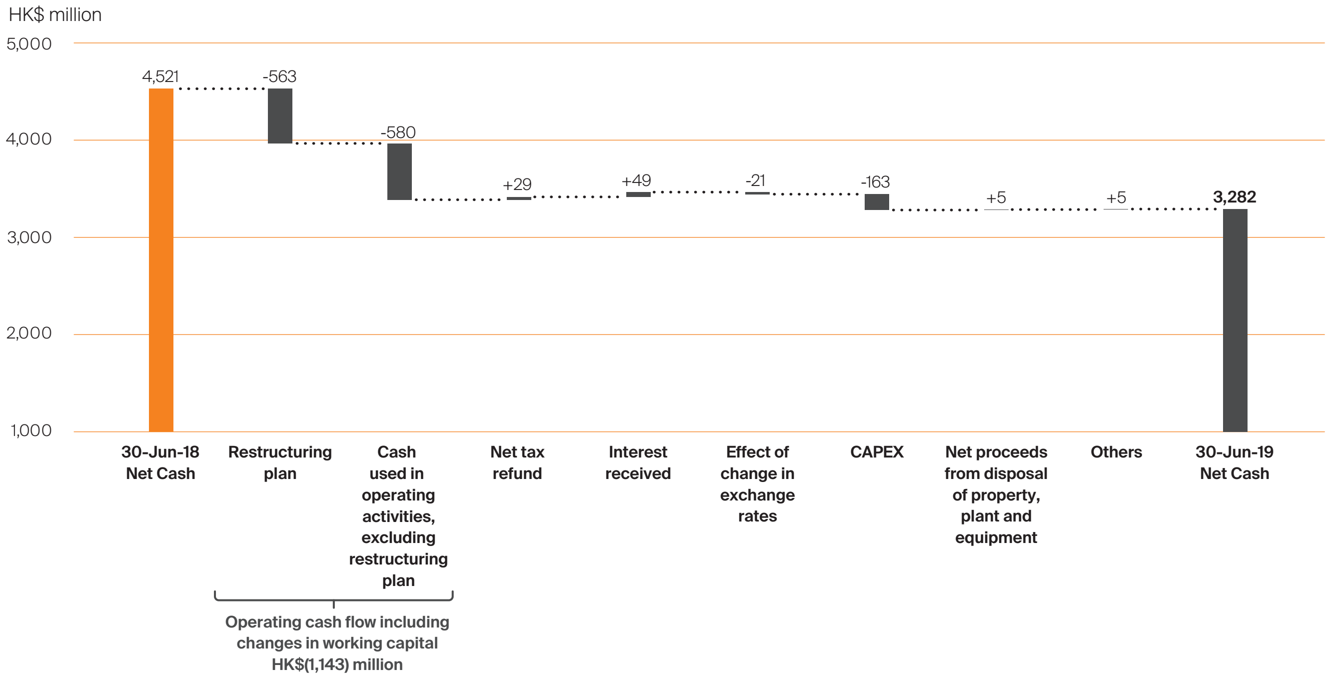
LBIT of the Group for FY18/19 was adversely impacted by Exceptional Items as previously discussed. Including the Exceptional Items, LBIT of the Group was HK$(2,080) million in FY18/19 as compared with LBIT of HK$(2,253) million in the same period last year.

Interest was a net income of HK$14 million (FY17/18: HK$27 million), comprising i) interest earned on cash, bank balances and deposits of HK$49 million (FY17/18: HK$58 million), representing an effective interest rate of 1.4% per annum (FY17/18: 1.2%), offset by ii) non-cash interest expenses primarily related to time value of provision for store closures and onerous leases.

Taking into account the net **Taxation** expense of HK$(78) million in FY18/19, (FY17/18: net taxation expense of HK$(328) million), **Net Loss** of the Group was HK$(2,144) million (FY17/18: net loss of HK$(2,554) million).

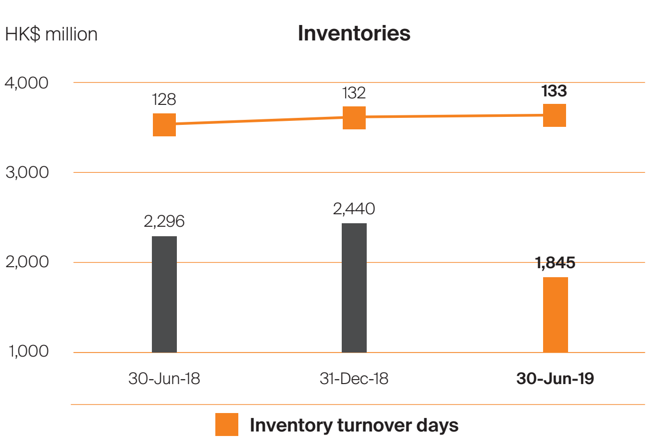
03.5 Liquidity and Financial Resources Analysis

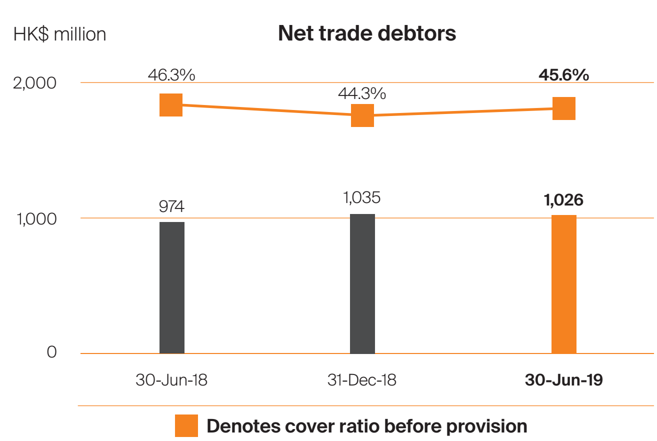
Net Cash: As at 30 June 2019, the Group remained debt free with net cash of HK$3,282 million (30 June 2018: HK$4,521 million), representing a net cash utilization of HK$(1,239) million for FY18/19, as compared with HK$(700) million for the last financial year. The cash utilization this year was partly due to cash used in the Restructuring Plan totaling HK$563 million (staff reduction: HK$123 million, store closure plan: HK$383 million, and exit of ANZ market: HK$57 million). Excluding cash used in the Restructuring Plan, net cash used in operating activities amounted to HK$580 million.



Inventories: The inventory balance amounted to HK$1,845 million (30 June 2018: HK$2,296 million), representing a yoy reduction of -19.6% after reflecting a special write-off of aged inventory. In terms of units, the total inventory at the end of June 2019 was 28.3 million pieces, a yoy decrease of -14.1% as compared with the 32.9 million pieces at the end of June 2018 due to action taken to reduce inventory purchase to align with sales. Inventory turnover days were 133 days, an increase of 5 days as compared with a year ago (30 June 2018: 128 days).

Net Trade Debtors was HK$1,026 million (30 June 2018: HK$974 million), representing a yoy increase of 5.4%, mainly due to growth in Europe Eshop sales in the fourth quarter as mentioned earlier. The cover ratio before provision (the amount of insured and secured gross trade debtors including VAT over total gross trade debtors including VAT) decreased to 45.6% (30 June 2018: 46.3%).





Capital Expenditure (CAPEX): The Group has remained cautious in CAPEX investments as it remains vigilant in cash flow management and cost control. The Group invested HK$163 million in CAPEX in FY18/19 (FY17/18: HK$305 million), representing a decrease of -46.6% yoy mainly due to a high base last year because of an investment in the extension of its distribution center in Mönchengladbach which has subsequently been completed.

	For the year ended 30 June	
HK$ million	**2019**	2018
New stores	**36**	30
Refurbishment	**31**	76
IT projects	**30**	45
Office & others	**66**	154
Purchase of property, plant and equipment	**163**	305

Total Interest Bearing External Borrowings: As at 30 June 2019, the Group had no interest-bearing external borrowings (30 June 2018: 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 Euros, it reports financial results in Hong Kong Dollars. As a result, fluctuations in the value of the Euro against the Hong Kong Dollar could affect its revenue as reported in Hong Kong Dollars. In addition, the purchases of finished goods in Euros account for only a small portion of its total purchases of finished goods while the Group's revenue is generated primarily in Euros, therefore fluctuations in the value of the Euro against other currencies, mostly against the US Dollar, could affect its margins and profitability.

Human Resources

As at 30 June 2019, the Group employed over 4,900 full-time equivalent staff (30 June 2018: over 6,400) 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 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 2019, the Board has not recommended the distribution of a final dividend for the year ended 30 June 2019 (FY17/18: Nil).

03.6 Outlook for FY19/20

Looking ahead, the macro environment in FY19/20 continues to present challenges and uncertainties amid escalation of trade tensions damaging economic growth and weighing on consumer sentiment. Notwithstanding this macro headwind, the Strategy Plan is well underway, and management of the Group is encouraged by the initial positive progress achieved during the past year which gives the management much confidence that it is on the right track.

In FY19/20, the Group's goal is to stay on course and remain focused on rapidly executing the Strategy Plan. The first and foremost priority is to leverage the new brand ethos and the strengths of its new dynamic organization to improve products and enhance the ESPRIT experience across channels with a clear handwriting/presentation. The Group will drive its business performance through a brand based, customer centric, and data driven-approach to improve our operational and financial metrics both online and offline.

Taking all factors into consideration, the Group anticipates a low-double-digit percentage decline in **Revenue** in FY19/20 as the focus is on healthy and profitable sales. In terms of margin, we aim to achieve a slight improvement yoy increase in **Gross Profit Margin** mainly through having less discount while keeping retail price stable. As for **Regular OPEX**, the Group expects a high-single-digit percentage reduction yoy for FY19/20, mainly driven by (i) the full-year effect of the cost restructuring measures achieved in the past year, and (ii) savings from further store closures, partly offset by necessary spending in certain areas e.g., insourcing of ecommerce, IT, marketing etc. in order to facilitate future growth.

Investment in **Capital Expenditure** will remain selective but will increase compared with last year as the Group invests in relevant technology to facilitate a simple, fast and digitalized operating process.

Whilst the Group is confident in its strategic direction, the ambitious project ahead, combined with the challenging and demanding market environment, may present uncertainty to its short-term performance. As the Group advances along this journey, it will continuously track its progress and performance so as to adapt and make appropriate adjustments in a dynamic manner as and when necessary.

APPENDIX

Retail (excluding eshop) Distribution Channels by Region (Directly Managed Retail Stores)

	For the year ended 30 June										
	No. of stores				Net sales area (m^2)						
	As at 30 June 2019	Open	Close	Net change^	As at 30 June 2019	Open	Close	Net change^ (m^2)	Net change^ (%)	No. of comp-stores	Comp-store sales growth
Germany	**122**	4	(22)	(18)	**93,349**	1,777	(17,943)	(16,166)	-14.8%	111	-6.3%
Rest of Europe	**130**	4	(11)	(7)	**71,684**	1,525	(8,457)	(6,932)	-8.8%	100	-5.3%
Asia Pacific	**177**	4	(136)	(132)	**40,675**	999	(23,400)	(22,401)	-35.5%	113	-6.2%
Total	**429**	12	(169)	(157)	**205,708**	4,301	(49,800)	(45,499)	-18.1%	324	-5.9%

^ Net change since 1 July 2018

Wholesale (excluding eshop) Distribution Channel by Region (controlled space only)

	For the year ended 30 June								
	No. of stores				Net sales area (m^2)				
	As at 30 June 2019	Open	Close	Net change^	As at 30 June 2019	Open	Close	Net change^ (m^2)	Net change^ (%)
Germany	**3,106**	191	(441)	(250)	**138,332**	6,327	(20,493)	(14,166)	-9.3%
Franchise stores	**201**	6	(32)	(26)	**44,527**	1,008	(7,214)	(6,206)	-12.2%
Shop-in-stores	**1,887**	80	(241)	(161)	**72,806**	2,789	(9,813)	(7,024)	-8.8%
Identity corners	**1,018**	105	(168)	(63)	**20,999**	2,530	(3,466)	(936)	-4.3%
Rest of Europe	**1,767**	87	(336)	(249)	**107,856**	5,382	(20,192)	(14,810)	-12.1%
Franchise stores	**383**	18	(56)	(38)	**70,832**	3,414	(11,588)	(8,174)	-10.3%
Shop-in-stores	**727**	34	(85)	(51)	**22,058**	1,279	(3,858)	(2,579)	-10.5%
Identity corners	**657**	35	(195)	(160)	**14,966**	689	(4,746)	(4,057)	-21.3%
Asia Pacific	**97**	7	(20)	(13)	**8,935**	758	(3,096)	(2,338)	-20.7%
Franchise stores	**97**	7	(20)	(13)	**8,935**	758	(3,096)	(2,338)	-20.7%
Total	**4,970**	285	(797)	(512)	**255,123**	12,467	(43,781)	(31,314)	-10.9%
Franchise stores	**681**	31	(108)	(77)	**124,294**	5,180	(21,898)	(16,718)	-11.9%
Shop-in-stores	**2,614**	114	(326)	(212)	**94,864**	4,068	(13,671)	(9,603)	-9.2%
Identity corners	**1,675**	140	(363)	(223)	**35,965**	3,219	(8,212)	(4,993)	-12.2%

^ Net change since 1 July 2018

Revenue Development by Quarter

	Revenue change in % (yoy in LCY)				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	FY18/19
By Distribution Channel					
Retail (excl. eshop)	-17.8%	-14.5%	-14.9%	-18.7%	-16.4%
Wholesale (excl. eshop)	-15.5%	-16.5%	-11.0%	-11.6%	-13.7%
eshop	-14.9%	-5.5%	-7.9%	1.2%	-6.6%
Licensing and others	-11.2%	-11.5%	-10.0%	-8.6%	-10.3%
Total	-16.2%	-12.5%	-11.6%	-10.8%	-12.9%
By Region^					
Germany	-16.8%	-11.1%	-8.6%	-4.4%	-10.4%
Rest of Europe	-14.5%	-7.1%	-8.0%	-7.7%	-9.5%
Asia Pacific	-20.0%	-31.2%	-35.2%	-44.9%	-33.2%
Total	-16.2%	-12.5%	-11.6%	-10.8%	-12.9%

^ Region as a whole includes retail (excluding eshop), eshop, wholesale (excluding eshop) and licensing operations

Revenue by Product

	For the year ended 30 June					
	2019		2018		Change in %	
Product division	**HK$ million**	**% to Group Revenue**	HK$ million	% to Group Revenue	HK$	Local currency
Women (Esprit & edc)	**8,715**	**67.4%**	10,220	66.1%	-14.7%	-11.2%
women casual#	**4,478**	**34.6%**	5,347	34.6%	-16.3%	-12.8%
women edc	**2,429**	**18.8%**	2,865	18.5%	-15.2%	-11.7%
women collection	**1,808**	**14.0%**	2,008	13.0%	-10.0%	-6.0%
Men (Esprit & edc)	**2,146**	**16.6%**	2,525	16.3%	-15.0%	-11.6%
men casual	**1,319**	**10.2%**	1,471	9.5%	-10.3%	-6.6%
men edc	**656**	**5.1%**	769	5.0%	-14.8%	-11.4%
men collection	**171**	**1.3%**	285	1.8%	-39.7%	-37.6%
Lifestyle and others*	**2,071**	**16.0%**	2,710	17.6%	-23.6%	-20.4%
Total	**12,932**	**100.0%**	15,455	100.0%	-16.3%	-12.9%

Women casual is grouped together with Trend in FY18/19 figures, while they were disclosed separately for the same period last year. Comparative figures of women casual are restated accordingly. The Trend Division was set up as a laboratory to test the Group's fast-to-market product development processes. The lessons the Group has learned have been applied to other product divisions under the Women segment

* 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

Revenue by Country

	For the year ended 30 June						
	2019		2018		Revenue change in %		Net change in net sales area^
Country^^	**HK$ million**	**% to Group Revenue**	HK$ million	% to Group Revenue	HK$	Local currency	
Germany#	**6,687**	**51.7%**	7,791	50.4%	-14.2%	-10.4%	-11.6%
Rest of Europe	**5,012**	**38.8%**	5,769	37.3%	-13.1%	-9.5%	-10.8%
Benelux#	**1,633**	**12.6%**	1,910	12.4%	-14.6%	-10.9%	-15.4%
Switzerland	**762**	**5.9%**	838	5.4%	-9.0%	-6.4%	-7.9%
France	**736**	**5.7%**	906	5.9%	-18.8%	-15.3%	-6.7%
Austria	**668**	**5.2%**	742	4.8%	-9.9%	-5.9%	-6.6%
Spain	**208**	**1.6%**	229	1.5%	-9.4%	-5.3%	-3.6%
Finland	**200**	**1.6%**	224	1.5%	-10.5%	-6.8%	-5.2%
Sweden	**183**	**1.4%**	219	1.4%	-16.3%	-8.6%	-28.3%
Italy	**114**	**0.9%**	130	0.8%	-12.2%	-8.4%	-11.3%
United Kingdom	**95**	**0.7%**	112	0.7%	-15.1%	-11.9%	-10.2%
Poland	**90**	**0.7%**	93	0.6%	-2.9%	2.3%	-8.3%
Denmark	**68**	**0.5%**	90	0.6%	-25.3%	-21.9%	-33.0%
Ireland	**7**	**0.1%**	7	0.0%	0.2%	4.7%	-19.7%
Norway	**2**	**0.0%**	3	0.0%	-18.9%	-13.7%	–
Portugal	**1**	**0.0%**	1	0.0%	12.5%	18.0%	n.a.
Others##	**245**	**1.9%**	265	1.7%	-7.5%	-5.1%	-9.5%
Asia Pacific	**1,233**	**9.5%**	1,895	12.3%	-34.9%	-33.2%	-33.3%
China	**481**	**3.7%**	760	4.9%	-36.7%	-33.8%	-30.6%
Singapore	**208**	**1.6%**	240	1.6%	-13.5%	-12.2%	-24.1%
Malaysia	**143**	**1.1%**	158	1.0%	-9.3%	-8.2%	-19.3%
Taiwan	**122**	**0.9%**	154	1.0%	-20.8%	-18.3%	-30.2%
Hong Kong	**104**	**0.8%**	174	1.1%	-40.2%	-40.2%	-61.8%
Macau	**58**	**0.5%**	73	0.5%	-20.2%	-20.2%	-33.0%
Australia and New Zealand	**36**	**0.3%**	262	1.7%	-86.4%	-85.5%	-100.0%
Others@	**81**	**0.6%**	74	0.5%	10.3%	10.3%	-1.7%
Total	**12,932**	**100.0%**	15,455	100.0%	-16.3%	-12.9%	-14.3%

^ Net change since 1 July 2018
^^ 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 and Canada, 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
n.a. not applicable

Retail (excl. eshop) revenue by country

	For the year ended 30 June						
	2019		2018		Revenue change in %		Net change in net sales area^
Country	**HK$ million**	**% to Total Revenue**	HK$ million	% to Total Revenue	HK$	Local currency	
Germany	**2,226**	**44.2%**	2,660	42.5%	-16.3%	-12.8%	-14.8%
Rest of Europe	**1,805**	**35.9%**	2,031	32.5%	-11.1%	-7.6%	-8.8%
Benelux	**725**	**14.4%**	792	12.7%	-8.5%	-4.6%	-8.3%
Switzerland	**468**	**9.3%**	516	8.3%	-9.4%	-7.4%	-4.6%
Austria	**314**	**6.2%**	346	5.5%	-9.2%	-5.3%	-3.3%
France	**140**	**2.8%**	188	3.0%	-25.3%	-22.2%	-15.9%
Sweden	**58**	**1.2%**	61	1.0%	-4.2%	5.1%	-33.4%
Poland	**55**	**1.1%**	65	1.0%	-14.4%	-9.5%	-8.3%
Finland	**43**	**0.9%**	49	0.8%	-11.9%	-8.4%	–
Denmark	**2**	**0.0%**	14	0.2%	-89.3%	-89.4%	-100.0%
Asia Pacific	**1,003**	**19.9%**	1,560	25.0%	-35.7%	-34.0%	-35.5%
China	**362**	**7.2%**	545	8.7%	-33.5%	-30.4%	-27.5%
Singapore	**185**	**3.7%**	222	3.6%	-17.1%	-15.9%	-24.1%
Malaysia	**140**	**2.8%**	155	2.5%	-9.4%	-8.2%	-19.3%
Taiwan	**120**	**2.4%**	151	2.4%	-20.5%	-18.0%	-30.2%
Hong Kong	**102**	**2.0%**	173	2.8%	-40.9%	-40.9%	-61.8%
Macau	**59**	**1.1%**	73	1.2%	-20.2%	-20.2%	-33.0%
Australia and New Zealand	**35**	**0.7%**	241	3.8%	-85.5%	-84.5%	-100.0%
Total	**5,034**	**100.0%**	6,251	100.0%	-19.5%	-16.4%	-18.1%

^ Net change since 1 July 2018

Directly managed retail stores by country – movement since 1 July 2018

	As at 30 June 19					
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	**122**	**(18)**	**93,349**	**-14.8%**	**111**	**-6.3%**
Rest of Europe	**130**	**(7)**	**71,684**	**-8.8%**	**100**	**-5.3%**
Switzerland	35	(1)	15,478	-4.6%	30	-5.7%
Netherlands	24	–	14,442	-6.9%	16	-7.4%
Belgium	21	(2)	13,996	-12.1%	16	-4.4%
Austria	19	–	14,247	-3.3%	17	-4.4%
France	10	(1)	4,490	-15.9%	8	-2.8%
Poland	10	(1)	2,965	-8.3%	7	-5.6%
Sweden	5	(2)	2,376	-33.4%	2	-5.8%
Luxembourg	4	1	2,109	12.8%	3	-5.7%
Finland	2	–	1,581	–	1	-8.3%
Denmark	–	(1)	–	-100.0%	–	n.a.
Asia Pacific	**177**	**(132)**	**40,675**	**-35.5%**	**113**	**-6.2%**
China	100	(45)	19,815	-27.5%	56	-15.8%
Taiwan	30	(22)	3,480	-30.2%	23	2.6%
Malaysia	24	(5)	9,543	-19.3%	19	-2.0%
Singapore	15	(4)	4,634	-24.1%	10	-1.1%
Hong Kong	4	(5)	1,569	-61.8%	3	10.6%
Macau	4	(1)	1,634	-33.0%	2	-10.6%
Australia	–	(45)	–	-100.0%	–	n.a.
New Zealand	–	(5)	–	-100.0%	–	n.a.
Total	**429**	**(157)**	**205,708**	**-18.1%**	**324**	**-5.9%**

^ Net change since 1 July 2018
n.a. Not applicable

Directly managed retail stores by store type – movement since 1 July 2018

	No. of stores					Net sales area (m^2)				
Store type	**As at 30 June 2019**	vs 1 July 2018 Opened	Closed	As at 1 July 2018	Net change	**As at 30 June 2019**	vs 1 July 2018 Opened	Closed	As at 1 July 2018	Net change
Stores	**293**	**9**	**(69)**	**353**	**(60)**	**166,872**	**3,214**	**(36,852)**	**200,510**	**-16.8%**
- Germany	**105**	2	(20)	123	(18)	**78,927**	962	(17,246)	95,211	-17.1%
- Rest of Europe	**122**	4	(10)	128	(6)	**66,595**	1,525	(7,882)	72,952	-8.7%
- Asia Pacific	**66**	3	(39)	102	(36)	**21,350**	727	(11,724)	32,347	-34.0%
Concession counters	**89**	–	(75)	164	(75)	**12,382**	102	(5,291)	17,571	-29.5%
- Germany	**4**	–	(1)	5	(1)	**1,829**	–	(228)	2,057	-11.1%
- Asia Pacific	**85**	–	(74)	159	(74)	**10,553**	102	(5,063)	15,514	-32.0%
Outlets	**47**	3	(25)	69	(22)	**26,454**	985	(7,657)	33,126	-20.1%
- Germany	**13**	2	(1)	12	1	**12,593**	815	(469)	12,247	2.8%
- Rest of Europe	**8**	–	(1)	9	(1)	**5,089**	–	(575)	5,664	-10.2%
- Asia Pacific	**26**	1	(23)	48	(22)	**8,772**	170	(6,613)	15,215	-42.3%
Total	**429**	12	(169)	586	(157)	**205,708**	4,301	(49,800)	251,207	-18.1%

Wholesale (excl. eshop) revenue by country

	For the year ended 30 June						
	2019		2018		Revenue change in %		Net change
Country	**HK$ million**	**% to Total Revenue**	HK$ million	% to Total Revenue	HK$	Local currency	in net sales area^
Germany	**2,200**	**54.3%**	2,621	53.5%	-16.1%	-12.3%	-9.3%
Rest of Europe	**1,754**	**43.3%**	2,168	44.2%	-19.1%	-15.5%	-12.1%
France	**391**	**9.7%**	487	9.9%	-19.7%	-16.3%	-5.1%
Benelux	**388**	**9.6%**	540	11.0%	-28.2%	-25.1%	-23.4%
Spain	**189**	**4.7%**	211	4.3%	-10.4%	-6.4%	-3.6%
Austria	**156**	**3.8%**	189	3.8%	-17.6%	-13.9%	-10.6%
Finland	**130**	**3.2%**	147	3.0%	-10.9%	-7.2%	-6.1%
Italy	**105**	**2.6%**	121	2.5%	-13.2%	-9.4%	-11.3%
Switzerland	**104**	**2.5%**	118	2.4%	-12.0%	-9.8%	-16.9%
Sweden	**93**	**2.3%**	122	2.5%	-23.8%	-15.8%	-23.8%
United Kingdom	**50**	**1.2%**	63	1.3%	-21.3%	-18.6%	-10.2%
Denmark	**32**	**0.8%**	38	0.8%	-17.1%	-13.1%	-10.9%
Ireland	**3**	**0.1%**	3	0.1%	-8.1%	-4.1%	-19.7%
Norway	**2**	**0.1%**	3	0.0%	-18.9%	-13.7%	–
Others#	**111**	**2.7%**	126	2.6%	-11.6%	-8.4%	-9.5%
Asia Pacific	**99**	**2.4%**	114	2.3%	-12.7%	-12.1%	-20.7%
China	**18**	**0.4%**	40	0.8%	-55.7%	-54.0%	-49.6%
Others@	**81**	**2.0%**	74	1.5%	10.3%	10.3%	-1.7%
Total	**4,053**	**100.0%**	4,903	100.0%	-17.3%	-13.7%	-10.9%

^ Net change since 1 July 2018
\# Others under Rest of Europe include wholesale (excl. eshop) revenue from other countries mainly Chile, Colombia and Canada
@ 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 2018

	As at 30 June 2019															
	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	**201**	**44,527**	**(26)**	**-12.2%**	**1,887**	**72,806**	**(161)**	**-8.8%**	**1,018**	**20,999**	**(63)**	**-4.3%**	**3,106**	**138,332**	**(250)**	**-9.3%**
Rest of Europe	**383**	**70,832**	**(38)**	**-10.3%**	**727**	**22,058**	**(51)**	**-10.5%**	**657**	**14,966**	**(160)**	**-21.3%**	**1,767**	**107,856**	**(249)**	**-12.1%**
France	112	19,507	(6)	-3.9%	254	5,558	(5)	-4.4%	120	3,488	(25)	-12.1%	486	28,553	(36)	-5.1%
Benelux	67	19,063	(13)	-16.1%	36	1,806	(12)	-26.9%	55	1,578	(94)	-61.8%	158	22,447	(119)	-23.4%
Austria	43	6,534	(6)	-15.4%	98	3,558	3	1.4%	19	505	(6)	-20.0%	160	10,597	(9)	-10.6%
Sweden	5	2,143	(4)	-28.9%	5	290	3	195.9%	25	630	(12)	-30.5%	35	3,063	(13)	-23.8%
Finland	21	4,798	-	-0.9%	45	1,785	(12)	-23.1%	93	2,622	-	-0.5%	159	9,205	(12)	-6.1%
Switzerland	20	2,952	(1)	-10.8%	40	1,744	(5)	-24.1%	10	226	(5)	-28.7%	70	4,922	(11)	-16.9%
Italy	12	2,144	(2)	-15.5%	29	727	(5)	-29.1%	234	3,452	(2)	-3.3%	275	6,323	(9)	-11.3%
Spain	26	3,156	-	5.7%	152	4,910	(11)	-6.5%	50	1,345	(3)	-11.6%	228	9,411	(14)	-3.6%
Denmark	5	1,395	(1)	-9.8%	2	28	-	-	10	269	(4)	-17.0%	17	1,692	(5)	-10.9%
Norway	1	242	-	-	-	-	-	n.a.	1	15	-	-	2	257	-	-
United Kingdom	2	152	-	1.3%	9	328	1	-0.6%	37	808	(7)	-15.4%	48	1,288	(6)	-10.2%
Ireland	-	-	-	n.a.	1	78	-	-4.9%	3	28	(2)	-44.0%	4	106	(2)	-19.7%
Others *	69	8,746	(5)	-9.2%	56	1,246	(8)	-11.4%	-	-	-	n.a.	125	9,992	(13)	-9.5%
Asia Pacific	**97**	**8,935**	**(13)**	**-20.7%**	**-**	**-**	**-**	**n.a.**	**-**	**-**	**-**	**n.a.**	**97**	**8,935**	**(13)**	**-20.7%**
China	16	2,261	(16)	-49.6%	-	-	-	n.a.	-	-	-	n.a.	16	2,261	(16)	-49.6%
Thailand	57	3,789	1	-4.5%	-	-	-	n.a.	-	-	-	n.a.	57	3,789	1	-4.5%
Philippines	14	1,541	(1)	-12.6%	-	-	-	n.a.	-	-	-	n.a.	14	1,541	(1)	-12.6%
Others	10	1,344	3	27.0%	-	-	-	n.a.	-	-	-	n.a.	10	1,344	3	27.0%
Total	**681**	**124,294**	**(77)**	**-11.9%**	**2,614**	**94,864**	**(212)**	**-9.2%**	**1,675**	**35,965**	**(223)**	**-12.2%**	**4,970**	**255,123**	**(512)**	**-10.9%**

^ Net change since 1 July 2018
* Others under Rest of Europe include controlled wholesale point of sales and space in countries outside Europe, mainly Colombia and Chile

04
Sustainability

Sustainability at Esprit

Our goal is create beautiful garments in a way that helps to bring about an inclusive, circular fashion economy, where waste is eliminated, human resources are safeguarded, natural resources are recycled, and our planet is revitalized. These goals dovetail with the United Nations Sustainable Development Goals (SDGs), an internationally recognized framework that aims to eradicate poverty and strengthen peace and freedom. The SDGs focus on 17 goals that address economic growth, social inclusion and environmental protection, and since FY16/17 we have used this framework to help us select the areas where we can have the most impact. We've critically examined our own internal processes, assumptions, habits, and activities at every step to ensure that the way we design products, the way we select and support our manufacturing partners, and the way we distribute and reclaim our goods all work together to support the SDGs, bringing us closer to our vision of a circular fashion economy and a better world.

Over the past year, we have focused on the targets we have set for ourselves under our Design Smart and Produce Responsibly initiatives, and we are particularly proud to share our progress in these areas. We are now sourcing 38% of our cotton through the Better Cotton Initiative, and we have increased our organic cotton usage from 5% to 14% in just one year. Overall, 29% of the shell fibers used throughout our collections are now sustainable.

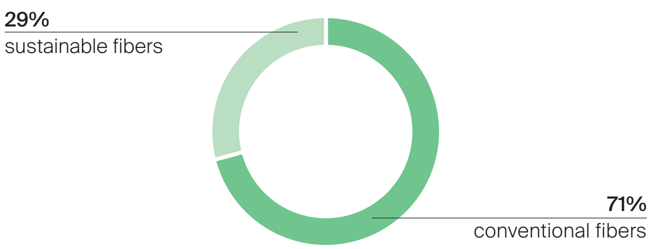
In Europe, we have replaced the down in our jackets with vegan alternatives, and we are increasing our usage of recycled polyester made from used PET bottles. All members of our product teams have been trained on circular fashion, and provided with tools and guidelines to support them in implementing this approach. In terms of producing responsibly, one way we are working on this target is through increasing our commitment to transparency, which means greater accountability from our side, and from our partners. We were thrilled to have this progress recognized by Fashion Revolution in the latest Fashion Transparency Index, where we are ranked second place in the Fashion Transparency Index.

Within this chapter, we will share additional highlights of our sustainability progress during FY18/19. You'll see that many of our goals are aligned with a specific SDG target, which is identified alongside the graph showing our progress.

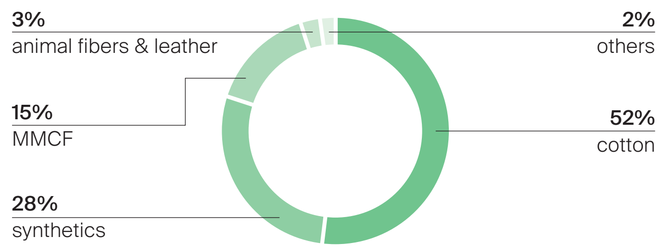
For additional details, we invite you to review our Sustainability Report FY18/19 which will be available on the Company's website at http://www.esprit.com/sustainability no later than three months after the publication of the Annual Report.

Share of fibers in our products in FY 18/19 based on shell fabric

SHARE OF SUSTAINABLE FIBERS



FIBER SHARE – BASED ON SHELL FABRIC



Design Smart

We aim to design in a smart way that sets us down the path toward circularity, carefully considering how we can make each item durable and long lasting, selecting sustainable materials so inputs can be recycled as materials or nutrients. We also keep in mind safe processing as we design, making sure we can achieve the looks we want while still protecting the environment and our workers.

We use more cotton than any other material, and we have nearly tripled our progress toward our sustainable cotton goal since last year, from 18% to 52%. We've also increased our organic cotton usage to 14%, up from 5% in FY17/18.

We are also on track to meet our man-made cellulosic fiber goal, focusing on increasing our use of lyocell and more sustainable viscose. This means we are supporting improvements in chemical processing as well as sustainable farming techniques.

Around 10% of our products with cellulose fibers are made with lyocell. Furthermore we have increased the amount of LENZING™ ECOVERO™ viscose fibers in our product. These are certified with the EU Ecolabel, signifying that they result in lower environmental impact throughout the full product lifecycle. We have made meaningful strides toward our goals of using more sustainable synthetic fibers and DMF (dimethylformamide) free synthetic leather since last year, when we were at less than 1% of the way toward each of those goals.

These improvements bring us closer to circularity, they demonstrate to others in our industry what is possible, and they support the achievement of four key Sustainable Development Goals.

TOPIC	TARGET BY JULY 2021	FY 18/19	FY 17/18	SDG
DESIGN SMART				
Cotton	100% more sustainable cotton	52%	18%	3, 6, 12
Man-made cellulosic fibers	30% more sustainable man-made-cellulosic fibers	36%	23%	3, 12
Synthetics	30% more sustainable synthetic fibers	6%	<1%	12, 14
Better processes	60% DMF (dimethylformamide) free synthetic leather (100% by 2025)	7%	<1%	12, 14
	30% of our leather is tanned using a chrome-free tanning process	34%	<1%	12, 14
Animal fibers	50% of our wool is certified according to the Responsible Wool Standard by 2022	2%	<1%	12

Produce responsibly

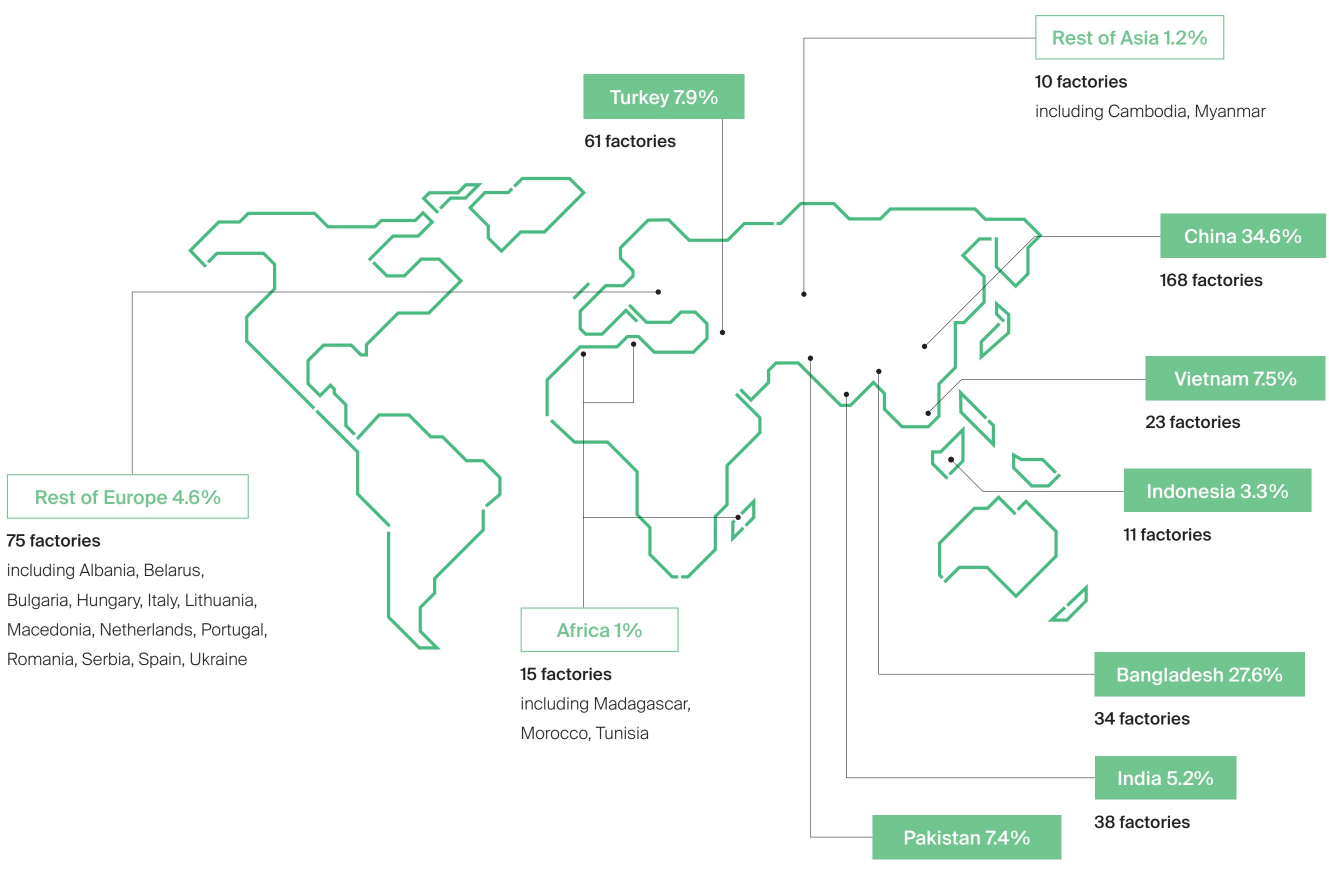
One way we work toward our goal to produce responsibly is to focus on increasing our transparency. Transparency increases accountability, leading to improvements from our side, as well as from our partners. We are pleased to have been ranked in second place in terms of transparency in the latest Transparency Index from Fashion Revolution.

We publicly share information about our supply chain, including our Tier 1 direct suppliers, who manufacture our garments, as well as our Tier 2 suppliers deeper down the chain, including fabric suppliers, dyeing mills, and laundries.

This is part of the reason we have been celebrated for our commitment to transparency. Beyond this, we are supporting our suppliers to take similar steps with their own supply chains. In July 2019, we launched a new Vendor Portal Self Service Tool, which enables our partners to maintain master data maps through Tier 2.

This information is used to develop the supply chain maps we publish every 6 months on our website.

TOPIC	TARGET BY JULY 2021	FY 18/19	FY 17/18
PRODUCE RESPONSIBLY			
Transparency	Map and publish our Tier 1 and Tier 2 suppliers every six months (ongoing)	100%	100%
	Map and publish key Tier 3 suppliers every six months	33%	15%



Taking responsibility for the planet means managing a variety of manufacturing inputs, from chemicals and dyestuff, to water and energy. Our Environmental Sustainability team assesses our Tier 2 suppliers' performance in environmental and chemical management to ensure compliance with our Restricted Substances List (RSL) & Manufacturing Restricted Substances List (MRSL). They also examine processes to ensure that our partners can meet our Material Quality Requirements.

In FY 18/19:

- Over 70% of our key wet processing mills took part in our environmental assessment initial or re-audit.
- 95% of our factories in Bangladesh have implemented their Bangladesh Accord on Building & Fire Safety improvement plan.
- 69% of our wet processing mills (in total 192 mills) conducted waste water testing.

TOPIC	TARGET BY JULY 2021	FY 18/19	FY 17/18	SDG
RESPONSIBLE FOR THE PLANET				
Environmental assessments	100% of our wet processing mills have been audited based on the Esprit technical audit protocol	75%	73%	
Wastewater testing	100% of our wet processing mills test their wastewater according to the ZDHC Wastewater Guidelines	69%	56%	

In 2013, the tragedy at Rana Plaza served as a reminder to the world of how important it is to be responsible for people. For the past five years, we have worked within the Bangladesh Accord on Fire and Building Safety, a groundbreaking binding coalition of international buyers, trade unions and factories, to invest in creating a safer and stronger garment manufacturing industry in Bangladesh. When this initiative was at risk of being cut short, Esprit became a member of the negotiating team that successfully worked with the trade union signatories of the Accord to extend the agreement. Our long-term commitment was reaffirmed when we signed the Transition Accord in 2018.

The Accord serves as an essential foundation of what will be a long process of industry transformation, and we are committed to supporting this necessary shift as part of our commitment to being responsible for people.

In addition to being proud of our role in helping to transform the broader industry through the Accord, we are also proud of the progress our specific partner factories in Bangladesh have made toward completing their individual improvement plans. 95% of our suppliers have completed their individual corrective actions as identified by auditors within the Accord.

TOPIC	TARGET BY JULY 2021	FY 18/19	FY 17/18	SDG
RESPONSIBLE FOR PEOPLE				
Social compliance	All factories (Tier 1) have at least a C-rating (acceptable) in their social compliance audit (ongoing)	97%	95%	3, 6, 7, 8, 9, 10, 16, 17
Safe buildings	100% of our suppliers in Bangladesh have accomplished their corrective actions identified during inspections by the auditors of the Bangladesh Accord (ongoing)	95%	96%	3, 17

Ship and sell responsibly

We continue to make progress toward reducing the greenhouse gas emissions associated with transporting our products. As more of our customers do their shopping online, we have been increasing our focus on how to reduce the impact of shipping these purchases directly to our customers' homes.

We are aiming to ship 90% of European e-commerce products through carbon-neutral or reduced-emissions modes of transport by July 2021, and we have nearly reached this goal.

By the end of FY18/19, around 88% of our European e-shop orders met this standard.

Another target we have focused on over the past two years is the development and implementation of a more sustainable hanger system. We use hangers during transport for our more formal or more delicate garments, and last year we developed a program to standardize hangers, ensure they were made from recycled materials, and reuse them. We are on track to achieve our goal to reduce the usage of new hangers by 50% by July 2021.

TOPIC	TARGET BY JULY 2021	FY 18/19	FY 17/18	SDG
SHIP & SELL SUSTAINABLY				
Carbon footprint	Reduce greenhouse gas (GHG) emissions by 30%	0%	0%	12
	90% carbon-neutral or carbon-reduced shipping methods in our European e-shop	88%	80%	12
Reducing and handling waste	50% of hangers used for garment transportation are reused and made of recycled PET-bottles	90%	20%	12, 14

Extend product life

Living our circular fashion philosophy means thinking about ways to extend the useful life of each product we make. While quality and durability are part of that, another equally important aspect is engaging and educating our customers on their role in taking care of their garments. We aim to inspire our customers and equip them with the information they need to care for and repair their items, instead of throwing them away. We offer a repair service for Esprit garments in all our retail stores in Germany, and have made progress toward our goal of expanding that program to all of our retail stores.

A new goal established last year was to reduce the number of garments returned to e-shops for minor, easily fixable problems such as make-up marks, or a seam that needs to be reclosed. We found that by addressing these issues, we could reclaim around 15,000 garments per year, while also increasing garment lifespans, reducing waste, and reducing the carbon footprint associated with shopping and as well as shipping.

TOPIC	TARGET BY JULY 2021	FY 18/19	FY 17/18	SDG
EXTEND PRODUCT LIFE				
Reparable garments	Establish a repair service for Esprit garments in all our German retail stores	100%	36%	12
	Establish a garment refinishing procedure for all our e-shops	0%	0%	12

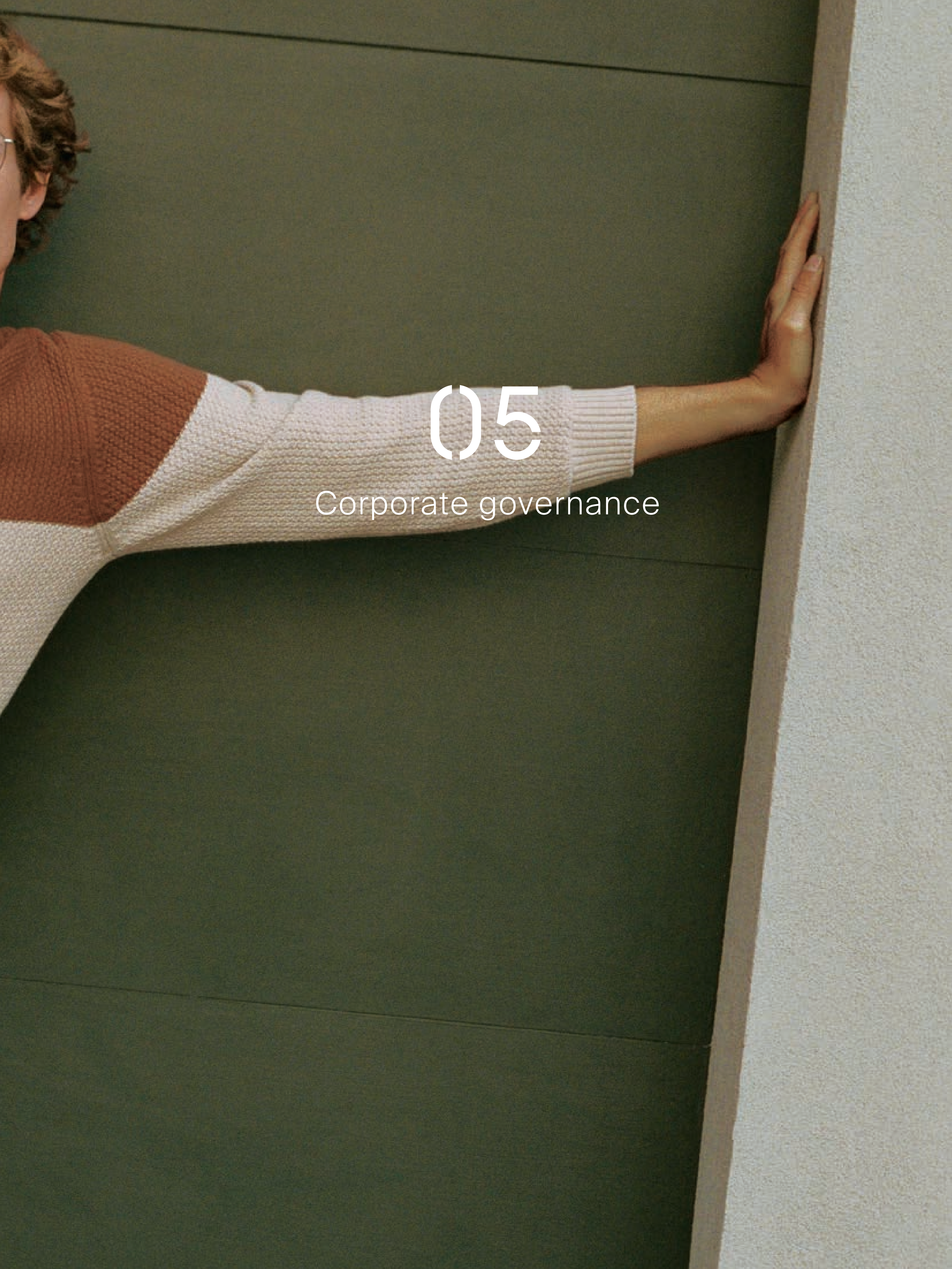
Reuse and recycle

We kicked off our circular fashion strategy last year by launching a series of trainings for our designers on circular fashion, and we have achieved our target that 100% of our product staff is trained in ways they can integrate circularity from the design phase onwards. We also established concrete targets for our designers, along with plans and tools to ensure they can get there.

Our designers continue to build their knowledge by taking part in ongoing trainings and product reviews to maintain the emphasis on circularity and spark ongoing dialogue and inspiration.

To fully close the loop, we must also think about reclaiming materials from garments that have outlived their usefulness. One way we are engaging our customers in helping us do this is through a program with our partner PACKMEE that gives people the chance to extend the life of their garments by donating them. Every garment donation reduces new production, reduces waste and reduces the environment footprint of the apparel industry. Customers can also claim an Esprit voucher for a 10% discount in exchange for donating their old clothes.

TOPIC	TARGET BY JULY 2021	FY 18/19	FY 17/18	SDG
REUSE & RECYCLE				
Product training	Everyone in our product teams will have gone through training in circular design (by 2020)	100%	100%	—
Collecting garments	Esprit will, in collaboration with PACKMEE, collect 50,000 kg of used garments via an e-tail garment collection program, with donation of 50% of the turnover to charity (by 2020)	85%	77%	12, 14



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 2019, 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)
Anders Christian KRISTIANSEN (Group Chief Executive Officer)
Thomas TANG Wing Yung (Group Chief Financial Officer)

Non-executive Director

Jürgen Alfred Rudolf FRIEDRICH

Independent Non-executive Directors

Alexander Reid HAMILTON
Carmelo LEE Ka Sze
Norbert Adolf PLATT
Paul CHENG Ming Fun (Deputy Chairman)
(retired on 5 December 2018)
Dr José María CASTELLANO RIOS
(retired on 5 December 2018)

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 2019 is set out in the table below:

	Board	Independent 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)	9/9	1/1		4/4			6/6	1/1
Anders Christian KRISTIANSEN	9/9				4/4		8/8	1/1
Thomas TANG Wing Yung	9/9					2/2	8/8	1/1
Non-executive Director								
Jürgen Alfred Rudolf FRIEDRICH	9/9		2/2		2/2			1/1
Independent Non-executive Directors								
Alexander Reid HAMILTON	8/9	1/1	4/4	4/4		1/1		1/1
Carmelo LEE Ka Sze	9/9	1/1		4/4	4/4	2/2		1/1
Norbert Adolf PLATT	9/9	1/1	4/4		4/4			1/1
Paul CHENG Ming Fun (Deputy Chairman) *(retired on 5 December 2018)*	4/5			2/2	2/2			0/1
José María CASTELLANO RIOS *(retired on 5 December 2018)*	3/5		2/2			1/1		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 three Independent Non-executive Directors (five before the retirement of Mr Paul CHENG Ming Fun and Dr José María CASTELLANO RIOS as Independent Non-executive Directors at the conclusion of the annual general meeting of the Company held on 5 December 2018 ("2018 AGM")), 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 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.

Gender	Male (100%)
Ethnicity	Chinese (43%) European (57%)
Age	Over 70 years old (43%) 61 to 70 years old (28.5%) 51 to 60 years old (28.5%)
Length of service	More than 10 years (43%) 5 to 10 years (43%) Below 5 years (14%)

Note: ( ) denotes relevant percentage out of the total number of 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 (Executive Chairman)	✓	✓
Anders Christian KRISTIANSEN	✓	✓
Thomas TANG Wing Yung	✓	✓
Non-executive Director		
Jürgen Alfred Rudolf FRIEDRICH	✓	✓
Independent Non-executive Directors		
Alexander Reid HAMILTON	✓	✓
Carmelo LEE Ka Sze	✓	✓
Norbert Adolf PLATT	✓	✓
Paul CHENG Ming Fun (Deputy Chairman) *(retired on 5 December 2018)*	✓	✓
José María CASTELLANO RIOS *(retired on 5 December 2018)*	✓	✓
Company Secretary		
HUNG Lee Lee	✓	✓

Executive Chairman and Group Chief Executive Officer

Dr Raymond OR Ching Fai is the Executive Chairman of the Board and Mr Anders Christian KRISTIANSEN is the Group Chief Executive Officer. The role of the Board's Chairman is to provide leadership in order to enable the Board to discharge its function effectively. Furthermore, as an Executive Chairman, Dr Or plays a more active role in the next phase of the Group's strategy. 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 (the "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 2019, 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 2019, 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 2019.

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)
Jürgen Alfred Rudolf FRIEDRICH *(appointed effective 5 December 2018)*
Norbert Adolf PLATT
José María CASTELLANO RIOS *(retired on 5 December 2018)*

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;
- 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 Non-executive Directors (two of whom are independent). 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 2019;
- 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 2019 and 2018. A summary of which is as follows:

	2019 HK$ million	2018 HK$ million
Nature of the services		
Audit services	**14**	16
Other services	**1**	1
	15	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)
Alexander Reid HAMILTON
Carmelo LEE Ka Sze
Paul CHENG Ming Fun *(retired on 5 December 2018)*

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 (the "Board Diversity Policy") to ensure its effectiveness (More information on the diversity of the Board is set out in the "Board diversity policy" section below);
- Identify and recommend individuals suitably qualified to become Board member(s), selection of candidates for nomination to the Board will be based on merit and contribution the candidate will bring to the Board with due regard to the Board Diversity Policy;
- 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 two Independent Non-executive Directors and one Executive Director. The Nomination Committee met four times 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;
- Formulated the nomination policy and recommended it to the Board for adoption and approval;
- Provided recommendation to the Board on the re-election of Director standing for re-election at the 2018 AGM;
- Considered the retirement of Mr Paul CHENG Ming Fun and Dr José María CASTELLANO RIOS as Independent Non-executive Directors of the Company; and
- Considered and recommended potential candidate(s) to the Board for the appointment as Independent Non-executive Director of the Company.

Board diversity policy

The Board has adopted a 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. The implementation of the Board Diversity Policy has been reviewed and monitored regularly by the Nomination Committee to ensure its effectiveness. Any required revisions of the Board Diversity Policy will be recommended by the Nomination Committee to the Board for consideration and approval.

Nomination policy

The Board has adopted a nomination policy (the "Nomination Policy") in December 2018 for setting out the key nomination criteria and principles of the Company for nomination of Directors. The Nomination Committee is responsible to review the structure, size and composition (including gender, balance of skills, knowledge, experience and diversity of perspectives) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy. It shall identify individuals suitably qualified to become Board member(s) and select or make recommendations to the Board on the selection of individuals nominated for directorships. In identifying suitable candidates, the Nomination Committee shall consider the candidates on merit and contribution the candidate will bring to the Board with due regard to the Board Diversity Policy. It has to make recommendations to the Board the appointment or re-appointment of Directors and succession planning for Directors in particular the Chairman of the Board and the Chief Executive Officer. The Nomination Committee shall take into account the challenges and opportunities facing the Company and therefore, what skills and expertise are needed on the Board in the future.

Nomination procedures

The Nomination Committee is delegated by the Board to identify suitable candidates and evaluate potential candidates based on the Board Diversity Policy.

Once opportunity for Board appointment is identified, there will be scheduled interviews with the suitable candidate. Results of the interviews will be put forward to the Nomination Committee for consideration. The recommendation of the Nomination Committee will be put forward to the Board for consideration and approval.

In case of re-appointments of members of the Board at AGM, the Nomination Committee will review the profile of the members of the Board who have offered themselves for re-appointment to consider their suitability in light of the strategy of the Company as well as the structure, size and composition of the Board at that time. The Nominations Committee will then make recommendations for the Board's consideration and the Board will, at its discretion, make recommendations to the shareholders.

Remuneration Committee

Members:
Norbert Adolf PLATT (Chairman) *(re-designated from member to chairman effective 5 December 2018)*
Anders Christian KRISTIANSEN
Carmelo LEE Ka Sze
Paul CHENG Ming Fun *(retired on 5 December 2018)*
Jürgen Alfred Rudolf FRIEDRICH *(resigned effective 5 December 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 two Independent Non-executive Directors 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.

Remuneration Committee (continued)

Duties performed during the year:

- Reviewed and determined the remuneration packages of the Executive Directors and senior management;
- 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 2020;
- 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 and recommended a new share option scheme to the Board for consideration and made recommendation to the shareholders for approval at 2018 AGM.

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.

Reference is made to the Company's announcement dated 5 December 2018 in relation to the retirement of Mr Paul CHENG Ming Fun and Dr José María CASTELLANO RIOS as Independent Non-executive Directors at the conclusion of the 2018 AGM and change of the composition of the Audit Committee, the Nomination Committee, the Remuneration Committee and the Risk Management Committee with effect from 5 December 2018. Following the change, Mr Jürgen Alfred Rudolf FRIEDRICH is entitled to a director's fee of HK$580,000 per annum, which comprises HK$480,000 for his directorship and HK$100,000 for acting as a member of the Audit Committee. Mr Norbert Adolf PLATT is entitled to a director's fee of HK$730,000 per annum, which comprises HK$480,000 for his directorship, HK$150,000 for acting as chairman of the Remuneration Committee and HK$100,000 for acting as a member of the Audit Committee. Mr Alexander Reid HAMILTON is entitled to a director's fee of HK$810,000 per annum, which comprises HK$480,000 for his directorship, HK$170,000 for acting as chairman of the Audit Committee, HK$85,000 for acting as a member of the Nomination Committee and HK$75,000 for acting as a member of the Risk Management Committee.

Risk Management Committee

Members:
Carmelo LEE Ka Sze (Chairman)
Thomas TANG Wing Yung
Alexander Reid HAMILTON *(appointed effective 5 December 2018)*
José María CASTELLANO RIOS *(retired on 5 December 2018)*

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;
- Review and assess the Risk Management Policy; and
- Review and assess the Company's Environmental, Social and Governance strategy and reporting.

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;
- Reviewed preventive measures implemented by management in response to identified risks;
- Reviewed the sustainability initiatives and the relevant key performance indicators; 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
Anders Christian KRISTIANSEN
Thomas TANG Wing Yung

Responsibilities include, amongst other things, the following:

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

- Routine administration of the share option schemes of the Company;
- 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 (the "Stock Exchange") 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 eight 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 change of bank authorized signatories;
- Approved the opening of bank account of the Company;
- Approved the change of the Company's registered place of business in Hong Kong; and
- Other administrative matters.

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 2019 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".

Risk management and internal control (continued)

Second line of defense

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

Third line of defense

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

Governing bodies

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

Based on the reports from the Risk Management Committee and the Audit Committee, the Board considers the risk management and internal control systems to be satisfactory as at 30 June 2019 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.

Dividend policy

The Board has adopted a dividend policy (the "Dividend Policy") for the Company. The Dividend Policy aims at providing reasonable and sustainable returns to the shareholders of the Company whilst maintaining a position of financial stability which allows the Company to take advantage of any investment and expansion opportunities that may arise from time to time. The Board maintains the dividend payout ratio of 60% of basic earnings per share. In deciding whether to propose a dividend and in determining the dividend amount, the Board will take into account the Company's earnings performance, financial position, investment and funding requirements, and future prospects. The Board will regularly review the Dividend Policy and will amend and/or modify the Dividend Policy if necessary.

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 Unit 1101, 11/F, Goldin Financial Global Centre, 17 Kai Cheung 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 Unit 1101, 11/F, Goldin Financial Global Centre, 17 Kai Cheung 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.

Shareholders' rights and investor relations (continued)

Procedures for putting forward proposals at general meeting

Shareholders representing not less than one-twentieth of the total voting rights of all shareholders having a right to vote at the AGM at the date of the requisition or who are no less than 100 shareholders can submit a written requisition to the Board or the Company Secretary to propose a resolution at the AGM. The written requisition must state the resolution, accompanied by a statement of not more than one thousand words with respect to the matter referred to in the proposed resolution or the business to be dealt with at the AGM and contain the signatures of all the requisitionist(s) (which may be contained in one document or in several documents in like form). Such requisition must be deposited at the Company's Hong Kong headquarters at Unit 1101, 11/F, Goldin Financial Global Centre, 17 Kai Cheung 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 2018 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 2018 AGM. Tricor Secretaries Limited, the Company's branch share registrar in Hong Kong, was appointed as the scrutineer for voting by poll at the 2018 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 FY18/19

Date	Event	Organizer	Location
September 2018	FY17/18 Post Final Results Roadshow	UBS	Hong Kong London
November 2018	Morgan Stanley Seventeenth Annual Asia Pacific Summit	Morgan Stanley	Singapore
February 2019	FY18/19 Post Interim Results Roadshow	UBS	Hong Kong

American depositary receipt program

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

Symbol	ESPGY
CUSIP	29666V204
ISIN	US29666V2043
Ratio	2 ordinary shares: 1 ADR
Country	Hong Kong
Effective Date	18 November 2009
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 is available on the Company's website at http://www.esprit.com/sustainability.

Professional advice

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

05.2 Report of the Directors

The Directors present the annual report and the audited consolidated financial statements of the Group for the year ended 30 June 2019.

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.

Results and appropriations

The results of the Group and appropriations of the Company are set out in the consolidated income statement on page 81 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 2019, the Directors have not recommended the distribution of a final dividend for the year ended 30 June 2019 (FY17/18: 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 85 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 FY18/19" and "Management discussion and analysis" on pages 8 to 15, pages 18 to 27 and pages 30 to 42 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 46 to 51 of this Annual Report. Full version of the Sustainability Report of the Company for FY18/19 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 10 December 2009 (the "2009 Share Option Scheme") or the share option scheme adopted on 5 December 2018 (the "2018 Share Option Scheme").

Details of movements in share capital of the Company are set out in note 20 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 130 and 131 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 24 to the consolidated financial statements.

Principal subsidiaries

Particulars of the Company's principal subsidiaries as at 30 June 2019 are set out in note 33 to the consolidated financial statements.

Charitable donations

During the year, the Group made charitable donations totaling HK$0.5 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 2009 Share Option Scheme, the 2018 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)
Anders Christian KRISTIANSEN (Group Chief Executive Officer)
Thomas TANG Wing Yung (Group Chief Financial Officer)

Non-executive Director

Jürgen Alfred Rudolf FRIEDRICH

Independent Non-executive Directors

Alexander Reid HAMILTON
Carmelo LEE Ka Sze
Norbert Adolf PLATT
Paul CHENG Ming Fun (Deputy Chairman)
(retired on 5 December 2018)
Dr José María CASTELLANO RIOS
(retired on 5 December 2018)

Under bye-law 87(1) of the Company's Bye-laws, one-third of the Directors must retire, thus becoming eligible for re-election at each AGM. Furthermore, any Director who was not elected or re-elected at any of the preceding two AGMs must retire, thus becoming eligible for re-election at the AGM. The biographical details of the retiring Directors will be set out in a circular to shareholders of the Company to assist shareholders in making an informed decision on their re-elections. None of the Directors standing for re-election at the forthcoming AGM has a service contract with any member of the Group which is not determinable by the relevant employer within one year without payment of compensation (other than statutory compensation). They have no fixed term of service with the Company and are subject to retirement by rotation and re-election in accordance with the Company's Bye-laws.

Directors' emoluments

Particulars of the remuneration of the Directors 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 54 to 63 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 section of "Related party transactions and connected transactions" 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 2019, 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 5)	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	632,429	4,400,000	5,352,274	0.28%
	Beneficiary of a trust under the Share Award Scheme	319,845	–		
Jürgen Alfred Rudolf FRIEDRICH	Beneficial owner (Note 2)	45,500,000	610,000	46,163,669	2.44%
	Interest of spouse (Note 3)	53,669	–		
Alexander Reid HAMILTON	Beneficial owner	–	610,000	610,000	0.03%
Carmelo LEE Ka Sze	Beneficial owner	–	600,000	600,000	0.03%
Norbert Adolf PLATT	Beneficial owner (Note 4)	2,084,200	610,000	2,694,200	0.14%

Notes:
1. The interests of 200,000 shares were jointly held by Dr Raymond OR Ching Fai and his spouse, Mrs OR WONG Lai Ning.
2. Mr Jürgen Alfred Rudolf FRIEDRICH has entered into a securities lending agreement with a third party for the interests of 10,000,000 shares beneficially owned by him.
3. The shares were held by the spouse of Mr Jürgen Alfred Rudolf FRIEDRICH, Mrs Anke Beck FRIEDRICH.
4. The shares were jointly held by Mr Norbert Adolf PLATT and his spouse, Mrs Rosalyn PLATT.
5. 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.
6. All interests disclosed above represent long position in the shares and underlying shares of the Company.

Save as disclosed above, as at 30 June 2019, 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

2009 Share Option Scheme

The Company adopted the 2009 Share Option Scheme on 10 December 2009 and the scheme was terminated on 5 December 2018. Notwithstanding its termination, the share options which have been granted and remain outstanding shall continue to be valid and exercisable subject to and in accordance with the terms on which the share options were granted, the provisions of the 2009 Share Option Scheme and the Listing Rules. Particulars of the 2009 Share Option Scheme are set out in note 20 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 01/07/2018	Granted	Exercised	Lapsed	As at 30/06/2019
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				8,450,000	–	–	–	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
	28/09/2018	1.884	28/09/2021	28/09/2021 - 27/09/2028	–	1,500,000	–	–	1,500,000
	In aggregate				2,900,000	1,500,000	–	–	4,400,000
Jürgen Alfred Rudolf FRIEDRICH	30/06/2014	11.00	30/06/2015	30/06/2015 - 29/06/2024	110,000	–	–	–	110,000
	28/09/2018	1.884	28/09/2019	28/09/2019 - 27/09/2028	–	500,000	–	–	500,000
	In aggregate				110,000	500,000	–	–	610,000
Alexander Reid HAMILTON	30/06/2014	11.00	30/06/2015	30/06/2015 - 29/06/2024	110,000	–	–	–	110,000
	28/09/2018	1.884	28/09/2019	28/09/2019 - 27/09/2028	–	500,000	–	–	500,000
	In aggregate				110,000	500,000	–	–	610,000
Carmelo LEE Ka Sze	30/06/2014	11.00	30/06/2015	30/06/2015 - 29/06/2024	100,000	–	–	–	100,000
	28/09/2018	1.884	28/09/2019	28/09/2019 - 27/09/2028	–	500,000	–	–	500,000
	In aggregate				100,000	500,000	–	–	600,000
Norbert Adolf PLATT	30/06/2014	11.00	30/06/2015	30/06/2015 - 29/06/2024	110,000	–	–	–	110,000
	28/09/2018	1.884	28/09/2019	28/09/2019 - 27/09/2028	–	500,000	–	–	500,000
	In aggregate				110,000	500,000	–	–	610,000

Share option schemes (continued)

2009 Share Option Scheme (continued)

					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 01/07/2018	Granted	Exercised	Lapsed	As at 30/06/2019
Employees	27/09/2010	43.00	27/09/2013	27/09/2013 - 26/09/2020	1,500,000	-	-	800,000	700,000
	27/09/2011	8.76	27/09/2014	27/09/2014 - 26/09/2021	3,900,000	-	-	2,000,000	1,900,000
	12/12/2012	12.32	12/12/2015	12/12/2015 - 11/12/2022	2,515,000	-	-	975,000	1,540,000
	11/03/2013	10.04	11/03/2016	11/03/2016 - 10/03/2023	3,717,000	-	-	3,165,000	552,000
			11/03/2017	11/03/2017 - 10/03/2023	1,239,000	-	-	1,055,000	184,000
			11/03/2018	11/03/2018 - 10/03/2023	1,239,000	-	-	1,055,000	184,000
	04/11/2013	14.18	04/11/2016	04/11/2016 - 03/11/2023	5,605,000	-	-	3,250,000	2,355,000
			04/11/2017	04/11/2017 - 03/11/2023	560,000	-	-	500,000	60,000
			04/11/2018	04/11/2018 - 03/11/2023	560,000	-	-	500,000	60,000
	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	6,120,000	-	-	2,320,000	3,800,000
			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	5,800,000	-	-	1,750,000	4,050,000
			13/10/2019	13/10/2019 - 12/10/2025	300,000	-	-	300,000	-
			13/10/2020	13/10/2020 - 12/10/2025	300,000	-	-	300,000	-
	23/12/2015	8.07	13/10/2018	13/10/2018 - 12/10/2025	125,000	-	-	125,000	-
	03/05/2016	6.82	03/05/2019	03/05/2019 - 02/05/2026	240,000	-	-	240,000	-
			03/05/2020	03/05/2020 - 02/05/2026	80,000	-	-	80,000	-
			03/05/2021	03/05/2021 - 02/05/2026	80,000	-	-	80,000	-
	31/10/2016	6.87	31/10/2019	31/10/2019 - 30/10/2026	5,400,000	-	-	1,200,000	4,200,000
	07/11/2017	4.65	07/11/2020	07/11/2020 - 06/11/2027	6,740,000	-	-	1,940,000	4,800,000
			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	-	-	3,400,000	6,100,000
	28/09/2018	1.884	28/09/2021	28/09/2021 - 27/09/2028	-	3,200,000	-	200,000	3,000,000
	In aggregate				56,460,000	3,200,000	-	25,775,000	33,885,000
Others	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
	30/06/2014	11.00	30/06/2015	30/06/2015 - 29/06/2024	280,000	-	-	280,000	-
	31/10/2014	10.124	31/10/2017	31/10/2017 - 30/10/2024	400,000	-	-	-	400,000
	28/09/2018	1.884	28/09/2019	28/09/2019 - 27/09/2028	-	500,000	-	500,000	-
	In aggregate				6,080,000	500,000	-	780,000	5,800,000
Total					**82,320,000**	**7,200,000**	**-**	**26,555,000**	**62,965,000**

Notes:
1. The closing price of the shares of the Company immediately before the share options granted on 28 September 2018 was HK$1.89.
2. No share options were canceled under the 2009 Share Option Scheme during the year.

Share option schemes (continued)

2018 Share Option Scheme

The Company adopted the 2018 Share Option Scheme on 5 December 2018. Particulars of the 2018 Share Option Scheme are set out in note 20 to the consolidated financial statements. A summary of the movements of the outstanding share options under the 2018 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 01/07/2018	Granted	Exercised	Lapsed	As at 30/06/2019
Employees	10/01/2019	1.56	10/01/2022	10/01/2022 – 09/01/2029	–	1,000,000	–	–	1,000,000
	27/02/2019	1.98	27/02/2022	27/02/2022 – 26/02/2029	–	3,900,000	–	–	3,900,000
Total					**–**	**4,900,000**	**–**	**–**	**4,900,000**

Notes:
1. The closing price of the shares of the Company immediately before the share options granted on 10 January 2019 and 27 February 2019 were HK$1.58 and HK$2.04 respectively.
2. No share options were canceled under the 2018 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 20 to the consolidated financial statements. A summary of the movements of the outstanding awarded shares under the Share Award Scheme during the year is as follows:

			Number of awarded shares				
	Date of grant (dd/mm/yyyy)	Vesting date (dd/mm/yyyy)	As at 01/07/2018	Granted	Vested	Lapsed	As at 30/06/2019
Directors							
Anders Christian KRISTIANSEN	22/06/2018	22/06/2021	2,000,000	–	–	–	2,000,000
Thomas TANG Wing Yung	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		504,430	–	184,585	–	319,845
Employees	31/10/2016	31/10/2018	1,495,139	–	906,014	589,125	–
	31/10/2016	31/10/2019	1,495,139	–	–	1,184,254	310,885
	03/10/2017	03/10/2019	772,031	–	–	653,346	118,685
	03/10/2017	03/10/2020	772,031	–	–	653,346	118,685
	In aggregate		4,534,340	–	906,014	3,080,071	548,255
Other	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		1,965,688	–	–	1,965,688	–
Total			**9,004,458**	**–**	**1,090,599**	**5,045,759**	**2,868,100**

Accounting treatment for share options and awarded shares

Details of accounting treatment for share options and awarded shares are set out in note 20 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 2019, 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	212,099,533	11.23%	–	–
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	129,536,322	6.86%	–	–
Sun Life of Canada (U.S.) Financial Services Holdings, Inc. (Note 3)	Interest in a controlled corporation	129,536,322	6.86%	–	–
Sun Life Financial, Inc. (Note 3)	Interest in a controlled corporation	129,536,322	6.86%	–	–

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 2019 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

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 54 to 63 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 2019

05.3 Directors and senior management profile

Executive Directors

Dr Raymond OR Ching Fai, aged 69, 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 charitable trust of the Company.

Dr OR was conferred an Honorary Doctor of Social Science by the City University of Hong Kong in November 2014. He 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, 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., the former independent non-executive director of Industrial and Commercial Bank of China Limited 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.

Mr Anders Christian KRISTIANSEN, aged 52, 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 charitable 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.

Mr Thomas TANG Wing Yung, aged 64, 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, a director of certain subsidiaries, and a trustee of a charitable trust 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 38 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 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

Mr Jürgen Alfred Rudolf FRIEDRICH, aged 81, 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 Audit 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.

Mr Alexander Reid HAMILTON, aged 77, 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 and the Risk Management Committee of the Board. Mr HAMILTON is an independent non-executive director of COSCO SHIPPING International (Hong Kong) Co., Ltd. (a company listed on the Stock Exchange). Mr HAMILTON is also a director of other Hong Kong companies. He was an independent non-executive director of CITIC Limited, Octopus Cards Limited and Shangri-La Asia Limited. He was a partner of Price Waterhouse with whom he practiced for 16 years.

Non-executive Directors (continued)

Mr Carmelo LEE Ka Sze, aged 59, 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 appointed as a chairman of the Listing Review Committee of the Stock Exchange with effect from 5 July 2019. He is a convenor and member of the Financial Reporting Review Panel of the Financial Reporting Council of Hong Kong, a Chairman of the Appeal Tribunal Panel constituted under the Buildings Ordinance, a member of the InnoHK Steering Committee, 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 CSPC Pharmaceutical Group Limited and Safety Godown Company 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 Hopewell Holdings Limited until May 2019, Yugang International Limited (now known as Planetree International Development Limited) until April 2019 and Termbray Industries International (Holdings) Limited until September 2019.

Mr Norbert Adolf PLATT, aged 72, has been an Independent Non-executive Director of the Company since December 2012. He is the Chairman of the Remuneration Committee and a member of the Audit 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.

Since July 2019 he is a member of the advisory board of Occhion GmbH München. 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 81 to 126, which comprise:

- the consolidated statement of financial position as at 30 June 2019;
- 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 2019, 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:

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

Key Audit Matter	How our audit addressed the Key Audit Matter
Provision for store closures and leases	
Refer to Note 22 "Provision for store closures and leases" and Accounting Policies note 2(q) and Critical Accounting Estimates and Judgments in note 4(f) to the Consolidated Financial Statements 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). We focused on this area because there are significant judgments and estimates made by management in determining such provisions.	We obtained management's selected list of stores and their assessment of those stores requiring provisions. We checked whether those selected 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. We consider that the provisions made by management in respect of store closures and onerous leases are supportable based on the available evidence.

Key Audit Matter	How our audit addressed the Key Audit Matter
Valuation of inventory at net realizable value	
Refer to Note 17 "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 2019 was HK$1,845 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 have obtained an understanding of the key procedures implemented by management in estimating the net realizable value of inventories and periodic reviews of inventory obsolescence. 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 made. 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.
Deferred tax assets and income taxes	
Refer to Notes 8 and 25 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. The Group has recognized HK$559 million deferred tax assets on the consolidated statement of financial position, the recognition of which involves judgment by management as to the likelihood of the realization of these deferred tax assets. The expectation that the benefit of these assets will be realized is dependent on a number of factors, including appropriate taxable temporary timing differences, and whether there will be sufficient taxable profits in future periods to support such recognition. We focused on this area because of the inherent uncertainties involved in forecasting future taxable profits. 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 realization 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 2019

06.2 Consolidated income statement

	Notes	For the year ended 30 June 2019 HK$ million	2018 HK$ million
Revenue	5	**12,932**	15,455
Cost of goods sold		**(6,431)**	(7,534)
Gross profit		**6,501**	7,921
Staff costs	11	**(2,806)**	(3,087)
Occupancy costs		**(2,088)**	(2,526)
Logistics expenses		**(821)**	(1,029)
Marketing and advertising expenses		**(634)**	(900)
Depreciation		**(455)**	(528)
Provision for store closures and leases, net	22	**(895)**	(152)
Impairment of property, plant and equipment		**(110)**	(90)
Write back of/(additional) provision for closure costs of operations in Australia and New Zealand	23	**25**	(129)
Impairment of goodwill	13	**–**	(664)
Impairment of customer relationships	13	**–**	(130)
Gain on disposal of a property	30	**–**	16
Other operating costs		**(797)**	(955)
Operating loss (LBIT)	6	**(2,080)**	(2,253)
Interest income		**49**	58
Finance costs	7	**(35)**	(31)
Loss before taxation		**(2,066)**	(2,226)
Taxation charge	8	**(78)**	(328)
Loss attributable to shareholders of the Company		**(2,144)**	(2,554)
Loss per share			
– Basic and diluted	10	**HK$(1.14)**	HK$(1.35)

The notes on pages 87 to 126 form an integral part of these consolidated financial statements.

06.3 Consolidated statement of comprehensive income

	For the year ended 30 June 2019 HK$ million	2018 HK$ million
Loss attributable to shareholders of the Company	**(2,144)**	(2,554)
Other comprehensive income		
Item that will not be reclassified to profit or loss:		
Remeasurements of retirement defined benefit obligations	**(4)**	(4)
Items that may be reclassified subsequently to profit or loss:		
Fair value (loss)/gain on cash flow hedge, net of tax	**(40)**	152
Exchange translation	**(130)**	114
	(174)	262
Total comprehensive income for the year attributable to shareholders of the Company, net of tax	**(2,318)**	(2,292)

The notes on pages 87 to 126 form an integral part of these consolidated financial statements.

06.4 Consolidated statement of financial position

		As at 30 June	
		2019	2018
	Notes	**HK$ million**	HK$ million
Non-current assets			
Intangible assets	13	**2,050**	2,063
Property, plant and equipment	14	**1,128**	1,571
Investment properties	15	**27**	24
Financial assets at fair value through profit or loss	16	**12**	–
Other investments		**–**	7
Debtors, deposits and prepayments	18	**120**	140
Deferred tax assets	25	**559**	524
		3,896	4,329
Current assets			
Inventories	17	**1,845**	2,296
Debtors, deposits and prepayments	18	**1,499**	1,418
Tax receivable		**80**	143
Cash, bank balances and deposits	19	**3,282**	4,521
		6,706	8,378
Current liabilities			
Creditors and accrued charges	21	**2,504**	2,919
Provision for store closures and leases	22	**940**	397
Tax payable		**161**	57
		3,605	3,373
Net current assets		**3,101**	5,005
Total assets less current liabilities		**6,997**	9,334
Equity			
Share capital	20	**189**	189
Reserves		**6,524**	8,837
Total equity		**6,713**	9,026
Non-current liabilities			
Retirement defined benefit obligations	24	**31**	26
Deferred tax liabilities	25	**253**	282
		284	308
		6,997	9,334

Approved by the Board of Directors on 18 September 2019.

ANDERS CHRISTIAN **KRISTIANSEN**
Executive Director

THOMAS **TANG** WING YUNG
Executive Director

The notes on pages 87 to 126 form an integral part of these consolidated financial statements.

06.5 Consolidated statement of cash flows

	Notes	For the year ended 30 June 2019 HK$ million	 2018 HK$ million
Cash flows from operating activities			
Cash used in operations	26	**(1,143)**	(418)
Hong Kong profits tax paid, net		**(1)**	(2)
Overseas tax refunded, net		**30**	122
Net cash used in operating activities		**(1,114)**	(298)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(163)**	(305)
Proceeds from disposal of plant and equipment	26	**5**	4
Net proceeds from disposal of a property	26	**–**	34
Dividend from other investment		**5**	–
Interest received		**49**	58
Net decrease/(increase) in bank deposits with maturities of more than three months		**531**	(489)
Net cash generated from/(used in) investing activities		**427**	(698)
Cash flows from financing activities			
Repurchase of shares	20	**–**	(237)
Purchase of shares for Share Award Scheme	20(b)	**–**	(12)
Net cash used in financing activities		**–**	(249)
Net decrease in cash and cash equivalents		**(687)**	(1,245)
Cash and cash equivalents at beginning of year		**3,879**	5,070
Effect of change in exchange rates		**(21)**	54
Cash and cash equivalents at end of year		**3,171**	3,879
Analysis of balances of cash and cash equivalents			
Bank balances and cash		**2,438**	2,472
Bank deposits		**844**	2,049
Cash, bank balances and deposits	19	**3,282**	4,521
Less: bank deposits with maturities of more than three months		**(111)**	(642)
		3,171	3,879

The notes on pages 87 to 126 form an integral part of these consolidated financial statements.

06.6 Consolidated statement of changes in equity

For the year ended 30 June 2019

	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/ (accumulated losses) HK$ million	Total HK$ million
At 30 June 2018	189	7,988	(47)	916	49	(4)	7	(919)	1	846	9,026
Change in accounting policy (Note 2(a))	-	-	-	-	-	-	-	-	-	10	10
Restated total equity at 1 July 2018	189	7,988	(47)	916	49	(4)	7	(919)	1	856	9,036
Exchange translation	-	-	-	-	-	-	-	(130)	-	-	(130)
Fair value loss on cash flow hedge, net of tax											
- net fair value gain	-	-	-	-	72	-	-	-	-	-	72
- transferred to inventories	-	-	-	-	(129)	-	-	-	-	-	(129)
- deferred tax effect	-	-	-	-	17	-	-	-	-	-	17
Remeasurements of retirement defined benefit obligations	-	-	-	-	-	(4)	-	-	-	-	(4)
Loss attributable to shareholders of the Company	-	-	-	-	-	-	-	-	-	(2,144)	(2,144)
Total comprehensive income, net of tax	-	-	-	-	(40)	(4)	-	(130)	-	(2,144)	(2,318)
Transactions with owners											
Employee share-based compensation benefits	-	-	-	(5)	-	-	-	-	-	-	(5)
Vesting of shares for Share Award Scheme (Note 20(b))	-	-	7	(7)	-	-	-	-	-	-	-
Total transactions with owners	-	-	7	(12)	-	-	-	-	-	-	(5)
At 30 June 2019	189	7,988	(40)	904	9	(8)	7	(1,049)	1	(1,288)	6,713
Representing:											
Proposed final dividend											-
Balance after proposed final dividend											6,713
At 30 June 2019											6,713

The notes on pages 87 to 126 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 gain 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 20)	(5)	(232)	-	-	-	-	-	-	-	-	(237)
Purchase of shares for Share Award Scheme (Note 20(b))	-	-	(12)	-	-	-	-	-	-	-	(12)
Vesting of shares for Share Award Scheme (Note 20(b))	-	-	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 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 87 to 126 form an integral part of these consolidated financial statements.

06.7 Notes to the consolidated financial statements

For the year ended 30 June 2019

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 2019.

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"), International Financial Reporting Interpretations Committee ("IFRIC") Interpretation and IFRS effective for the Group's financial year beginning 1 July 2018:

IAS 40 (Amendments)	Transfers of Investment Property
IFRIC 22	Foreign Currency Transactions and Advance Consideration
IFRS 2 (Amendments)	Classification and Measurement of Share-based Payment Transactions
IFRS 4 (Amendments)	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
IFRS 15 (Amendments)	Clarification of IFRS 15
IFRSs (Amendments)	Annual Improvements to IFRSs 2014-2016 Cycle

Apart from IFRS 9 and IFRS 15, the adoption of the other newly effective interpretation and the amendments to an existing standard did not result in substantial changes to the Group's accounting policies or financial results. The following describes the key changes arising from the adoption of the IFRS 9 and IFRS 15 that impact the consolidated financial statements of the Group.

The Group elected to adopt IFRS 9 and IFRS 15 without restating comparatives and change its accounting policies from 1 July 2018. The reclassifications and the adjustments resulted from the initial adoption of IFRS 9 and IFRS 15 are therefore not reflected in the consolidated statement of financial position as at 30 June 2018, but are recognized in the opening consolidated statement of financial position on 1 July 2018.

The table below shows the adjustments recognized in the opening balances of each individual financial statement line item affected.

Consolidated statement of financial position (extract)

	30 June 2018 HK$ million (as previously reported)	Impact on initial adoption of IFRS 9 HK$ million	Impact on initial adoption of IFRS 15 HK$ million	1 July 2018 HK$ million (restated)
Non-current assets				
Financial assets at fair value through profit or loss	–	17	–	17
Other investments	7	(7)	–	–
Current assets				
Debtors, deposits and prepayments	1,418	–	38	1,456
Current liabilities				
Creditors and accrued charges	2,919	–	38	2,957
Equity				
Reserves	8,837	10	–	8,847

The total impact on the Group's retained profits due to the classification and measurement of financial instruments as at 1 July 2018 is as follows:

	At 1 July 2018 HK$ million
Opening retained profits – after IAS 39	846
Adjustment to retained profits from adoption of IFRS 9	10
Opening retained profits – after IFRS 9	856

2. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

IFRS 9 "Financial Instruments"
IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

Classification and measurement
IFRS 9 categorizes financial assets into three principal classification categories: measured at amortized cost, at fair value through other comprehensive income ("FVOCI") and at fair value through profit or loss ("FVPL"). The classification of financial assets under IFRS 9 is based on the business model under which the financial assets is managed and its contractual cash flow characteristics.

The Group's management has considered the business models applying to the financial assets held by the Group and categorized the financial assets into the appropriate categories upon the initial application of IFRS 9 on 1 July 2018.

The impact of the reclassification on the consolidated statement of financial position is as follows:

		At 1 July 2018
	Other investments HK$ million	Financial assets at fair value through profit or loss HK$ million
Opening balance – IAS 39	7	–
Reclassify of investment in club debentures to financial assets at fair value through profit or loss	(6)	6
Reclassify of investment in equity securities to financial assets at fair value through profit or loss	(1)	1
Opening balance – after IFRS 9	–	7

The Group elected to present in profit or loss changes in the fair value of all its club debentures and investment in equity securities because the club debentures and the investment in equity securities are not qualified to be classified and measured at amortized cost or fair value through other comprehensive income at the date of initial application of IFRS 9.

Impairment of financial assets
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, certain financial guarantee contracts and cash and cash equivalents. The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. However, there is no significant impact on the Group's accounting with respect to impairment of trade receivables. Accordingly, the opening balance of retained profits as 1 July 2018 is not adjusted in respect of the adoption of simplified approach and measuring expected credit loss.

Hedge accounting
The Group applies hedge accounting prospectively. All hedge accounting relationships designated under the previous IAS 39 have continued to be valid hedge accounting relationships in accordance with IFRS 9. Upon transition to IFRS 9, the Group continues to recognize derivative financial instruments which are not under effective hedge relationships to be classified under fair value through profit or loss.

The Group's risk management strategies and hedge documentation are aligned with the requirements of IFRS 9 and these relationships are therefore treated as continuing hedges. The foreign currency forwards in place as at 30 June 2018 qualified as cash flow hedges under IFRS 9. Consistent with prior periods, the Group has continued to designate the change in fair value of the entire forward contract in the Group's cash flow hedge relationships and, as such, the adoption of the hedge accounting requirements of IFRS 9 had no significant impact on the Group's financial information.

IFRS 15 "Revenue from Contracts with Customers"
IFRS 15 replaces the provisions of IAS 18, which resulted in changes in accounting policies that relate to revenue recognition, contract costs and presentation of contract assets and liabilities. The new standard is based on the principle that revenue is recognized when the control of a good or service transfers to a customer.

The Group's revenue is generated from the sales of products to its customers through wholesale, retail (excluding eshop) and eshop channels and licensing income. The Group's management has assessed that the adoption of IFRS 15 has no significant impact on the Group's revenue recognition policy.

Accounting for customer loyalty programme
In previous reporting periods, the consideration received from the sale of goods was allocated to the points and the goods sold using the residual method. Under this method, a part of the consideration equalling the fair value of the points was allocated to the points. The residual part of the consideration was allocated to the goods sold.

Under IFRS 15, the total consideration is allocated to the points and goods based on the relative stand-alone selling prices. There is no significant impact resulted from the adoption.

2. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

IFRS 15 "Revenue from Contracts with Customers" (continued)
Accounting for sales returns
The Group grants its retail and wholesale customers with rights of return in a designated time period. Prior to the adoption of IFRS 15, the Group used expected value method to estimate the value of returns and recognized net liabilities under creditors and accrued charges in the consolidated statement of financial position. Upon the adoption of IFRS 15, the Group recognizes return liabilities and assets for the rights to recover products from customers upon return separately in the consolidated statement of financial position.

The impact of the reclassification on the consolidated statement of financial position is as follows:

		At 1 July 2018
	Debtors, deposits and prepayments HK$ million	Creditors and accrued charges HK$ million
Opening balance – IAS 18	1,418	2,919
Increase in right of return assets and return liabilities with the adoption of IFRS 15	38	38
Opening balance – after IFRS 15	1,456	2,957

The Group has not early adopted the following IASs, IFRIC Interpretation and IFRSs that have been issued but are not yet effective.

		Effective for accounting periods beginning on or after
IAS 1 and IAS 8 (Amendments)	Definition of Material	1 January 2020
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
IFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019
IFRS 3 (Amendments)	Definition of Business	1 January 2020
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 16	Leases	1 January 2019
IFRS 17	Insurance Contracts	1 January 2021
IFRSs (Amendments)	Annual Improvements to IFRSs 2015-2017 Cycle	1 January 2019

Amongst these new and revised standards and amendments, IFRS 16 is of higher relevancy to the Group's operations. The following describes the key changes that may impact the consolidated financial statements of the Group.

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

The Group is assessing the impact of the adoption of IFRS 16 which is expected to lead to a material increase in both assets and liabilities at 1 July 2019. As at 30 June 2019, the Group had operating lease commitments of **HK$5,578 million** (Note 27). Based on information currently available, the Group expects to recognize right-of-use assets and lease liabilities of approximately **HK$4,270 million** and **HK$5,092 million** respectively on 1 July 2019. The adoption of IFRS 16 will have no impact on the Group's cash flows except to present part of cash outflows as financing instead of operating. The actual impact upon the initial adoption of this standard however may differ as the assessment to date is based on the information currently available to the Group, and further impacts may be identified before the standard is initially applied in the Group's interim financial report for the six months ending 31 December 2019.

Fixed lease expenses in the consolidated income statement will be replaced by depreciation and interest expenses. Adoption of the new standard will have effects to the financial performance of the Group by increasing EBITDA and EBIT, while, when comparing to the IAS 17, higher expenses will be incurred in the early years of lease terms, diminishing over the lease terms and will result lower expenses in the later part of the lease terms.

The Group does not intend to adopt the standard before its effective date. The Group intends to apply the modified retrospective 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.

2. Summary of significant accounting policies (continued)

(b) Subsidiaries

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

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

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

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

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 mentioned 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.

2. Summary of significant accounting policies (continued)

(d) Foreign currency translation (continued)

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

(a) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

(b) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(c) all resulting exchange differences are recognized in other comprehensive income.

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

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

(e) Property, plant and equipment

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

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

Buildings	3$^1/_3$% – 5%
Plant and machinery	30%
Furniture and office equipment	10% – 33$^1/_3$%
Motor vehicles	25% – 30%

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

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.

2. Summary of significant accounting policies (continued)

(g) Intangible assets (continued)

(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. The customer relationships included in intangible asset is tested for impairment.

(h) Impairment of non-financial assets

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

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

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

(i) Inventories

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

(j) Receivables

Receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. If collection of receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are classified as non-current assets. For trade receivables, the Group applies the simplified approach permitted under IFRS 9 which requires expected lifetime losses to be recognized from initial recognition of the receivables. Expected credit losses are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast economic conditions at the reporting date. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered for the estimation of the expected credit losses. Expected credit losses are remeasured at each reporting date to reflect changes in the financial asset's credit risk. Any change in the expected credit loss amount is recognized as an impairment loss or reversal of impairment loss in the income statement, with corresponding adjustment to the carrying amount through a loss allowance account. 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. 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.

2. Summary of significant accounting policies (continued)

(m) Borrowings

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

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

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

(n) Share capital

Ordinary shares are classified as equity.

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

(o) Current and deferred tax

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

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

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

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

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

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

(p) Employee benefits

(i) Pension obligations

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

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.

2. Summary of significant accounting policies (continued)

(p) Employee benefits (continued)

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

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

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

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

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

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

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

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

(q) Provisions

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

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

(r) Revenue recognition

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

(i) Sales of goods – retail including eshop
Sales of goods are recognized on sale of a product transferred to the customer in store or upon delivery. Retail sales are mainly paid by cash or by credit card.

(ii) Sales of goods – wholesale
Sales of goods are recognized on the transfer of control of a product to the customer, which generally coincides with the time when the goods are delivered to the customer and title has been passed that the customer has the ability to direct the use of and obtain the benefit of the product.

(iii) Customers loyalty programme
The Group runs customer loyalty programmes which award credit points upon sales of products to the loyal customers who have joined the programmes. Portion of the consideration received from the sale of products was allocated to the credit points. Revenue of this portion of the consideration is deferred and will be recognized when the points are redeemed, expired or forfeited.

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

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

2. Summary of significant accounting policies (continued)

(s) Accounting for derivative financial instruments

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

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

At the inception of the hedging, the Group documents the economic relationship between hedging instruments and hedged items, including whether changes in the cash flow of the hedging instruments are expected to offset changes in the cash flow of hedged items. The Group documents its risk management objective and strategy for undertaking its hedge transactions. The fair value of derivative financial instruments designated in hedge relationships are disclosed in note 29. Movements in the hedging reserve in shareholders' equity are shown in consolidated statement of changes in equity.

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

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

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

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

(t) Leases

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

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

(u) Dividend distributions

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

(v) Financial guarantee

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

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

(w) Financial assets

Accounting policies applied from 1 July 2018

Classification
The Group classifies its financial assets into the following categories

- Measured at fair value through other comprehensive income ("FVOCI")
- Measured at fair value through profit or loss ("FVPL"); and
- Measured at amortized cost

The classification depends on the business model for managing the financial assets and the contractual terms of cash flows.

Club debentures and investments in equity securities are reclassified to be measured at fair value through profit and loss. Most of the other financial assets are measured at amortized costs.

2. Summary of significant accounting policies (continued)

(w) Financial assets (continued)

Recognition and derecognition
Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Measurement
At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Club debentures and equity investments
The Group subsequently measures all club debentures and investments in equity securities at fair value. Changes in the fair value of financial assets at FVPL are recognized in the income statements.

Derivative financial instruments
Derivative financial instruments mainly include forward foreign currency exchange contracts. Derivatives are initially recognized at fair value on trade date and subsequently remeasured at their fair values. Change in fair value of the derivative financial instruments qualify for hedge accounting is recognized through other comprehensive income.

Debt instruments
The Group subsequently measures all debt instruments depending on the business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the group classifies its debt instruments:

Amortized costs
Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising from derecognition is recognized in the income statement.

FVOCI
Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. Interest income from these financial assets is included in interest income using the effective interest rate method.

FVPL
Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognized in the income statement.

Impairment
The Group assesses on a forward looking basis the expected credit losses associated with its financial assets measured at amortized cost and at fair value through other comprehensive income. Expected credit losses are a probability-weighted estimate of credit losses. Credit losses are estimated based on the present value of the cash shortfalls between the cash flow receivable in accordance with the terms of the contract and the cash flow expected to receive. In measuring the expected credit losses, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which uses lifetime expected credit losses to be recognized from initial recognition of the receivables.

For all other financial assets measured at amortized cost and at fair value through other comprehensive income, the Group recognizes a loss allowance equal to 12-month expected credit loss unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime expected credit losses.

When there is a significant increase in credit risk or the proceeds receivables are not settled in accordance with the terms stipulated in the agreements, management consider these receivables as underperforming or non-performing and impairment is measured as lifetime expected credit loss.

Accounting policies applied until 30 June 2018
The Group has applied IFRS 9 from 1 July 2018 and has elected not to restate comparatives. As a result, the comparatives provided are accounted for in accordance with the Group's previous accounting policy.

Until 30 June 2018, the Group classified its financial assets as loans and receivables and derivative financial instruments for hedging purpose. The classification was determined on the purpose for which the financial assets were acquired. Management determined the classification of its financial assets at initial recognition. Upon the adoption of IFRS 9, club debentures and investment in equity securities are reclassified to be measured at fair value through profit or loss.

Impairment of financial assets
The Group assessed at the end of each reporting period whether there was objective evidence that the Group will not be able to collect all the amounts due according to the original terms of receivables. A provision for impairment of trade receivables is established when the impact on the estimated future cash flows of the financial asset could be reliably estimated. The Group has concluded that there is no material variance in the impairment provision between the adoption of IFRS 9 and IAS 39.

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:

	2019 HK$ million	2018 HK$ million
Euro against US Dollar		
Impact on post-tax profit or loss: gain	**13**	10
Impact on total comprehensive income: gain/(loss)	**12**	(3)
Renminbi against US Dollar		
Impact on post-tax profit or loss: gain	**5**	7
Impact on total comprehensive income: gain	**5**	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 Group applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of lifetime expected loss provision for all trade debtors. To measure the expected credit losses, trade debtors have been grouped based on share credit risk characteristics.

The Group considers the probability of default upon initial recognition of asset and whether there has been significant increase in credit risk on an ongoing basis during the year. To assess whether there is a significant increase in credit risk, the Group compares risk of a default occurring on the assets as at year end date with the risk of default as at the date of initial recognition.

The Group reviews regularly the recoverable amount of each other debtor to ensure that adequate impairment losses are made for irrecoverable amounts. Over the term of the financial assets, the Group accounts for its credit risk by appropriately providing for expected credit losses on a timely basis. In calculating the expected credit loss rates, the Group considers historical loss rates for each category of debtors, and adjusts for forward looking macroeconomic data.

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 2019			
Creditors and accrued charges	**2,504**	**–**	**–**
At 30 June 2018			
Creditors and accrued charges	2,919	–	–

Note: No derivative financial instruments are included in creditors and accrued charges with a maturity less than 1 year (2018: nil).

(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 2019.

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 2019, the Group maintained a net cash position of **HK$3,282 million** (2018: HK$4,521 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 financial assets (club debentures) measured at fair value through profit or loss are included in Level 3 of the fair value measurement hierarchy (Note 16).

The Group's derivative financial instruments measured at fair value are included in Level 2 of the fair value measurement hierarchy (Note 29).

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 2019. The Group conducted an internal valuation of the Esprit trademarks as one corporate asset based on a fair value less costs of disposal calculation as of 30 June 2019. 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%** (2018: 4.5%) and a post-tax discount rate of **16.0%** (2018: 16.0%). The cash flows beyond the five-year period are extrapolated using a steady **3.0%** (2018: 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 allocated to the Group's various CGUs by comparing their recoverable amount to their carrying amount as at the date of the statement of financial position. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of CGUs, or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level. The recoverable amount of a CGU is determined based on fair value less costs of disposal calculation.

In the last financial year, management performed an impairment assessment for the goodwill and customer relationships relating to the China operations. Based on the assessment, impairment charges of HKS664 million and HK$130 million were recognized for the remaining balance of the goodwill and customer relationships, respectively for the year ended 30 June 2018. 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. The calculation of the recoverable amount of the China business used cash flow projections based on financial budgets approved by management covering a six-year period to have a long-term view of China business and a post-tax discount rate of 12%. The estimated compound annual sales growth rate is expected to be 9%. Cash flows beyond the six-year period are extrapolated using a steady growth rate of 3% which does not exceed the long term average growth rate in China market.

(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.

	2019 HK$ million	2018 HK$ million
Revenue from external customers		
Germany	**4,426**	5,281
Rest of Europe	**3,559**	4,199
Asia Pacific	**1,102**	1,674
eshop	**3,728**	4,169
Licensing and others	**117**	132
	12,932	15,455

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.

5. Revenue and segment information (continued)

	For the year ended 30 June 2019					
	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	2,226	1,805	1,003	3,728	–	8,762
Wholesale	2,200	1,754	99	–	–	4,053
Licensing and others	–	–	–	–	5,776	5,776
Total	4,426	3,559	1,102	3,728	5,776	18,591
Inter-segment revenue	–	–	–	–	(5,659)	(5,659)
Revenue from external customers						
Retail	2,226	1,805	1,003	3,728	–	8,762
Wholesale	2,200	1,754	99	–	–	4,053
Licensing and others	–	–	–	–	117	117
Total	4,426	3,559	1,102	3,728	117	12,932
Segment results						
Retail	(150)	(132)	(101)	679	–	296
Wholesale	477	122	5	–	–	604
Licensing and others	–	–	–	–	(1,487)	(1,487)
EBIT/(LBIT) of the underlying operations	327	(10)	(96)	679	(1,487)	(587)
Provision for store closures and leases, net						
Retail	(686)	(174)	(35)	–	–	(895)
One-off costs in relation to staff reduction plans						
Retail	(74)	9	(3)	(7)	–	(75)
Wholesale	(1)	(5)	(1)	–	–	(7)
Licensing and others	–	–	–	–	(272)	(272)
Total	(75)	4	(4)	(7)	(272)	(354)
Inventory provision						
Retail	–	–	(4)	(1)	–	(5)
Licensing and others	–	–	–	–	(154)	(154)
Total	–	–	(4)	(1)	(154)	(159)

5. Revenue and segment information (continued)

	For the year ended 30 June 2019					
	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
Impairment of property, plant and equipment						
Retail	(66)	(33)	(5)	–	–	(104)
Wholesale	–	(5)	–	–	–	(5)
Licensing and others	–	–	–	–	(1)	(1)
Total	(66)	(38)	(5)	–	(1)	(110)
Write back of provision for closure costs of operations in Australia and New Zealand						
Retail	–	–	23	–	–	23
Licensing and others	–	–	–	–	2	2
Total	–	–	23	–	2	25
(LBIT)/EBIT of the Group	(500)	(218)	(121)	671	(1,912)	(2,080)
Interest income						49
Finance costs						(35)
Loss before taxation						(2,066)
Capital expenditure						
Retail	27	31	11	12	6	87
Wholesale	6	5	9	–	4	24
Licensing and others	–	–	4	–	48	52
Total	33	36	24	12	58	163
Depreciation						
Retail	52	52	26	12	–	142
Wholesale	9	9	2	–	–	20
Licensing and others	–	–	–	–	293	293
Total	61	61	28	12	293	455

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	(349)	(181)	(258)	668	1	(119)
Wholesale	628	211	15	–	–	854
Licensing and others	–	–	–	–	(1,644)	(1,644)
EBIT/(LBIT) of the underlying operations	279	30	(243)	668	(1,643)	(909)
(Additional)/write-back of provision for store closures and leases, net						
Retail	(124)	1	(29)	–	–	(152)
One-off costs in relation to staff reduction plans						
Retail	(46)	(7)	(4)	–	(1)	(58)
Wholesale	(4)	(9)	–	–	(1)	(14)
Licensing and others	–	–	–	–	(47)	(47)
Total	(50)	(16)	(4)	–	(49)	(119)
Inventory provision						
Retail	–	–	(15)	(6)	–	(21)
Licensing and others	–	–	–	–	(55)	(55)
Total	–	–	(15)	(6)	(55)	(76)

5. Revenue and segment information (continued)

	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
					For the year ended 30 June 2018	
Impairment of property, plant and equipment						
Retail	(50)	(17)	(8)	–	–	(75)
Licensing and others	–	–	–	–	(15)	(15)
Total	(50)	(17)	(8)	–	(15)	(90)
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)
Impairment of goodwill						
Retail	–	–	(37)	(511)	–	(548)
Wholesale	–	–	(116)	–	–	(116)
Total	–	–	(153)	(511)	–	(664)
Impairment of customer relationships						
Wholesale	–	–	(130)	–	–	(130)
Gain on disposal of property						
Retail	–	–	16	–	–	16
EBIT/(LBIT) of the Group	55	(2)	(688)	149	(1,767)	(2,253)
Interest income						58
Finance costs						(31)
Loss before taxation						(2,226)
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

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:

	2019 HK$ million	2018 HK$ million
Germany (Note 1)	**4,426**	5,281
Rest of Europe		
Benelux	**1,113**	1,332
Switzerland	**572**	634
France	**531**	675
Austria	**470**	535
Spain	**189**	211
Finland	**173**	196
Sweden	**151**	183
Italy	**105**	121
Poland	**55**	65
United Kingdom	**50**	63
Denmark	**34**	52
Others (Note 2)	**116**	132
	3,559	4,199
Asia Pacific		
China	**380**	585
Singapore	**185**	222
Malaysia	**140**	155
Taiwan	**120**	151
Hong Kong	**102**	173
Macau	**59**	73
Australia and New Zealand	**35**	241
Others (Note 3)	**81**	74
	1,102	1,674
eshop		
Germany	**2,232**	2,479
Benelux	**509**	562
France	**205**	231
Austria	**199**	207
Switzerland	**190**	204
China	**101**	175
United Kingdom	**45**	49
Poland	**35**	28
Denmark	**34**	38
Sweden	**32**	36
Finland	**27**	28
Spain	**19**	18
Italy	**9**	9
Australia and New Zealand	**1**	21
Others	**90**	84
	3,728	4,169
Licensing and others		
Rest of Europe (Note 4)	**87**	101
Germany	**30**	31
	117	132
	12,932	15,455

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 and America.

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

	2019 HK$ million	2018 HK$ million
Hong Kong	**19**	19
Germany	**906**	1,256
Other countries (Note)	**2,280**	2,383
	3,205	3,658

Note: Non-current assets located in other countries include intangible assets of **HK$2,050 million** (2018: HK$2,063 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 (2018: less than 10%).

6. Operating loss (LBIT)

	2019 HK$ million	2018 HK$ million
LBIT is arrived at after charging and (crediting) the following:		
Staff costs (Note)	**2,806**	3,087
Occupancy costs		
– operating lease charge (including variable rental of **HK$109 million** (2018: HK$177 million))	**1,607**	1,986
– other occupancy costs	**481**	540
Provision for store closures and leases, net (Note)	**895**	152
Depreciation	**455**	528
Provision for obsolete inventories, net	**141**	96
Impairment of property, plant and equipment (Note)	**110**	90
Other net exchange losses/(gains)	**39**	(31)
Provision for impairment of trade debtors, net	**20**	54
Auditor's remuneration	**14**	16
Loss on disposal of plant and equipment	**6**	11
Decrease in fair value of financial assets at fair value through profit or loss	**5**	–
(Write-back of)/additional provision for closure costs of operations in Australia and New Zealand (Note 23)	**(25)**	129
Impairment of goodwill (Note 13)	**–**	664
Impairment of customer relationships (Note 13)	**–**	130
Amortization of customer relationships	**–**	30
Gain on disposal of a property (Note 30)	**–**	(16)

Note: During the year, the Group executed a restructuring plan i) to reduce complexity and improve accountability in the Group by becoming a leaner organization and ii) eliminate loss-making parts of the business to build a stronger foundation for the future. The Group recognized one-off costs in relation to staff reduction plans of **HK$354 million** of which **HK$350 million** was reported under staff costs and **HK$4 million** was reported under other operating costs, a net additional provision for store closures and onerous leases of **HK$895 million** (Note 22) and an impairment of property, plant and equipment of **HK$110 million**.

7. Finance costs

	2019 HK$ million	2018 HK$ million
Imputed interest on financial assets and financial liabilities	**35**	31

8. Taxation

	2019 HK$ million	2018 HK$ million
Current tax		
Hong Kong profits tax		
Provision for current year	**–**	–
Overseas taxation		
Provision for current year	**134**	84
Under-provision for prior years	**–**	49
	134	133
Deferred tax (Note 25)		
Current year net (credit)/charge	**(56)**	195
Taxation charge	**78**	328

Hong Kong profits tax is calculated at **16.5%** (2018: 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 **-3.8%** (2018: -14.7%).

	2019 HK$ million	2018 HK$ million
Loss before taxation	**(2,066)**	(2,226)
Tax calculated at applicable tax rates	**(611)**	(477)
Expenses not deductible for tax purposes	**68**	32
Non-taxable income	**(9)**	(11)
Tax effect of tax losses not recognized	**658**	463
Temporary differences not recognized	**(3)**	(4)
Utilization of previously unrecognized tax losses	**(12)**	(6)
(Recognition)/derecognition of previously unrecognized/recognized tax losses, net	**(13)**	281
Other deferred tax effects from prior years	**–**	1
Under-provision for prior years, net	**–**	49
Taxation charge	**78**	328

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 2019 (2018: nil).

10. Loss per share

Basic

Basic loss per share is calculated by dividing the loss 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.

	2019	2018
Loss attributable to shareholders of the Company (HK$ million)	**(2,144)**	(2,554)
Number of ordinary shares in issue at 1 July (million)	**1,887**	1,944
Adjustment for shares repurchased (million)	**–**	(38)
Adjustment for shares held for Share Award Scheme (million)	**(8)**	(8)
Weighted average number of ordinary shares in issue less shares held for Share Award Scheme (million)	**1,879**	1,898
Basic loss per share (HK$ per share)	**(1.14)**	(1.35)

Diluted

Diluted loss per share is calculated based on dividing the loss 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.

	2019	2018
Loss attributable to shareholders of the Company (HK$ million)	**(2,144)**	(2,554)
Weighted average number of ordinary shares in issue less shares held for Share Award Scheme (million)	**1,879**	1,898
Adjustments for share options and awarded shares (million)	**–**	–
Weighted average number of ordinary shares for diluted earnings per share (million)	**1,879**	1,898
Diluted loss per share (HK$ per share)	**(1.14)**	(1.35)

Diluted loss per share for the year ended 30 June 2019 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)

	2019 HK$ million	2018 HK$ million
Salaries and wages	**1,979**	2,353
Social security costs and other staff costs	**783**	622
Pensions costs of defined contribution plans	**45**	61
Pensions costs of defined benefit plan (Note 24)	**4**	27
(Write back)/charge of employee share-based compensation benefits	**(5)**	24
	2,806	3,087

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 (2018: 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[11] HK$'000	Basic salaries, allowance and benefits in kind HK$'000	Bonuses[12] HK$'000	Employee share-based compensation benefits HK$'000	Provident fund contributions/ retirement benefit costs HK$'000	Compensation for loss of office HK$'000	2019 Total emoluments HK$'000
Raymond **OR** Ching Fai[4]	–	11,043	1,122	2,338	–	–	14,503
Anders Christian **KRISTIANSEN**[5,7]	–	13,084 (EUR1,462,971)	1,029 (EUR115,068)	3,985 (EUR445,518)	66 (EUR7,366)	–	18,164 (EUR2,030,923)
Thomas **TANG** Wing Yung[6]	–	8,163	–	1,076	18	–	9,257
Jürgen Alfred Rudolf **FRIEDRICH**[1,3,5]	574	–	–	–	–	–	574
Alexander Reid **HAMILTON**[2,3,4,6]	778	–	–	–	–	–	778
Carmelo **LEE** Ka Sze[2,4,5,6]	800	–	–	–	–	–	800
Norbert Adolf **PLATT**[2,3,5]	702	–	–	–	–	–	702
Jose Manuel **MARTINEZ GUTIERREZ**[8]	–	4,733 (EUR517,703)	3,382 (EUR370,000)	(6,695) (EUR(748,520))	6 (EUR656)	7,434 (EUR813,225)	8,860 (EUR953,064)
Paul **CHENG** Ming Fun[2,4,5,9]	634	–	–	–	–	–	634
José María **CASTELLANO RIOS**[2,3,6,10]	283	–	–	–	–	–	283
Total for the year 2019	3,771	37,023	5,533	704	90	7,434	54,555

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

(a) Directors' emoluments (continued)

Name of Director	Fees[11] HK$'000	Basic salaries, allowance and benefits in kind HK$'000	Bonuses[12] HK$'000	Employee share-based compensation benefits HK$'000	Provident fund contributions/ retirement benefit costs HK$'000	2018 Total emoluments HK$'000
Raymond **OR** Ching Fai[2,4]	1,613	2,751	–	39	–	4,403
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
Jürgen Alfred Rudolf **FRIEDRICH**[1, 5]	565	–	–	–	–	565
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
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)
Paul **CHENG** Ming Fun[2,4,5]	1,465	–	–	–	–	1,465
José María **CASTELLANO RIOS**[2,3,6]	655	–	–	–	–	655
Total for the year 2018	6,498	26,391	16,812	8,233	36	57,970

1 Non-executive Director

2 Independent Non-executive Director (Dr Raymond OR Ching Fai has 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 (Dr José María CASTELLANO RIOS has retired as a member with effect from the conclusion of the annual general meeting of the Company ("2018 AGM") held on 5 December 2018. Mr Jürgen Alfred Rudolf FRIEDRICH has been appointed as a member with effect from 5 December 2018.)

4 Members of the Nomination Committee (Mr Paul CHENG Ming Fun has retired as a member with effect from the conclusion of the 2018 AGM held on 5 December 2018.)

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 the conclusion of the 2018 AGM held on 5 December 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
- (c) From 5 December 2018 to 30 June 2019 – Mr Norbert Adolf PLATT (Chairman), Mr Anders Christian KRISTIANSEN and Mr Carmelo LEE Ka Sze

6 Members of the Risk Management Committee (Dr José María CASTELLANO RIOS has retired as a member with effect from the conclusion of the 2018 AGM held on 5 December 2018. Mr Alexander Reid HAMILTON has been appointed as a member with effect from 5 December 2018.)

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 Mr Paul CHENG Ming Fun has retired as Deputy Chairman of the Board and Independent Non-executive Director with effect from the conclusion of 2018 AGM held on 5 December 2018

10 Dr José María CASTELLANO RIOS has retired as Independent Non-executive Director with effect from the conclusion of 2018 AGM held on 5 December 2018

11 The amount includes directors' fees of **HK$3.2 million** (2018: HK$5.9 million) paid to Independent Non-executive Directors

12 During the current year, there was **HK$5.5 million** discretionary bonus to the directors (2018: HK$16.8 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 (2018: 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 (2018: 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 (2018: 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 (2018: 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 **four** (2018: two) directors/former director whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining **one** (2018: three) individuals during the year are as follows:

	2019 HK$'000	2018 HK$'000
Salaries, housing and other allowances and benefits in kind	**1,891**	23,106
Bonuses	**–**	16,170
(Write back)/charge of employee share-based compensation benefits	**(1,955)**	7,257
Pensions costs of defined contribution plans	**22**	8
Compensation for loss of office	**6,198**	–
	6,156	46,541

The emoluments fell within the following bands:

Emoluments band	Number of individuals 2019	2018
HK$6,000,001 – HK$6,500,000	**1**	–
HK$13,000,001 – HK$13,500,000	**–**	1
HK$13,500,001 – HK$14,000,000	**–**	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 and net book value				
At 1 July 2018	**1,975**	**88**	**–**	**2,063**
Exchange translation	**(13)**	**–**	**–**	**(13)**
At 30 June 2019	**1,962**	**88**	**–**	**2,050**
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

Note: In the last financial year, management had 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, amounting to HK$664 million and HK$130 million respectively (Note 4(b)) during the year ended 30 June 2018.

Trademarks
The trademarks are considered to have an indefinite useful life and were tested for impairment at 30 June 2019, as described in note 4(a). The recoverable amount of the Esprit trademarks as at 30 June 2019 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. Goodwill relating to business in Finland of **HK$35 million** (2018: HK$36 million) is allocated to the wholesale business segment.

14. Property, plant and equipment

	Freehold land outside 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 2018	7	151	2,991	574	3,390	35	52	7,200
Exchange translation	–	(3)	(51)	(13)	(63)	(1)	(2)	(133)
Additions	–	–	68	8	68	8	11	163
Transfer	–	–	4	–	40	–	(44)	–
Disposals	–	–	(405)	–	(141)	(12)	–	(558)
At 30 June 2019	7	148	2,607	569	3,294	30	17	6,672
Depreciation and impairment								
At 1 July 2018	–	30	2,554	215	2,810	20	–	5,629
Exchange translation	–	(1)	(44)	(5)	(52)	(1)	–	(103)
Depreciation charge for the year	–	5	112	43	287	8	–	455
Impairment charge	–	–	100	–	10	–	–	110
Disposals	–	–	(399)	–	(139)	(9)	–	(547)
At 30 June 2019	–	34	2,323	253	2,916	18	–	5,544
Net book value								
At 30 June 2019	7	114	284	316	378	12	17	1,128

	Freehold land outside 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

15. Investment properties

	2019 HK$ million	2018 HK$ million
At 1 July	**24**	23
Change in fair value of investment properties	**3**	1
At 30 June	**27**	24

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 2019 on an open market value basis at **HK$27 million** (2018: HK$24 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 2019	**–**	**27**	**–**	**27**
For the year ended 30 June 2018	–	24	–	24

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. Financial assets at fair value through profit or loss

	2019 HK$ million	2018 HK$ million
Club debentures	**12**	–

The following table presents the carrying value of financial assets 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				
Club debentures				
For the year ended 30 June 2019	**–**	**–**	**12**	**12**
For the year ended 30 June 2018	–	–	–	–

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.

17. Inventories

	2019 HK$ million	2018 HK$ million
Finished goods	**1,800**	2,257
Consumables	**44**	38
Raw materials	**1**	1
	1,845	2,296

18. Debtors, deposits and prepayments

	2019 HK$ million	2018 HK$ million
Trade debtors	**1,205**	1,178
Less: provision for impairment of trade debtors	**(179)**	(204)
	1,026	974
Deposits	**92**	123
Prepayments	**164**	126
Right of return assets	**88**	–
Other debtors and receivables	**249**	335
	1,619	1,558
Non-current portion of deposits	**(68)**	(82)
Non-current portion of prepayments	**(38)**	(46)
Non-current portion of other debtors and receivables	**(14)**	(12)
Current portion	**1,499**	1,418
Maximum exposure to credit risk	**1,455**	1,432

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

	2019 HK$ million	2018 HK$ million
0-30 days	**725**	628
31-60 days	**113**	126
61-90 days	**74**	79
Over 90 days	**114**	141
	1,026	974

As of 30 June 2019, trade debtors net of provision for impairment of **HK$232 million** (30 June 2018: HK$169 million) were past due but not impaired. The aging analysis of these trade debtors is as follows:

18. Debtors, deposits and prepayments (Continued)

	2019 HK$ million	2018 HK$ million
1-30 days	**167**	95
31-60 days	**16**	8
61-90 days	**4**	15
Over 90 days	**45**	51
Amount past due but not impaired	**232**	169

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.

The Group applies the IFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all trade debtors. There is no material variance in impairment provision between the adoption of IFRS 9 and IAS 39 on 1 July 2018 and during the year.

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

	2019 HK$ million	2018 HK$ million
At 1 July	**204**	239
Provision for impairment of trade debtors	**50**	76
Bad debts written off	**(44)**	(95)
Unused amounts reversed	**(30)**	(22)
Exchange translation	**(1)**	6
At 30 June	**179**	204

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

19. Cash, bank balances and deposits

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

	2019 HK$ million	2018 HK$ million
Bank balances and cash	**2,438**	2,472
Bank deposits with maturities within three months	**733**	1,407
Bank deposits with maturities of more than three months	**111**	642
	3,282	4,521

The maximum exposure to credit risk as at 30 June 2019 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 **1.4%** (2018: 1.2%) per annum.

20. Share capital

	Number of shares of HK$0.10 each million	HK$ million
Authorized:		
At 30 June 2018 and 30 June 2019	**3,000**	**300**

	Number of shares of HK$0.10 each million	Nominal value HK$ million
Issued and fully paid:		
At 1 July 2018 and 30 June 2019	**1,887**	**189**
At 1 July 2017	1,944	194
Share repurchased and cancelled*	(57)	(5)
At 30 June 2018	1,887	189

* During the year ended 30 June 2019, the Company has not repurchased any ordinary shares (2018: purchased 56,963,000 shares) of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). No payment has been made to purchase any ordinary shares (including expenses) (2018: paid HK$237 million)

(a) Share options

The Company adopted a share option scheme on 10 December 2009 (the "2009 Share Option Scheme"). The 2009 Share Option Scheme was terminated on 5 December 2018, notwithstanding that the share options which have been granted and remained outstanding shall continue to be valid and exercisable subject to and in accordance with the terms on which the share options were granted, the provisions of the 2009 Share Option Scheme and the Listing Rules.

The Company adopted a new share option scheme on 5 December 2018 (the "2018 Share Option Scheme").

Information on the Schemes
The following is a summary of the 2009 Share Option Scheme and the 2018 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.

20. Share capital (continued)

(a) Share options (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 2019
The total number of shares available for issue upon exercise of all outstanding share options already granted under the Schemes is 67,865,000 shares (2009 Share Option Scheme: 62,965,000 shares and 2018 Share Option Scheme: 4,900,000 shares), representing 3.60% of the issued share capital of the Company as at 30 June 2019.

The maximum number of shares available for issue upon exercise of share options not yet granted under the Schemes is 183,821,156 shares (2009 Share Option Scheme: Nil shares and 2018 Share Option Scheme: 183,821,156 shares), representing 9.74% of the issued share capital of the Company as at 30 June 2019.

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 2009 Share Option Scheme
On 5 December 2018, the shareholders approved at the annual general meeting of the Company the termination of the 2009 Share Option Scheme and no further share options may be granted to eligible person under the 2009 Share Option Scheme with effect thereof.

20. Share capital (continued)

(a) Share options (continued)

The remaining life of the 2009 Share Option Scheme (continued)
Details of the share options movement during the year and outstanding share options as at 30 June 2019 under the 2009 Share Option Scheme are as follows:

	Number of share options 2019	2018
At 1 July	**82,320,000**	57,940,000
Granted during the year (Note (i))	**7,200,000**	32,750,000
Lapsed during the year	**(3,050,000)**	–
Forfeited during the year	**(23,505,000)**	(8,370,000)
At 30 June (Note (ii))	**62,965,000**	82,320,000

Notes:

(i) Details of share options granted during the year ended 30 June 2019 are as follows:

Exercise period	Exercise price HK$	Number of share options
28 September 2019 – 27 September 2028	**1.884**	**2,500,000**
28 September 2021 – 27 September 2028	**1.884**	**4,700,000**
		7,200,000

(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 2019	2018
Directors			
11 March 2023*	10.04	**2,300,000**	7,300,000
4 November 2023*	14.18	**300,000**	700,000
30 June 2024*	11.00	**880,000**	1,160,000
31 October 2024*	10.124	**300,000**	700,000
25 June 2028**	2.66	**16,000,000**	16,000,000
28 September 2028**	1.884	**3,500,000**	–
Employees			
27 September 2020*	43.00	**700,000**	1,500,000
27 September 2021*	8.76	**1,900,000**	3,900,000
12 December 2022*	12.32	**1,540,000**	2,515,000
11 March 2023*	10.04	**920,000**	6,195,000
4 November 2023*	14.18	**2,475,000**	6,165,000
4 November 2023**	14.18	**–**	560,000
30 June 2024*	11.00	**300,000**	240,000
30 June 2024**	11.00	**–**	60,000
31 October 2024*	10.124	**3,900,000**	6,220,000
31 October 2024**	10.124	**–**	80,000
13 October 2025*	6.55	**4,050,000**	–
13 October 2025**	6.55	**–**	6,400,000
13 October 2025**	8.07	**–**	125,000
3 May 2026**	6.82	**–**	400,000
31 October 2026**	6.87	**4,200,000**	5,400,000
7 November 2027**	4.65	**4,800,000**	7,200,000
25 June 2028**	2.66	**6,100,000**	9,500,000
28 September 2028**	1.884	**3,000,000**	–
Others			
11 March 2023*	10.04	**5,000,000**	–
4 November 2023*	14.18	**400,000**	–
31 October 2024*	10.124	**400,000**	–
		62,965,000	82,320,000

* 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.

20. Share capital (continued)

(a) Share options (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							
28 September 2018	**0.43 – 0.64**	**1.884**	**1.884**	**37.94% – 39.45%**	**2.17% – 2.31%**	**2 – 4 years**	**0.00%**

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.

The remaining life of the 2018 Share Option Scheme
Share options may be granted to eligible persons under the 2018 Share Option Scheme for the period until 4 December 2028.

Details of the share options movement during the year and outstanding share options as at 30 June 2019 under the 2018 Share Option Scheme are as follows:

	Number of share options 2019	2018
At 1 July	**–**	–
Granted during the year (Note (i))	**4,900,000**	–
At 30 June (Note (ii))	**4,900,000**	–

Notes:

(i) Details of share options granted during the year ended 30 June 2019 are as follows:

Exercise period	Exercise price HK$	Number of share options
10 January 2022 – 9 January 2029	**1.56**	**1,000,000**
27 February 2022 – 26 February 2029	**1.98**	**3,900,000**
		4,900,000

(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 2019	2018
Employees			
10 January 2029**	1.56	**1,000,000**	–
27 February 2029**	1.98	**3,900,000**	–
		4,900,000	–

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

20. Share capital (continued)

(a) Share options (continued)

The remaining life of the 2018 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 2018 Share Option Scheme							
10 January 2019	**0.52**	**1.56**	**1.56**	**40.17%**	**1.74%**	**4 years**	**0.00%**
27 February 2019	**0.67**	**1.98**	**1.98**	**40.49%**	**1.62%**	**4 years**	**0.00%**

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 2018 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 2018 Share Option Scheme, dividend yield was based on the average dividend yield (including special dividend) for the three years preceding the year of grant.

(b) Awarded shares

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

Pursuant to the rules relating to the Share Award Scheme (the "Scheme Rules"), the Board of Directors shall select any employees of the Group, 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 2019 under the Share Award Scheme are as follows.

	Number of awarded shares **2019**	2018
At 1 July	**9,004,458**	8,539,256
Granted during the year (Note (i))	**–**	4,429,966
Vested during the year (Note (ii))	**(1,090,599)**	(3,073,675)
Lapsed during the year	**(5,045,759)**	(891,089)
At 30 June	**2,868,100**	9,004,458

(i) During the year ended 30 June 2019, no awarded shares (2018: 4,429,966 awarded shares) were granted to Selected Employees under the Share Award Scheme.

(ii) During the year ended 30 June 2019, a total of **1,090,599 shares** (2018: 3,073,675 shares) of the Company were transferred to relevant Selected Employees upon vesting. The total cost of the vested shares was **HK$7 million** (including expenses) (2018: 21 million). During the year, **HK$0.1 million** (2018: HK$0.1 million) 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 2019, the trustee has not purchased any shares (2018: purchased 3,538,833 shares) of the Company on the Stock Exchange. No payment has been made to the trustee to purchase the shares (including expenses) (2018: paid HK$12 million).

21. Creditors and accrued charges

	2019 HK$ million	2018 HK$ million
Trade creditors	**425**	722
Accruals	**1,267**	1,436
Return liabilities	**202**	–
Other creditors and payables	**610**	761
	2,504	2,919

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

	2019 HK$ million	2018 HK$ million
0-30 days	**335**	460
31-60 days	**54**	194
61-90 days	**27**	39
Over 90 days	**9**	29
	425	722

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

22. Provision for store closures and leases

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

	2019 HK$ million	2018 HK$ million
At 1 July	**397**	393
Provision for store closures and leases, net	**895**	152
Amounts used during the year	**(348)**	(152)
Exchange translation	**(4)**	4
At 30 June	**940**	397

During the year, the Group executed a restructuring plan i) to reduce complexity and improve accountability in the Group by becoming a leaner organization and ii) eliminate loss-making parts of the business to build a stronger foundation for the future. The Group recognized a net additional provision of **HK$895 million** (2018: HK$152 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$35 million** (2018: HK$27 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 2019, the provision expected to be settled within twelve months after the date of the statement of financial position is **HK$783 million** (2018: HK$57 million) and the provision expected to be settled more than twelve months after the date of the statement of financial position is **HK$157 million** (2018: HK$340 million).

23. 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 decided to divest the operations in Australia and New Zealand during the year ended 30 June 2018. In this connection, the Group recognized total closure costs of HK$129 million which included impairment of property, plant and equipment of HK$18 million, inventory write down of HK$23 million, and additional provision for lease obligations, staff severance and retention, legal and professional fees totaling HK$88 million. The operations in Australia and New Zealand have completely been closed down in September 2019. During the year ended 30 June 2019, the Group has recognized an over-provision of the closure costs of **HK$25 million** in the consolidated income statement.

24. 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 cancelled.

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

	2019 HK$ million	2018 HK$ million
Present value of funded obligations	**106**	101
Fair value of plan assets	**(75)**	(75)
Net defined benefit liabilities	**31**	26

24. 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 2018	101	(75)	26
Current service cost	4	–	4
Interest expense/ (income)	1	(1)	–
	5	(1)	4
Remeasurements:			
– Loss from change in financial assumptions	4	–	4
Currency translation differences	2	–	2
Contributions:			
– Employers	–	(5)	(5)
– Plan participants	3	(3)	–
Payment from plans:			
– Benefit payments	(9)	9	–
At 30 June 2019	**106**	**(75)**	**31**

	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:

	2019				2018			
	Quoted	Unquoted	Total	% of Total	Quoted	Unquoted	Total	% of Total
Insurance Contracts	-	75	75	100%	-	75	75	100%

The weighted average duration of retirement defined benefit obligations is **14.6 years** (2018: 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$3 million** (2018: HK$4 million) to their retirement defined benefit plan in 2020.

The significant actuarial assumptions were as follows:

	2019	2018
Discount rate	**0.40%**	0.80%
Expected future salary increases	**1.25%**	1.25%

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

	2019 (Decrease)/increase in defined benefit obligations		
	Change in assumption	**Increase in assumption HK$ million**	**Decrease in assumption HK$ million**
Discount rate	**0.25%**	**(3)**	**2**
Expected future salary increases	**0.25%**	**-**	**(1)**

	2018 (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.

25. 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	Other deferred tax assets HK$ million	Other deferred tax liabilities HK$ million	Total HK$ million
At 1 July 2017	71	45	3	(285)	562	149	(48)	497
(Charged)/credited to income statement	(10)	-	49	39	(332)	44	15	(195)
Credited 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
Credited/(Charged) to income statement	4	-	(13)	-	(19)	83	1	56
Debited to other comprehensive income	-	17	-	-	-	-	-	17
Exchange difference recognized in equity	(1)	1	(2)	3	(7)	(2)	(1)	(9)
At 30 June 2019	**65**	**(2)**	**35**	**(246)**	**212**	**275**	**(33)**	**306**

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:

	2019 HK$ million	2018 HK$ million
Deferred tax assets	**559**	524
Deferred tax liabilities	**253**	282

At 30 June 2019, the Group had unused tax losses of approximately **HK$7,843 million** (2018: HK$5,852 million) available for offset against future taxable profits. A deferred tax asset has been recognized in respect of approximately **HK$780 million** (2018: HK$884 million) of such losses. No deferred tax asset has been recognized in respect of the remaining losses of approximately **HK$7,063 million** (2018: HK$4,968 million). Included in unrecognized tax losses are losses of approximately **HK$932 million** (2018: HK$772 million) that will expire in the next one to ten years. Other losses may be carried forward indefinitely.

Deferred income tax liabilities of **HK$4 million** (2018: 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.

26. Notes to consolidated statement of cash flows

Reconciliation of loss before taxation to cash used in operations:

	2019 HK$ million	2018 HK$ million
Loss before taxation	**(2,066)**	(2,226)
Adjustments for:		
Interest income	**(49)**	(58)
Finance costs	**35**	31
Investment income	**(5)**	–
Depreciation	**455**	528
Provision for store closures and leases, net	**691**	152
Provision for staff reduction cost	**200**	–
Impairment of property, plant and equipment	**110**	90
Loss on disposal of plant and equipment	**6**	11
Decrease in fair value of financial assets at fair value through profit or loss	**5**	–
(Write-back of)/additional provision for closure costs of operations in Australia and New Zealand	**(25)**	129
Increase in fair value of investment properties	**(3)**	(1)
(Write-back)/charge of employee share-based compensation benefits	**(5)**	24
Impairment of goodwill	**–**	664
Impairment of customer relationships	**–**	130
Amortization of customer relationships	**–**	30
Gain on disposal of a property	**–**	(16)
	(651)	(512)
Changes in working capital:		
Decrease in inventories	**451**	221
(Increase)/decrease in debtors, deposits and prepayments	**(120)**	120
Decrease in creditors and accrued charges	**(763)**	(225)
Effect of foreign exchange rate changes	**(60)**	(22)
Cash used in operations	**(1,143)**	(418)

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

	2019 HK$ million	2018 HK$ million
Net book value	**11**	33
(Loss)/gain on disposal of property, plant and equipment	**(6)**	5
Proceeds from disposal of property, plant and equipment	**5**	38

Note: Proceeds from disposal of property, plant and equipment included **HK$nil** (2018: HK$34 million) from disposal of a property (Note 30).

27. Operating lease commitments

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

	2019 HK$ million	2018 HK$ million
Land and buildings		
– within one year	**1,423**	1,614
– in the second to fifth year inclusive	**3,239**	3,597
– after the fifth year	**906**	974
	5,568	6,185
Other equipment		
– within one year	**5**	2
– in the second to fifth year inclusive	**5**	1
	10	3
	5,578	6,188

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 2019 are **HK$117 million** (2018: HK$168 million).

28. Capital commitments

	2019 HK$ million	2018 HK$ million
Property, plant and equipment		
– Contracted but not provided for	**31**	44

29. 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 2019, the fair values of the forward foreign exchange contracts included in other receivables and other payables are as follows:

	2019		2018	
	Assets HK$ million	Liabilities HK$ million	Assets HK$ million	Liabilities HK$ million
Forward foreign exchange contracts				
Cash flow hedges	**7**	**–**	66	–

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

29. Derivative financial instruments (continued)

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 2019
	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	**–**	**7**	**–**	**7**

				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

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

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

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

	2019 HK$ million	2018 HK$ million
Forward foreign exchange contracts	**173**	1,889

Gains and losses in equity on forward foreign exchange contracts as of 30 June 2019 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 (2018: nil).

30. 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.

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

	Note	**As at 30 June 2019 HK$ million**	As at 30 June 2018 HK$ million
Non-current assets			
Investments in subsidiaries, unlisted and at cost		**1,329**	1,336
Current assets			
Amounts due from subsidiaries		**9,997**	10,028
Cash, bank balances and deposits		**1**	22
		9,998	10,050
Current liabilities			
Amounts due to subsidiaries		**12**	11
Accrued charges		**16**	12
		28	23
Net current assets		**9,970**	10,027
Total assets less current liabilities		**11,299**	11,363
Equity			
Share capital	20	**189**	189
Reserves		**11,110**	11,174
Total equity		**11,299**	11,363

Approved by the Board of Directors on 18 September 2019.

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 2018	**7,988**	**(47)**	**916**	**474**	**1,843**	**11,174**
Loss attributable to shareholders	**–**	**–**	**–**	**–**	**(59)**	**(59)**
Employee share-based compensation benefits	**–**	**–**	**(5)**	**–**	**–**	**(5)**
Vesting of shares for Share Award Scheme	**–**	**7**	**(7)**	**–**	**–**	**–**
At 30 June 2019	**7,988**	**(40)**	**904**	**474**	**1,784**	**11,110**
Representing:						
Proposed final dividend						**–**
Balance after proposed final dividend						**11,110**
At 30 June 2019						**11,110**
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

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 2019 amounted to **HK$3,162 million** (2018: HK$3,233 million).

33. Principal subsidiaries

The following are the principal subsidiaries as at 30 June 2019 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%	USD200	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%	EUR33,373,350	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
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

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 GB Limited	United Kingdom	100%	GBP1	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
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 Pte Ltd	Singapore	100%	SGD3,000,000	Retail 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 Retail (Taiwan) Limited	Hong Kong/Taiwan	100%	HKD9,000	Retail distribution of apparel and accessories
Esprit Sweden AB	Sweden	100%	SEK500,000	Wholesale and retail distribution of apparel and accessories
Esprit Switzerland Distribution AG	Switzerland	100%	CHF100,000	Wholesale distribution of apparel and accessories
Esprit Switzerland Retail AG	Switzerland	100%	CHF500,000	Retail distribution of apparel and accessories
Esprit Wholesale GmbH	Germany	100%	EUR5,000,000	Wholesale distribution of apparel and accessories
Garment, Accessories and Cosmetics Esprit Retail (Macau) Limited	Macau	100%	MOP100,000	Retail distribution of apparel and accessories
Glory Raise Limited	British Virgin Islands	100%	USD1	Investment holding
Million Success Resources Limited	Hong Kong	100%	HKD2	Investment holding
Solution Services Limited	British Virgin Islands	100%	USD1	Property investment
思環貿易（上海）有限公司	The People's Republic of China (Note c)	100%	USD35,000,000	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
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 20(b), 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 2019 HK$ million	As at 30 June 2018 HK$ million	As at 30 June 2017 HK$ million	As at 30 June 2016 HK$ million
Intangible assets	**2,050**	2,063	2,851	2,902
Property, plant and equipment	**1,128**	1,571	1,900	2,159
Investment properties	**27**	24	23	19
Financial assets at fair value through profit or loss	**12**	–	–	–
Other investments	**–**	7	7	7
Debtors, deposits and prepayments	**120**	140	174	220
Deferred tax assets	**559**	524	822	745
Net current assets	**3,101**	5,005	6,091	5,829
	6,997	9,334	11,868	11,881
Equity				
Share capital	**189**	189	194	194
Reserves	**6,524**	8,837	11,349	11,203
Total equity	**6,713**	9,026	11,543	11,397
Non-current liabilities				
Bank loans	**–**	–	–	–
Retirement defined benefit obligations	**31**	26	–	–
Deferred tax liabilities	**253**	282	325	484
	284	308	325	484
	6,997	9,334	11,868	11,881

Consolidated income statement items

	Year ended 30 June 2019 HK$ million	Year ended 30 June 2018 HK$ million	Year ended 30 June 2017 HK$ million	Year ended 30 June 2016 HK$ million
Revenue	**12,932**	15,455	15,942	17,788
Operating (loss)/profit ((LBIT)/EBIT)	**(2,080)**	(2,253)	(102)	(596)
Interest income	**49**	58	44	40
Finance costs	**(35)**	(31)	(48)	(29)
Share of results of associates	**–**	–	–	–
Gain on measuring equity interest in the associated companies held before the business combination	**–**	–	–	–
(Loss)/profit before taxation	**(2,066)**	(2,226)	(106)	(585)
Taxation (charge)/credit	**(78)**	(328)	173	606
(Loss)/profit attributable to shareholders of the Company	**(2,144)**	(2,554)	67	21

Note: The Group adopted IFRS 9 and IFRS 15 with effect from 1 July 2018 and has changed its accounting policies in relation to financial instruments and revenue recognition. Under the transition methods chosen, the Group recognizes the cumulative effect of the initial application of IFRS 9 and IFRS 15 as an adjustment to the opening balance of equity at 1 July 2018. Comparative information in years earlier than 2019 is not restated and in accordance with the policies applicable in those years.

As at 30 June 2015 HK$ million	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
3,031	5,670	5,763	7,613	7,672	7,345
2,835	3,972	4,363	4,489	4,415	3,976
17	16	15	13	13	12
–	–	–	–	–	–
7	7	7	7	8	7
240	312	384	402	502	440
649	615	697	549	808	532
5,718	6,979	6,158	4,348	5,225	6,662
12,497	17,571	17,387	17,421	18,643	18,974
194	194	194	129	129	129
11,704	16,717	16,402	15,477	16,104	15,943
11,898	16,911	16,596	15,606	16,233	16,072
–	–	–	1,040	1,560	2,080
–	–	–	–	–	–
599	660	791	775	850	822
599	660	791	1,815	2,410	2,902
12,497	17,571	17,387	17,421	18,643	18,974

Year ended 30 June 2015 HK$ million	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
19,421	24,227	25,902	30,165	33,767	33,734
(3,683)	361	(4,170)	1,171	692	3,786
45	55	51	28	45	33
(29)	(37)	(30)	(37)	(27)	(12)
–	–	–	–	–	81
–	–	–	–	–	1,586
(3,667)	379	(4,149)	1,162	710	5,474
(29)	(169)	(239)	(289)	(631)	(1,248)
(3,696)	210	(4,388)	873	79	4,226

Financial summary

Year ended 30 June	**2019**	2018	2017	2016
Per share data (HK$)				
(Loss)/earnings per share – basic ^^	**(1.14)**	(1.35)	0.03	0.01
Dividend per share				
– Regular dividend	**–**	–	–	–
– Special dividend	**–**	–	–	–
Total	**–**	–	–	–
Key statistics (HK$ million)				
Total equity	**6,713**	9,026	11,543	11,397
Net current assets ^	**3,101**	5,005	6,091	5,829
Cash position (net of overdraft)	**3,282**	4,521	5,221	5,341
Net cash (outflow)/inflow from operating activities	**(1,114)**	(298)	(147)	(312)
Term loans	**–**	–	–	–
Retail data				
Number of directly managed stores #	**429**	586	666	761
Directly managed selling space # (sqm)	**205,708**	251,207	272,496	291,572
Comparable store sales growth (including eshop)	**-6.1%**	-8.1%	-3.5%	8.1%
Comparable store sales growth (excluding eshop)	**-5.9%**	-9.6%	-5.2%	4.3%
Wholesale data				
Number of controlled space POS # ^^^	**4,970**	5,482	6,037	6,333
Controlled space sales area # ^^^ (sqm)	**255,123**	286,437	320,436	357,086
Other data				
Capital expenditure (HK$ million)	**163**	305	257	262
Number of employees ##	**4,910**	6,450	7,304	8,306
Key ratios				
Return on shareholders' equity (ROE) ###	**-27.2%**	-24.8%	0.6%	0.2%
Return on total assets (ROA) *	**-18.4%**	-18.2%	0.4%	0.1%
Net debt to equity **	**net cash**	net cash	net cash	net cash
Current ratio ^ (times)	**1.9**	2.5	2.8	2.4
Inventory turnover *** (days)	**133**	128	123	115
Operating (loss)/profit before depreciation and amortization margin	**-12.6%**	-10.9%	3.0%	0.4%
Operating (loss)/profit margin	**-16.1%**	-14.6%	-0.6%	-3.3%
(Loss)/profit before taxation margin	**-16.0%**	-14.4%	-0.7%	-3.3%
Net (loss)/profit margin	**-16.6%**	-16.5%	0.4%	0.1%

Note:

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

	2015	2014	2013	2012	2011	2010
	(1.90)	0.11	(2.50)	0.60	0.06	3.35
	0.015	0.07	–	0.41	1.00	1.41
	–	–	–	–	–	–
	0.015	0.07	–	0.41	1.00	1.41
	11,898	16,911	16,596	15,606	16,233	16,072
	5,718	6,979	6,158	4,348	5,225	6,662
	5,017	6,031	5,171	3,171	4,794	6,748
	(72)	1,418	(757)	730	1,835	5,412
	–	260	520	1,682	2,080	2,600
	890	905	1,026	1,069	1,146	1,128
	327,345	330,233	351,473	363,295	398,829	388,291
	-7.0%	-4.1%	-3.3%	-4.1%	-1.1%	-2.4%
	-6.3%	-5.7%	-9.5%	-9.3%	-6.6%	-4.8%
	7,680	8,131	9,249	10,827	11,706	12,289
	419,359	488,870	566,776	654,093	704,393	722,825
	349	375	919	1,420	1,436	1,509
	9,179	9,626	10,732	12,455	14,192	14,172
	-25.7%	1.3%	-27.3%	5.5%	0.5%	27.7%
	-18.2%	0.9%	-18.7%	3.4%	0.3%	19.1%
	net cash	net cash	net cash	net cash	net cash	net cash
	2.2	2.2	2.1	1.7	1.6	2.2
	104	90	100	100	76	63
	-14.9%	5.2%	-12.5%	6.4%	4.7%	14.0%
	-19.0%	1.5%	-16.1%	3.9%	2.0%	11.2%
	-18.9%	1.6%	-16.0%	3.9%	2.1%	16.2%
	-19.0%	0.9%	-16.9%	2.9%	0.2%	12.5%


ESPRIT

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

espritholdings.com