Roadmap to sustainable profitability

Annual Report

Esprit Holdings Limited
Financial Year ended 30 June 2020

ESPRIT

Hong Kong Stock Code 00330

Delivering the value of thoughtful and intelligent fashion – with a spark of joy.

Esprit is well on track to become the world's most innovative and sustainable lifestyle brand. With a clear strategic focus, excellent products and strong passion we push the boundaries of intelligent fashion. Our new collection simplifies wardrobe choices with timeless, versatile and high quality pieces that last and can be loved well beyond a season.


Meaningful.
Positive.
Responsible.
Innovative.

Corporate information

Non-executive Chairman
- Dr Raymond OR Ching Fai
  (re-designated with effect from 24 June 2020)

Executive Directors
- Mr Anders Christian KRISTIANSEN
  Group Chief Executive Officer
- Dr Johannes Georg SCHMIDT-SCHULTES
  Group Chief Financial Officer
  (appointed with effect from 21 October 2019)
- Mr Marc Andreas TSCHIRNER
  Group Chief Operating Officer
  (appointed with effect from 21 July 2020)
- Ms CHIU Su Yi Christin
  Group Legal and Public Relations Officer
  (appointed with effect from 21 July 2020)
- Mr Hung Wai WONG
  Group Chief Investment Officer
  (appointed with effect from 21 July 2020)
- Mr Thomas TANG Wing Yung
  Group Chief Financial Officer
  (resigned with effect from 21 October 2019)

Non-executive Director
- Mr Jürgen Alfred Rudolf FRIEDRICH

Independent Non-executive Directors
- Mr Carmelo LEE Ka Sze
- Ms Sandrine Suzanne Eleonore Agar ZERBIB
  (appointed with effect from 3 October 2019)
- Mr Joseph LO Kin Ching
  (appointed with effect from 15 January 2020)
- Mr CHUNG Kwok Pan
  (appointed with effect from 29 July 2020)
- Dr Martin WECKWERTH
  (appointed with effect from 15 January 2020 and resigned with effect from 24 July 2020)
- Mr Alexander Reid HAMILTON
  (retired on 5 December 2019)
- Mr Norbert Adolf PLATT
  (retired on 5 December 2019)

Company Secretary
- Ms Ophelia LO Tik Man

Principal bankers
- The Hongkong and Shanghai Banking Corporation Limited
- Deutsche Bank AG

Auditor
- PricewaterhouseCoopers
  Certified Public Accountants
  Registered Public Interest Entity Auditor

Principal legal advisor
- LC Lawyers LLP
- Baker & McKenzie
- Freshfields Bruckhaus Deringer

Principal share registrar
MUFG Fund Services (Bermuda) Limited
4th Floor North, Cedar House
41 Cedar Avenue
Hamilton HM 12
Bermuda

Hong Kong branch share registrar
Tricor Secretaries Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

Registered office
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Church Street
Hamilton HM 11
Bermuda

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Share listing
Listing on The Stock Exchange of Hong Kong Limited since 1993
Number of issued shares: 1,887,211,562
Par value: HK$0.10
Stock Code: 00330

Level 1 sponsored American Depository Receipt program since 2015
Stock Code: ESPGY

Our vision

Be and be recognized as the most innovative and sustainable lifestyle brand.

Our mission

We are on a mission to push the boundaries of thoughtful, intelligent fashion. With consciously sourced and mindfully designed products we are committed to keep learning, exploring and innovating. We turn consumer insights and relevant market trends into meaningful product and brand experiences across every touchpoint – and give that spark of joy to our community.

Our goal is to simplify wardrobe choices with timeless, high quality and consciously sourced must-have pieces, that can be loved for longer than just one season while building a community of people who want to create positive change.

Meaningful. Positive. Responsible. Innovative.

Our business

We are an omnichannel business and reach our valued customers over multiple geographies and formats. Our pioneering e-shop is ranked number one in our key markets. We have an extensive portfolio of loyal wholesale partners, as well as a strong network of retail stores. We mindfully curate our collections of apparel, bodywear and accessories for men and women and complement our portfolio with licensed accessories, homewares and kids' clothing that extend the appeal of the Esprit lifestyle.

Contents

01

To our Shareholders

Dr Raymond OR Ching Fai
Non-executive Chairman

"Our restructuring program is in accelerated execution in a challenging environment"

Letter from the Chairman

Dear Shareholders,

The last financial year was an extraordinary year. The outbreak of the COVID-19 virus ('the Pandemic") has marked a break to our daily life and to business activities which have not been seen since World War II. Many countries have implemented public health measures and taken various drastic actions on public life at different rates and intensities up to complete lockdowns throughout Europe and Asia in order to slowdown the spread of the Pandemic. This had far-reaching consequences on the economic activity and affected our business seriously because consumer sentiment came down globally.

While Esprit was well on track to restructure the business in the first half of the financial year and at the beginning of the third quarter, the measures to curtail the Pandemic interrupted drastically our progress when operating environment became most difficult.

The vigorous measures introduced by various governments have resulted in the closure of many of our directly managed retail stores, and points of sale of our franchise and wholesale partners. This has resulted in loss of sales revenue while operating cost including salaries and rents continued to accrue. This is especially true for Germany – our most important market.

This has placed the company's solvency and liquidity position at risk. On 27 March 2020, six German subsidiaries applied for Protective Shield Proceedings i.e. restructuring proceedings in self-administration, pursuant to section 270b of the German Insolvency Act in order to protect the solvency and liquidity of our Group and the ongoing business operations in the midst of the Pandemic.

In the course of the three following months our management had a deep look into the business model and consequently reviewed and sharpened all measures of the strategy. Insolvency plans were set up and submitted successfully to the Court at the end of June 2020. The restructuring started in the beginning of the new financial year FY20/21 and has now been in full execution. It is pleasing that the creditors' meetings on 29 and 30 October 2020 approved the Restructuring Plans and were subsequently confirmed by the Court. The Group expects a final resolution to terminate the insolvency proceedings by the end of November 2020.

Strategy

In overall FY19/20, the management team continued to work on a better market positioning by strengthening Esprit's brand identity, evaluating a leaner, high-quality portfolio with an attractive price-value proposition and reviewing the channel concept.

The Company still sticks to an omnichannel distribution, but retail decreased its share because of the closure of non-profitable shops which are part of the restructuring plan. Additionally, our Group announced the closing of the retail business in Asia in April 2020. During the Protective Shield Proceedings, a detailed concept for non-profitable store closures in Germany was evaluated, and resulted in closing approximately 28 shops by the end of November 2020. Besides, the strategy plan comprises an improvement of our wholesale partnership and the e-commerce business.

Our team has already developed a product strategy for positioning towards affordable premium products of high quality. Esprit has had a sustainability approach for a long time. We have a clear goal to have 100 percent sustainable materials for our apparel line by 2023. In short, our brand position will be built around quality and sustainability.

The Pandemic and the Protective Shield Proceedings also showed the need for increased measures of cost reduction to strengthen the Group. The management was successful in the first half year (H1) of FY19/20 in reducing losses and resizing the Group. The first half year LBITDA was almost breakeven, and the other underlying figures showed into the right direction. Our organization is leaner with clear responsibilities and better reporting lines to manage the business.

Results and Financial Position

Our financial position and performance in FY19/20 were dramatically affected by the Pandemic. Full year revenue decreased by 24 percent to HK$9,874 million.

Profitability was negatively affected by a lot of exceptional items and resulted mainly out of the Pandemic impact and restructuring measures which were necessary to reduce losses and build a healthy platform for future growth. This resulted in a loss before interest and taxes (LBIT) of HK$(3,447) million after HK$(2,080) million in the prior year. As the Group recorded a loss for the full financial year, the Board has not recommended the payment of a dividend.

The financial focus of FY20/21 will lay on stabilizing earnings including consistent cost and working capital management as well as cash flow generation. Prudent cash management will be one of our top priorities.

Human Resources

As ever and especially in these challenging times, reaching our milestones would not have been possible without the passion and commitment of our employees. We formed a new Executive Management Team with experts having a unique understanding of Esprit's markets and stakeholders and contributing a proven track record in their own respective fields. They had to cope with a lot of challenges in the past financial year but never lost the attention on executing our strategy. The team was successful in forming a leaner, more agile organization with clear responsibilities in the past year.

Our Board has also evolved during the financial year. Former Chief Financial Officer, Mr Thomas Tang Wing Yung and Independent Non-executive Directors, Mr Alexander Reid Hamilton, Mr Norbert Adolf Platt and after the end of the year ended 30 June 2020 (the "Reporting Period") also Dr Martin Weckwerth have decided to retire from the Board. I would like to personally thank all of them for their valuable contribution to Esprit and their wise counsel.

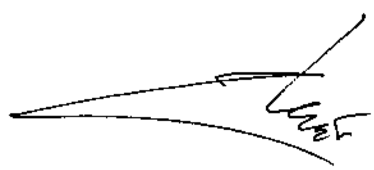
We give a warm welcome to our new members Chief Financial Officer, Mr Johannes Georg Schmidt-Schultes and the Independent Non-executive Directors, Ms Sandrine Suzanne Eleonore Agar Zerbib and Mr Joseph Lo Kin Ching. After the end of the Reporting Period, we extended the number of executive directors with Mr Marc Andreas Tschirner, Ms Chiu Su Yi Christin and Mr Hung Wai Wong joining the management team. Mr Chung Kwok Pan also joined the Board as Independent Non-executive Director. It is our interest to always have experienced professionals in our Board who support the management in executing the strategy.

Closing

The challenging environment led to measures which are necessary to make Esprit strong for the future. It also meant to say good-bye to a lot of employees. This is, why I would like to sincerely thank all of them for their individual contribution during their tenure, their passion and dedication for Esprit in this challenging period.

I would also like to thank our customers, our business partners and our shareholders for their loyalty and support during these challenging times.

Looking ahead, it is a crucial moment for our planet to find a way to check the spread of the Pandemic. The global economy is facing a historic challenge. The textile and the fashion industry will not stay the same. The market environment is clearly most challenging and full of uncertainties. However, in the last two years we have managed to reduce our operating cost substantially and have a clear strategy to take the company forward and create value for our shareholders.



Dr Raymond OR Ching Fai
Non-executive Chairman
5 November 2020

Anders Christian KRISTIANSEN
Executive Director and Group CEO

"We strictly follow our road towards profitability"

Letter from the CEO

Dear Shareholders,

Despite the challenges that the global economy and fashion industry face, I confirm my message of last year: I am very proud of the team and of the progress we have made on our road to profitability.

The way of executing our business was straight forward but turned to a very stony one when the Pandemic spread over the world becoming probably one of the greatest challenges to the international economy in the post-war period. However, these challenges we had to face in our financial year ("FY19/20") did not stop us in following our strategic plan we had formulated in November 2018 to rebuild our business model and re-establish Esprit as an iconic brand once again.

The Group is in a much better position than 12 months ago. It is leaner, faster, and more agile and is well along the way to creating a new culture which is all about empowerment and having fun while delivering results.

I would like to highlight the milestones we set to reach our ambitious target: (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.

Let me guide you through our financial year comparing what we said – and what we did! And how the Pandemic has affected our business.

Operational performance in FY19/20

Building on the positive progress made in the last financial year, we continued to deliver on what we set out to achieve. The strategic measures taken contributed to visible improvements in the Group's operational performance. Our leaner organization and streamlined workflows showed promising results. We now operate in a leaner and more agile environment which facilitates faster decision making.

On the product and brand side we made progress by working out three pillars of how we name it "Esprit 2.0":

Esprit's brand positioning
Esprit is meaningful, positive, responsible, innovative.

Products
Consciously sourced. Mindfully designed. Made to last and be loved for more than one season.

Sustainability
Being sustainable in everything we do. By 2023, 100% of our fibers will be sustainable.

We launched new campaigns to reinforce the new brand direction. Esprit was the first life-style brand and we want to refresh our meaningful connection to our consumers beyond their wardrobe choices. Our brand shall be much more tangible – in our Esprit stores, online as well as in everyday life on the road.

With respect to products, we have significantly reduced the number of options and created new in-season collections. We work intensively in uplifting quality. Fitting and sustainability have top priority in coming to products which shall bring joy for more than one season. We are also working on innovative fabrication by using digitalization.

Our product strategy stems from our brand identity and focusses on a smaller selection of mid-range products that speak for themselves. So, we will also be leaner and more agile in our product strategy by taking out complexity. Finally, pricing is also a hot topic and shall go along with uplifting the quality of our products and the repositioning of our brand.

We will re-position Esprit as an affordable premium lifestyle brand through using a 360-degree approach putting together all communication channels. Our starting point will be the spring collection 2021. Our huge Esprit Friends membership network will help us to get and increase the awareness of the "new" Esprit 2.0 as a vibrant, accessible and elevated brand which is aligned with Esprit's DNA.

Perfect fit and quality are the "musts" in our strategy as well as a meaningful fabrication. Operating our business responsibly and in a sustainable manner has always been an integral part of the Esprit culture and we have always been at the forefront of the topic. We will drive the sustainability topic also in our communication. Experts estimate that the Pandemic has driven consumer behavior towards more sustainability. The textile industry must find an answer to building a circular economy by taking into account environmental protection, worker well-being, efficiency of resources, and technological innovation. We are already halfway through with 50% of our main materials already being made with sustainable fibers. Our goal is to have 100% sustainable materials for our apparel line by 2023. We are proud to be ranked 4^{th} on the Fashion Transparency Index published this year by Fashion Revolution.

Our wholesale partners are also an important pillar in our strategy. While we are reshaping our retail business by closing non-profitable business and creating a new look and feel in our stores, digitalization and optimization in working together with the wholesalers will be of utmost interest to make the business profitable and efficient for both sides. We strive to be best-in-class in what we offer to our wholesale partners through many initiatives currently in progress. Lastly, our e-commerce is also a strong channel which will be even more important in the future.

We are proud that customers have chosen Esprit's online shop as number one; we were ranked 1st at the "Deutscher Online Handel Award 2020" which is a German e-commerce award. We have a lot of ideas to make our online platform even better and more interactive and we are partnering with market leader "Salesforce" to improve the customer experience. More to come in the coming months.

To summarize: we are satisfied with the operational progress we made in the last financial year. Let me now guide you through the financials.

Financial performance of FY19/20

First half year of FY19/20

From the financial point of view, the first half year of FY19/20 was in line with our expectations.

Group revenue declined due to our decision to optimize our distribution footprint and to strengthen our pricing strategy by reducing discount driven promotions which was very much in line with our strategy to behave like a brand.

Our success was visible in all our segments. Gross profit margins increased in both the important Europe Retail and e-shop business. Our wholesale business also improved with the important revenue from Germany Wholesale stabilizing after eleven consecutive years of decline. This was an encouraging development thanks to our efforts to rebuild trust and confidence amongst wholesale partners.

On the cost side, our ongoing efforts to reduce headcount, closure/resizing of unprofitable stores, and persistent discipline led to significantly reduced operating expenses across all major cost lines.

I am very proud that we reached to be almost breakeven with a LBITDA of underlying operations of HK$(15) million. These positive developments demonstrated the effectiveness of the Strategic Plan and management's execution of the plan. The Group has indeed come far and has accomplished a lot in a short period of time.

Second half year of FY19/20

Our positive development was sharply interrupted by the outbreak of the novel COVID-19 virus. A lot of countries took various drastic actions to slow down the spread of the Pandemic. The temporary closure of our stores affected us and our franchise and wholesale partners heavily from mid-March onwards. In our most important market Germany, the stores were only permitted to re-open in mid-May.

Our Group's performance was negatively affected because revenue went sharply down but costs for rent, salaries, etc continued. We as management had to react quickly and were looking for measures in order to protect the solvency and liquidity of the Group and the on-going business operations.

In the midst of the Pandemic, our six German subsidiaries (the "Subject Subsidiaries") applied for Protective Shield Proceedings, i.e. restructuring proceedings in self-administration, pursuant to section 270b of the German Insolvency Act. We were allowed on 27 March 2020 by the court to actively manage the Subject Subsidiaries with its proven management team in charge and pursue and accelerate the restructuring path. This measure allowed us to restructure all their liabilities and long-term lease contracts, obtain funding for salaries and social security payments of the German workforce from the German Federal Employment Agency and negotiated with works councils for more flexible solutions. The approval of the Restructuring Plans at the creditors' meetings on 29 and 30 October 2020 and the Court's confirmation will allow us a fresh restart. Esprit is now in a strong position and ready for the future.

Results went down tremendously. Third quarter revenue decreased by 22.2% year-on-year in local currency terms. The retail business (excluding e-shop) was most affected with a revenue decrease of nearly 40%. Figures for the fourth quarter from April to June were even worse with a revenue decrease of 40% thereof a decrease in the retail business of 55% with Retail Europe even at 62% year-on-year.

This extraordinary second half turned our financial performance from promisingly positive into severely negative: FY19/20 Group revenue decreased by 23.7% to HK$9,874 million and LBIT of the Group was at HK$(3,447) million.

Outlook

Experts do not see a quick recovery neither for the world economy nor for the fashion industry as long as the Pandemic is not under control. The fashion industry is strongly hit like many other industries because consumers buy less in an unsecure environment with a risk of losing their job.

Despite this industry outlook, I am optimistic that Esprit is on the right track. The Pandemic and the Protective Shield Proceedings in Germany have shown our flexibility, agility and our ability in execution even in difficult times.

We were and are better prepared than other companies in the fashion industry because we were already in the implementation mode of re-building our business. The Protective Shield Proceedings forced us to be even quicker in reviewing our strategy and developing a strong restructuring plan which should bring back Esprit to profitability within the next two years. We were already successful in FY19/20 in re-shaping our business by resizing our retail business and our regional footprint, increasing our wholesale partnership and extending our e-commerce business. This makes me confident that Esprit will successfully continue its transformation journey to a leaner, agile, innovative and meaningful iconic company in the financial year 20/21.

The accomplished achievements would not have been possible without the commitment and passion of our employees. We had again to say farewell to many of our good colleagues. I want to thank the FY19/20 team for the dedication and hard work in tough times. I am also grateful for the support of the Board of Directors and my colleagues in the Executive Management team. And I would also thank all our stakeholders who supported us on our way back to sustainable profitability.

Anders Christian KRISTIANSEN
Executive Director and Group CEO
5 November 2020

02

Esprit 2.0

The Year 2019/2020 – Focus on strengths in a challenging environment

The financial year 2019/2020 has revealed great challenges for the world and for the business operations of companies. In this demanding environment companies have to find new ways to secure their sustained success. With the clear execution of our strategy we are focusing on our strengths for a profitable future. Our accomplishments show that we are on the right track.

We achieved revenues of HK$9,874 million.

Revenues declined as a result of the ongoing transformation and restructuring. However, in the year 2019/2020 we have reached important milestones on our path to sustainable profitability. We optimized the product portfolio, streamlined our stores network and successfully increased full-price sales.

We optimized the cost structure and improved productivity.

We have taken important steps in the reduction of our cost base and became more efficient. The total cost savings in the financial year 2019/2020 were HK$900 million. The operational expenses (OPEX) without exceptional items declined by 23% through successful restructuring. Staff costs were reduced by 37% and occupancy costs by 81%.

Our e-shop is best-in-class.

Digitalization is a key driver in our industry. With a strong online-business we are well positioned in this field. We have been awarded the best online fashion retailer in Germany (German Onlinehandel Award 2020). This confirms our high level of digitalization. We offer a wide range of products online. In total 1,347 new sustainable products were available in our e-shop in the financial year 2019/2020.

We implemented a new and powerful organization structure.

Central functions of Esprit were concentrated in Ratingen, Germany. We implemented a leaner organization, clear reporting lines and restructured the product teams. This made us more agile. With a lean and flexible organization we are well positioned to put us back where we belong.

We use more and more sustainable materials.

It is up to us to change the world. The sustainable production of our products is one of our key priorities. In the past financial year 78% of our denim was sustainable. We aim to reach 100% by 2023. In addition, we aim to use 100% sustainable cotton by 2021 and already reached 77%.

Our e-commerce deliveries are carbon neutral.

We take responsibility for a better future. At Esprit we are committed to reducing emission and have set the goal of reducing greenhouse gas emissions by 30% by 2021. Our e-commerce deliveries are already entirely carbon neutral. We will continue to pursue this path consistently.

Revenue

HK$9,874 million with optimized portfolio of stores and products

Gross Profit Margin

43.7% with underlying increase in profitability

OPEX

23.0% reduction without exceptional items

Sustainable Products

53% of our products were made with sustainable materials

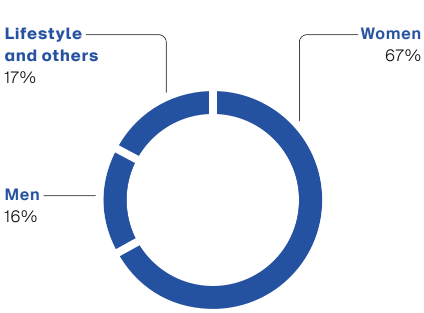
Carbon Footprint

Reduction of greenhouse gas emissions by 23% in FY19/20

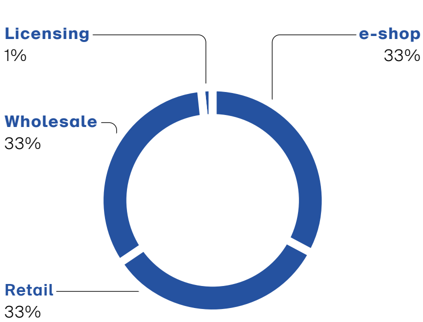
Recycling

5.5 plastic bottles turned into clothes

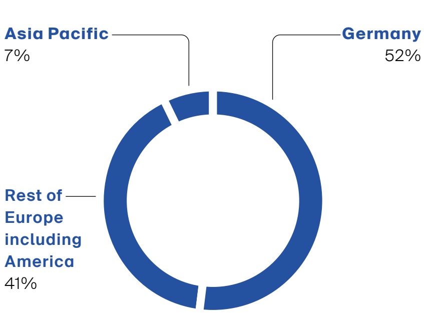
Revenue by Product



Revenue by Channel



Revenue by Geography



Well-Positioned for Sustained Future Success

We are in a strong position to put us back where we belong. We will continue to build on our strengths and change in other fields to exploit the great market potential. Esprit at its best is a brand that answers the demands of the current moment in product, brand and behavior. Our time is now.

Spring 2021

A well-known brand

Esprit is a well-known brand with clear and compelling attributes such as positivity, creativity, lifestyle, sustainability, inspiration and quality.

Pioneer for sustainable fashion

Esprit builds upon circularity. We progress towards 100% sustainable materials for our apparel line by 2023.

Focus on profitable markets

Esprit focuses on its core markets in Europe where the company is a significant player in the fashion market.

Integrated distribution strategy

Esprit has a forward looking omnichannel distribution strategy. The company reaches its customers at various touchpoints with own stores, strong wholesale partners and a number one ranked e-commerce store.

Lean and agile organization with a clear focus

Esprit has built on a lean, agile organization with clear responsibilities. The restructuring plan focuses on significant cost savings to bring the Group back to profitability.

Four Strategic Pillars

Esprit's strategy is geared towards a successful future as a fashion company with a sustainable lifestyle brand. The last years have been very challenging for us. We had to realign ourselves to be successful again in the future – and we did. Therefore, we have developed and initiated a strategic plan in 2018 and an additional restructuring program in 2020 – both focusing on sustainable profitability. Some of the major measures have already been implemented. The financials for the first half of the financial year 2019/2020 showed clear positive effects. However, due to the Pandemic, we were set back in the second half year of the financial year 2019/2020. In this challenging environment, we accelerated the implementation of the strategy within the Protective Shield Proceedings for the subsidiaries in Germany. We have already reached first milestones of the restructuring plan and will continue to pursue this path consistently. Overall, tight cost management is key in all strategic pillars. Now, Esprit is better positioned than twelve months ago.

ESPRIT

Rebuilding the brand

Build a new business model for the future

&

Build a powerful organization and restructure the cost base

01 Brand

02 Products

03 Organizational structure and personnel

04 Market approach

01 Brand

We will re-position Esprit to be recognized as the most innovative and sustainable lifestyle brand in our market environment.

Positive, responsible, meaningful, innovative – these words describe our aspiration and how we interact with our customers to inspire them. By pursuing a global one-voice channel communication approach, we re-position the Esprit brand with consistent values. We are creating an outstanding brand that stands for a special way of life. We will continue to further strengthen the connection with our customers and establish a unique customer experience across all touchpoints with Esprit. Our customers can experience a spark of joy when they participate in our lifestyle events. They can also immerse themselves in a digital brand experience. Furthermore, our e-shops and social media platforms offer inspiring stories that bring Esprit and its products even closer to customers. Our brand stands for strong values and this is what our customers can experience in every contact with Esprit.

02 Products

Esprit stands for products that are tailored to the needs of the customer. Values like responsibility, sustainability and positivity are core elements of all our products.

We implement these principles into our collections – more to come in our spring collection 2021. This also means re-focusing the product strategy and concentrating on our own strengths with clear guidance on product look and feel and a unique selling proposition. We are therefore reducing our product diversity and increasingly offering products in black, white, gray and beige, which appeal to a large target group. This enables us to design our products more mindfully and to source materials more consciously. We constantly increase our product portfolio with garments made of sustainable materials and further improve the product quality. Optimized sourcing and an aligned supplier strategy are elementary for this. Our products last and can be loved longer than one season and thus increase our value for money approach. By focusing on a higher quality product range, we target product segments which are profitable for our customers – and for us. After already boosting our full-price sales in 2019/2020, we aim to increase them further in the future.

03 Organizational structure and personnel

We follow our path to become a more modern and agile company.

This guiding principle has inspired us to optimize our organization. We took complexity out of the organization and created clear reporting lines. Short decision-making processes are an essential pillar to meet the current challenges.

Our regional focus is even more on Europe. We have bundled central corporate functions in Ratingen in our strongest market Germany. With a Chief Product Officer and a Chief Brand Officer, we prioritize our key areas of product and branding and restructured our product teams. Headcount reduction is adapted to the leaner organization. The first effects of these measures can already be seen in the figures for the financial year 2019/2020. By restructuring the cost base, we reduced operating expenses (without exceptional items) by 23%. We are constantly monitoring our progress and adjusting the crucial parameters to optimally adapt to the market environment.

04 Market approach

As part of our strategic realignment, we are reorganizing our distribution and logistics. We are building on our strengths and will concentrate our business operations mainly on Europe and especially Germany.

Our omnichannel concept guarantees that we reach our customers. We have reduced our Asian activities significantly and focus on our customer base in Europe. Our restructuring focuses on profitability. This way, we also closed non-performing shops in our key market and will implement an optimized, more consumer-oriented store concept. In addition, we are further strengthening our e-commerce business with our No. 1 ranked e-shop, which already accounts for more than 30% of our total sales volume. In our completely revamped new Salesforce e-commerce platform, which will be launched in our largest market Germany in Q1/2021, our customers will have an intense shopping experience. Increased digitalization will be the basis for an intensified, innovative cooperation with wholesale partners. We strive for a win-win situation with our partners by reorganizing our sales activities and providing marketing support for our partners to visualize our Esprit brand. An in-store assisted selling app was rolled out to 250 stores and we are preparing a digital showroom in 2021. At the same time, we are optimizing our logistics so that it is geared to the reduced store network and increased e-commerce. Overall, we exploit the opportunities of digitization along the entire value chain and are convinced that we can better serve our partners' and customers' needs by following this new strategy.

Our Next Steps

The financial year 2019/2020 was exceptional and challenging for us. We used the opportunity of the Protective Shield Proceedings to review our strategy and sharpen our restructuring plan. We have already implemented many strategic measures. We will keep the accelerated execution in the financial year 2020/2021. An important element in the repositioning of the Esprit brand will be the launch of the Spring Collection 2021 that will focus on our values and follow the sustainable strategy. We are also advancing our e-commerce activities. On the financial side, the restructuring and the Pandemic will have further impact on our business. Nevertheless, we are constantly improving the quality of our operations towards profitability. There is still much to be done, but we are convinced that we are on the right track: with the spark of everyday joy through radical positivity.

esprit.de


03
Sustainability

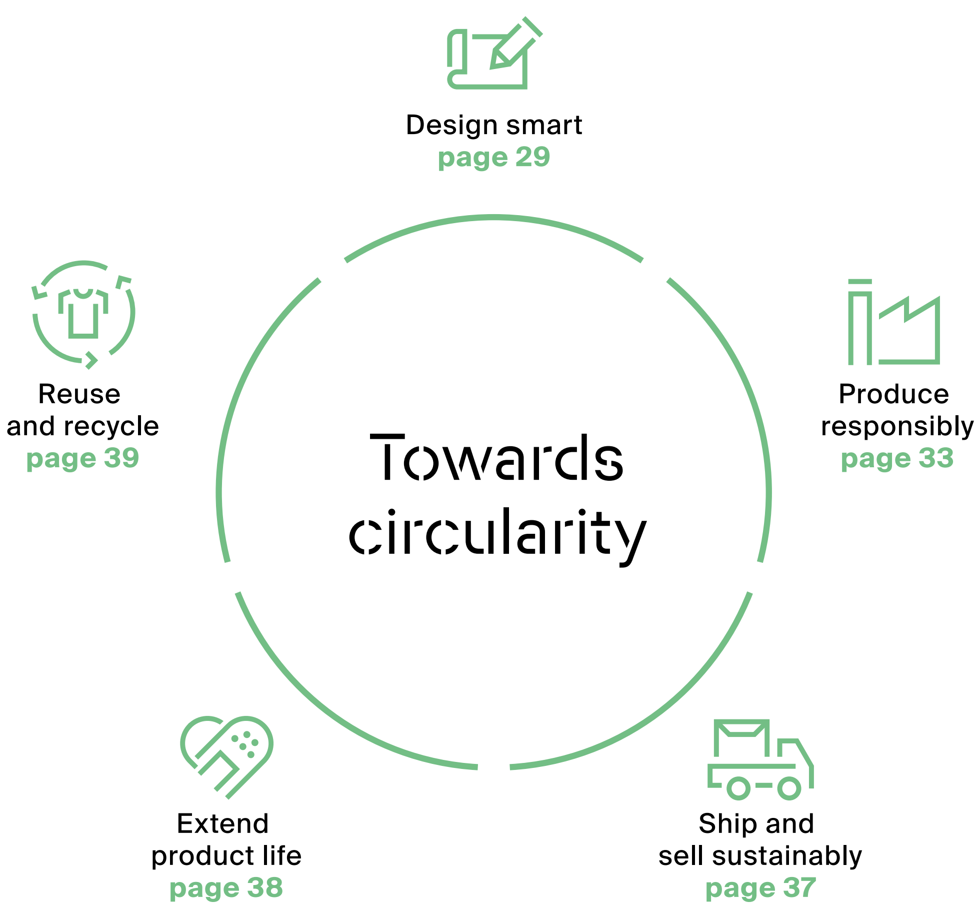
Towards Sustainability[1]

Esprit's approach to business and to product creation is deeply rooted in our values of environmental sustainability and corporate social responsibility. This has been part of our heritage and part of our culture since the founding in San Francisco in the 1960s, and remains our ethos today. Our goal is to continue to be a leader in pushing these ideas to the forefront of the fashion industry. Esprit's sustainability strategy builds upon circularity. In a circular fashion industry, the concept of waste is designed out the process, and the emphasis is on recycling all inputs and outputs back into nature, or into new products. In our approach, Esprit looks holistically at natural as well as human resources, alongside reducing waste and recycling. Esprit's goal is to create timeless and high quality garments in a way that is respectful of our planetary boundaries. Moving towards circularity, Esprit incorporates the United Nations Sustainable Development Goals in our sustainability strategy.

As a company, and indeed as a global community, we have faced unique challenges over the past year in the form of the Pandemic. While this crisis has taken a toll on many of us personally, we also believe that it has accelerated the way towards more sustainable thinking. We see ourselves as being on the right track, and within this new context we are reaffirming our commitment to supporting the health and safety of the people who create and sell our products, throughout the value chain. One area we have focused our efforts on is digitization: we have created innovative new channels for both communication and commerce. We are also proud of our achievements in waste reduction, replacing single-use plastic polybags with plastic banderoles made with 30% recycled content wherever possible.

While at times it has been a challenge to maintain the focus on sustainability during the Pandemic, we firmly believe that there is no way forward for Esprit or for the fashion industry as a whole without redoubling our efforts to promote the health of our planet and everyone on it. Some of the sustainability highlights of 2019/2020 were:

- Progress towards our goal of 100% sustainable materials for our apparel line by 2023, including 80% of the cotton we use coming from more sustainable sources, and 50% of our main materials being made with more sustainable fibers,
- Our release of 86,000 pieces dyed with Archroma EarthColors®, a dyestuff made of upcycled natural byproducts such as plant waste or fruit peels
- Our new membership in the Fair Labor Association, and
- Our 4th place ranking in the Fashion Transparency Index 2020.



[1] More details to be found in the Esprit Sustainability Report 2019/20.
It is scheduled to be available in fall 2020.

Design Smart

Smart design lays the foundation for a truly responsible product. When we think about responsible products, we focus on the full lifecycle, and the full journey of each product from the initial concept, to the farm where the cotton is grown, to the hands that spin and sew and the systems that clean and sort and transport.

At this stage, our focus is on material selection and using more sustainable fibers. We have set the ambitious target of using 100% sustainable materials in our shell fabrics by July 2023. We are proud to have hit the halfway mark on this target this year. Within this report, we will focus on the main fiber groups that make up around 95% of our fiber share: cotton, synthetics and man-made cellulosic fibers. For more information on our additional fibers, please review our Sustainability Report FY19/20.

Our policies

We believe in measuring impact. Therefore, we have created milestone targets for July 2021 that will help us to drive our overall target of 100% sustainable materials by 2023. Additionally, we have a Policy on Raw Materials & Animal Welfare in place, which defines the key requirements.

What is a sustainable material?

At Esprit, we consider 'sustainable materials' to include the following:

- Approved cotton options (organic, recycled, BCI)
- Recycled and bio-based synthetics
- Approved man-made cellulosic fibers (MMCFs) based on production methods and feedstock source, with an emphasis on recycled inputs
- Animal-derived fibers that are certified organic, recycled, or responsible (e.g. Responsible Wool)
- Linen and hemp

Examples of materials that will be phased out by 2023 include:

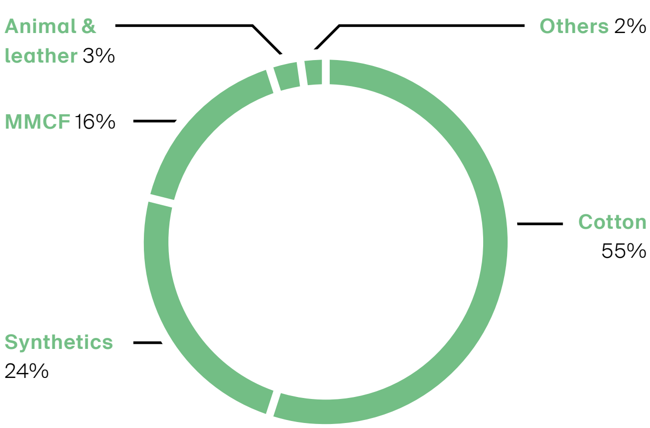
- Conventional synthetics (polyester, nylon, acrylic)
- Conventional cotton
- Conventional viscose

Share of sustainable fibers

50% Conventional fibers

50% Sustainable fibers

Fiber share based on shell fabric

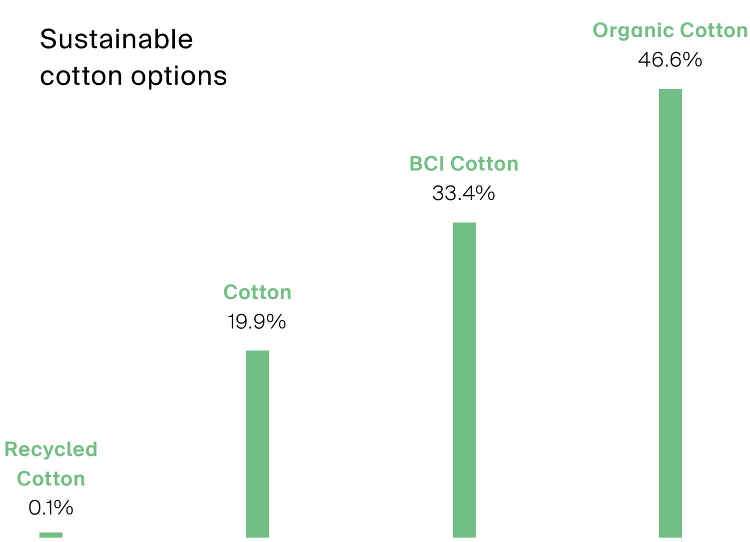


We used 1.3 million old PET bottles in our winter jackets in 2019.

Cotton

Cotton makes up more than half of our total fiber usage. Of this cotton, 47% (which is around 5,000 metric tonnes) is organically grown. Another 33% is sourced through the Better Cotton Initiative. We also incorporate recycled cotton.

Sustainable cotton options



Cotton

Organic cotton

- Organic cotton is grown without synthetic fertilizers and pesticides
- Organic farming practices maintain soil fertility and expand biologically diverse agriculture
- Organic cotton products we sell are certified to either the Organic Content Standard (OCS) or the Global Organic Textile Standard (GOTS)

Better Cotton (BCI)

- Cotton is grown according to the Better Cotton Farming Standard, optimizing the use of synthetic fertilizers and pesticides
- Farmers are trained on how to best manage the environmental, social and economic aspects of cotton production
- The BCI system uses a Mass Balance approach which emphasizes improving the cotton available on the market, not product-based communication; this is comparable to green electricity, and it is why we do not communicate about Better Cotton on the products themselves

Recycled cotton

- Cotton is collected from pre-consumer waste, such as cutting scraps, or post- consumer waste, such as garment donations
- Production of recycled cotton yarn requires very little water, and saves the water that would otherwise be required to grow new cotton
- Using recycled cotton keeps waste out of landfill and supports the development of a circular economy

Synthetics

Polyester, polyamide and acrylic are the most commonly used synthetic fibers at Esprit. Synthetic fibers have the advantages of being quick drying, and ideal for very cold and for very warm conditions. However, these fibers are usually derived from petroleum, which is not a renewable resource. Additionally, synthetic fibers do not decompose as natural fibers do. That is why we want to keep the consumption of synthetic fibers at the lowest possible level – and why our goal is to select more sustainable options such as recycled polyester and recycled polyamide.

Recycled synthetics

- Recycled polyester is often made from old PET bottles, and sometimes also old garments
- Recycled polyamide is generally made from old fishing nets, carpet scraps and industrial plastic waste
- Our products made with recycled synthetic fibers are certified to either the Global Recycling Standard (GRS) or the Recycled Claim Standard (RCS)

Man-made cellulosic fibers

At the end of May 2018, we committed to the Roadmap Towards Responsible Viscose as outlined by the Changing Markets Foundation. We defined steps we will take to further promote and improve the sustainable production of viscose and modal fibers. Our goal with this commitment is two-fold. First, we want to push the wider industry to adopt a closed-loop manufacturing process to minimize the use of harmful chemicals. Second, we want to promote transparency by mapping the viscose and modal supply chain down to the raw material level. Learn more about this under Transparency. In order to responsibly source cellulosic fabrics, the cellulose needs to come from properly managed forests, as opposed to endangered or old-growth forests. In September of 2015, we first partnered with the environmental non-profit organization Canopy through the Canopy Style initiative to ensure that our cellulose fibers are not sourced from at-risk or old-growth forests. Our goal is to only use preferred man-made cellulosics from 2023, such as those profiled here.

Man-made Cellulosic Fibers

LYOCELL

- Lyocell is a cellulose fiber mainly made from eucalyptus trees, which are fast growing and require minimal pesticides and no irrigation
- Lyocell is manufactured in a modern closed-loop process that captures and reuses processing solvents
- Lyocell fibers are biodegradable

TENCEL™

- TENCEL™ is a trademark of Lenzing AG and comprises lyocell and modal fibers
- Cellulose feedstock is sourced only from sustainable wood sources (no use of wood from endangered forests)

TENCEL™ x REFIBRA™

- This is TENCEL™ Lyocell made with around 30% recycled raw content, coming from both pre-consumer and post-consumer cotton waste
- REFIBRA™ technology supports a circular economy by reincorporating waste into the closed-loop TENCEL™ Lyocell production process
- TENCEL™ and REFIBRA™ are trademarks of Lenzing AG

LENZING™ ECOVERO™

- LENZING™ ECOVERO™ viscose has up to a 50% smaller footprint in terms of emissions and water use compared to generic viscose
- Cellulose feedstock is sourced from trees that were grown in certified, responsibly managed forests
- LENZING™ ECOVERO™ fibers are certified with the EU Ecolabel
- LENZING™ and ECOVERO™ are trademarks of Lenzing AG

Since 2014, Esprit has eliminated the use of poly- and perfluorinated carbons (PFCs) from the manufacturing process of our water-repellent products.

Lifecycle Management

Quality is always top of mind throughout our product development process. Quality products have longer lifespans, keeping our customers happier and keeping all of our environmental footprints lower. With this in mind, Esprit conducts a multi-step quality assessment to assure the right quality, construction, and workmanship of our garments and to continually improve quality along the entire product development process. This begins with the sketches made by our designers, which are then translated into a well-cut and properly fitting product by a team of technicians, along with our suppliers. Working toward our sustainable fiber goal, fabrics and trims are selected with both functional and esthetic durability in mind, both of which are crucial to ultimately extending the lifespan of a product. To ensure that all products meet our material quality requirements, we carefully assess and test pre-production lines before production starts. We also give our customers guidance on how to properly care for the products.

Core quality – core yarns

"What does quality mean for the Esprit customer?"
We used this question to guide our strategy for developing a permanently controlled library of core fabrics that are vetted according to our highest quality standards, and approved for use in our high-volume products. Our customers equate quality with material look and feel, durability, fit, and workmanship. From a more technical perspective, this correlates to shrinkage, twisting, stretch and recovery, and strength alongside sustainable material selection. We reviewed and crosschecked all of our volume fabrics in each product category to ensure the quality aligned with our (and our customers') expectations, and then worked with our yarn and fabric suppliers to improve the quality where needed. As a result, over 70 of our main volume-driver fabrics have been defined as core fabrics, meeting our highest quality requirements and ensuring consistent quality outcomes.

i

EarthColors® by Archroma

Thinking beyond fibers, we have also begun to apply our circular lens to processes such as dyeing. This year, we released a capsule collection featuring EarthColors® by Archroma. Each of the 86,000 pieces in the collection were colored with biosynthetic dyes made from non-edible waste from herbs, fruit skins, or nutshells.

EarthColors® are dyes that are made from natural waste left over by the agricultural and herbal industry.

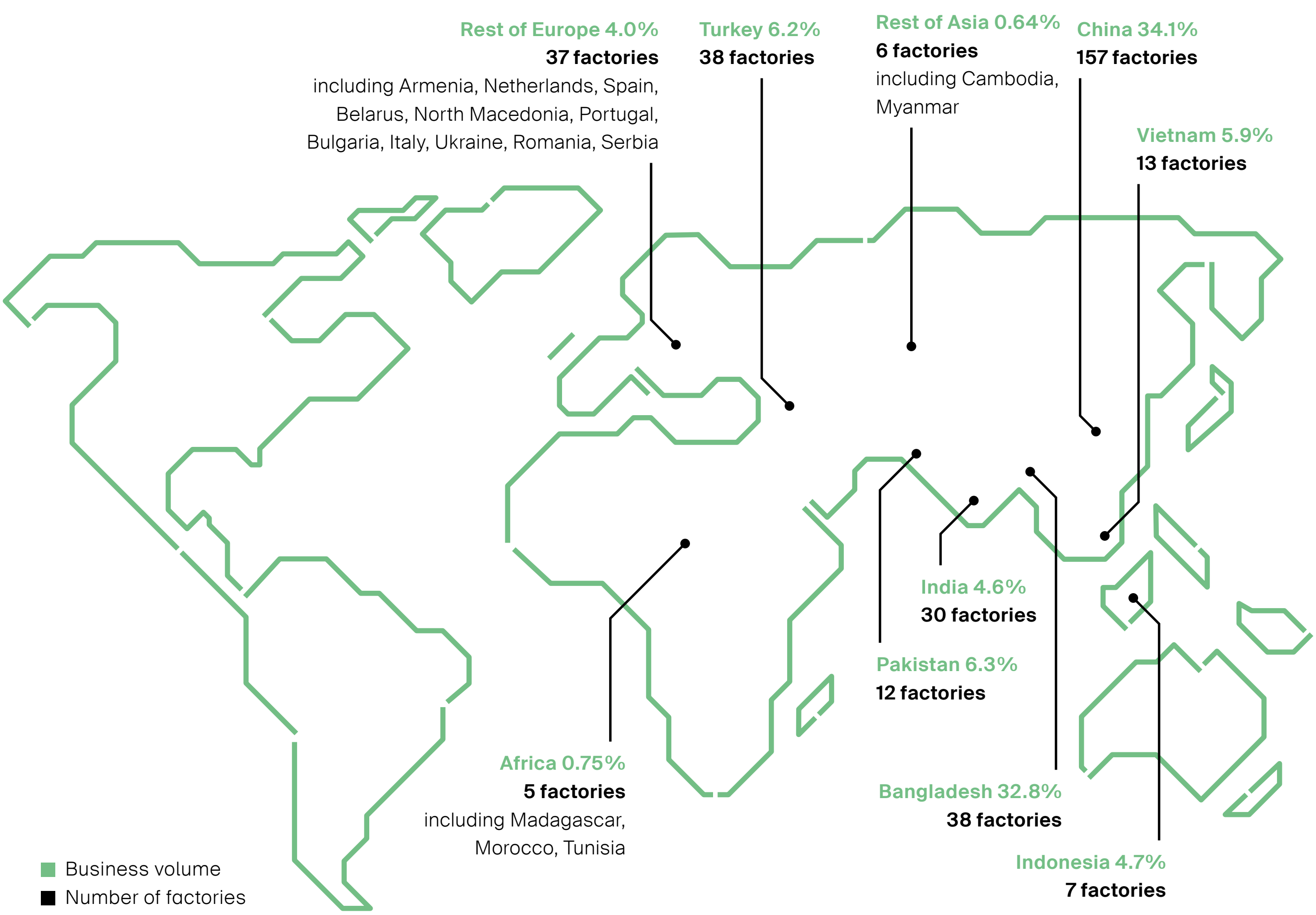
Produce Responsibly

Topic	Target by July 2021	FY19/20
Transparency	Map and publish our Tier 1 and Tier 2 suppliers every six months (ongoing)	100%
	Map and publish key Tier 3 suppliers every six months	33%

Supply chain transparency means more than knowing where in the world we produce - it means knowing who our production partners are, how they work, and how we can best support them to work in a clean, responsible and efficient way. Our network of suppliers spans 25 countries and includes hundreds of globally interlinked partners. We focus on building long-term relationships with our key supply chain partners, where we are invested in one another's success. Before embarking on a relationship with any potential new suppliers, we require the disclosure of our direct suppliers' supply chain, going past our Tier 1 direct suppliers to encompass our suppliers' subcontractors (Tier 2) and fiber producers (Tier 3). We began publishing our supply chain partners on our website in 2016.

Where Esprit is made

Moving into FY20/21, we are shifting more of our production to Europe. Not only will this reduce our leadtimes, but manufacturing closer to our sales markets means less transportation, which translates to a smaller carbon footprint.



Esprit was ranked 4th place in the 2020 Fashion Transparency Index from Fashion Revolution.

People

We want our garments to be produced ethically and according to national and international legislation. Our Supplier Code of Conduct is the foundation for our program to ensure safe and fair working conditions in the factories where Esprit products are made. We believe in a collaborative approach to improving working conditions, and we are active members of several industry initiatives to achieve this change, notably the Fair Labor Association.

Specific to Esprit, there are strict requirements suppliers must fulfill before starting to work with us. In addition to the contracts we have with our garment suppliers, we are also engaging beyond Tier 1 to establish relationships with fabric suppliers and other partners further down our supply chain. However, when it comes to compliance with our standards, we continue to work through our Tier 1 partners: **This is why it is crucial that our direct partners, the garment vendors, support us in cascading our requirements through their own supply chains.**

We use policies and partnerships to facilitate this alignment, and audits to support and confirm it.

Our policies

Policy on Human Rights

All of our Social Standards are based on our October 2019 Policy on Human Rights, which defines our ethical requirements and sets them down clearly in writing.

Supplier Code of Conduct

All factories producing Esprit garments must comply with our Supplier Code of Conduct which is part of the basic supplier agreement that all of our suppliers must sign when they begin working with Esprit. We have developed detailed guidelines to help our suppliers implement the Esprit Supplier code of Conduct. These guidelines describe the internal processes our suppliers must establish to meet our social standards. The guidelines also include remediation measures that suppliers must immediately implement in the event of failure to meet our standards.

Sourcing Policy

Our Policy on Sourcing Practices sets forth our expectations of suppliers related to transparency, legal compliance, waste, greenhouse gas emissions, water, and chemical management, as well as our minimum requirements.

Our partners

We take the working conditions within our supplier factories very seriously, and partnering is the best way to achieve a positive impact. We are members of several industry initiatives which help us work with other companies and stakeholders to align our approaches and build collective momentum toward shared goals.

We work through and with the following multi-stakeholder and industry initiatives to achieve industry-wide improvements:

- Fair Labor Association
- Amfori Business Social Compliance Initiative (BSCI)
- ACT on Living Wage
- Bangladesh Accord on Fire and Building Safety
- German Partnership for Sustainable Textiles
- Dutch Agreement on Sustainable Garments and Textiles.

Audits

The Esprit social sustainability team regularly conducts both unannounced and announced audits at the Esprit manufacturing facilities to ensure that all these production lines operate in accordance with the Esprit "Supplier Code of Conduct". When challenges arise, we don't believe that pulling orders from suppliers is the right course of action. We want to support our suppliers to improve while upholding a business relationship built on mutual respect, trust, and open communication. We develop a Corrective Action Plan (CAP) together with the supplier after each audit. We then conduct regular re-audits to verify the improvements. We only terminate a cooperation if improvements are not made, or if there is a lack of willingness to address the issues.

Social compliance audit

Topic	Target	FY19/20
Social compliance	All factories (Tier 1) have at least a C-rating (acceptable) in their social compliance audit (ongoing)	99%

Beyond auditing

Auditing plays a key role in ensuring compliance with our standards. But it is not the only tool we employ. We also spend time building relationships with our suppliers, and educating workers, which is ultimately about empowering them. Alongside our audits, we ensure that the workers know what they are entitled to so that they can stand up for their rights, and we create channels for them to communicate their concerns directly to us, so that we can use our leverage as a brand to support them if there is a need.

Worker Code of Conduct

At the beginning of 2020, we began to implement a Worker Code of Conduct, according to the requirements of the Fair Labor Association. Our Worker Code of Conduct is a shorter and simpler version of our Supplier Code of Conduct, aimed at informing workers of their rights. Due to the Pandemic, we could not fully implement this Code in factories as we had intended. However, this process will continue as soon as our teams are able to safely travel again. Currently, the Worker Code of Conduct is available in Chinese, Bengali and Hindi. A Turkish translation will be available in the next financial year. With the publication of the Turkish translation, we will cover more than 80% of our factories.

Grievance Mechanism

Additionally, we have developed a grievance mechanism for our key sourcing countries, which are currently Bangladesh, China and Turkey. The goal is to have open communication channels with workers so that they are able to bring any concerns directly to our attention. To date, we have created local-language posters which will be put on the walls of factories, visible for workers, where they can find contact information for our local Sustainability Team; this includes an email address and locally used messenger details. These posters will be rolled out in autumn 2020.

Fair Pay

Low wages have been a problem in the apparel industry for many years. The industry is highly fragmented, with multiple competing brands often sharing factories. Systemic change therefore requires cooperation among competitors in the industry, as well as with governments, labor unions, workers, and factory owners. Production is scattered across the globe, which makes calculating a living wage in myriad locations a complex task. Reaching a consensus on the understanding of fair wages presents one of the industry's biggest challenges.

To overcome this challenge, Esprit joined with other brands and IndustriALL Global Union to form an initiative known as ACT (Action, Collaboration and Transformation). ACT seeks to address the problem of low wages in the apparel industry by promoting industry-wide, nation-wide collective bargaining agreements in key apparel exporting countries. Through their union representatives, workers can negotiate higher wages within agreements that address a range of concerns about working conditions while preserving the competitiveness of their industry.

While being aware of the respective local minimum wage requirements, Esprit compiles wage data for the areas where our products are made. The goal is to learn how much workers actually earn and take home, and to understand the basic cost of living in their communities. In 2020, we began to go a step further by working with the Fair Compensation Tool from the Fair Labor Association. The tool will help us to understand the discrepancy between actual wages and the various living wage calculations per region. We are planning to present and publish our findings in a subsequent case study.

Fire and building safety

Esprit was one of the first companies to sign onto the Bangladesh Accord on Fire and Building Safety, which was launched following the collapse of the Rana Plaza complex in 2013. The Accord is a broad coalition of brands, trade unions, civil society and factories, addressing fire and building safety in the ready-made-garment industry in Bangladesh through a legally-binding agreement with a five-year term.

Esprit made a clear commitment to responsibly source from Bangladesh for the long-term. There are still improvements that need to be made regarding fire and building safety in Bangladesh. As a consequence, the textile industry in Bangladesh is experiencing a substantial transformation when it comes to fire safety and is now converting to improved safety standards. This makes the Accord an essential part of our work in Bangladesh. We are committed to keeping up this good cooperation in the future, even as the framework of the Accord continues to evolve and the Transition Accord has come into effect. Turning this transition period, we agreed along with a group of other Accord member brands we will maintain the same roles and activities until May 2021. This means brands will keep monitoring factories' progress on remediation of Fire, Electrical & Structural issues, and that a system has been established among member brands to ensure proper resolution of grievances raised through the Accord's grievance mechanism.

The Pandemic has limited the ability of our partners to conduct 3rd party audits in factories in person; this is why our remediation efforts currently stand at 95%.

Production facility in Quang Ninh, Vietnam, examined during our environmental assessments.

Planet

It is our goal to have a positive impact on our planet through closing the loop: This includes ensuring responsible management of resources (such as water), responsible selection and safe use of all production inputs (such as chemicals), and the control of all production outputs and emissions (such as wastewater, GHGs, and – eventually – the product itself).

Detox Commitment

In December of 2012, we signed the Greenpeace Detox Commitment, starting our effort to phase out eleven groups of hazardous chemicals from our supply chain by 2020. To achieve "zero discharge of hazardous chemicals by 2020", we launched a major Detox program within our supply chain. The program is based on building awareness and knowledge among our wet processing suppliers about chemical and environmental management, process control and wastewater testing.

In support of this goal, we were among the first members of the Zero Discharge of Hazardous Chemicals Group (ZDHC). This group of industry-leading brands and stakeholders has come together to develop tools and protocols to empower the entire supply chain and move the industry forward. We are proud to be part of this pioneering initiative, and to have a leadership role in the work to eliminate the discharge of hazardous chemicals in fashion manufacturing.

As we made progress towards our Detox Commitment, we published reports in January 2017 and September 2017, which gave overviews of our achievements and our targets for the future. Now that we have reached the 2020 mark, we feel proud of what we have accomplished, working systematically with our suppliers to help them properly manage chemical use, test their wastewater, and phase out hazardous chemicals. In FY19/20, 68% of our key wet processing mills tested their wastewater according to the ZDHC Wastewater Guidelines. The industry still has work to do in this area, and we are not able to change the industry in a sustainable way on our own. To build off of the progress we have made so far, we continue to apply our learnings to the broader goal of eliminating the discharge of hazardous chemicals, and we will continue monitoring our factories with our own audit protocol.

Our standards

Esprit RSL & MRSL

Esprit has two important documents setting boundaries for the use of chemicals. While the Restricted Substances List (RSL) focuses on the amount of restricted chemicals in the final Esprit product and its packaging, the Manufacturing Restricted Substances List (MRSL), developed together with other brands within the Zero Discharge of Hazardous Chemicals (ZDHC) Group, focuses on hazardous chemicals that must be phased out from chemical formulations used in production. This includes chemical restrictions and limits for wastewater.

Audits

Our audit protocol involves visiting factories to review processes and documents, observe activities, and talk with workers. Travel restrictions due to COVID-19 prevented our teams from visiting suppliers in person, meaning we were only able to visit a fraction of the suppliers that we had planned on auditing. As travel restrictions loosen up, we expect to continue our progress toward our 100% target.

Topic	Target	FY19/20	
Environmental assessments	100% of our key wet process mills have been audited based on our audit protocol	 35% (due to COVID-19 travel restrictions)	

Chemical processing steps, such as leather tanning, dyeing, finishing, printing or washing, have the potential for significant environmental impact. We have developed our own in-house assessment to cover environmental management and make sure that our final garments as well as our fabrics are made in a responsible way. Our assessments help us understand the performance level of the suppliers in our supply chain and form the baseline for continuous improvement. Learn more about our environmental assessments and the findings over the last two years on our website or in our Sustainability Reports.

Effluent treatment plant in Quang Ninh, Vietnam.

Wastewater testing

In theory, suppliers implementing the ZDHC Manufacturing Restricted Substances List can be confident that wastewater emitted after production is free of hazardous chemistry. However, it is not always that simple. Therefore, we have a wastewater testing program according to the ZDHC Wastewater Guidelines in place to ensure the water leaving each wet processing factory meets our requirements, and is safe for the environment and the community.

Topic	Target	FY19/20	
Wastewater testing	100% of our wet processing mills test their wastewater according to the ZDHC Wastewater Guidelines	68%	3, 6, 12, 17

Ship and Sell Sustainably

When thinking about how to ship and sell sustainably, we need to consider both waste and our carbon footprint. Addressing each of these areas requires partnerships with our suppliers and vendors, creative problem-solving, innovative materials, and detailed monitoring and measurement.

Topic	Target	FY19/20	
Carbon footprint	Reduce greenhouse gas emissions by 30%	77%[1]	12
	90% carbon-neutral or carbon-reduced shipping methods on our European e-shop	80%	12

[1] Degree of target achievement is based on the reduction of greenhouse gas emissions by 23% in FY19/20.

Greenhouse gas emissions

We initially set the goal of achieving a 30% GHG emissions reduction by 2030, which we are working toward with our business partners through the Fashion Industry Charter for Climate Action. We are proud of our improvements in this area, and we expect to reach the 30% target early, in 2021. Our focus on procuring renewable energy is largely behind this progress. While store closures during COVID-19 will also impact these figures, that impact will be reflected in the FY20/21 reports. We did see an increase in air shipments this year, which elevates our GHG emissions: This is attributable to supply chain disruptions due to COVID-19, and does not indicate a change in our goal to minimize air shipments.

Waste

Tackling waste means first looking at packaging, since this is the main culprit for generating cardboard waste and single-use plastics. It is important to safeguard our products as they are moved from production to warehouse, and from warehouse to customer. But much of this protection becomes waste, either when the goods are repacked from cardboard boxes or polybags are removed by the customers.

Polybags

At some point during its lifecycle, nearly every garment is folded into a plastic polybag for the important – but short-term purpose of protection. Then, that plastic bag becomes plastic waste. There is too much plastic waste in the world, so we created a plan to reduce polybag use and find new innovative packaging solutions.

- One innovation has been a new way to fold our garments, enabling us to replace the polybag with a small strap. As of now, the strap itself is still plastic, but in the future we plan to switch to decomposable materials.
- Starting in spring 2020, we introduced plastic banderoles including 30% recylced content for non-crease sensitive pants; the use of these roll-packs for denim products has achieved a 55 – 86% reduction per item (depending on the product) in our plastic packing. Going forward, we will expand this innovation to other product categories in order to further reduce unnecessary plastic.
- For delicate products that still need the protection offered by a polybag during logistic handling, we introduced a new smaller, lighter polybag made with 30% recycled content. For FY19/20, we expect the use of these lighter bags to translate to a 40% reduction in plastic packaging for the same sales volume compared to last year.

Hangers
We avoid hangers wherever possible. When they must be used, we aim for reusable hangers made from recycled plastic. We have already achieved our 2021 target of replacing 50% of our hangers with reusable hangers made of recycled PET.

Case Study: Avoiding overconsumption
Overstocking a product has a greater impact than it first appears. All of the inputs that went into creating excess goods, such as water, energy, and chemicals, have also been an unnecessary excess, along with the time and effort associated with production, logistics, and sales. We believe that this needs to change. Therefore, we have reduced our style count by 28% and the overall quantity by 26% within the last two years. Additionally, we optimize our stock handling with the aim to reducing overstock, and reducing waste. Our teams work closely together to develop a smart purchasing strategy which ensures the proper volume of garments at the proper time in all of our different sales channels, while also minimizing the potential for unsold stock.

Our German warehouse is certified according to the BREEAM standard, which evaluates and scores parameters such as energy and water use, health and well-being, pollution, transport, materials, waste, land use and ecology, management and innovation.

What we do with unsold garments
As part of Esprit's commitment to minimizing our impact on the environment, we carefully consider how to handle unsold goods and returns from our retail, e-shop and outlet channels. For example, we are investing into ways to extend the lifetime of unsold or returned products by taking care of any repairs or touch-ups that might be needed, and then cycling these refreshed products back into alternative sales channels. Garments that are not sold through our own retail and e-commerce channels within a certain sales period are generally sent to our outlets. There, the goods are usually sold out completely. If there are unsold items from our outlets, we offer these goods to be sold in countries where Esprit does not have direct business, providing a third opportunity for our goods to reach the hands of a new customer. We work with a carefully selected reselling partner that first provides any repairs that might be needed, such as replacing broken zippers or mending small tears.

Do we destroy garments?
Customer safety is our highest priority. A garment is only destroyed if customer safety cannot be guaranteed; for example, if a supplier has applied a restricted chemical that we do not permit. These situations occur very rarely since we work closely with our suppliers to monitor and manage chemical use. If destruction must occur, products are destroyed under strict third party supervision and in accordance with Esprit environmental directives.

Extend Product Life

Care

Living our circular fashion philosophy means continuously thinking about ways to extend the useful life of each product, and approaching that question from multiple angles. While designing with quality and durability in mind is certainly part of this process, another equally important aspect is engaging and educating our customers on their role in taking care of their garments. We are working to educate our customers on garment care and repair, and offering them support services in our shops.

Our Care Guidelines
You can find care symbols on the care labels sewn into each garment. However, these care symbols are not always easy to understand. This is why we developed our Care Guidelines, explaining the symbols and equipping our customers to be able to treat each product in the right way.

Clevercare
Our care labels are aligned with the Clevercare system. This has been in place since 2016, and is part of our strategy to educate our customers on their role in supporting a more sustainable fashion system. Clevercare provides information about more sustainable washing, drying and ironing of garments. Small things, such as reducing washing temperature to cut down on overall energy consumption, can have a positive impact on the environment.

Clevercare also provides detailed information about the common care symbols. The link to the Clevercare website can be found on the care labels of all our apparel products link zeigen.

Repair

We aim to inspire our customers to extend the life of their garments, and part of our approach has been simplifying the process of garment repairs. We now offer a repair service for Esprit garments in all our retail stores in Germany. If your Esprit garment needs a seam closed, a button replaced, or a zipper fixed, find one of our stores nearby. We also plan to roll-out the program to other European countries.

Reuse and Recycle

Our commitment to a circular fashion economy has inspired an intense focus on reuse and recycling. Our 2021 goals range from educating our product teams, to incorporating post-consumer recycled material into our products, to expanding collection and resale opportunities. We are proud to share that we have achieved all of our 2021 reuse and recycle targets.

Our vision is a fashion economy where people are uplifted, and where products have a long life, and ideally even a "second life", before they re-enter the cycle for a new life. Through our partnership with PACKMEE, our customers can help us make this vision a reality. We provide a free shipping label to our customers and PACKMEE collects their old garments and shoes. PACKMEE re-sells the used clothing and shoes, giving them a longer lifespan. The profits are donated to Save the Children.

Topic	Target	FY19/20	
Product training	Everyone in our product teams will have gone through training in circular design (by 2020)	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 100% of the turnover to charity (by 2020)	100%	12, 14
Recycling	Esprit will produce at least 150,000 garments including at least 20% recycled post-consumer textile fibers (by 2020)	100%	12, 14
Lifecycle management	Esprit will increase the amount of garments resold by 40,000 kg (by 2020)	100%	12, 14

04

Management Discussion and Analysis

04 Management Discussion and Analysis

04.1 Overview

In general, the financial performance of the Group during FY19/20 was split into two. During the first half of the year, the Group continued the execution of the strategic plan presented in 2018 to restore Esprit to sustainable growth and profitability. A plan characterized by measures to become a leaner organization with a smaller physical store footprint. These strategic goals have been put in place to slow the rate of sales decline, increase the mix of full price sales and lower operating expenses.

Core elements of the product strategy are to sharpen Esprit's brand identity with a commitment to sustainability, enhance the customer experience and improve the product portfolio. Other key elements include resizing the retail business in terms of volume and geography, a best-in-class approach to serve the Group's wholesale partners and strengthening the profitable e-commerce business.

Besides, Esprit worked on a leaner organization with more efficient reporting lines and a new management structure. Consequently, the Executive Management team was optimized, and the Board was enhanced by the appointment of Johannes Schmidt-Schultes as new Group Chief Financial Officer in October 2019.

Esprit's efforts to reshape its business were successful with the half-year financial results in line with the Group's expectations. Group LBIT adjusted for Foreign Exchange ("FX") fluctuations improved by HK$1.4 billion compared to the first half of FY18/19. Across the European business, the Group achieved strong gross margin growth, significant improvement in the mix of full price sales, sales growth in like-for-like stores and a large reduction in operating expenses.

As a result, LBITDA of underlying operations in the first half of FY19/20 was close to breakeven at HK$(15) million. These early signs of improvement in different aspects of the underlying operations made the management confident that they were on the right track.

Further positive effects were starting to be visible in the second half of the financial year, but the promising development was sharply interrupted by the outbreak of COVID-19 ("the Pandemic"). Initially the Asian markets and supply chains were affected as early as January 2020. By mid-March, almost all brick and mortar stores in Europe had to be temporarily closed due to government-ordered lockdowns as part of public health measures implemented to slow down the spread of the Pandemic. E-commerce revenue remained the only revenue driver while salaries, rents and operating costs continued to accrue.

As a proactive and forward-looking measure to protect the solvency and liquidity of the Group (most notably the European subsidiaries) and the ongoing business, the Group applied for Protective Shield Proceedings (the "Proceedings"), a restructuring proceeding in self-administration, pursuant to section 270b of the German Insolvency Act on 27 March 2020 for the six German subsidiaries (the "Subject Subsidiaries"). The Protective Shield Proceedings enabled a large restructuring of operations in Germany held under the custodianship of Dr Biner Bähr from the renowned law firm "White & Case". The appointment took place by the Düsseldorf District Court of Germany (the "Court"). Additionally, experienced Protective Shield advisors were contracted to support the Protective Shield Proceedings.

Protective Shield Proceedings serve to protect the Subject Subsidiaries from individual creditors while the management of the Group has worked out an advanced restructuring plan based on the strategic plan of 2018. This allowed an acceleration of the plan for the Company to transform into a smaller, leaner organization to face the uncertain times ahead. For further details, please refer to the paragraph headed "Important Events Occurring After the Reporting Period – Updates on the restructuring initiatives of the Group" below in this chapter.

In addition, to focus resources and recalibrate operations in order to cope with the challenges of the Pandemic most effectively, the Group decided on further restructuring measures in April. It was decided to close all business in Singapore, Malaysia, Taiwan, Hong Kong and Macau as part of its restructuring initiatives.

As a consequence, all 56 stores in Asia, outside of mainland China, were closed by the end of June 2020. The Group had already taken the decision to wind down its China business while entering into a joint venture agreement (the "JV Agreement") with Mulsanne Group Holdings Ltd ("MGH Ltd") in December 2019, for the purpose of trading under the Esprit brand in China. However, the JV Agreement was terminated on 30 July 2020 due to a material breach of terms by the contract partner. As of 30 June 2020, all retail stores and trading outlets in China are closed and the Group is currently formulating a new strategy.

Therefore, as of 30 June 2020, the management has disclosed the Asian business as "discontinued operations".

In the fourth quarter of FY19/20 the Pandemic heavily affected the business. All stores in Germany were only allowed to re-open in mid-May. A similar schedule also applied to many other European countries. FY19/20 ended negatively with significant impairments and one-off costs for the annual reporting.

04.2 Results of Operations

The following table summarizes the results of the Group for FY19/20 and FY18/19. The Group adopted the new accounting standard IFRS 16, recognizing all lease contracts (former IAS 17) as right-of-use assets and lease liabilities on the consolidated balance sheet.

Results of Operations			Year ended 30 June
HK$ million	**2020**	**2019**	**change %**
Revenue	**9,874**	**12,932**	**(23.65)**
Cost of purchases	(5,563)	(6,431)	(13.49)
Gross profit	**4,311**	**6,501**	**(33.69)**
Gross profit margin	43.7%	50.3%	
Staff costs[1]	(1,768)	(2,806)	(37.00)
Occupancy costs	(394)	(2,088)	(81.11)
Logistics expenses	(572)	(821)	(30.38)
Marketing and advertising expenses	(516)	(634)	(18.63)
Depreciation of property, plant and equipment	(391)	(455)	(13.98)
Depreciation of right-of-use assets	(972)	-	n/a
Provision for store closures and leases, net[2]	-	(895)	(100.00)
Impairment loss on property, plant and equipment	(241)	(110)	119.32
Write back of provision for closure costs of operations in Australia and New Zealand	-	25	(100.00)
Write-downs of inventories to net realizable value, net	(279)	(141)	98.43
Provision for impairment of trade debtors, net	(61)	(20)	203.16
Impairment loss on right-of-use assets	(925)	-	n/a
Impairment loss on trademarks	(397)	-	n/a
Impairment loss on goodwill	(19)	-	n/a
Other operating costs	(1,223)	(636)	92.30
LBIT of the Group	**(3,447)**	**(2,080)**	**65.74**
Thereof exceptional items			
Write-downs of inventory to net realizable value, net	(343)	(159)	
Provision of impairment of trade debtors, net	(45)	-	
Impairment loss on property, plant and equipment	(241)	(110)	
Impairment loss on right-of-use assets	(925)	-	
Impairment loss on trademarks and goodwill	(416)	-	
Restructuring plans[3]	(299)	(1,224)	
Protective Shield Proceedings	(71)	-	
Subtotal	**(2,340)**	**(1,493)**	
LBIT of the underlying operation	**(1,107)**	**(587)**	

[1] Includes a release of provision for restructuring.
[2] Provision for store closures and leases is zero due to first time adoption of IFRS 16.
[3] Includes one-off costs in relation to staff reduction plans and provision for store closures (FY18/19: included one-off costs in relation to staff reduction plans and provision for store closures and onerous leases and write back of provision for closure costs of operations in Australia and New Zealand).

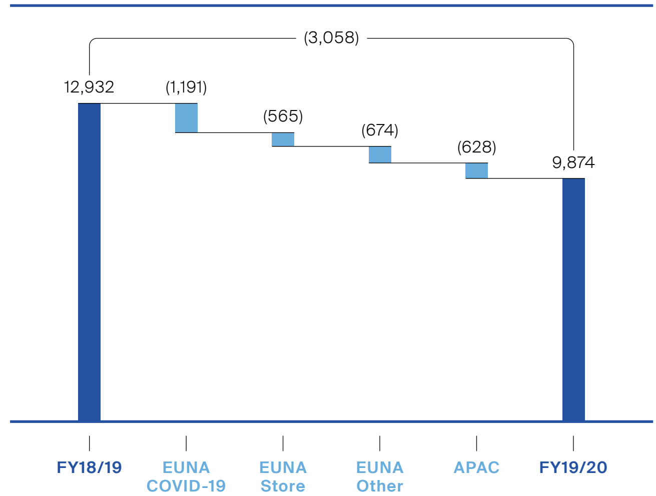
04.3 Revenue Analysis

In FY19/20, the Group recorded revenue of HK$9.9 billion (FY18/19: HK$12.9 billion). When adjusted for FX fluctuations this equates a decline of 21% year-on-year.

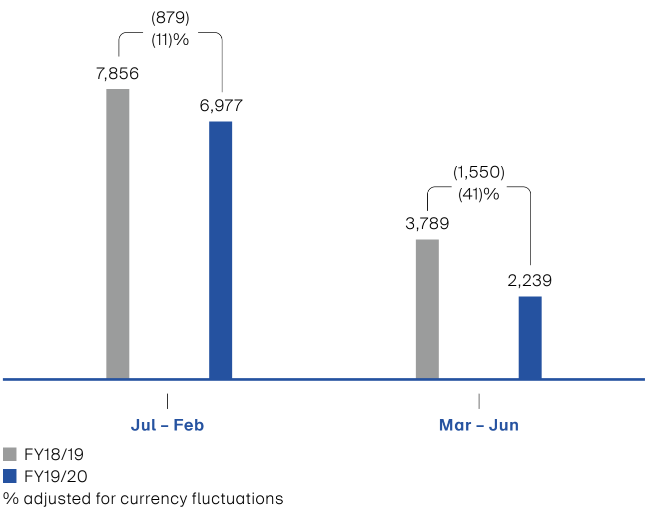
The second half of FY19/20 was significantly impacted by the Pandemic. Europe and North America ("EUNA") revenue declined 41% year-on-year in March to June 2020, compared with 11% decline in July 2019 to February 2020. Compulsory store closures began mid-March 2020 and continued until mid-May 2020. After reopening, demand in the market remained suppressed compared to levels experienced at the height of the Pandemic.

HK$1.2 billion of the sales deterioration occurred due to the Pandemic and subsequent drop in consumer demand, HK$0.6 billion was due to the reduction in retail space in EUNA and HK$0.6 billion due to decline in the Asia Pacific region ("APAC") business. The decline in the APAC was caused by store closures and like-for-like underperformance.

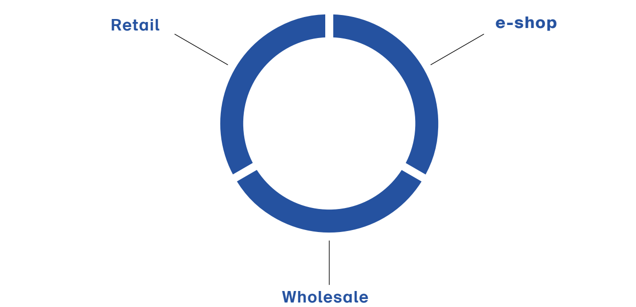
Group Revenue Change (HK$ million)



EUNA Revenue Impact (HK$ million)



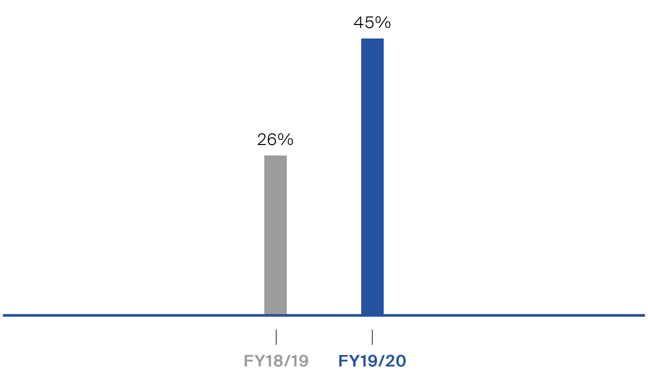
Group Revenue Channel Mix



Group revenue is divided into 3 main channels: Wholesale, e-commerce and owned Retail stores. Each channel accounts for approximately one third of revenue.

This business model allowed us to mitigate some of the impacts of the Pandemic, as our own brand website and 3rd party e-commerce partners continued to trade during lockdown.

Europe retail full price sales mix for the first half of the year

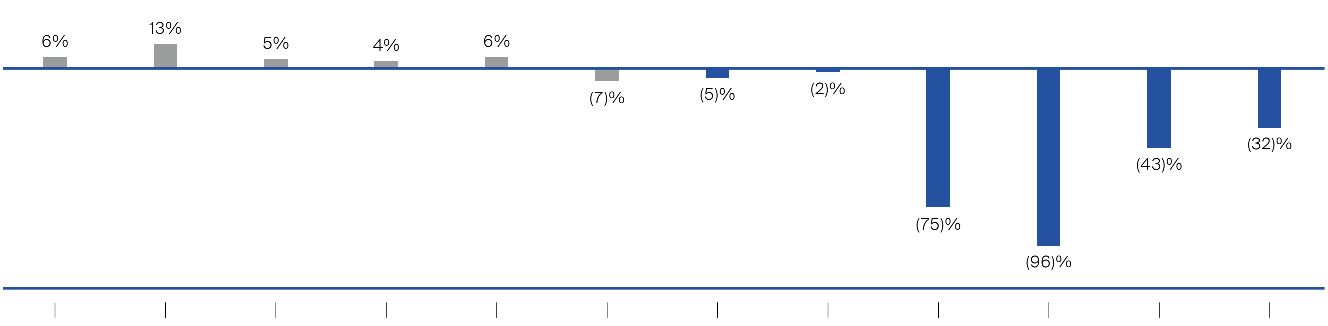


Retail business in Europe

Sales in retail Europe declined 29% year-on-year in FY19/20, and in the first half by 13%. The Group has reduced its retail footprint over the last two years in order to reduce operating costs and focus on profitable trading spaces. Management further optimized the store portfolio during the financial period FY19/20. Further store closures are expected to occur in financial year ending 30 June 2021 ("FY20/21").

In FY19/20, the Group changed the promotional strategy in order to deliver increased full price sales and gross margin. This involved reducing mid-season promotions in favor of end of season markdown events. In retail this proved to be successful, as the Group saw 5 months of like-for-like growth and a 19% increase in mix of units sold at full price. The Group is confident that this is the right strategy for its retail business and that positive results would have continued into the second half without the Pandemic.

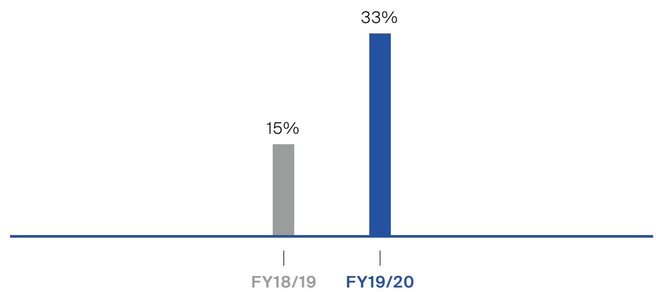
Europe retail year-on-year gross profit by month (excludes outlet stores)



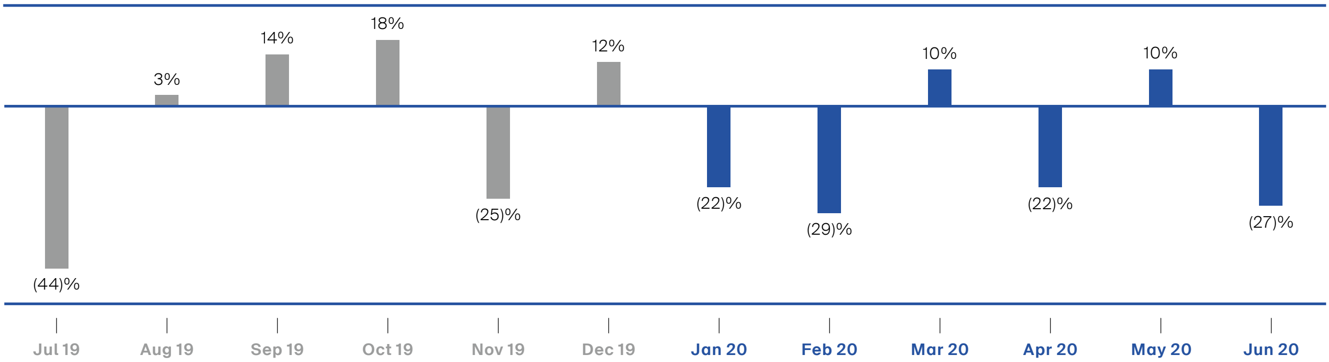
e-commerce business in Europe

Sales through the Esprit e-shop and 3rd party marketplaces declined 9% year-on-year in FY19/20. The full prices sales strategy saw positive results in some months but proved more erratic on a channel where discounting is the fundamental way to drive traffic. This was particularly noticeable across November, Black Friday and during the Pandemic where management had to compete with high levels of discounting amongst other brands. Regardless, management is confident of the long-term benefits of the lower discounting strategy and will focus on fewer, better targeted promotions going forward.

Europe e-commerce full price sales mix for the first half of the year



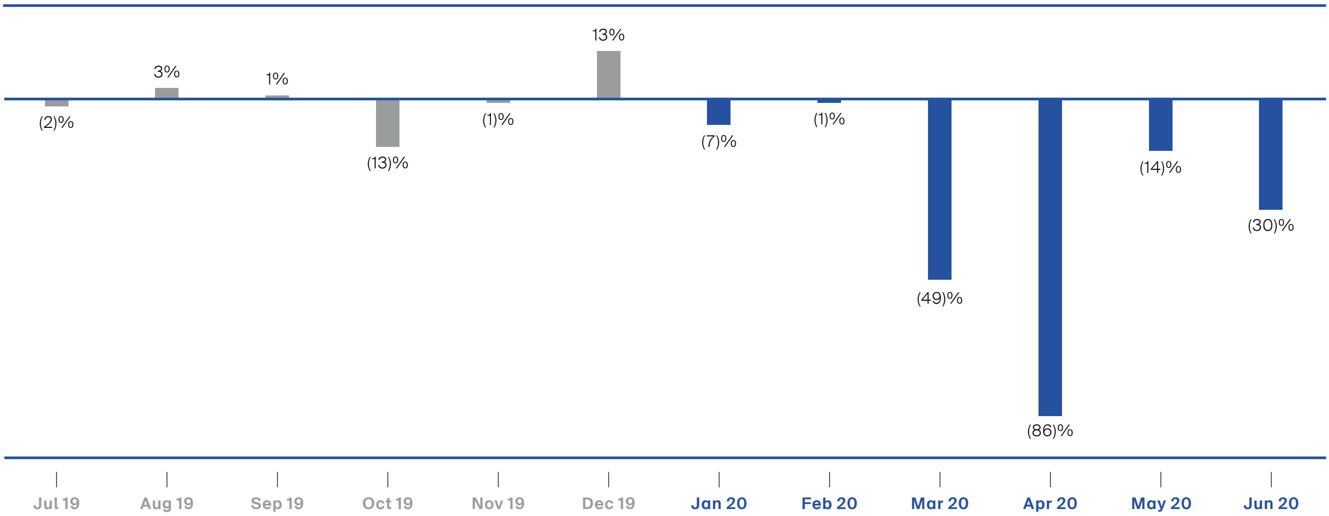
E-commerce gross profit by month



Wholesale business in Europe

In the last two years, the Group has adjusted its strategy to have a greater focus on the wholesale business and wholesale partners. The Group will deliver long term revenue growth by working with wholesale partners to ensure they are profitable. The strategy proved successful. In the first half year of FY19/20, wholesale revenue declined just 0.9% year-on-year (in local currency terms) despite a 13% decline in the customer base.

Wholesale net sales by month (year-on-year)



04.4 Profitability Analysis

Gross profit margin

Group gross profit margin was 43.7% which is a decline of 6.7% year-on-year in local currency terms ("LCY"). Closure of APAC operations impacted the Group's gross margin by 1.8% year-on-year.

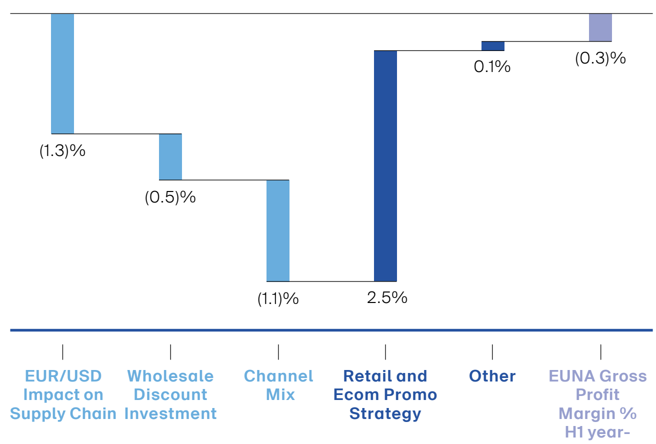
The gross profit margin in EUNA dropped 5.0% year-on-year. The second half of FY19/20 was heavily impacted by the Pandemic. Significant discounting was prevalent across high streets due to excess stock and suppressed demand in the market. Esprit had to temporarily suspend the reduced promotions strategy in order to remain competitive. Some of the risk was mitigated through stock order cancellations, which amounted to approximately 30% of orders.

Group gross margin variance adjusted for local currencies

	FY19/20	FY18/19	vs %Pts LCY
Total Group	**43.7%**	**50.3%**	**(6.7)%**
Jul – Dec	49.2%	51.3%	(2.2)%
Jan – Jun	36.0%	49.2%	(13.2)%
EUNA	**43.9%**	**48.8%**	**(5.0)%**
Jul – Dec	48.5%	48.7%	(0.3)%
Jan – Jun	37.7%	48.9%	(11.3)%
APAC	**40.2%**	**64.1%**	**(24.2)%**
Jul – Dec	57.0%	72.1%	(14.9)%
Jan – Jun	12.1%	53.0%	(41.7)%

The gross profit margin in EUNA in the first half of FY19/20 was indicative of the success of the reduced promotions strategy. Whilst the gross margin fell 0.3% in the year, the promotion strategy led to an overall 2.5% increase in gross margin in EUNA. This was offset by a 1.3% impact from the weakening EUR/USD rate and a 1.1% drop from channel mix due to closure of physical retail stores, the channel where gross margin percentage is the highest. There was also a 0.5% investment in gross margin in the wholesale channel, in order to reduce some stock returns and promote the Esprit brand for the benefit of future sales growth.

Breakdown of EUNA Jul – Dec ("H1") year-on-year gross profit margin % variance



Operating expenses

Operating expenses were HK$7.8 billion, 9% lower than last year. This includes exceptional items of HK$2.3 billion. Excluding exceptional items, expenses for FY19/20 were 23% lower than FY18/19.

Staff cost has declined HK$1.0 billion, that is 37% drop year-on-year. Approximately one quarter of this decline can be attributed to store closures and there has also been a significant streamlining of operations in the remaining store portfolio and in all support and central functions as part of the first phase of the transformation project. The second phase of restructuring in FY20/21 will see a further decline in staff costs. The Group has taken bold steps to reduce headcount to ensure that Esprit will return to profitability even in an uncertain market after the Pandemic.

The decline in occupancy costs of 81% was primarily driven by the change in accounting treatment of leases under IFRS 16. Lease expenses are now reflected as depreciations of right-of-use assets and interest expenses on lease liabilities. However, in real cash terms there has been a decline of 14% in occupancy costs in Europe, driven by store closures, and the centralization of German support center functions into one office in Ratingen. Also, a significant occupancy reduction will be seen in FY20/21 as a number of stores are earmarked for closure.

Logistics costs declined 31% mainly due to IFRS 16 accounting changes and cost line reclassifications. In real terms, logistics costs declined 5.6% year-on-year despite an increase in the mix of sales from e-commerce. This was due to a change in working relationship with our e-commerce logistics supplier, enabling greater scrutiny of costs and efficiency improvements.

Marketing spend was reduced by 19%. This was mainly driven by a reduction in customer relationship management ("CRM") spend. As part of the Group's strategy to drive full price sales, there were fewer promotional vouchers mailed out to customers. The number of postal mails to customers also declined as a result of our strategy to shift CRM activity online.

Exceptional items

The Pandemic had a significant negative effect on the assessment of exceptional items and their impact on the results of the FY19/20 as the business planning assumptions of the Group are based on a macroeconomic outlook which rather assumes uncertain market development and consumers' behavior than a clear growth path. Overall, the Group will focus on its key markets and the downsizing of the business with the closure of loss-making stores and non-performing business.

The Group estimates a sales decline which is driven by an uncertain outlook in the wholesales area, a decrease in retail business due to store closures in Germany and the closure of the Asia business activities. The Group expects a reduced profitability within the next financial year because of the ongoing restructuring process as well as riding out the uncertainty about the further impact of the Pandemic. The Group is convinced that the restructuring is necessary to return the business to profitability in FY21/22.

The Group's forward-looking planning scenario assumes low economic activity and a low Group profitability. By applying these assumptions, the Group had to record impairment and one-off effects which are amounting in total to HK$2,340 million. The biggest part is attributable to impairments for goodwill and trademarks, impairments for right-of-use assets, property, plant and equipment, inventories and receivables (totaling HK$1,970 million), other exceptional items have been assessed for restructuring measures (personnel expenses and retail closures costs with an amount of HK$299 million) and insolvency proceedings in Germany (HK$71 million). However, the Group expects to terminate the insolvency proceedings by the end of November 2020.

04.5 Liquidity and Financial Resources Analysis

Net Cash: As at 30 June 2020, the Group remained nearly debt free with a HK$8 million loan so that cash, bank balances and deposits were totaling HK$2,288 million (30 June 2019: HK$3,282 million), representing a net cash utilization of HK$994 million as compared with HK$(1,239) million in FY18/19.

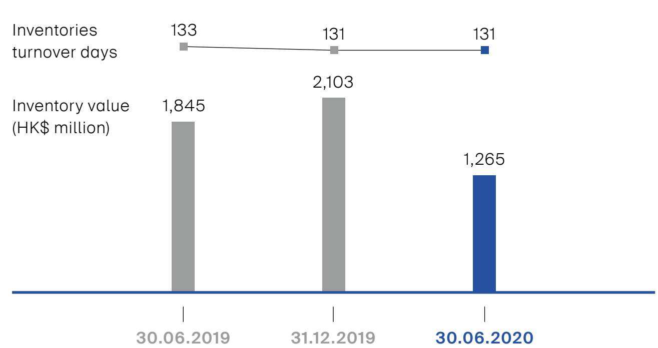
The cash utilization was mainly used for financing activities totaling HK$(1,326) million, for the Restructuring Plans totaling HK$(312) million and for operating activities excluding restructuring totaling generated cash inflow of HK$744 million. The Group invested HK$115 million capital expenditure ("CAPEX").

Inventories: The inventory balance amounted to HK$1,265 million (30 June 2019: HK$1,845 million), representing a year-on-year decrease of 31.4%. In terms of units, the total inventory at the end of June 2020 was 23.5 million pieces, a year-on-year decrease of 16.9% as compared to the 28.3 million pieces at the end of June 2019.

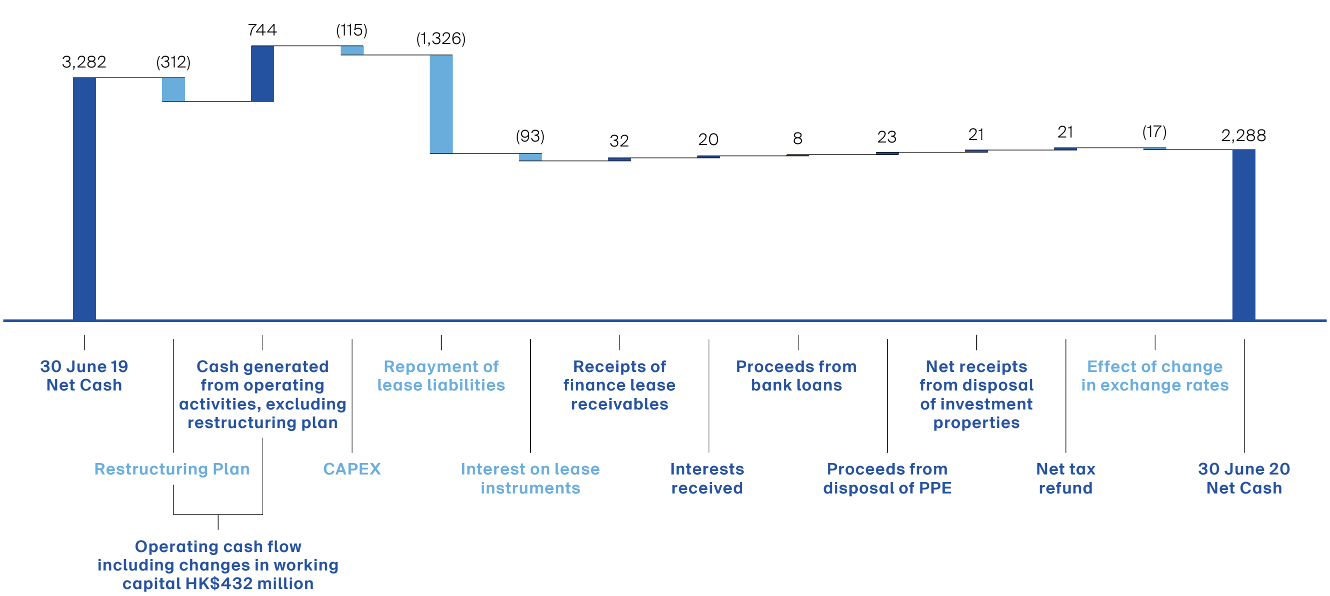
The decrease is also due to write-downs the management has assessed in regard to overstock from the lockdown period and in anticipation of an expected reduced economic scenario and planned store closures which will result in weakening customer demand, decreased stores and outlet capacities, less selling space, decreasing prices and higher return rates.

Inventory turnover days were 131 days, an improvement of two days as compared with a year ago (30 June 2019: 133 days), mainly driven by the Group's new tools and processes to support business as well as tighter inventory control.

Inventories



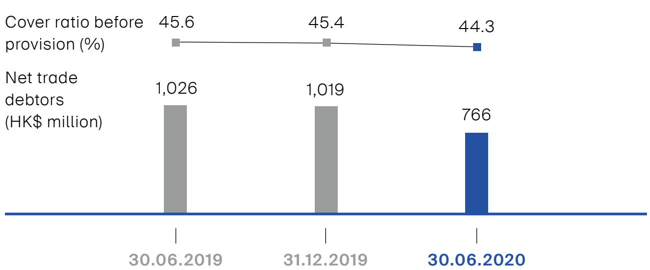
Cash utilization (HK$ million)



Trade Debtors: Net trade debtors was HK$766 million (FY18/19: HK$1,026 million), which is a decrease of 25.3% compared to the same period last year due to lower sales and increased provisions for bad debts (HK$213 million in FY19/20 compared to HK$179 million in FY18/19).

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 44.3% (FY18/19: 45.6%).

Net trade debtors



CAPEX: The Group invested HK$115 million in CAPEX in FY19/20 (FY18/19: HK$163 million), representing a decrease of 29.4% year-on-year. The biggest part of investments went into existing stores in Europe including the e-shop.

	For the year ended 30 June	
HK$ million	**2020**	**2019**
Existing stores and refurbishment	62	31
New stores	1	36
IT projects	14	30
Office & others	38	66
Purchase of property, plant and equipment and intangible assets	**115**	**163**

Total External Borrowings: As at 30 June 2020, the Group had COVID-19 related HK$8 million interest-free borrowings in Switzerland (CHF1 million; 2019: nil), repayable in 5 years (30 June 2019: Nil). As at 30 June 2020, the Group's gearing ratio was 43.4%, which was calculated as net financial debt ((lease liabilities + bank loans) – (cash, bank balances and deposits) divided by equity).

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 in the past entered into forward Foreign Exchange contracts with reputable financial institutions to hedge the Foreign Exchange risk.

In March 2020, all credit lines have been canceled due to the Protective Shield Proceedings and since then no further forward Foreign Exchange contracts have been concluded. Therefore, currency fluctuations could affect its margins and profitability. Once the insolvency proceedings are finalized the Group will secure Foreign Exchange risk again.

Treasury policy

In FY19/20, Esprit centralized treasury and other finance functions in Germany according to its restructuring plan. Group treasury function and policy will be therefore aligned accordingly. The core task is ensuring the Group's solvency by state of the art cash/liquidity management and central bank relationship management. Excess liquidity is managed by using short term deposits at banks. Other than using an inhouse bank concept to fund the Group, there are currently no further financing initiatives with banks. Nevertheless, various options are evaluated in order to cover future needs. In addition, Group Treasury is taking care of the Foreign Exchange risk management, when derative activities were suspended during the Protective Shields Proceedings due to the cancelation of banking facilities.

Human resources

As at 30 June 2020, the Group employed approximately 3,400 full-time equivalent staff (as at 30 June 2019: over 4,900) 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. All employees of the Group 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 2020, the Board does not recommend the distribution of a dividend for the year ended 30 June 2020 (FY18/19: Nil).

04.6 Important Events Occurring After the Reporting Period

Updates on the restructuring initiatives of the Group

(A) Updates on the Protective Shield Proceedings/ Insolvency Proceedings in Self-Administration

As disclosed in the announcements of the Company dated 27 March 2020 and 1 July 2020, the Subject Subsidiaries had applied for the Protective Shield Proceedings. In August 2020, the creditors' assemblies of the Subject Subsidiaries discussed the Protective Shield Proceedings.

Due to the factors, including but not limited to, that (i) ongoing negotiations with works' councils of one of the Subject Subsidiaries; (ii) delayed submission of the insolvency bookkeeping documentation by the service provider for insolvency proceedings; (iii) the requirement to deliver copies of the Restructuring Plans to creditors based outside of Germany; and (iv) limited availability of the Court during the COVID-19 pandemic, the submission of the Restructuring Plans to the Court has been delayed. As disclosed in the announcement of the Company dated 1 November 2020, the creditors' meetings for approving the Restructuring Plans took place on 29 and 30 October 2020. During these meetings the Restructuring Plans have been approved by the creditors and confirmed by the Court. It is expected that a final resolution will be passed by the Court to terminate the insolvency proceedings by the end of November 2020.

The positive creditors' vote implies a debt relief for the Subject Subsidiaries which is estimated to be approximately HK$1,852 million.

(B) Updates on the Restructuring Plans

As disclosed in the announcement of the Company dated 1 July 2020, the key elements of the Restructuring Plans include "headcount and salary reduction", "store portfolio optimization" and "cost reduction". The implementation of the Restructuring Plans has been progressing:

Headcount and salary reduction
The Group has continued with the global headcount reduction plan in order to transform the Group into a leaner organization. The conversation with the employees is still going on as planned.

Store portfolio optimization
To continue with the Group's effort to streamline its business operations and to minimize costs and expenses, the Group has closed all its retail stores in Asia (including the PRC) and closed certain stores in Europe that underperformed. Furthermore, in view of the increasing popularity of online shopping in recent years, the Group is also developing its online shopping platform and has launched instore assisted selling app in various retail stores in Europe. The Group is also testing its new salesforce e-commerce platform, which is expected to be launched in the first quarter of 2021.

Cost reduction
The Group is in the process of re-negotiating the contracts with its service providers in order to obtain more favorable terms and further reduce its costs. Furthermore, the Group is also forming more strategic partnerships with different companies in order to further increase its revenue.

Apart from the above, the Group has also taken other initiatives to reduce its costs of production, which include: (i) streamlining of corporate structure of the Company; (ii) increasing the usage of digital tools to reduce its travelling expenses; and (iii) optimizing the supply and choice of supplier strategy of the Group.

Further details on the progress of Protective Shield Proceedings and the implementation of the Restructuring Plans will be disclosed in due course.

Change of Directors and composition of the committee members of the Board

With effect from 21 July 2020,

(i) Mr Marc Andreas TSCHIRNER, Ms CHIU Su Yi Christin and Mr Hung Wai WONG have been appointed as executive Directors;
(ii) Ms CHIU Su Yi Christin has been appointed as member of the remuneration committee of the Company (the "Remuneration Committee") and the general committee of the Board (the "General Committee"); and
(iii) Mr Marc Andreas TSCHIRNER and Mr Hung Wai WONG have been appointed as members of the General Committee.

For further details, please refer to the announcement of the Company dated 21 July 2020.

With effect from 24 July 2020, Dr Martin WECKWERTH has resigned as an independent non-executive Director, chairman of the Remuneration Committee and a member of the Audit Committee. For further details, please refer to the announcement of the Company dated 26 July 2020.

Furthermore, with effect from 29 July 2020,

(i) Mr CHUNG Kwok Pan has been appointed as an independent non-executive Director and a member of the Audit Committee and the Remuneration Committee; and
(ii) Ms Sandrine Suzanne Eleonore Agar ZERBIB has been re-designated as chairman of the Remuneration Committee.

For further details, please refer to the announcement of the Company dated 29 July 2020.

New substantial shareholder

In July 2020, Ms LO Ki Yan Karen became the Company's new substantial shareholder, who, as at the date of this Report, directly and indirectly held 438,671,700 shares in aggregate, representing approximately 23.2% of the total issued share capital of the Company.

Termination of the JV Agreement

On 30 July 2020, the Group, through its legal advisor, has issued a notice of termination to MGH Ltd to terminate the JV Agreement, as MGH Ltd has failed to establish the joint venture company and has constituted a material breach of the terms of the JV Agreement. The Group has also demanded the payment of RMB50 million (the "Liquidated Damages") by MGH Ltd to the Group pursuant to the liquidated damages clause of the JV Agreement. For further details, please refer to the announcements of the Company dated 1 December 2019 and 30 July 2020.

On 3 September 2020, MGH Ltd, through its legal advisor, has informed the Group that it would terminate the JV Agreement pursuant to the relevant laws and regulations in the PRC with immediate effect. As at the date of this report, there is no update on the payment of the Liquidated Damages.

Save as disclosed in this report, no important events affecting the Group have occurred since the end of the Reporting Period.

04.7 Outlook

The global economic development is highly dependent on how quickly the Pandemic can be stopped by finding a vaccine. A quick return to global pre-crisis levels is currently not expected.

In Germany, Esprit's most important market, short-time work and governmental support for companies withheld the rise in unemployment during the lockdown. The second half of calendar year 2020 will show if the financial assistance package as well as the reduced value-added tax will re-stimulate private consumption.

The European Union has instituted financial support to stimulate economic activity.

A weak European economy and an expected increase in unemployment could have an adverse impact on consumer sentiment. Experts do not see the textile industry going back to previous levels soon. The overall assumption is that consumption will be lower with a higher focus on quality and sustainability.

Esprit sees itself well prepared with its strategic focus on affordable premium products of high quality and a focus on sustainability.

The Group's restructuring plan focuses on creating long-term value for its stakeholders. Measures like shop closures and the reduction of wholesale customers will reduce revenue but these measures are expected to increase the Group's profitability. Other positive measures include an extension of the Group's e-commerce business, a better sales pricing, a reduced product portfolio and further cost optimization.

Developments in the economic environment remain difficult to assess at present. It is therefore not possible to make a comprehensive quantitative forecast for FY20/21. The first quarter FY20/21 is already promising and encourages the Group to strictly follow the Restructuring Plans to re-build Esprit towards profitability within the next two years. The current financial focus of the Group includes consistent cost and working capital management as well as cash flow generation.

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 (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") during the financial year ended 30 June 2020, 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

- Mr Anders Christian KRISTIANSEN
  (Group Chief Executive Officer)
- Dr Johannes Georg SCHMIDT-SCHULTES
  (Group Chief Financial Officer)
  (appointed with effect from 21 October 2019)
- Mr Marc Andreas TSCHIRNER
  (Group Chief Operating Officer)
  (appointed with effect from 21 July 2020)
- Ms CHIU Su Yi Christin
  (Group Legal and Public Relations Officer)
  (appointed with effect from 21 July 2020)
- Mr Hung Wai WONG
  (Group Chief Investment Officer)
  (appointed with effect from 21 July 2020)
- Mr Thomas TANG Wing Yung
  (Group Chief Financial Officer)
  (resigned with effect from 21 October 2019)

Non-executive Directors

- Dr Raymond OR Ching Fai
  (Non-executive Chairman)
  (re-designated from Executive Chairman and Executive Director to Non-executive Chairman and Non-executive Director with effect from 24 June 2020)
- Mr Jürgen Alfred Rudolf FRIEDRICH

Independent Non-executive Directors

- Mr Carmelo LEE Ka Sze
- Ms Sandrine Suzanne Eleonore Agar ZERBIB
  (appointed with effect from 3 October 2019)
- Mr Joseph LO Kin Ching
  (appointed with effect from 15 January 2020)
- Mr CHUNG Kwok Pan
  (appointed with effect from 29 July 2020)
- Dr Martin WECKWERTH
  (appointed with effect from 15 January 2020 and resigned with effect from 24 July 2020)
- Mr Alexander Reid HAMILTON
  (retired on 5 December 2019)
- Mr Norbert Adolf PLATT
  (retired on 5 December 2019)

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 2020 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[1,3]								
Anders Christian KRISTIANSEN	16/16				4/4		19/19	1/1
Johannes Georg SCHMIDT-SCHULTES (appointed with effect from 21 October 2019)	13/13					1/1	14/14	1/1
Thomas TANG Wing Yung (resigned with effect from 21 October 2019)	3/3					1/1	5/5	
Non-executive Directors[3]								
Raymond OR Ching Fai (Non-executive Chairman) (re-designated with effect from 24 June 2020)	16/16	1/1		4/4			19/19	1/1
Jürgen Alfred Rudolf FRIEDRICH	16/16		4/4					1/1
Independent Non-executive Directors[2,3]								
Carmelo LEE Ka Sze	15/16	1/1		4/4	4/4	2/2		1/1
Sandrine Suzanne Eleonore Agar ZERBIB (appointed with effect from 3 October 2019)	14/14	1/1	3/3		3/3	0/0		1/1
Joseph LO Kin Ching (appointed with effect from 15 January 2020)	9/10	1/1	2/2	1/1				
Martin WECKWERTH (appointed with effect from 15 January 2020 and resigned with effect from 24 July 2020)	10/10	1/1	2/2		2/2			
Alexander Reid HAMILTON (retired on 5 December 2019)	6/6		2/2	2/2		1/1		1/1
Norbert Adolf PLATT (retired on 5 December 2019)	6/6		2/2		2/2			1/1

[1] Mr Marc Andreas TSCHIRNER, Ms CHIU Su Yi Christin and Mr Hung Wai WONG were appointed as Executive Directors with effect from 21 July 2020.
[2] Mr CHUNG Kwok Pan was appointed as an Independent Non-executive Director with effect from 29 July 2020.
[3] None of the Directors attended the meetings by his/her alternative.

Board meetings and minutes

The Board conducts meetings on a regular and on an ad hoc basis of at least four times a year to discuss the overall strategy as well as the operational and financial performance of the Group, and to review and approve the Group's annual and interim results. The Board members are served with notices of at least 14 days for a regular board meeting and provided with all agendas and adequate information for their review at least 3 days before the meetings. For all other board meetings, reasonable notice should be given.

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.

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.

The management of the Group will be responsible for making decisions relating to daily operation of the Group. 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 four Independent Non-executive Directors, representing more than one-third of the Board. At least one of the Independent Non-executive Directors has the appropriate professional qualifications or accounting or related financial management expertise under Rule 3.10 of the Listing Rules. The Company has received confirmation of independence from each Independent Non-executive Director as set out in Rule 3.13 of the Listing Rules and continues to consider each of them to be independent. In addition, no controlling shareholder is present on the Board ensuring decisions are made fairly and without conflicts of interest.

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

Board effectiveness

The 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 (82%)
	Female (18%)
Ethnicity	Chinese (55%)
	European (45%)
Age	Over 70 years old (9%)
	61 to 70 years old (18%)
	51 to 60 years old (46%)
	Below 51 years old (27%)
Length of service	More than 10 years (18%)
	5 to 10 years (9%)
	Below 5 years (73%)

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:

	Attended seminar(s)/ conference(s)/ forum(s)	Read journal(s)/ update(s)/ article(s)/ material(s)
Executive Directors[1]		
Anders Christian KRISTIANSEN	✓	
Johannes Georg SCHMIDT-SCHULTES (appointed with effect from 21 October 2019)		✓
Thomas TANG Wing Yung (resigned with effect from 21 October 2019)	✓	✓
Non-executive Directors		
Raymond OR Ching Fai (Non-executive Chairman) (re-designated with effect from 24 June 2020)		✓
Jürgen Alfred Rudolf FRIEDRICH	✓	✓
Independent Non-executive Directors[2]		
Carmelo LEE Ka Sze	✓	✓
Sandrine Suzanne Eleonore Agar ZERBIB (appointed with effect from 3 October 2019)	✓	✓
Joseph LO Kin Ching (appointed with effect from 15 January 2020)	✓	✓
Martin WECKWERTH (appointed with effect from 15 January 2020 and resigned with effect from 24 July 2020)	✓	✓
Alexander Reid HAMILTON (retired on 5 December 2019)	✓	✓
Norbert Adolf PLATT (retired on 5 December 2019)		✓
Company Secretary		
Ophelia LO Tik Man	✓	✓

[1] Mr Marc Andreas TSCHIRNER, Ms CHIU Su Yi Christin and Mr Hung Wai WONG were appointed as Executive Directors with effect from 21 July 2020.
[2] Mr CHUNG Kwok Pan was appointed as an Independent Non-executive Director with effect from 29 July 2020.

Chairman and Group Chief Executive Officer

Dr Raymond OR Ching Fai is the Non-executive Chairman of the Board (re-designated from Executive Chairman with effect from 24 June 2020) 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 while the Group Chief Executive Officer focuses on managing and controlling the business of the Group. The roles of the Board's Non-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 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. However, Non-executive Directors do not have specific term of appointment. Under bye-law 87 of the Company's Memorandum of Association and new Bye-laws, all Directors, including Non-executive Directors, are subject to retirement by rotation and re-election in the annual general meeting (the "AGM") of the Company and each Director is effectively appointed under an average term of not more than three years.

For the period from 5 December 2019 to 14 January 2020

The Company failed to meet the following requirements for the period from 5 December 2019 to 14 January 2020 resulting from the retirement of Mr Alexander Reid HAMILTON and Mr Norbert Adolf PLATT, being the then Independent Non-executive Directors, on 5 December 2019:

- the Board must include at least three Independent Non-executive Directors under Rule 3.10(1) of the Listing Rules;
- at least one of the Independent Non-executive Directors must have appropriate professional qualifications or accounting or related financial management expertise under Rule 3.10(2) of the Listing Rules;
- the Audit Committee must be comprised of a minimum of three Non-executive Directors, at least one of whom is an Independent Non-executive Director with appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10(2) of the Listing Rules. Furthermore, the majority of the Audit Committee members must be Independent Non-executive Directors and the Audit Committee must be chaired by an Independent Non-executive Director under Rule 3.21 of the Listing Rules;
- the Remuneration Committee must be chaired by an Independent Non-executive Director under Rule 3.25 of the Listing Rules; and
- the Nomination Committee should comprise a majority of Independent Non-executive Directors under code provision A.5.1 of the CG Code.

Following the appointment of Mr Joseph LO Kin Ching as an Independent Non-executive Director, chairman of the Audit Committee and a member of the Nomination Committee, and Dr Martin WECKWERTH as an Independent Non-executive Director, chairman of the Remuneration Committee and a member of the Audit Committee, all with effect from 15 January 2020, the Board then comprised eight Directors including three Executive Directors, one Non-executive Director and four Independent Non-executive Directors, one of whom has appropriate professional qualifications or accounting or related financial management expertise. As a result, the Company has complied with the requirements under (i) Rule 3.10(1) of the Listing Rules regarding the composition of the Board; (ii) Rule 3.10(2) of the Listing Rules regarding the professional qualifications of an Independent Non-executive Director; (iii) Rule 3.21 of the Listing Rules regarding the composition of the Audit Committee; (iv) Rule 3.25 of the Listing Rules regarding the composition of the Remuneration Committee; and (v) code provision A.5.1 of the CG Code regarding the composition of the Nomination Committee after the appointment of Mr LO and Dr WECKWERTH become effective.

For the period from 24 July 2020 to 28 July 2020

Dr WECKWERTH has resigned as an Independent Non-executive Director, chairman of the Remuneration Committee and a member of the Audit Committee with effect from 24 July 2020. As a result, the Company failed to meet the following requirements for the period from 24 July 2020 to 28 July 2020:

- the Company must appoint Independent Non-executive Directors representing at least one-third of the Board under Rule 3.10A of the Listing Rules; and
- the Remuneration Committee must be chaired by an Independent Non-executive Director and must be comprised of a majority of Independent Non-executive Directors under Rule 3.25 of the Listing Rules.

With effect from 29 July 2020, Mr CHUNG Kwok Pan has been appointed as an Independent Non-executive Director and a member of the Audit Committee and the Remuneration Committee, and Ms Sandrine Suzanne Eleonore Agar ZERBIB, who is a member of the Remuneration Committee, has been re-designated as chairman of the Remuneration Committee. Following such appointment and change of composition of the Committee members of the Board, the Board comprises eleven Directors including five Executive Directors, two Non-executive Directors and four Independent Non-executive Directors. As a result, the Company has complied with the requirements under (i) Rule 3.10A of the Listing Rules regarding the composition of the Board; and (ii) Rule 3.25 of the Listing Rules regarding the composition of the Remuneration Committee.

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 2020, to ensure that they give a true and fair view of the state of affairs of the Group and of its earnings and cash flows for that financial year. In respect of the consolidated financial statements for the year ended 30 June 2020, 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. Saved as disclosed in the section headed "Material Uncertainty Related to Going Concern" of the Independent Auditor's report, the Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern.

The Directors wish to make the following statement with regard to the material uncertainty related to going concern in the independent auditor's report:

During the Reporting Period, the Group recorded a net loss attributable to shareholders of HK$3,992 million and a net cash outflow of HK$923 million. The Group is aware of the uncertainties around the future development of the Pandemic and that new temporary lockdowns or other isolation measures could be imposed in major markets where the Group operates. These circumstances and uncertainties may cast a significant doubt over the Group's ability to continue as a going concern.

Notwithstanding the above conditions, the Directors are of the view that the Group and the Company will be able to continue as going concern and that the financial statements have been prepared on that basis after taking into consideration of the following plans and measures:

(i) the Group is closely monitoring the latest developments of the Pandemic and will reassess the impact of the Pandemic on the Group's operations and to adjust its strategies for the Group's business accordingly in order to generate sufficient cash from its operations and to further preserve cash levels;

(ii) the Group will finalize the process to optimize the cost base of its business and implement the Restructuring Plans; and

(iii) the Group will continue to work on its strategic plan to strengthen the Group's brand identity and improve product offering and pricing to restore its profitability.

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.

Auditor's responsibilities for the consolidated financial statements

The statement by the auditor regarding their reporting responsibilities on the consolidated financial statements of the Company is set out in the Independent Auditor's Report on pages 76 to 79 of this annual report.

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 2020.

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 respective websites of the Company and HKExnews. 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:

- Mr Joseph LO Kin Ching *(Chairman)* *(Independent Non-executive Director, appointed with effect from 15 January 2020)*
- Mr Jürgen Alfred Rudolf FRIEDRICH *(Non-executive Director)*
- Ms Sandrine Suzanne Eleonore Agar ZERBIB *(Independent Non-executive Director, appointed with effect from 21 October 2019)*
- Mr CHUNG Kwok Pan *(Independent Non-executive Director, appointed with effect from 29 July 2020)*
- Mr Alexander Reid HAMILTON *(Independent Non-executive Director, retired as Chairman on 5 December 2019)*
- Mr Norbert Adolf PLATT *(Independent Non-executive Director, retired on 5 December 2019)*
- Dr Martin WECKWERTH *(Independent Non-executive Director, appointed with effect from 15 January 2020 and resigned with effect from 24 July 2020)*

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 four Non-executive Directors (three 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 2020;
- reviewed the nature, scope and findings of internal and external audits, and the Company's treasury activities, tax issues and liquidity; and
- reviewed the fees for audit and non-audit services to the external auditors.

The Board did not deviate from the recommendations of the Audit Committee on the selection, appointment, resignation or dismissal of 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 2020 and 2019. A summary of which is as follows:

HK$ million	**2020**	**2019**
Nature of the services		
Audit services	15	14
Non-audit services[1]	1	1
	16	**15**

Note
1. The non-audit services include liquidation advisory, tax advisory and other services.

Internal audit department

The Company's internal audit department ("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:
- Dr Raymond OR Ching Fai *(Chairman) (Non-executive Director)*
- Mr Carmelo LEE Ka Sze *(Independent Non-executive Director)*
- Mr Joseph LO Kin Ching *(Independent Non-executive Director, appointed with effect from 15 January 2020)*
- Mr Alexander Reid HAMILTON *(Independent Non-executive Director, retired on 5 December 2019)*

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.

The Nomination Committee is chaired by the Non-executive Chairman of the Board, and currently comprises two Independent Non-executive Directors and one Non-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;
- provided recommendation to the Board on the re-election of Directors standing for re-election at the 2019 AGM;
- considered the retirement of Mr Alexander Reid HAMILTON as Independent Non-executive Director of the Company; and
- considered and recommended potential candidate(s) to the Board for the appointment as Executive Directors and Independent Non-executive Directors 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 indivduals 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 on the appointment or re-appointment of Directors and succession planning for Directors in particular the Chairman of the Board and the Group Chief Executive Officer. The Nominiation 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 Nomination 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:

- Ms Sandrine Suzanne Eleonore Agar ZERBIB *(Chairman) (Independent Non-executive Director, appointed as member with effect from 21 October 2019 and re-designated as chairman with effect from 29 July 2020)*
- Mr Anders Christian KRISTIANSEN *(Executive Director)*
- Ms CHIU Su Yi Christin *(Executive Director, appointed wth effect from 21 July 2020)*
- Mr Carmelo LEE Ka Sze *(Independent Non-executive Director)*
- Mr CHUNG Kwok Pan *(Independent Non-executive Director, appointed with effect from 29 July 2020)*
- Mr Norbert Adolf PLATT *(Independent Non-executive Director, retired as chairman on 5 December 2019)*
- Dr Martin WECKWERTH *(Independent Non-executive Director, appointed as chairman with effect from 15 January 2020 and resigned as chairman with effect from 24 July 2020)*

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 three Independent Non-executive Directors and two Executive Directors. The Remuneration Committee met four times during the year. The attendance record of the Remuneration Committee members is set out in the "Meetings attended/held" section above.

Duties performed during the year:

- reviewed and determined the remuneration policy and 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 2021;
- approved the terms of service contracts of the Executive Directors;

- reviewed the director's fees of newly appointed Independent Non-executive Directors and the Non-executive Chairman of the Board; and
- 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.

Remuneration policy

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

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

Risk Management Committee

Members:

- Mr Carmelo LEE Ka Sze
  (Chairman) (Independent Non-executive Director)
- Dr Johannes Georg SCHMIDT-SCHULTES
  (Executive Director, appointed with effect from 21 October 2019)
- Ms Sandrine Suzanne Eleonore Agar ZERBIB
  (Independent Non-executive Director, appointed with effect from 26 February 2020)
- Mr Thomas TANG Wing Yung
  (Executive Director, resigned with effect from 21 October 2019)
- Mr Alexander Reid HAMILTON
  (Independent Non-executive Director, retired on 5 December 2019)

Responsibilities include, amongst other things, the following:

- review the effectiveness of the Group's risk management function and internal control system annually;
- 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, 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 ten 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:

- Dr Raymond OR Ching Fai *(Non-executive Director)*
- Mr Anders Christian KRISTIANSEN *(Executive Director)*
- Dr Johannes Georg SCHMIDT-SCHULTES
  (Executive Director, appointed with effect from 21 October 2019)
- Mr Marc Andreas TSCHIRNER
  (Executive Director, appointed with effect from 21 July 2020)
- Ms CHIU Su Yi Christin
  (Executive Director, appointed with effect from 21 July 2020)
- Mr Hung Wai WONG
  (Executive Director, appointed with effect from 21 July 2020)
- Mr Thomas TANG Wing Yung
  (Executive Director, resigned with effect from 21 October 2019)

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 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 five Executive Directors and one Non-executive Director. The General Committee met nineteen 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 authorized signatories of bank accounts;
- approved the opening of bank accounts of the Company;
- approved the change of authorized signatories of securities accounts;
- approved granting of working capital loan facilities to 5 European subsidiaries;
- approved the change of address of principal share registrar in Bermuda; 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:

- determining 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 2020 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, Dr Johannes Georg SCHMIDT-SCHULTES (the Group Chief Financial Officer).

In addition, management confirms that they have:

(i) reviewed the Risk Registers of relevant business units across the Group;

(ii) assessed and documented risks in the Risk Registers based on the methodologies and the risk parameters stated in the Risk Management Policy; and

(iii) completed the Risk Registers, established relevant controls, and considered the risk appetite to be appropriate for the Group based on their best knowledge.

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

Second line of defense

The Risk Manager is responsible for the implementation and maintenance of risk management processes across the Group. Throughout the year, the Risk Manager provides training to management on risk assessment methodologies, reviews the Risk Management Policy, and facilitates a regular risk assessment process and timely communication to the Risk Management Committee. Based on management's assessments, the Risk Manager selects the top ten 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.

A review of the effectiveness of the risk management and internal control system of the Company and its subsidiaries has been conducted during the financial year ended 30 June 2020. 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 for the financial year ended 30 June 2020 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 neccessary.

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.

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.

Shareholders who wish to put forward proposals at special general meetings may achieve so by means of convening a special general meeting following the procedures as set out in the paragraph above.

If a shareholder wishes to propose a person other than a retiring Director for election as a Director at a general meeting, the shareholder should follow the "Procedures for Shareholders to propose a Person for Election as a Director", which is posted on the website of the Company.

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 2019 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 2019 AGM. Tricor Secretaries Limited, the Company's branch share registrar in Hong Kong, was appointed as the scrutineer for voting by poll at the 2019 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 have access to first-hand information on the results announcement. A live webcast is available along with an archive of the webcast on Esprit's Investor Relations website so that the results briefing is easily and readily accessible to individuals all over the world in English.

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

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

Pro-active investor relations

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

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	5 January 2015
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 will be available on the Company's website at 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 2020.

Principal activities

The Company is an investment holding company. The activities of the principal subsidiaries are shown in note 8 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 statement of profit or loss on page 80 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 2020, the Directors have not recommended the distribution of a final dividend for the year ended 30 June 2020 (FY18/19: Nil). Relevant information is set out in note 4.3.2 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 pages 83 and 84 of this Annual Report and in note 3.9.2 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", "Esprit 2.0" and "Management Discussion and Analysis" on pages 6 to 15, pages 16 to 25 and pages 40 to 49 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 26 to 39 of this Annual Report. Full version of the Sustainability Report of the Company for FY19/20 will be available on the Company's website at 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 3.9.1 to the consolidated financial statements.

Financial summary

A summary of the consolidated results and the consolidated balance sheet of the Group for the last ten financial years is set out on pages 140 and 141 of this 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 3.5.2 to the consolidated financial statements.

Pension schemes

Particulars of pension schemes of the Group are set out in notes 3.3.2 and 3.8.3 to the consolidated financial statements.

Principal subsidiaries

Particulars of the Company's principal subsidiaries as at 30 June 2020 are set out in note 8 to the consolidated financial statements.

Charitable donations

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

Major customers and suppliers

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

Equity-linked agreements

No equity-linked agreements were entered into by the Company during the financial year or subsisted at the end of the financial year, save for the 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:

Non-executive Chairman

- Dr Raymond OR Ching Fai
  (re-designated from Executive Chairman and Executive Director to Non-executive Chairman and Non-executive Director with effect from 24 June 2020)

Executive Directors

- Mr Anders Christian KRISTIANSEN (Group Chief Executive Officer)
- Dr Johannes Georg SCHMIDT-SCHULTES (Group Chief Financial Officer)
  (appointed with effect from 21 October 2019)
- Mr Marc Andreas TSCHIRNER (Group Chief Operating Officer)
  (appointed with effect from 21 July 2020)
- Ms CHIU Su Yi Christin (Group Legal and Public Relations Officer)
  (appointed with effect from 21 July 2020)
- Mr Hung Wai WONG (Group Chief Investment Officer)
  (appointed with effect from 21 July 2020)
- Mr Thomas TANG Wing Yung (Group Chief Financial Officer)
  (resigned with effect from 21 October 2019)

Non-executive Director

- Mr Jürgen Alfred Rudolf FRIEDRICH

Independent Non-executive Directors

- Mr Carmelo LEE Ka Sze
- Ms Sandrine Suzanne Eleonore Agar ZERBIB
  (appointed with effect from 3 October 2019)
- Mr Joseph LO Kin Ching
  (appointed with effect from 15 January 2020)
- Mr CHUNG Kwok Pan
  (appointed with effect from 29 July 2020)
- Dr Martin WECKWERTH
  (appointed with effect from 15 January 2020 and resigned with effect from 24 July 2020)
- Mr Alexander Reid HAMILTON *(retired on 5 December 2019)*
- Mr Norbert Adolf PLATT *(retired on 5 December 2019)*

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.

Changes in directorship and other changes in Directors information

The changes of information of Directors, as notified to the Company, subsequent to the date of Interim Report FY19/20 pursuant to Rule 13.51B(1) of the Listing Rules and change in directorship due to reasons relating Company's affairs are set out as follows:

Directors	Details of Changes
Dr Raymond OR Ching Fai	▪ re-designated from Executive Chairman and Executive Director to Non-executive Chairman and Non-executive Director with effect from 24 June 2020 ▪ entitled to a director's fee of HK$2,150,000 per annum, which comprises HK$480,000 for his directorship, HK$1,520,000 for acting as Chairman of the Board and HK$150,000 for acting as chairman of the Nomination Committee
Mr Marc Andreas TSCHIRNER	▪ appointed as Executive Director and a member of the General Committee with effect from 21 July 2020 ▪ appointed as Group Chief Operating Officer with effect from 24 July 2020 ▪ he is foregoing his remuneration for acting as an Executive Director
Ms CHIU Su Yi Christin	▪ appointed as Executive Director and a member of the Remuneration Committee and the General Committee with effect from 21 July 2020 ▪ appointed as Group Legal and Public Relations Officer with effect from 24 July 2020 ▪ she is foregoing her remuneration for acting as an Executive Director
Mr Hung Wai WONG	▪ appointed as Executive Director and a member of the General Committee with effect from 21 July 2020 ▪ appointed as Group Chief Investment Officer with effect from 24 July 2020 ▪ he is foregoing his remuneration for acting as an Executive Director
Mr Carmelo LEE Ka Sze	▪ ceased to act as an Independent Non-executive Director of China Pacific Insurance (Group) Co., Ltd. with effect from 12 May 2020
Ms Sandrine Suzanne Eleonore Agar ZERBIB	▪ re-designated from a member of the Remuneration Committee to chairman of the Remuneration Committee with effect from 29 July 2020 ▪ entitled to a director's fee of HK$805,000 per annum, which comprises HK$480,000 for her directorship, HK$150,000 for acting as chairman of the Remuneration Committee, HK$100,000 for acting as a member of the Audit Committee and HK$75,000 for acting as a member of the Risk Management Committee
Dr Martin WECKWERTH	▪ resigned as Independent Non-executive Director, chairman of the Remuneration Committee and a member of the Audit Committee in view of the changes to the Company's shareholder base and direction with effect from 24 July 2020
Mr CHUNG Kwok Pan	▪ appointed as an Independent Non-executive Director and a member of the Audit Committee and the Remuneration Committee with effect from 29 July 2020 ▪ entitled to a director's fee of HK$665,000 per annum, which comprises HK$480,000 for his directorship, HK$100,000 for acting as a member of the Audit Committee and HK$85,000 for acting as a member of the Remuneration Committee
Mr Thomas TANG Wing Yung	▪ resigned as an executive Director as he was unable to station in Europe for the new role of the Group Chief Financial Officer with effect of 21 October 2019

Save as disclosed above, there is no other information required to be disclosed herein pursuant to Rule 13.51B(1) of the Listing Rules.

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 5.1 to the consolidated financial statements. In addition to offering competitive remuneration packages and discretionary bonuses to Directors, the Company also grants share options to Directors and eligible employees based on individual performance as an incentive. The emoluments of the Directors are determined based on the operating results of the Group, individual performance and/or prevailing market conditions. 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 52 to 62 of this Annual Report.

Mr Jürgen Alfred Rudolf FRIEDRICH and Dr Martin WECKWERTH have waived their director's fees for the Reporting Period. Save as disclosed above, as at 30 June 2020, there was no arrangement in which the Directors waived their remuneration.

Material contracts

Save as disclosed in this report, no contract of significance has been entered into during the Reporting Period between the Company or any of its subsidiaries and the controlling shareholder or its subsidiaries.

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 transaction, arrangement and contract 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.

Service contracts

Apart from the service contracts entered into with Mr Anders Christian KRISTIANSEN and Dr Johannes Georg SCHMIDT-SCHULTES, the Group has not entered into any service contract with the Directors. No Director has an unexpired service contract which is not determinable by the Company within one year without payment of compensation other than normal statutory compensation.

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 2020, 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 pursuant to the Model Code contained in Appendix 10 of the Listing Rules, were as follows:

Name of Director	Capacity	Beneficial interest in the ordinary shares	Beneficial interest in the underlying shares in respect of the unlisted equity derivatives of the Company (note 4)	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	–	12,000,000	14,000,000	0.74%
	Beneficiary of a trust under the Share Award Scheme	2,000,000	–		
Johannes Georg SCHMIDT-SCHULTES	Beneficial owner	–	2,000,000	2,000,000	0.10%
Jürgen Alfred Rudolf FRIEDRICH	Beneficial owner (note 2)	45,500,000	1,110,000	46,663,669	2.47%
	Interest of spouse (note 3)	53,669	–		
Carmelo LEE Ka Sze	Beneficial owner	–	1,100,000	1,100,000	0.05%
Sandrine Suzanne Eleonore Agar ZERBIB	Beneficial owner	–	500,000	500,000	0.02%

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 interest 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 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 options schemes" and "Share award scheme" below respectively.
5. All interests disclosed above represent long position in the shares and underlying shares of the Company.

Save as disclosed above, as at 30 June 2020, 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 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. Particulars of the 2009 Share Option Scheme are set out in note 5.2.1.1 to the consolidated financial statements. A summary of the movements of the outstanding share options under the 2009 Share Option Scheme during the year is as follows:

					Number of share options						
	Date of grant (dd/mm/yyyy)	Exercise price (HK$)	Vesting date (dd/mm/yyyy)	Exercise period (dd/mm/yyyy)	As at 01/07/2019	Granted	Trans-ferred in	Exercised	Trans-ferred out	Lapsed	As at 30/06/2020
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
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				**610,000**	**–**	**–**	**–**	**–**	**–**	**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				**600,000**	**–**	**–**	**–**	**–**	**–**	**600,000**
Employees	27/09/2010	43.00	27/09/2013	27/09/2013 – 26/09/2020	700,000	–	–	–	100,000	50,000	550,000
	27/09/2011	8.76	27/09/2014	27/09/2014 – 26/09/2021	1,900,000	–	–	–	300,000	150,000	1,450,000
	12/12/2012	12.32	12/12/2015	12/12/2015 – 11/12/2022	1,540,000	–	–	–	100,000	350,000	1,090,000
	11/03/2013	10.04	11/03/2016	11/03/2016 – 10/03/2023	552,000	–	–	–	30,000	90,000	432,000
	11/03/2013	10.04	11/03/2017	11/03/2017 – 10/03/2023	184,000	–	–	–	10,000	30,000	144,000
	11/03/2013	10.04	11/03/2018	11/03/2018 – 10/03/2023	184,000	–	–	–	10,000	30,000	144,000
	04/11/2013	14.18	04/11/2016	04/11/2016 – 03/11/2023	2,355,000	–	–	–	100,000	660,000	1,595,000
	04/11/2013	14.18	04/11/2017	04/11/2017 – 03/11/2023	60,000	–	–	–	–	20,000	40,000
	04/11/2013	14.18	04/11/2018	04/11/2018 – 03/11/2023	60,000	–	–	–	–	20,000	40,000
	30/06/2014	11.00	30/06/2017	30/06/2017 – 29/06/2024	180,000	–	–	–	–	–	180,000
	30/06/2014	11.00	30/06/2018	30/06/2018 – 29/06/2024	60,000	–	–	–	–	–	60,000
	30/06/2014	11.00	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	–	–
	31/10/2014	10.124	31/10/2017	31/10/2017 – 30/10/2024	3,800,000	–	–	–	100,000	1,050,000	2,650,000

	Date of grant (dd/mm/yyyy)	Exercise price (HK$)	Vesting date (dd/mm/yyyy)	Exercise period (dd/mm/yyyy)	Number of share options: As at 01/07/2019	Granted	Trans-ferred in	Exercised	Trans-ferred out	Lapsed	As at 30/06/2020
Employees (continued)	13/10/2015	6.55	13/10/2018	13/10/2018 – 12/10/2025	4,050,000	–	–	–	100,000	1,350,000	2,600,000
	31/10/2016	6.87	31/10/2019	31/10/2019 – 30/10/2026	4,200,000	–	–	–	100,000	1,150,000	2,950,000
	07/11/2017	4.65	07/11/2020	07/11/2020 – 06/11/2027	4,800,000	–	–	–	100,000	1,800,000	2,900,000
	25/06/2018	2.66	25/06/2021	25/06/2021 – 24/06/2028	6,100,000	–	–	–	200,000	2,200,000	3,700,000
	28/09/2018	1.884	28/09/2021	28/09/2021 – 27/09/2028	3,000,000	–	–	–	–	500,000	2,500,000
	In aggregate				**33,885,000**	**–**	**–**	**–**	**1,350,000**	**9,450,000**	**23,085,000**
Others[2]	27/09/2010	43.00	27/09/2013	27/09/2013 – 26/09/2020	–	–	100,000	–	–	–	100,000
	27/09/2011	8.76	27/09/2014	27/09/2014 – 26/09/2021	–	–	300,000	–	–	–	300,000
	12/12/2012	12.32	12/12/2015	12/12/2015 – 11/12/2022	–	–	100,000	–	–	–	100,000
	11/03/2013	10.04	11/03/2016	11/03/2016 – 10/03/2023	4,500,000	–	30,000	–	–	–	4,530,000
	11/03/2013	10.04	11/03/2017	11/03/2017 – 10/03/2023	1,400,000	–	10,000	–	–	–	1,410,000
	11/03/2013	10.04	11/03/2018	11/03/2018 – 10/03/2023	1,400,000	–	10,000	–	–	–	1,410,000
	04/11/2013	14.18	04/11/2016	04/11/2016 – 03/11/2023	700,000	–	100,000	–	–	–	800,000
	30/06/2014	11.00	30/06/2015	30/06/2015 – 29/06/2024	220,000	–	–	–	–	220,000	–
	31/10/2014	10.124	23/03/2015	23/03/2015 – 30/10/2024	–	–	100,000	–	–	–	100,000
	31/10/2014	10.124	31/10/2017	31/10/2017 – 30/10/2024	700,000	–	100,000	–	–	–	800,000
	13/10/2015	6.55	13/10/2018	13/10/2018 – 12/10/2025	–	–	100,000	–	–	–	100,000
	31/10/2016	6.87	31/10/2019	31/10/2019 – 30/10/2026	–	–	100,000	–	–	–	100,000
	07/11/2017	4.65	07/11/2020	07/11/2020 – 06/11/2027	–	–	100,000	–	–	–	100,000
	25/06/2018	2.66	25/06/2021	25/06/2021 – 24/06/2028	–	–	200,000	–	–	–	200,000
	28/09/2018	1.884	28/09/2019	28/09/2019 – 27/09/2028	1,000,000	–	–	–	–	1,000,000	–
	28/09/2018	1.884	28/09/2021	28/09/2021 – 27/09/2028	1,500,000	–	–	–	–	–	1,500,000
	In aggregate				**11,420,000**	**–**	**1,350,000**	**–**	**–**	**1,220,000**	**11,550,000**
Total					**62,965,000**	**–**	**1,350,000**	**–**	**1,350,000**	**10,670,000**	**52,295,000**

Note:
1. No share options were canceled under the 2009 Share Option Scheme during the year ended 30 June 2020.
2. No share option was granted to the suppliers of the Group during the Reporting Period.

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 5.2.1.2 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 01/07/2019	Granted	Exercised	Lapsed	As at 30/06/2020
Directors									
Anders Christian KRISTIANSEN	10/12/2019	1.604	19/09/2022	19/09/2022 – 09/12/2029	–	4,000,000	–	–	4,000,000
Johannes Georg SCHMIDT-SCHULTES	10/12/2019	1.604	10/12/2022	10/12/2022 – 09/12/2029	–	2,000,000	–	–	2,000,000
Jürgen Alfred Rudolf FRIEDRICH	10/12/2019	1.604	19/09/2020	19/09/2020 – 09/12/2029	–	500,000	–	–	500,000
Carmelo LEE Ka Sze	10/12/2019	1.604	19/09/2020	19/09/2020 – 09/12/2029	–	500,000	–	–	500,000
Sandrine Suzanne Eleonore Agar ZERBIB	10/12/2019	1.604	10/12/2020	10/12/2020 – 09/12/2029	–	500,000	–	–	500,000
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	–	–	400 ,000	3,500,000
	10/12/2019	1.604	19/09/2022	19/09/2022 – 09/12/2029	–	8,350,000	–	150,000	8,200,000
	10/12/2019	1.604	10/12/2022	10/12/2022 – 09/12/2029	–	500,000	–	–	500,000
	In aggregate				**4,900,000**	**8,850,000**	**–**	**550,000**	**13,200,000**
Total					**4,900,000**	**16,350,000**	**–**	**550,000**	**20,700,000**

Notes:
1. The closing price of the shares of the Company immediately before the share options granted on 10 December 2019 was HK$1.60.
2. No share options were canceled under the 2018 Share Option Scheme during the year ended 30 June 2020.

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 5.2.2 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 01/07/2019**	**Granted**	**Vested**	**Lapsed**	**As at 30/06/2020**
Directors							
Anders Christian KRISTIANSEN	22/06/2018	22/06/2021	2,000,000	–	–	–	2,000,000
Thomas TANG Wing Yung (resigned with effect from 21 October 2019)	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		**319,845**	**–**	**–**	**319,845**	**–**
Employees	31/10/2016	31/10/2019	310,885	–	–	310,885	–
	03/10/2017	03/10/2019	118,685	–	95,270	23,415	–
	03/10/2017	03/10/2020	118,685	–	–	23,415	95,270
	In aggregate		**548,255**	**–**	**95,270**	**357,715**	**95,270**
Total			**2,868,100**	**–**	**95,270**	**677,560**	**2,095,270**

Accounting treatment for share options and awarded shares

Details of accounting treatment for share options and awarded shares are set out in note 5.2 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 2020, 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
Total Market Limited (note 1)	Beneficial owner	211,822,656	11.22%
Claudine Lauren YING (note 1)	Interest in a controlled corporation	211,822,656	11.22%
Eileen YING (note 1)	Interest in a controlled corporation	211,822,656	11.22%
Melani YING (note 1)	Interest in a controlled corporation	211,822,656	11.22%
Marathon Asset Management LLP (note 2)	Investment manager	207,117,833	10.97%

Notes:
1. Total Market Limited is 33.33%, 33.33% and 33.33% owned by Ms Claudine Lauren YING, Ms Eileen YING and Ms Melani YING respectively.
2. 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.

Save as disclosed hereinabove and in section of "Directors' interests and short positions in shares, underlying shares and debentures" 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 2020 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 5.1 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 52 to 62 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.

There has been no change in the auditors of the Company for the preceding three years.

On behalf of the Board
ESPRIT HOLDINGS LIMITED

Dr Raymond OR Ching Fai
Non-executive Chairman
Hong Kong, 5 November 2020

05.3 Directors and Senior Management Profile

Executive Directors

Mr Anders Christian KRISTIANSEN, aged 53, has been appointed as an Executive Director of the Company and Group Chief Executive Officer since June 2018. He is a member of the Remuneration Committee and the General Committee of the Board, a director of certain subsidiaries of the Company, 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.

Dr Johannes Georg SCHMIDT-SCHULTES, aged 54, has been appointed as an Executive Director of the Company and Group Chief Financial Officer since October 2019. He is a member of the Risk Management Committee and the General Committee of the Board, and a director of certain subsidiaries of the Company. Dr SCHMIDT-SCHULTES obtained his PhD in Finance from Ludwig Maximilians University in Munich, Germany, and is an internationally experienced finance executive. Dr SCHMIDT-SCHULTES has most recently served as chief financial officer and executive director of BMI Group Holdings UK Limited. He was the former chief financial officer and executive director of Apleona Group GmbH in 2017 and of Semperit AG Holding (a company listed on the Vienna Stock Exchange) from 2011 to 2017. He was the former deputy group chief financial officer of Telstra Corporation Limited (a company listed on the Australian Securities Exchange) from 2007 to 2011. Prior to this role, Dr SCHMIDT-SCHULTES was the finance director and executive director of T-Mobile (UK) Limited (2004 - 2007) and T-Mobile Austria GmbH (2001 - 2004).

Mr Marc Andreas TSCHIRNER, aged 48, has been appointed as an Executive Director and Group Chief Operating Officer of the Company since July 2020. He is a member of the General Committee of the Board. He graduated from University of Konstanz with a Master Degree in Law in 1998. Mr TSCHIRNER was admitted to the German Bar in 2002, all Higher German Regional Courts in 2007 and as a Registered Foreign Lawyer in Hong Kong in 2018. Mr TSCHIRNER is a Registered Foreign Lawyer at Lee Law Firm, Hong Kong and has been with Roedl & Partner, Hong Kong since 2017, most recently as an External Chief Representative.

Previously, Mr TSCHIRNER also worked for Arthur Andersen in Zurich and Ernst & Young in Zurich with a primary focus in tax law. In addition, between 2004 and 2008, Mr TSCHIRNER held a position as Vice President at Credit Suisse Group, Zurich. Between 2008 and 2015, Mr TSCHIRNER was an executive director at Bank Julius Baer, Zurich. Between 2016 and 2017, Mr TSCHIRNER was a director at Deloitte Touche Tohmatsu, Hong Kong.

Ms CHIU Su Yi Christin, aged 40, has been appointed as an Executive Director and Group Legal and Public Relations Officer of the Company since July 2020. She is a member of the Remuneration Committee and the General Committee of the Board. She graduated from McMaster University with a Bachelor of Arts degree, Summa Cum Laude and from the University of Alberta with a Juris Doctor. Ms CHIU is the head of legal for Seekers Advisors H.K. Limited, a Securities and Futures Commission ("SFC") licensed entity based in Hong Kong. Ms CHIU is admitted as an attorney at law in the State of New York, USA, and a barrister and solicitor in the British Columbia Province in Canada. She is sole director of North Point Talent Limited, which is a substantial shareholder of the Company.

Previously, Ms CHIU worked in the Corporate Department of Hogan Lovells focusing on corporate finance, securities law matters and mergers and acquisitions. Ms CHIU also worked at Remedios and Company, a law firm situated in Vancouver, Canada.

Mr Hung Wai WONG, aged 43, has been appointed as an Executive Director and Group Chief Investment Officer of the Company since July 2020. He is a member of the General Committee of the Board. He graduated from Imperial College London, United Kingdom with a bachelor of science degree in physics. He possesses over 20 years' experience in the financial services and management consultancy sectors. He has expertise in corporate strategy, mergers and acquisitions, fintech innovations, business development and business transformation. Mr WONG worked for global financial institutions, such as HSBC Group, in various senior management positions across Asia, Europe and the Middle East. He holds the CFA (Chartered Financial Analyst), CFP (Certified Financial Planner), FLMI (Fellow, Life Management Institute) and FRM (Financial Risk Manager) professional qualifications.

Mr WONG has been the representative of North Point Talent Limited, which is a substantial shareholder of the Company. He was an executive director and managing executive officer of Planetree International Development Limited, a company incorporated in Bermuda with limited liability whose shares are listed on the Main Board of the Stock Exchange (stock code: 00613).

Non-executive Directors

Dr Raymond OR Ching Fai, aged 70, is Non-executive Chairman of the Board and Non-executive Director of the Company. He was appointed as Independent Non-executive Director of the Company in March 1996. He has been Independent Non-executive Chairman of the Board since June 2012 and was re-designated as Executive Chairman and Executive Director effective from 1 April 2018 until his re-designation as Non-executive Chairman and Non-executive Director with effect from 24 June 2020. He is also the chairman of the Nomination Committee and a member of the General Committee of the Board, a director of certain subsidiaries of the Company, 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, of which he was the former chief executive officer until he stepped down on 18 January 2018 and was executive director and executive chairman until his re-designation on 1 April 2018. He is also an independent non-executive director of Chow Tai Fook Jewellery Group Limited and Regina Miracle International (Holdings) Limited. Both companies are listed on 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 Limited, the former independent non-executive director of Industrial and Commercial Bank of China Limited and Television Broadcasts Limited, and the former deputy chairman and non-executive director of Aquis Entertainment Limited (a company listed on the Australian Securities Exchange).

Mr Jürgen Alfred Rudolf FRIEDRICH, aged 82, 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 44 years of experience in the apparel distribution and marketing business and is currently retired in Switzerland.

Independent Non-executive Directors

Mr Carmelo LEE Ka Sze, aged 60, 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, and a trustee of a charitable trust of the Company. He is a partner of Messrs. Woo Kwan Lee & Lo, Solicitors & Notaries. He is a chairman of the Listing Review Committee of the Stock Exchange. 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, Safety Godown Company Limited and Playmates Holdings Limited and an independent non-executive director of KWG Group Holdings Limited (formerly known as KWG Property Holding Limited), 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. He was an independent non-executive director of China Pacific Insurance (Group) Co., Ltd. until May 2020.

Ms Sandrine Suzanne Eleonore Agar ZERBIB, aged 58, has been appointed as an Independent Non-executive Director of the Company since October 2019. She is the chairman of the Remuneration Committee and a member of the Audit Committee and the Risk Management Committee of the Board. She is the founder and chairman of Full Jet Management Consulting (Shanghai) Co., Ltd., a Shanghai based and China focused brand management and digital agency specializing in digital brand strategy, e-commerce operations and 360 degree marketing. She is a member of the advisory board of Pictet Premium Brands Fund and the China board of Infront Sports & Media AG. She is also a director of Allure Systems, a start-up providing fashion companies with a solution for virtualized apparel enabling virtual try-on.

Ms ZERBIB was the former non-executive chairman of Lacoste China and former executive director and chief executive officer of China Dongxiang (Group) Co., Ltd. (a company listed on the Stock Exchange). She was the managing director of adidas China from 1994 to 2003 and the president of adidas Greater China Area from 2003 to 2007. She was also a former director of Mecox Lane (a company listed on the Nasdaq Stock Market).

Mr Joseph LO Kin Ching, aged 64, has been appointed as an Independent Non-executive Director of the Company since January 2020. He is a chairman of the Audit Committee and a member of the Nomination Committee of the Board. Mr LO is a chartered certified accountant, fellow of the Association of Chartered Certified Accountants, United Kingdom, and a certified public accountant, fellow member of the Hong Kong Institute of Certified Public Accountants. He joined Deloitte Touche Tohmatsu ("Deloitte") in 1980 and was a partner since 1988 until his retirement in 2016. He was chairman of Deloitte Hong Kong from 2006 to 2014 and chairman of Deloitte China from 2008 to 2014. He has 40 years of professional experience in providing auditing, financial advisory, restructuring, insolvency, mergers and acquisitions and initial public offering services.

Mr LO is a member of the Court of the Hong Kong Polytechnic University, a member of the Hospital Governing Committee of Queen Mary Hospital and Tsan Yuk Hospital, Hong Kong, a member of the College Council of Chu Hai College of Higher Education, Hong Kong, a committee member of the Hong Kong Arts Development Council Fund; a director of Hong Kong Design Centre Limited, and a member of the Finance Committee of M+ Museum. He is an independent non-executive director of ZA Bank Limited. He served as a member of the Standing Commission on Civil Service Salaries and Conditions of Service, Hong Kong from 2013 to 2019. He was a member of the Committee of Overseers of Wu Yee Sun College, the Chinese University of Hong Kong, a member of 10th and 11th of Hebei Provincial Committee of the Chinese People's Political Consultative Conference (CPPCC) and an advisor to the China Accounting Standards Committee of the Ministry of Finance of China. He was the former chairman and executive director of Bisu Technology Group International Limited (a company listed on the Stock Exchange). He was an independent non-executive director of Radisson Hospitality AB (a company formerly listed on the stock exchange of Stockholm, Sweden).

Mr CHUNG Kwok Pan, aged 57, has been appointed as an Independent Non-executive Director of the Company since July 2020. He is a member of the Audit Committee and the Remuneration Committee of the Board. He has been responsible for the business management of Chungweiming Knitting Factory Limited since early 1988. Mr CHUNG also has several social positions, including a member of the 5th and 6th Legislative Council of Hong Kong (Textile and Garment Sector), Leader of Liberal Party, Honorary Life Chairman of Hong Kong Apparel Society Limited, a director of The Chinese Manufacturers' Association of Hong Kong, an advisor of New Territories General Chamber of Commerce, a director of Hong Kong Design Centre, Chairman of Design Discipline Advisory Board of Vocational Training Council, Chairman of Fashion Industry Training Advisory Committee, Education Bureau of the Hong Kong Special Administrative Region ("HKSAR") and a member of the Advisory Group on Implementation of Fashion Initiatives, The Commerce and Economic Development Bureau of the HKSAR. He was also a member of the 9th Guangdong Provincial Committee of the Chinese People's Political Consultative Conference in 1998. Mr CHUNG obtained a Bachelor's degree in Quantity Surveying from Robert Gordon's Institute of Technology, Scotland (currently known as Robert Gordon University, Aberdeen) in July 1986 and a Master's degree in Business Administration from the University of Stirling, Scotland, United Kingdom in May 1988. He served as an independent non-executive director of SFund International Holdings Limited (previously known as "Hanbo Enterprises Holdings Limited") (stock code: 1367) from June 2014 to November 2016. He has served as an independent non-executive director of High Fashion International Limited (stock code: 608) since July 2019 and an independent non-executive director of Planetree International Development Limited (stock code: 613) since 1 April 2020. These companies are listed on the Stock Exchange.

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

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 of Esprit Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 80 to 137, which comprise:

- the consolidated balance sheet as at 30 June 2020;
- the consolidated statement of profit or loss 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 2020, 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 Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Material Uncertainty Related to Going Concern

We draw your attention to note 1.2.1 to the consolidated financial statements, which states that the Group recorded a net loss attributable to shareholders of HK$3,992 million and a net cash outflow of HK$923 million for the financial year ended 30 June 2020. The Group's revenue and net profit for the year ended 30 June 2020 were adversely affected by the Coronavirus 2019 pandemic (the "Pandemic"). This resulted in the Group's decision to apply for Protective Shield Proceedings for certain subsidiaries at the insolvency court in Germany, whereby the majority of the creditors voted for and approved the insolvency plans on 29th and 30th October 2020, resulting in a debt relief of approximately HK$1,852 million. The Pandemic continues to negatively affect the markets in which the Group operates and consequently the Group's ability to continue as a going concern is dependent on the Group's adjustment of its strategies to mitigate the possible further impact of the Pandemic, and the successful implementation of the Group's cost optimization and reduction measures and the Group's Strategic Plan. These events or conditions, along with other matters as set forth in note 1.2.1 to the consolidated financial statements, indicate the existence of a material uncertainty which may cast significant doubt over the Group's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

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. In addition to the matters described in the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

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

- Trademarks impairment
- Adoption of IFRS 16 and impairment of right-of-use assets
- Valuation of inventories at net realizable value
- Deferred tax assets and income taxes

Key Audit Matter

Trademarks impairment

Refer to note 3.5.1 "Intangible assets" and Accounting Policies note 7.8 and Critical Accounting Estimates and Judgments in note 4.1.1 to the consolidated financial statements.

The Group has trademarks of HK$1,546 million in the consolidated balance sheet as at 30 June 2020.

The Group has recorded a net loss during the year and management has been closing down loss-making stores and implementing costs reduction measures. Trademark with an indefinite useful life is required to be assessed for impairment at least annually or when an impairment indicator exists.

In determining the recoverable amount of trademarks arrived at the Relief-from-Royalty Method adopted by an external independent valuer ("Valuer"), certain assumptions such as budgeted sales, royalty rates, discount rates and terminal growth rate are required in the discounted cash flow calculations.

Based on their assessment, management has concluded and made an impairment loss of HK$397 million for part of the carrying value of the trademarks.

We have focused on this area since the assessment for impairment of trademarks requires significant management judgment on the key assumptions used.

How our audit addressed the Key Audit Matter

We obtained an understanding of management's assessment of carrying value of trademarks and our procedures in relation to this assessment included:

- Assessing the competence, capabilities and objectivity of the Valuer performing the valuation;
- Assessing the methodology of the assessments based on the discounted cash flows calculations;
- Assessing the determination of useful life of trademarks;
- Involving our valuation expert to evaluate the appropriateness of the valuation methodology on trademarks, and the royalty rate and the discount rates used;
- Evaluating the process by which management's future cash flow forecasts were prepared;
- Comparing historical actual results to those budgeted to assess the quality of management's forecasting;
- Reconciling input data to the approved business plan; and
- Evaluating the reasonableness of the key assumptions including budgeted sales, royalty rates, discount rates and terminal growth rate with reference to the historical financial data, available industry and market data and future business direction and business plan of management.

We considered the estimates made by management in respect of the determination of the recoverable amount are supportable based on the available evidence.

Adoption of IFRS 16 and impairment of right-of-use assets

Refer to note 3.5.3 "Right-of-use assets", note 3.7.2 and note 3.8.2 "Lease liabilities" and Accounting Policies note 7.9 and Critical Accounting Estimates and Judgements in note 4.1.4 to the consolidated financial statements.

The Group has right-of-use assets of HK$2,206 million and lease liabilities of HK$3,483 million in the consolidated balance sheet as at 30 June 2020.

The Group's portfolio of retail stores are held under leases, and, as a result, the Group is committed to significant future lease payments. The Group adopted IFRS 16 – Leases ("IFRS 16") on 1 July 2019 and elected to apply the new standard under the modified retrospective method, which does not require restatement of comparatives. The reclassifications and the adjustments arising from the new leasing standard are recognized in the opening consolidated balance sheet on 1 July 2019.

Given the Group's business performance during the year, management performed an impairment assessment on the right-of-use assets as at 30 June 2020. 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 impairment provision for the right-of-use assets.

The carrying amounts of the relevant cash-generating units are compared with the corresponding recoverable amounts in the context of the impairment test. The recoverable amounts are calculated on the basis of value in use by using discounted cash flow model. The impairment test determined that is necessary to recognize write-down on the right-of-use assets amounting to a total of HK$925 million.

We focused on this area because there are significant judgments and estimates made by management in adopting IFRS 16 and determining the impairment provision for the right-of-use assets.

We obtained an understanding of management's assessment of the application of the new standard, including validating key controls in place over the identification and recognition of leases.

We assessed the appropriateness of management's assessments of the identification of leases, determination of lease terms and use of discount rates, based on the contractual agreements and our knowledge of the business.

We obtained a summary of leases from management, and tested, on a sample basis, the key terms of each lease including lease terms and lease payments by tracing such information to the underlying lease contracts.

We tested, on a sample basis, the mathematical calculation of the lease liabilities based on lease payments, the discount rates and the expected lease terms.

With respect to the impairment test for the right-of-use assets, our procedures in relation to this assessment included:

- Assessing the methodology of the assessments based on the discounted cash flows calculations;
- Evaluating the process by which management's future cash flow forecasts were prepared;
- Comparing historical actual results to those budgeted to assess the quality of management's forecasting;
- Reconciling input data to the approved business plan, and
- Evaluating the reasonableness of the key assumptions including budgeted sales, gross profit margin, discount rates and terminal growth rate with reference to the historical financial data, available industry and market data and future business direction and business plan of management.

We considered the estimates made by management in respect of the adoption of IFRS 16 and the impairment provisions for right-of-use assets are supportable based on the available evidence.

Key Audit Matter	How our audit addressed the Key Audit Matter
Valuation of inventories at net realizable value	
Refer to note 3.6.1 "Inventories" and Accounting Policies note 7.13 and Critical Accounting Estimates and Judgments in note 4.1.5 to the consolidated financial statements. The Group's net inventories balance at 30 June 2020 was HK$1,265 million. Inventories are carried in the consolidated financial statements at the lower of cost and net realizable value. The net realizable value of inventories 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 inventories were correctly categorized in terms of the ageing of inventories, and recalculated the mathematical accuracy of the provision made. We examined the Group's historical trading patterns of inventories sold at full price, inventories marked down during sales periods and inventories for clearance sales 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 considered the estimates made by management in respect of the inventories provisions are supportable based on the available evidence.
Deferred tax assets and income taxes	
Refer to note 3.4.4 to the Consolidated Financial Statements and Principal Accounting Policies note 7.6 and Accounting Estimates and Judgments in note 4.1.6 to the consolidated financial statements. The Group has recognized HK$32 million deferred tax assets on the consolidated balance sheet, 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 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 judgment to be made by management about the expected ultimate settlement.	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. 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 the 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 scepticism 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, actions taken to eliminate threats or safeguards applied.

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, 5 November 2020

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statement of Profit or Loss

HK$ million	Notes	For the year ended 30 June 2020	2019 (restated)
Continuing operations			
Revenue		**9,216**	**11,681**
Cost of purchases		(5,109)	(5,707)
Gross profit		**4,107**	**5,974**
Staff costs	3.3.2	(1,513)	(2,487)
Occupancy costs		(315)	(1,732)
Logistics expenses		(554)	(779)
Marketing and advertizing expenses		(493)	(593)
Depreciation of property, plant and equipment	3.5.2	(374)	(418)
Depreciation of right-of-use assets	3.3.3	(880)	-
Provision for store closures and leases, net		-	(866)
Impairment loss on property, plant and equipment	3.5.2	(205)	(105)
Write back of provision for closure costs of operations in Australia and New Zealand		-	25
Write-downs of inventories to net realizable value, net	3.3.1.4	(292)	(182)
Provision for impairment of trade debtors, net	3.6.2	(55)	(16)
Impairment loss on right-of-use assets	3.3.1.3	(897)	-
Impairment loss on trademarks	3.3.1.1	(397)	-
Impairment loss on goodwill	3.3.1.2	(19)	-
Other operating costs	3.3.4	(1,320)	(767)
Operating loss from continuing operations (LBIT)		**(3,207)**	**(1,946)**
Interest income		50	46
Finance costs	3.3.5	(87)	(18)
Loss before taxation from continuing operations		**(3,244)**	**(1,918)**
Income tax expense	3.4.1	(437)	(65)
Loss from continuing operations		**(3,681)**	**(1,983)**
Discontinued operations			
Loss from discontinued operations	**1.2.2.2**	**(311)**	**(161)**
Loss attributable to shareholders of the Company		**(3,992)**	**(2,144)**

		For the year ended 30 June 2020	2019 (restated)
Loss per share from continuing operations			
Basic and diluted	5.3	HK$(1.96)	HK$(1.05)
Loss per share from discontinued operations			
Basic and diluted	5.3	HK$(0.16)	HK$(0.09)

The above consolidated statement of profit or loss should be read in conjunction with the accompanying notes.

Consolidated Statement of Comprehensive Income

HK$ million	Notes	For the year ended 30 June 2020	2019 (restated)
Loss from continuing operations		(3,681)	(1,983)
Loss from discontinued operations		(311)	(161)
Loss attributable to shareholders of the Company		**(3,992)**	**(2,144)**
Other comprehensive income			
Item that will not be reclassified to profit or loss:			
Remeasurements of retirement defined benefit obligations, net of tax	3.8.3	3	(4)
		3	**(4)**
Items that may be reclassified subsequently to profit or loss:			
Fair value loss on cash flow hedge, net of tax		(9)	(40)
Exchange translation from continuing operations		29	(128)
Exchange translation from discontinued operations		19	(2)
		39	**(170)**
Total comprehensive income for the year attributable to shareholders of the Company, net of tax		**(3,950)**	**(2,318)**

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated Balance Sheet

HK$ million	Notes	As at 30 June 2020	2019
Non-current assets			
Intangible assets	3.5.1	1,641	2,050
Property, plant and equipment	3.5.2	530	1,128
Right-of-use assets	3.5.3	2,206	-
Investment properties	3.5.4	-	27
Financial assets at fair value through profit or loss	3.5.5	10	12
Debtors, deposits and prepayments	3.5.6	345	120
Deferred tax assets	3.4.4	32	559
		4,764	**3,896**
Current assets			
Inventories	3.6.1	1,265	1,845
Debtors, deposits and prepayments	3.6.2	1,453	1,499
Tax receivable		54	80
Cash, bank balances and deposits	3.6.3	2,288	3,282
		5,060	**6,706**
TOTAL ASSETS		**9,824**	**10,602**
Current liabilities			
Creditors and accrued charges	3.7.1	2,817	2,350
Lease liabilities	3.7.2	1,016	-
Provisions	3.7.3	357	1,094
Tax payable		158	161
		4,348	**3,605**
Net current assets		**712**	**3,101**
Total assets less current liabilities		5,476	6,997
Equity			
Share capital	3.9.1	189	189
Reserves		2,581	6,524
		2,770	**6,713**
Non-current liabilities			
Bank loans	3.8.1	8	-
Lease liabilities	3.8.2	2,467	-
Retirement defined benefit obligations	3.8.3	26	31
Deferred tax liabilities	3.4.4	205	253
		2,706	**284**
TOTAL LIABILITIES		**7,054**	**3,889**
TOTAL EQUITY AND LIABILITIES		**9,824**	**10,602**

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

Approved by the Board of Directors on 5 November 2020:

ANDERS CHRISTIAN **KRISTIANSEN**
Executive Director

DR JOHANNES GEORG **SCHMIDT-SCHULTES**
Executive Director

Consolidated Statement of Changes in Equity

HK$ million	Share capital	Share premium	Employee share-based payment reserve	Shares held for Share Award Scheme	Hedging reserve	Remeasurements of retirement defined benefit obligations	Contributed surplus	Translation reserve	Capital reserve	Accumulated losses	Total Equity
At 30 June 2019	**189**	**7,988**	**904**	**(40)**	**9**	**(8)**	**7**	**(1,049)**	**1**	**(1,288)**	**6,713**
Exchange translation	-	-	-	-	-	-	-	48	-	-	48
Fair value loss on cash flow hedge, net of tax											
Net fair value gain (note 4.2.1)	-	-	-	-	10	-	-	-	-	-	10
Transferred to inventories	-	-	-	-	(21)	-	-	-	-	-	(21)
Deferred tax effect (note 3.4.4)	-	-	-	-	2	-	-	-	-	-	2
Remeasurements of retirement defined benefit obligations (note 3.8.3)	-	-	-	-	-	3	-	-	-	-	3
Loss attributable to shareholders of the Company	-	-	-	-	-	-	-	-	-	(3,992)	(3,992)
Total comprehensive income, net of tax	**-**	**-**	**-**	**-**	**(9)**	**3**	**-**	**48**	**-**	**(3,992)**	**(3,950)**
Transactions with owners											
Employee share-based compensation benefits (note 5.2)	-	-	7	-	-	-	-	-	-	-	7
Vesting of shares for Share Award Scheme (note 5.2)	-	-	(1)	1	-	-	-	-	-	-	-
Total transactions with owners	**-**	**-**	**6**	**1**	**-**	**-**	**-**	**-**	**-**	**-**	**7**
At 30 June 2020	**189**	**7,988**	**910**	**(39)**	**-**	**(5)**	**7**	**(1,001)**	**1**	**(5,280)**	**2,770**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity

HK$ million	Share capital	Share premium	Employee share-based payment reserve	Shares held for Share Award Scheme	Hedging reserve	Remeasurements of retirement defined benefit obligations	Contributed surplus	Translation reserve	Capital reserve	Retained profits/ (accumulated losses)	Total Equity
At 30 June 2018	**189**	**7,988**	**916**	**(47)**	**49**	**(4)**	**7**	**(919)**	**1**	**846**	**9,026**
Change in accounting policy (note 3.9.3)	-	-	-	-	-	-	-	-	-	10	10
Restated total equity at 1 July 2018	**189**	**7,988**	**916**	**(47)**	**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 (note 4.2.1)	-	-	-	-	72	-	-	-	-	-	72
Transferred to inventories	-	-	-	-	(129)	-	-	-	-	-	(129)
Deferred tax effect (note 3.4.4)	-	-	-	-	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 (note 5.2)	-	-	(5)	-	-	-	-	-	-	-	(5)
Vesting of shares for Share Award Scheme (note 5.2)	-	-	(7)	7	-	-	-	-	-	-	-
Total transactions with owners	**-**	**-**	**(12)**	**7**	**-**	**-**	**-**	**-**	**-**	**-**	**(5)**
At 30 June 2019	**189**	**7,988**	**904**	**(40)**	**9**	**(8)**	**7**	**(1,049)**	**1**	**(1,288)**	**6,713**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows

HK$ million	Notes	For the year ended 30 June 2020	2019 (restated)
Cash flows from operating activities			
Cash generated from/(used in) operations	3.10	432	(1,143)
Hong Kong profits tax paid, net		-	(1)
Overseas tax (paid)/refunded, net		(13)	30
Interest related to overseas tax refund		34	-
Interest on lease liabilities paid		(93)	-
Interest on finance lease received		2	-
Net cash generated from/(used in) operating activities		**362**	**(1,114)**
Cash flows from investing activities			
Purchase of intangible assets, property, plant and equipment		(115)	(163)
Proceeds from disposal of plant and equipment	3.10	23	5
Net proceeds from disposal of investment properties	3.5.4	21	-
Dividend from other investment		-	5
Receipts of finance lease receivables		32	-
Interest received		18	49
Net decrease in bank deposits with maturities of more than three months		54	531
Net cash generated from investing activities		**33**	**427**
Cash flows from financing activities			
Proceeds from bank loans	3.10	8	-
Repayment of lease liabilities		(1,326)	-
Net cash used in financing activities		**(1,318)**	**-**
Net decrease in cash and cash equivalents		**(923)**	**(687)**
Cash and cash equivalents at beginning of year		**3,171**	**3,879**
Effect of change in exchange rates		**(17)**	**(21)**
Cash and cash equivalents at end of year		**2,231**	**3,171**
Analysis of balances of cash and cash equivalents			
Bank balances and cash		2,156	2,438
Bank deposits		132	844
Cash, bank balances and deposits	**3.6.3**	**2,288**	**3,282**
Less: bank deposits with maturities of more than three months		(57)	(111)
		2,231	**3,171**
Discontinued operations			
Net cash used in operating activities		(266)	(43)
Net cash generated from/(used in) investing activities		81	(47)
Net cash used in financing activities		(186)	-

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

1.1 Group structure

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 the ultimate parent of the Group.

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).

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

These consolidated financial statements have been approved for issue by the Board of Directors on 5 November 2020.

Please refer to note 8 for subsidiaries.

1.2 Basis of the preparation

1.2.1 Basis of the preparation - going concern

Significant circumstances in the current year

With an aim to restoring the Group's business back to profitability, in November 2018, the Group had come up with a strategic plan to strengthen the Group's brand name, improve the product offering and pricing and optimize the distribution and costs base by closing the loss making parts of the business, including the discontinuation of the Asian business during the financial year (refer to note 1.2.2), and becoming a leaner organization ("Strategic Plan"). The half year financial results for the period from 1 July 2019 to 31 December 2019 were in line with the Group's expectations with regards to improvement in the mix of full price sales, stabilisation of wholesales business and significant reduction in operating expenses. However, this development was interrupted by the outbreak of COVID-19 (the "Pandemic") at the beginning of 2020. Initially, the Asian markets and certain supply chains were affected starting from January 2020. By March 2020, almost all the brick and mortar retail stores in Europe had to be temporarily closed due to mandatory lockdowns imposed by governments as part of public health measures to slow down the spread of the Pandemic. As a consequence of the lockdown, stores kept closed from March 2020 to May 2020 and the Group's revenues declined sharply while inventories increased, whereas expenses and cash outflow for rent and salaries continued during the lockdown period.

Protective Shield Proceedings

Given that a quick recovery of the economy, specifically the fashion industry, was not expected and the duration of the lockdown was unclear, the management decided to protect the solvency and liquidity of the ongoing business and applied for Protective Shield Proceedings (the "PSP") for six German subsidiaries (the "Subject Subsidiaries") at the insolvency court of Düsseldorf in Germany ("the Court") on 27 March 2020.

In the creditors' assemblies during 29 and 30 October 2020, a vast majority of the creditors voted for and approved all the insolvency plans of the Subject Subsidiaries. These approved plans are expected to become effective on 14 November 2020. As based on the favorable outcomes of the creditors' assemblies and advice from the Group's legal counsels, it is virtually certain that there will not be any successful appeal against these plans during the two weeks appeal period. Thus, by the end of November 2020, a final decision will be passed by the Court to terminate the PSP proceedings.

Consequentially, the Group is expected to be relieved of debts of approximately HK$1,852 million (refer to note 6.2). The Group is implementing restructuring plans and measures to close loss-making stores, renegotiate rents for the remaining stores, reduce headcount and other discretionary spending and we expect to complete most of these plans and measures by end November 2020.

During the Reporting Period, the Group recorded a net loss attributable to shareholders of HK$3,992 million and a net cash outflow of HK$923 million. Included in current liabilities (under creditors and accrued charges) and in lease liabilities as at 30 June 2020 were approximately HK$1,944 million of debts frozen by the abovementioned PSP application. The PSP has been successful subsequent to the balance sheet date, thus enabling the Group to better face the challenges of continued uncertainties from the Pandemic. The Group is aware of the uncertainties around the future development of the Pandemic and that new temporary lockdowns or other isolation measures could be imposed by governments in major markets where the Group operates.

Going Concern

Strict lockdown measures including retail stores for longer periods may negatively affect the economic situation of the Group. These circumstances and uncertainties may cast a significant doubt over the Group's ability to continue as a going concern. In view of such circumstances and the uncertainties relating to the possible impact of the Pandemic, the Board of Directors have reviewed the Group's cash flow forecast prepared by management covering a period of twelve months from 30 June 2020, which has already assumed the approved PSP waiver of debts. The management are of the opinion that, after taking into consideration of the following plans and measures, the Group will have sufficient working capital to meet its financial obligations as and when they fall due within the next twelve months from 30 June 2020:

(i) The Group remains cautious and management is closely monitoring the latest developments of the Pandemic, including the emergence of further lockdown measures, which may adversely impact revenues in the major markets that the Group operates in. In such eventuality, the Group will reassess the impact of the Pandemic on the Group's operations and to adjust its strategies for the Group's business accordingly in order to generate sufficient cash from its operations and to further preserve cash levels;

(ii) The Group will finalize the process to optimize the cost base of its business and implement cost reduction measures, including negotiating with landlords on loss-making store closures, rent reductions on remaining stores, reducing headcount and other discretionary spending;

(iii) The Group will continue to work on its Strategic Plan to strengthen the Group's brand identity and improve product offering and pricing to restore the Group's profitability.

Notwithstanding the above, significant uncertainties exist which may result in adverse implications on the Group's operations. Whether the Group will be able to continue as a going concern would depend upon the following:

(i) the Group's ability to successfully adjust its strategies to mitigate the implications of these uncertainties and further impacts from the Pandemic, including the emergence of further lockdown measures in the major markets that the Group operates in, in order to generate sufficient cash from its operations and to further preserve cash levels;

(ii) the successful implementation of the Group's costs optimization and reduction measures, including negotiating with landlords on loss-making stores closures, rent reductions on remaining stores, reducing headcount and other discretionary spending;

(iii) the successful implementation of Group's Strategic Plan to strengthen the Group's brand identity and improving product offering and pricing to restore the Group's profitability.

Should the Group be unable to achieve the abovementioned plans and measures and operate as a going concern, adjustments would have to be made to reduce the carrying values of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and liabilities as current assets and current liabilities, respectively. The effects of these adjustments have not been reflected in the consolidated financial statements.

1.2.2 Discontinued operations

1.2.2.1 Description

The Group decided to close its business activities in Asia including China, Singapore, Malaysia, Taiwan, Hong Kong and Macau as part of its restructuring initiatives.

As at 30 June 2020, all business activities in Asia are closed and the Asia business is disclosed as discontinued operations. The comparative consolidated statement of profit or loss and consolidated statement of comprehensive income have been restated to show the discontinued operations separately from continuing operations.

In respect of discontinued operations, impairments for write-down of property, plant and equipment, right-of-use assets and trade debtors (HK$70 million) and staff severance cost (HK$74 million) incurred during the year.

1.2.2.2 Financial performance

The financial performance and cash flow information referring to the discontinued operation is presented in the following table:

	For the year ended 30 June	
HK$ million	**2020**	**2019 (restated)**
Revenue	658	1,251
Expenses	(907)	(1,399)
Loss before taxation	**(249)**	**(148)**
Income tax expense	(62)	(13)
Loss from discontinued operations, net of tax	**(311)**	**(161)**
Exchange translation from discontinued operations	19	(2)
Basic and diluted loss per share	**HK$(0.16)**	**HK$(0.09)**

1.3 Compliance with IFRS and HKCO

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board and interpretations issued by the IFRS Interpretations Committee applicable to companies reporting under IFRS and the disclosure requirements of the Hong Kong Companies Ordinance ("HKCO").

1.4 Historical cost convention

The consolidated financial statements of the Group have been prepared on a historical cost basis, except for the following:

- certain financial assets and liabilities (including derivative instruments),
- certain classes of investment property – measured at fair value, and
- defined benefit pension plans – plan assets measured at fair value.

1.5 New and amended standards and interpretations adopted by the Group

In the current year, the Group has adopted the following standards and amendments effective for the Group's Reporting Period beginning 1 July 2019:

Adopted	New standards or amendments
IFRS 16	Leases
IFRIC 23	Uncertainty over Income Tax Treatments
IAS 19 (Amendments)	Plan Amendment, Curtailment or Settlement
IAS 28 (Amendments)	Long-term Interests in Associates and Joint Ventures
IFRS 9 (Amendments)	Prepayment Features with Negative Compensation
IFRSs (Amendments)	Annual Improvements to IFRSs 2015-2017 Cycle

The Group had to change its accounting policies as a result of adopting IFRS 16. The Group elected to adopt the new rules retrospectively but recognized the cumulative effect of initially applying the new standard on 1 July 2019. Please refer to note 2.

Furthermore, the Group has adopted the requirements of IFRIC 23. Please refer to note 3.4.5.

The other amendments listed above did not have any material impact on the Group's consolidated financial statements.

1.6 New standards and interpretations not yet adopted

Not early adopted	Effective for accounting periods beginning on or after	New standards or amendments
IAS 1 and IAS 8 (Amendments)	1 January 2020	Definition of Material
IFRS 3 (Amendments)	1 January 2020	Definition of Business
IFRS 9, IAS 39 and IFRS 7 (Amendments)	1 January 2020	Interest Benchmark Reform
Conceptual Framework for Financial Reporting 2018	1 January 2020	Revised conceptual Framework for Financial Reporting
IFRS 16 (Amendments)	1 June 2020	COVID-19 related rent concessions
IFRS 17	1 January 2021	Insurance contracts
IFRS 10 and IAS 28 (Amendments)	To be determined	Sales or contribution of Assets between an investor and its associate or joint venture

The new accounting standards and interpretations above have been published but are not mandatory for the financial year ended 30 June 2020 and have not been early adopted by the Group. These standards are not expected to have a material impact on the Group in the future Reporting Periods and on foreseeable future transactions.

2. SIGNIFICANT CHANGES IN ACCOUNTING POLICIES – IFRS 16 LEASES

This note explains the impact of the adoption of IFRS 16 Leases on the Group's consolidated financial statements.

The Group has adopted IFRS 16 Leases retrospectively from 1 July 2019, but has not restated comparatives for prior year, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognized in the opening balance of the consolidated balance sheet on 1 July 2019. The new accounting policies are disclosed in note 7.9.

On adoption of IFRS 16, the Group recognized lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 July 2019, less prepaid rents. Right-of-use assets were measured and recognized at the initial measurement of the lease liabilities less impairment together with the restoration costs. For sublease classified as a finance lease, finance lease receivable was measured and recognized at the present value of the remaining lease receivables. Lease liabilities and finance lease receivables are classified as non-current liabilities and assets unless payments are within 12 months from the date of the consolidated balance sheet. The weighted average lessee's incremental borrowing rate applied to lease liabilities at the date of initial application was 2.1%.

2.1 Practical expedients applied

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics,
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review,
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and Interpretation 4 *Determining whether an Arrangement contains a Lease.*

2.2 Measurement of lease liabilities

Set out below is a reconciliation of the operating lease commitments disclosed at 30 June 2019 to lease liabilities recognized on 1 July 2019:

HK$ million	At 1 July 2019
Opening lease commitments disclosed at 30 June 2019	**5,578**
Discounted using the Group's weighted average incremental borrowing rate of 2.1%	5,233
Add: Lease components of service contracts not included in operating lease commitments	8
Less: Non-lease components included under operating lease commitments	(129)
Prepaid rent and others	(9)
Lease liabilities recognized at 1 July 2019	**5,103**
Comprising	
Current lease liabilities	1,249
Non-current lease liabilities	3,854

2.3 Measurement of right-of-use assets

The associated right-of-use assets for leases were measured using the modified retrospective approach at the amount equal to the initial measurement of lease liabilities, adjusted by the impairment together with the restoration costs.

2.4 Adjustments recognized in the consolidated balance sheet on 1 July 2019

The change in accounting policy affected the following items in the consolidated balance sheet on 1 July 2019:

HK$ million	As at 30 June 2019 as previously reported	Impact on initial adoption of IFRS 16	At 1 July 2019
Non-current assets			
Right-of-use assets	-	4,304	4,304
Property, plant and equipment	1,128	(8)	1,120
Debtors, deposits and prepayments	120	27	147
Current Assets			
Debtors, deposits and prepayments	1,499	18	1,517
Current Liabilities			
Creditors and accrued charges	2,350	13	2,363
Provisions	1,094	(775)	319
Lease liabilities	-	1,249	1,249
Non-current liabilities			
Lease liabilities	-	3,854	3,854
Equity			
Reserves	6,524	-	6,524

2.5 Lessor accounting

The Group sub-leases stores and has classified the sub-leases as finance leases.

The following table sets out a maturity analysis of the finance lease receivables as at the end of the year.

	As at 30 June
HK$ million	**2020**
Less than one year	35
One to two years	23
Two to five years	16
Total undiscounted finance lease receivables	**74**
Unearned finance income	(3)
Net finance lease receivables	**71**

Movement of the finance lease receivables were as follows:

HK$ million	2020
At 1 July	88
Additions	16
Interest income	2
Lease payments received	(34)
Exchange translation	(1)
At 30 June	**71**
Non-current (note 3.5.6)	36
Current (note 3.6.2)	35

2.6 Amounts recognized in the consolidated statement of profit or loss from leases

	For the year ended 30 June
HK$ million	**2020**
Impairment of right-of-use assets	925
Depreciation of right-of-use assets	972
Interest income	2
Interest expense (included in finance costs)	93
Expense relating to variable lease payments not included in lease liabilities (included in occupancy costs)	62
Income from sub-leases	34

The total cash outflow for leases during the year was HK$1,481 million.

Extension options
Some lease contracts contain extension options exercisable by the Group up before the end of the non-cancellable contract period. Where practicable, the Group seeks to include extension options in new leases to provide operational flexibility. The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options. If there is a significant event or significant changes in circumstances within its control, the Group also reassesses whether it is reasonably certain to exercise the option.

3. PERFORMANCE FOR THE YEAR

3.1 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 including America, Asia Pacific and via e-shop platforms.

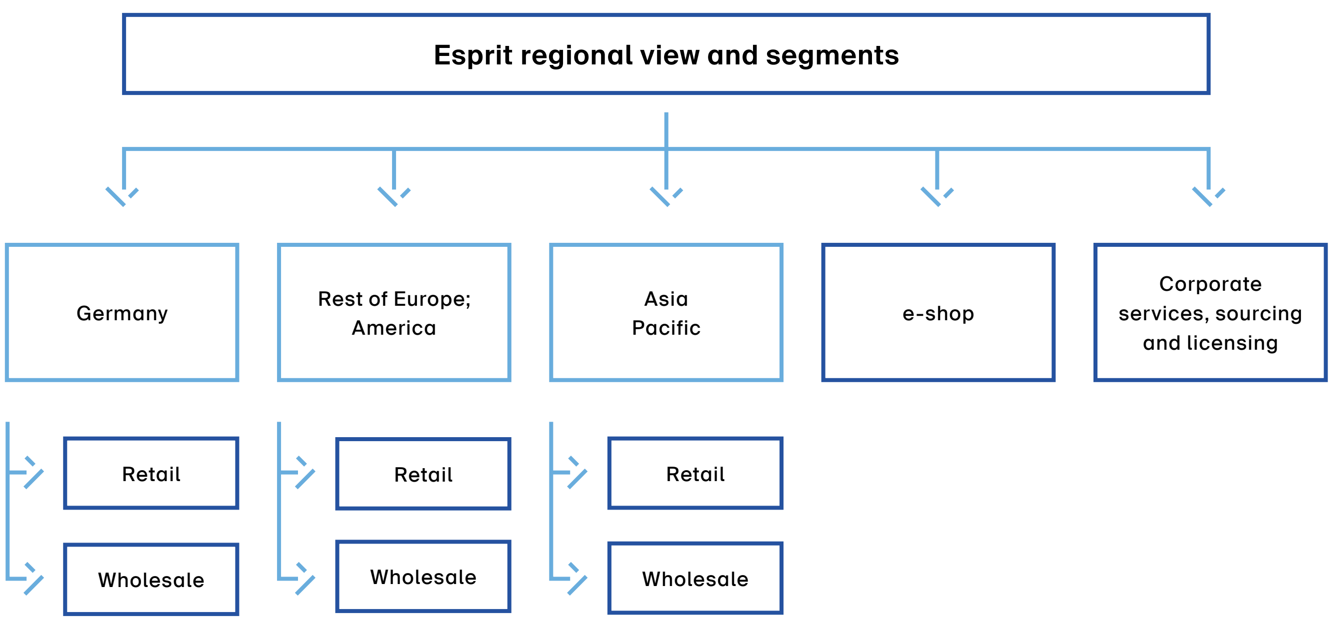
The Group has identified segments for internal and external reporting based on the regional structure of the Group and on the basis of the sales channel.

The operating segments are on a regional level Germany, Rest of Europe including America, Asia Pacific as well as e-shop and corporate services, sourcing and licensing activities on a global level. Furthermore, the regions have been separated into retail and wholesale channel.

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

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. Products are categorized into three major groups: Women (Esprit and edc), Men (Esprit and edc), and Lifestyle and others. All products are represented in the segments.

The judgments made by management in applying the aggregation especially of rest of Europe and America are based on the regional organization of the Group. As the main business comes from Germany it has been necessary to apply an own segment. The Rest of Europe includes also America as both regions have similar economic characteristics and are only separated because of the importance of the German business.



For the year ended 30 June 2020

HK$ million	Germany	Rest of Europe including America	Asia Pacific[1]	e-shop[1]	Corporate services, sourcing, licensing and others	Group	Continuing operations	Discontinued operations
Revenue								
Retail	1,493	1,300	488	3,284	-	6,565		
Wholesale	1,777	1,375	59	-	-	3,211		
Licensing and others	-	-	-	-	4,790	4,790		
Total revenue	**3,270**	**2,675**	**547**	**3,284**	**4,790**	**14,566**		
Inter-segment revenue	-	-	-	-	4,692	4,692		
Revenue from external customers	**3,270**	**2,675**	**547**	**3,284**	**98**	**9,874**	**9,216**	**658**
Retail	1,493	1,300	488	3,284	-	6,565		
Wholesale	1,777	1,375	59	-	-	3,211		
Licensing and others	-	-	-	-	98	98		
Segment results								
Retail	(264)	(272)	61	333	1	(141)		
Wholesale	290	48	4	-	(4)	338		
Licensing and others	-	-	-	-	(1,304)	(1,304)		
EBIT/(LBIT) of the underlying operation[2]	**26**	**(224)**	**65**	**333**	**(1,307)**	**(1,107)**	**(1,081)**	**(26)**
One-off costs[3]								
Impairment loss on property, plant and equipment								
Retail	(159)	(43)	(11)	(2)	-	(215)		
Wholesale	-	-	(1)	-	-	(1)		
Licensing and others	-	-	-	-	(25)	(25)		
Total impairment loss on property, plant and equipment	**(159)**	**(43)**	**(12)**	**(2)**	**(25)**	**(241)**	**(205)**	**(36)**
Impairment loss on right-of-use assets								
Retail	(418)	(476)	(16)	-	-	(910)		
Wholesale	-	(3)	-	-	-	(3)		
Licensing and others	-	-	-	-	(12)	(12)		
Total impairment loss on right-of-use assets	**(418)**	**(479)**	**(16)**	**-**	**(12)**	**(925)**	**(897)**	**(28)**
Impairment loss on trademarks								
Licensing and others	-	-	-	-	(397)	(397)		
Total impairment loss on trademarks	**-**	**-**	**-**	**-**	**(397)**	**(397)**	**(397)**	**-**
Impairment loss on goodwill								
Licensing and others	-	-	-	-	(19)	(19)		
Total impairment loss on goodwill	**-**	**-**	**-**	**-**	**(19)**	**(19)**	**(19)**	**-**
Other one-off costs								
Retail	(68)	-	(74)	-	(2)	(144)		
Wholesale	(7)	(45)	-	-	-	(52)		
Licensing and others	-	-	-	-	(562)	(562)		
Total other one-off costs	**(75)**	**(45)**	**(74)**	**-**	**(564)**	**(758)**	**(608)**	**(150)**

								For the year ended 30 June 2020	
HK$ million	Germany	Rest of Europe including America	Asia Pacific[1]	e-shop[1]	Corporate services, sourcing, licensing and others	Group		Continuing operations	Discontinued operations
(LBIT)/EBIT of the Group	**(626)**	**(791)**	**(37)**	**331**	**(2,324)**	**(3,447)**		**(3,207)**	**(240)**
Interest income						54		50	4
Finance costs						(100)		(87)	(13)
Loss before taxation (LBT)						**(3,493)**		**(3,244)**	**(249)**

[1] Discontinued operations consist of Asia Pacific excluding Australia and New Zealand and parts of e-shop:

	For the year ended 30 June	
HK$ million	2020	2019 (restated)
Revenue Asia Pacific	547	1,102
Revenue Australia/New Zealand	-	(35)
Revenue wholesale group under Rest of Europe	-	53
Revenue e-shop resulting from discontinued operations	111	131
Revenue of discontinued operations total	**658**	**1,251**

[2] LBIT without one-off costs effect.
[3] One-off costs that are mainly related to restructuring and COVID-19.

								For the year ended 30 June 2020	
HK$ million	Germany	Rest of Europe including America	Asia Pacific	e-shop	Corporate services, sourcing, licensing and others	Group		Continuing operations	Discontinued operations
Depreciation[4]									
Retail	(345)	(418)	(95)	(68)	-	(926)			
Wholesale	(11)	(35)	(1)	-	(1)	(48)			
Licensing and others	-	-	-	-	(389)	(389)			
Total depreciation	**(356)**	**(453)**	**(96)**	**(68)**	**(390)**	**(1,363)**		**(1,254)**	**(109)**
Capital expenditure[5]									
Retail	(10)	(28)	(3)	(27)	-	(68)			
Wholesale	(2)	(2)	-	-	-	(4)			
Licensing and others	(1)	-	(7)	-	(35)	(43)			
Total capital expenditure	**(13)**	**(30)**	**(10)**	**(27)**	**(35)**	**(115)**		**(100)**	**(15)**

[4] Depreciation includes depreciation of property, plant and equipment and right-of-use assets.
[5] Capital expenditure includes property, plant and equipment and intangible assets.

HK$ million	Germany	Rest of Europe including America	Asia Pacific	e-shop	Corporate services, sourcing, licensing and others	Group	Continuing operations	Discontinued operations
						For the year ended 30 June 2019 (restated)		
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 revenue	**4,426**	**3,559**	**1,102**	**3,728**	**5,776**	**18,591**		
Inter-segment revenue	-	-	-	-	5,659	5,659		
Revenue from external customers	**4,426**	**3,559**	**1,102**	**3,728**	**117**	**12,932**	**11,681**	**1,251**
Retail	2,226	1,805	1,003	3,728	-	8,762		
Wholesale	2,200	1,754	99	-	-	4,053		
Licensing and others	-	-	-	-	117	117		
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 operation	**327**	**(10)**	**(96)**	**679**	**(1,487)**	**(587)**	**(528)**	**(59)**
One-off costs[1]								
Provision for store closures and leases, net								
Retail	(686)	(174)	(35)	-	-	(895)		
Total provision for store closures and leases, net	**(686)**	**(174)**	**(35)**	**-**	**-**	**(895)**	**(860)**	**(35)**
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 one-off costs in relation to staff reduction plans	**(75)**	**4**	**(4)**	**(7)**	**(272)**	**(354)**	**(324)**	**(30)**
Inventory provision								
Retail	-	-	(4)	(1)	-	(5)		
Licensing and others	-	-	-	-	(154)	(154)		
Total inventory provision	**-**	**-**	**(4)**	**(1)**	**(154)**	**(159)**	**(154)**	**(5)**
Impairment loss on property, plant and equipment								
Retail	(66)	(33)	(5)	-	-	(104)		
Wholesale	-	(5)	-	-	-	(5)		
Licensing and others	-	-	-	-	(1)	(1)		
Total impairment loss on property, plant and equipment	**(66)**	**(38)**	**(5)**	**-**	**(1)**	**(110)**	**(105)**	**(5)**

For the year ended 30 June 2019 (restated)

HK$ million	Germany	Rest of Europe including America	Asia Pacific	e-shop	Corporate services, sourcing, licensing and others	Group	Continuing operations	Discontinued operations
Write back of provision for closure costs of operations in Australia and New Zealand								
Retail	-	-	23	-	-	23		
Licensing and others	-	-	-	-	2	2		
Total write back of provision for closure costs of operations in Australia and New Zealand	**-**	**-**	**23**	**-**	**2**	**25**	**25**	**-**
(LBIT)/EBIT of the Group	**(500)**	**(218)**	**(121)**	**671**	**(1,912)**	**(2,080)**	**(1,946)**	**(134)**
Interest income						49	46	3
Finance costs						(35)	(18)	(17)
Loss before taxation (LBT)						**(2,066)**	**(1,918)**	**(148)**

[1] One-off costs that are mainly related to restructuring.

For the year ended 30 June 2019 (restated)

HK$ million	Germany	Rest of Europe including America	Asia Pacific	e-shop	Corporate services, sourcing, licensing and others	Group	Continuing operations	Discontinued operations
Depreciation								
Retail	(52)	(52)	(26)	(12)	-	(142)		
Wholesale	(9)	(9)	(2)	-	-	(20)		
Licensing and others	-	-	-	-	(293)	(293)		
Total depreciation	**(61)**	**(61)**	**(28)**	**(12)**	**(293)**	**(455)**	**(418)**	**(37)**
Capital expenditure								
Retail	(27)	(31)	(11)	(12)	(6)	(87)		
Wholesale	(6)	(5)	(9)	-	(4)	(24)		
Licensing and others	-	-	(4)	-	(48)	(52)		
Total capital expenditure	**(33)**	**(36)**	**(24)**	**(12)**	**(58)**	**(163)**	**(138)**	**(25)**

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

	As at 30 June	
HK$ million	**2020**	**2019**
Hong Kong	4	19
Germany	1,432	906
Other countries[1]	2,941	2,280
Total	**4,377**	**3,205**

[1] Non-current assets located in other countries include intangible assets of HK$1,641 million (2019: HK$2,050 million).

3.2 Revenue

HK$ million	2020	2019 (restated)
	For the year ended 30 June	
Retail and Wholesale[1]		
Germany	3,270	4,426
Rest of Europe including America	2,675	3,559
Asia Pacific[2]	547	1,102
e-shop	**3,284**	**3,728**
Licensing and others	**98**	**117**
Revenue from external customers total	**9,874**	**12,932**
Continuing operations	9,216	11,681
Discontinued operations	658	1,251

[1] Includes also revenues from outlets.
[2] Discontinued operations consist of Asia Pacific excluding Australia and New Zealand and parts of e-shop.

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

HK$ million	2020	2019 (restated)
	For the year ended 30 June	
Retail and Wholesale[1]		
Germany[2] total	**3,270**	**4,426**
Benelux	743	1,113
Switzerland	463	572
France	392	531
Austria	365	470
Spain	156	189
Finland	139	173
Sweden	115	151
Italy	80	105
Poland	39	55
United Kingdom	37	50
Denmark	30	34
Others[3]	116	116
Rest of Europe including America total	**2,675**	**3,559**
China	180	380
Singapore	99	185
Hong Kong[4]	89	183
Taiwan	84	120
Malaysia	77	140
Macau	18	59
Australia and New Zealand	-	35
Asia Pacific total[6]	**547**	**1,102**
Retail and Wholesale[1]	**6,492**	**9,087**
e-shop		
Germany	1,881	2,232
Benelux	495	509
France	194	205
Switzerland	189	190
Austria	179	199
China	79	101
Denmark	38	34
United Kingdom	35	45
Poland	32	35
Sweden	31	32
Finland	21	27
Spain	16	19
Italy	9	9
Australia and New Zealand	-	1
Others	85	90
e-shop total	**3,284**	**3,728**
Licensing and others		
Rest of Europe[5]	68	87
Germany	30	30
Licensing and others total	**98**	**117**
Revenue total	**9,874**	**12,932**
Continuing operations	9,216	11,681
Discontinued operations	658	1,251

[1] Includes also revenues from outlets.
[2] Germany revenue includes wholesale revenue from other European countries mainly Russia, Bosnia-Herzegovina and Romania.
[3] Others under Rest of Europe include revenue from other countries mainly Chile and Colombia.
[4] Hong Kong revenue includes wholesale revenue from other countries mainly Thailand, Philippines and India.
[5] Revenue from Rest of Europe represents licensing income that comes from Asia Pacific, Europe other than Germany and America.
[6] Discontinued operations consist of Asia Pacific excluding Australia and New Zealand and parts of e-shop.

3.3 Major Profit or Loss Items

The Group has identified a number of items which are material due to the significance of their nature and/or amount. These are listed separately here to provide a better understanding of the financial performance of the Group.

3.3.1 Impairment

Due to the outbreak of COVID-19 and the rigorous measures taken by many countries in order to slowdown the spread of the Pandemic, the business of the Group was negatively affected. Retail stores had to be closed for several weeks leading to a significant loss of sales. Management expects further reduced sales due to COVID-19 and decided to reduce the number of stores. Therefore, management estimated the recoverable amounts of the cash-generating units ("CGUs") and tested the carrying amounts of the right-of-use assets, goodwill and of trademarks for impairment. Further, inventories were written down to net realizable value.

3.3.1.1 Impairment loss on trademarks

In accordance with IAS 36 "Impairment of Assets", the Group completed its annual impairment test for Esprit trademarks by comparing the recoverable amount of the CGU (the Group product line) to its carrying amount as at 30 June 2020. The Group conducted an internal valuation of the Esprit trademarks as one corporate asset based on a value in use calculation as of 30 June 2020. The valuation uses cash flow projections based on financial estimates covering a five-year period, expected royalty rates deriving from the Esprit trademarks of 4.5% (2019: 4.5%) and a pre-tax discount rate of 14.0-14.7% (2019: 16.0%). The cash flows beyond the five-year period are extrapolated using a steady zero (2019: 3.0%) growth rate. This growth rate does not exceed the long-term average growth rate for apparel markets in which the Group operates and is in line with base rate (risk-free rate) assumptions. Management has considered the above assumptions and valuation and has also taken into account the business restructuring plan already implemented by end of June 2020, the current wholesale order books and the strategic retail plan to focus on European markets. This resulted in an impairment loss of HK$397 million on Esprit's trademarks.

HK$ million	Recoverable amount[1]	Carrying amount[1]	Impairment
Trademarks	1,546	1,943	(397)

[1] Amounts after conversion into HK$. The original currencies of the trademark are in US dollar and euro.

3.3.1.2 Impairment loss on goodwill

In accordance with IAS 36 "Impairment of Assets", the Group completed its annual impairment test for goodwill allocated to the Group's CGU Finland and CGU Switzerland and Italy by comparing their recoverable amount to their carrying amount as at the date of the balance sheet.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each CGU, 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 Group at which the goodwill is monitored for internal management purposes. The recoverable amount of the CGU is determined based on a value in use calculation.

The key assumptions used in the estimation of the value in use are set out below. These key assumptions are based on historical data and include management's assumptions of future trends in the relevant industry.

in percent	CGU Finland	CGU Switzerland and Italy
	As at 30 June 2020	As at 30 June 2020
Discount rate (pre-tax)	6.9%	7.8%
Projected EBITDA[1] margin	8.2%	19.6%
CAGR[2]	(2.1)%	2.2%

[1] Earnings before interest, taxes, depreciation and amortization ("EBITDA").
[2] Compound annual growth rate.

The discount rate is a pre-tax measure estimated based on the rate of government bonds issued by the government in the relevant markets and in the same currency as the cash flows, adjusted for a risk premium to reflect both the increased risk of investing in equities generally and the systematic risk of the specific CGU.

The cash flow projections included specific estimates for five years and a zero terminal growth rate (2019: 3.0%) in line with base rate (risk-free rate) assumptions.

Revenue growth was projected taking into account the negative impact from store closures and the effects of the Pandemic. Budgeted EBITDA was based on expectations of future outcomes taking into account past experience adjusted for expected revenue growth, the positive effect from closing unprofitable stores and negative impacts from COVID-19. Estimated cash flows related to the insolvency proceedings in Germany and from the restructuring plan implemented by end of June 2020 are also reflected in the budgeted EBITDA.

Goodwill Finland (wholesale business)

Regarding goodwill allocated to CGU Finland in the amount of HK$35 million (2019: HK$35 million), the estimated recoverable amount (value in use) of the CGU fell below the carrying amount by the following value:

HK$ million	Recoverable amount of CGU[1]	Carrying amount of CGU[1]	Impairment
CGU Finland (wholesale business)	27	46	(19)

[1] Amounts after conversion into HK$. The original currency of the goodwill is euro.

Since the carrying amount of the CGU Finland was determined to be higher than its recoverable amount, the impairment loss was fully allocated to goodwill and included in "impairment loss on goodwill". Total impairment loss on goodwill amounted to HK$19 million (2019: nil).

Goodwill Switzerland and Italy

Regarding goodwill allocated to the CGU Switzerland and Italy in the amount of HK$54 million (2019: HK$53 million), the recoverable amount (value in use) of the CGU was assessed to be higher than its carrying amount. Thus, no impairment charge was required.

HK$ million	Recoverable amount of CGU[1]	Carrying amount of CGU[1]	Impairment
CGU Switzerland and Italy	578	545	-

[1] Amounts after conversion into HK$. The original currency of the goodwill is euro.

Sensitivity analysis

A reasonably possible change on the discount rate by 0.5% or the EBITDA margin by 0.5% would not cause the carrying amount to exceed the recoverable amount.

3.3.1.3 Impairment loss on right-of-use assets

Triggered by the COVID-19 and the opening of the Protective Shield Proceedings, the Group completed an impairment test in accordance with IAS 36 "Impairment of Assets" for its right-of-use assets by comparing the recoverable amount of the CGU (the Group product line) to its carrying amount as at 30 June 2020.

The valuation uses cash flow projections based on financial estimates covering a five-year period. The estimated value in use of the CGU (retail store) was determined using a pre-tax discount rate of 8.0%-13.1% and a zero terminal value growth rate (2019: 3.0%).

The impairment loss attributable to the individual CGUs was allocated to the assets in the CGU on a pro rata basis based on the carrying amount of each asset in the CGU but only to the highest of its fair value less cost of disposal, value in use. Total impairment loss recognized for the year amounted to HK$925 million (2019: nil) and is included in "impairment loss on right-of-use assets".

HK$ million	Recoverable amount	Carrying amount	Impairment
Impairment of right-of-use assets	2,206	3,131	(925)
Continuing operations			(897)
Discontinued operations			(28)

3.3.1.4 Write-downs of inventories

The net realizable value test which was performed as in prior years and led to high write-offs due to overstock in the distribution centers after the COVID-19 induced closure of sales points and expected reduction in business and the impossibility to sell outdated apparel. This resulted in an impairment loss of HK$279 million (2019: HK$141 million). Write-downs and reversals are included in write-downs of inventories to net realizable value; other inventory expenses are shown as cost of purchases in the statement of profit or loss.

	For the year ended 30 June	
HK$ million	2020	2019 (restated)
Write-downs of inventories to net realizable value, net	(279)	(141)
Continuing operations	(292)	(182)
Discontinued operations	13	41

3.3.2 Staff costs

	For the year ended 30 June	
HK$ million	2020	2019 (restated)
Salaries and wages	1,361	1,979
Social security costs and other staff costs	306	460
Severance payments	62	323
Pensions costs of defined contribution plans[1]	30	45
Pensions costs of defined benefit plan (note 3.8.3)	3	4
Charge/(write back) of employee share-based compensation benefits	6	(5)
Staff costs total	**1,768**	**2,806**
Continuing operations	1,513	2,487
Discontinued operations	255	319

[1] **Defined contribution plan in Hong Kong**

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 5.0% (2019: 5.0%) of the employee's relevant income, subject to a cap of monthly relevant income of HK$30,000 (2019: 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 (2019: nil) which have been applied towards the contributions payable by the Group.

Government grants
The Group has been awarded government grants in the amount of HK$13 million during the year. These grants relate to state aid for salaries and social security in respect of COVID-19 relief measures and were netted with staff costs. The grants were linked to conditions and there is sufficient likelihood that those conditions can be fulfilled.

3.3.3 Depreciation of right-of-use assets

The consolidated statement of profit or loss comprised the following depreciation charges relating to leases:

	For the year ended 30 June
HK$ million	**2020**
Depreciation charge of right-of-use assets	
Buildings	964
Furniture and office equipment	2
Motor vehicles	5
Other	1
Depreciation of right-of-use assets	**972**
Continuing operations	880
Discontinued operations	92

3.3.4 Other operating costs

	For the year ended 30 June	
HK$ million	**2020**	**2019 (restated)**
IT expenses	394	259
Retail store closure costs	169	543
Exchange difference	146	39
Professional fees	123	90
Postage and distribution	51	72
Traveling	42	69
Samples	39	53
Insurance	36	37
Repair and maintenance	31	33
Telecommunications	19	25
Legal fees	14	25
Investment expenses/(income)	8	(1)
Other[1]	151	(608)
Total other operating costs	**1,223**	**636**
Continuing operations	1,320	767
Discontinued operations	(97)	(131)

[1] Prior year figure includes opposing trend especially regarding store closure costs (continuing amount HK$(866) million) as shown in the consolidated statement of profit or loss.

3.3.5 Finance costs

	For the year ended 30 June	
HK$ million	**2020**	**2019 (restated)**
Interest on lease liabilities	93	-
Imputed interest on financial assets and financial liabilities	7	35
Interest expenses	**100**	**35**
Continuing operations	87	18
Discontinued operations	13	17

3.4 Taxation

3.4.1 Amounts recognized in consolidated statement of profit or loss

	For the year ended 30 June	
HK$ million	**2020**	**2019 (restated)**
Current tax expense		
Income taxes – related to current year	90	134
Income taxes – related to prior years	(51)	-
Current tax total	**39**	**134**
Deferred tax expense		
Origination and reversal of temporary differences, tax losses and changes of tax rates	460	(56)
Total income tax expense	**499**	**78**
Continuing operations	437	65
Discontinued operations	62	13

Hong Kong profits tax is calculated at 16.5% (2019: 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.

3.4.2 Amounts recognized in consolidated statement of comprehensive income

	For the year ended 30 June	
HK$ million	**2020**	**2019**
Deferred tax arising in the items that are or may be reclassified subsequently to profit or loss		
Fair value loss on cash flow hedge	2	17

3.4.3 Reconciliation of effective tax rate

The tax on the Group's loss before taxation differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the Group's subsidiaries. The effective tax rate was (14.3)% (2019: (3.8)%).

HK$ million	2020	2019 (restated)
	For the year ended 30 June	
Loss before taxation	**(3,493)**	**(2,066)**
Continuing operations	(3,244)	(1,918)
Discontinued operations	(249)	(148)
Tax calculated at applicable tax rates[1]	**(1,034)**	**(611)**
Expenses not deductible for tax purposes	36	68
Non-taxable income	(29)	(9)
Tax effect of tax losses not recognized	1,124	658
Temporary differences not recognized	-	(3)
Utilization of previously unrecognized tax losses	-	(12)
Derecognition/(recognition) of previously recognized/unrecognized deferred tax assets, net	453	(13)
Over-provision for prior years, net	(51)	-
Income tax expense	**499**	**78**
Continuing operations	437	65
Discontinued operations	62	13

[1] Since the focus of business activities is currently in Europe, the applicable tax rate reflects the average tax rate of the European subsidiaries.

3.4.4 Movement in deferred tax balances

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

HK$ million	Accelerated accounting/ tax depreciation	Cash flow hedges	Elimination of unrealized profits	Intangible assets	Tax losses	Other deferred tax assets	Other deferred tax liabilities	Total
At 1 July 2018	**62**	**(20)**	**50**	**(249)**	**238**	**194**	**(33)**	**242**
Credited/(charged) to profit or loss	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**
(Charged)/credited to profit or loss	(63)	-	(2)	51	(200)	(265)	19	(460)
Debited to other comprehensive income	-	2	-	-	-	-	-	2
Exchange difference recognized in equity	(2)	-	(1)	3	(12)	(10)	1	(21)
At 30 June 2020	**-**	**-**	**32**	**(192)**	**-**	**-**	**(13)**	**(173)**

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 balance sheet:

	As at 30 June	
HK$ million	**2020**	**2019**
Deferred tax assets	32	559
Deferred tax liabilities	(205)	(253)
Deferred tax (liability)/assets, net	(173)	306

At 30 June 2020, the Group had unused tax losses of approximately HK$15,418 million (2019: HK$7,843 million) available for offset against future taxable profits. Since the Group has suffered losses in this and in the prior year no deferred tax asset has been recognized in respect of such losses. Unrecognized tax losses include losses in the amount of approximately HK$931 million (2019: HK$932 million) that will expire in the next one to ten years. Other losses may be carried forward indefinitely.

For temporary differences associated with investments in subsidiaries in the amount of HK$1,187 million (2019: HK$4 million) no deferred income tax liabilities have been recognized. Such amounts are permanently reinvested.

3.4.5 IFRIC 23 – uncertain tax positions

IFRIC 23 which is effective for Reporting Periods beginning on or after 1 January 2019 clarifies how to recognize and measure deferred and current income tax assets and liabilities if there is uncertainty regarding tax treatment. The Group assessed potentially uncertain tax treatments and whether additional tax payments may occur in regard to current tax topics. The effect of this uncertainty has been reflected in the income tax calculation by recognizing an additional tax liability of HK$79 million (2019: nil). The calculation of the uncertain tax liability is based on the assumption that taxable income might differ from Esprit management opinion in some countries.

3.5 Non-current assets

3.5.1 Intangible assets

The movement of the intangible assets is shown in the table below.

	Trademarks	Goodwill		Software	Total
HK$ million		**Finland**	**Switzerland and Italy**		
Cost and net book value					
At 1 July 2019	1,962	35	53	-	2,050
Addition	-	-	-	25	25
Exchange translation	(19)	-	1	-	(18)
Impairment charge	(397)	(19)	-	-	(416)
At 30 June 2020	**1,546**	**16**	**54**	**25**	**1,641**
At 1 July 2018	1,975	36	52	-	2,063
Exchange translation	(13)	(1)	1	-	(13)
At 30 June 2019	**1,962**	**35**	**53**	**-**	**2,050**

The Group completed its annual impairment test for Esprit trademarks and goodwill resulting in an impairment of HK$397 million and HK$19 million respectively. Please also refer to note 3.3.1 for further details.

3.5.2 Property, plant and equipment

Property, plant and equipment consist of the following:

HK$ million	Freehold land outside Hong Kong	Buildings	Leasehold improvements and fixtures	Plant and Machinery	Furniture and office equipment	Motor vehicles	Construction in progress	Total
Costs								
At 1 July 2019	7	148	2,607	569	3,294	30	17	6,672
Adjustments[1]	-	-	(60)	-	-	-	-	(60)
Exchange translation	-	(3)	(38)	(11)	(56)	(1)	-	(109)
Additions	-	-	56	-	23	1	10	90
Transfer	-	-	1	-	11	-	(12)	-
Disposals	(7)	(7)	(406)	(1)	(275)	(7)	(4)	(707)
At 30 Jun 2020	**-**	**138**	**2,160**	**557**	**2,997**	**23**	**11**	**5,886**
Depreciation and Impairment								
At 1 July 2019	-	34	2,323	253	2,916	18	-	5,544
Adjustments[1]	-	-	(52)	-	-	-	-	(52)
Exchange translation	-	-	(36)	(4)	(47)	-	-	(87)
Depreciation charge for the year	-	4	68	42	271	6	-	391
Continuing operations								374
Discontinued operations								17
Impairment charge	-	106	114	-	21	-	-	241
Continuing operations								205
Discontinued operations								36
Disposals	-	(6)	(397)	(1)	(271)	(6)	-	(681)
At 30 Jun 2020	**-**	**138**	**2,020**	**290**	**2,890**	**18**	**-**	**5,356**
Net book value at 30 Jun 2020	**-**	**-**	**140**	**267**	**107**	**5**	**11**	**530**

[1] Adjustments have been made because of changes in the accounting policy related to IFRS 16.

HK$ million (restated)	Freehold land outside Hong Kong	Buildings	Leasehold improvements and fixtures	Plant and Machinery	Furniture and office equipment	Motor vehicles	Construction in progress	Total
Costs								
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 Jun 2019	**7**	**148**	**2,607**	**569**	**3,294**	**30**	**17**	**6,672**
Depreciation and Impairment								
At 1 July 2019	-	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
Continuing operations								418
Discontinued operations								37
Impairment charge	-	-	100	-	10	-	-	110
Continuing operations								105
Discontinued operations								5
Disposals	-	-	(399)	-	(139)	(9)	-	(547)
At 30 Jun 2019	**-**	**34**	**2,323**	**253**	**2,916**	**18**	**-**	**5,544**
Net book value at 30 Jun 2019	**7**	**114**	**284**	**316**	**378**	**12**	**17**	**1,128**

3.5.3 Right-of-use assets

This note provides information for leases where the Group is a lessee. For leases where the Group is a lessor, see note 2.5.

	As at 30 June
HK$ million	**2020**
Buildings	2,175
Furniture and office equipment	1
Motor vehicles	6
Other	24
Right-of-use assets	**2,206**

The following table shows the movement during the year:

HK$ million	Cost	Accumulated depreciation	Impairment loss	Net book value
At 1 July 2019	**5,213**	**(97)**	**(812)**	**4,304**
Exchange translation	(80)	(6)	(14)	(100)
Additions	91	-	-	91
Remeasurement	(432)	126	114	(192)
Depreciation charge for the year	-	(972)	-	(972)
Continuing operations	-	(880)	-	(880)
Discontinued operations	-	(92)	-	(92)
Impairment charge for the year	-	-	(925)	(925)
Continuing operations	-	-	(897)	(897)
Discontinued operations	-	-	(28)	(28)
At 30 June 2020	**4,792**	**(949)**	**(1,637)**	**2,206**

3.5.4 Investment properties

HK$ million	2020	2019
	As at 30 June	
At 1 July	**27**	**24**
Disposal	(27)	-
Change in the fair value of investment properties	-	3
At 30 June	**-**	**27**

Investment properties are measured at fair value through profit or loss and are included in level 2 of the fair value measurement hierarchy.

During the year, the Group sold all its investment properties in China to several independent third parties at a total consideration of HK$21 million. The loss on disposal of the investment properties, after deducting related expenses incurred for disposal, amounted to HK$6 million and was recognized in the consolidated statement of profit or loss under other operating costs. Total consideration amount of HK$21 million was received in cash.

3.5.5 Financial assets at fair value through profit or loss

Unchanged to last year the Group holds

- club debentures with a fair value of HK$10 million at 30 June 2020 (2019: HK$12 million). The recurring fair value measurement has been categorized as a Level 3 fair value based on the valuation of open market quotes. 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. Neither during this year nor during the last year there have been any transfers.
- an amount of HK$20,000 (2019: HK$41,000) of listed shares is categorized as Level 1 fair value.

In the last financial year, the club debentures and investment in equity securities have been reclassified from amortized costs to financial assets at fair value through profit or loss because of first time adoption of IFRS 9. The movement of the carrying amount is demonstrated in the following table:

HK$ million	2020	2019
	As at 30 June	
As at 30 June	12	-
Reclassification of investment due to IFRS 9 first-time adoption		
In club debentures	-	6
In equity securities	-	1
Change in fair value upon adaption of IFRS 9	-	10
As at 1 July	**12**	**17**
Sales[1]	-	-
Change in fair value	(2)	(5)
As at 30 June	**10**	**12**

[1] One membership has been sold during the year with a net price of HK$304,000.

The following table shows a breakdown of the total gains/(losses) recognized in respect of Level 3 fair values (club debentures). All positions except for the club debentures are measured at amortized costs, therefore no further fair value categories are relevant for the Group.

HK$ million	2020	2019
	As at 30 June	
Gain/(loss) included in other operating costs		
Change in fair value (realized)[1]	-	-
Change in fair value (unrealized)	(2)	(5)
Balance at 30 June	**10**	**12**

[1] One membership has been sold during the year with a net price of HK$304,000.

Sensitivity analysis

Reasonably possible changes at the reporting date to one of the significant unobservable inputs (holding other inputs constant) would have the following effects.

HK$ million	Impact on profit or loss increase	decrease
30 June 2020		
Membership quotation (10.0% movement)	1	(1)
30 June 2019		
Membership quotation (10.0% movement)	1	(1)

3.5.6 Non-current debtors, deposits and prepayments

Non-current debtors, deposits and prepayments consist of the following financial and non-financial positions:

HK$ million	2020	2019
	As at 30 June	
Finance lease receivables	36	-
Deposits	299	68
Financial Instruments	**335**	**68**
Prepayments	1	38
Other debtors and receivables	9	14
Non-financial instruments	**10**	**52**
Total	**345**	**120**

Deposits include restricted cash amounting to HK$245 million (2019: nil). Restricted cash consist of

- a hypothecated USD bank account and a USD time deposit amounting to HK$164 million and
- underlying cash for rent guarantees which has been pledged as collateral for drawn credit facilities amounting to HK$81 million

due to the situation in Germany.

3.6 Current assets

3.6.1 Inventories

HK$ million	2020	2019
	As at 30 June	
Finished goods	1,231	1,800
Consumables	34	44
Raw materials	-	1
Inventories total	**1,265**	**1,845**

Inventories are written down by HK$279 million (note 3.3.1.4).

3.6.2 Current debtors, deposits and prepayments

Debtors, deposits and prepayments consist of the following financial and non-financial positions:

HK$ million	2020	2019
	As at 30 June	
Trade debtors	979	1,205
less: provision for impairment of trade debtors	(213)	(179)
Net trade debtors	**766**	**1,026**
Finance lease receivables	35	-
Derivatives	-	7
Deposits	15	24
Financial instruments	**816**	**1,057**
Prepayments	439	126
Right-of-return assets	69	88
Other debtors and receivables	129	228
Non-financial instruments	**637**	**442**
Total	**1,453**	**1,499**

The following table provides information about the exposure to credit risk and expected credit losses for trade debtors:

As at 30 June 2020

HK$ million	Trade debtors gross carrying amount by overdue	Provision for credit-impaired trade debtors	Provision for non credit-impaired trade debtors	Expected Credit Losses total
To 0 days	475	2	3	5
1-30 days	127	2	3	5
31-60 days	71	3	4	7
61-90 days	47	2	5	7
Over 90 days	259	72	117	189
Total	**979**	**81**	**132**	**213**

As at 30 June 2019

HK$ million	Trade debtors gross carrying amount by overdue	Provision for credit-impaired trade debtors	Provision for non credit-impaired trade debtors	Expected Credit Losses total
To 0 days	796	-	1	1
1-30 days	169	1	2	3
31-60 days	19	1	2	3
61-90 days	8	1	3	4
Over 90 days	213	49	119	168
Total	**1,205**	**52**	**127**	**179**

Both credit-impaired and non credit-impaired provisions for doubtful debts have been measured at an amount equal to lifetime expected credit losses.

Loss rates are based on actual credit loss experience over the past five years. These rates have been multiplied by country-specific scalar factors to reflect differences between economic conditions during the year over which the historical data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the trade receivables.

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

The Group applies the IFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all trade debtors.

The Group has analyzed the effects of the Pandemic on expected credit losses as of the reporting date using external and internal information available to the Group and assessed whether prior estimates of credit losses have to be adjusted. In particular, available information regarding changes in probabilities of default (PDs) owing to the Pandemic as well as internal assessment of counterparties' payment histories and related non-payment risks served as the basis for these assessments. Given the fact that the Group has insured a considerable amount of open positions, the Group currently does not expect to face additional material risks other than provided for based on current economic outlook.

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

	As at 30 June	
HK$ million	**2020**	**2019**
0-30 days	393	725
31-60 days	133	113
61-90 days	61	74
Over 90 days	179	114
Total	**766**	**1,026**

The Group's sales to retail customers are made in cash, bank transfer or by credit card. The Group also grants credit period, which is usually 30 to 60 days to certain wholesale and franchise customers.

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

	For the year ended 30 June	
HK$ million	**2020**	**2019**
At 1 July	179	204
Utilization	(23)	(44)
Release	(10)	(30)
Addition	71	50
Exchange translation	(4)	(1)
At 30 June	**213**	**179**

Note: Sum of release and addition amounts to the provision for impairment of trade debtors:

	For the year ended 30 June	
HK$ million	**2020**	**2019 (restated)**
Release	(10)	(30)
Addition	71	50
Provision for impairment of trade debtors	**61**	**20**
Continuing operations	55	16
Discontinued operations	6	4

3.6.3 Cash, bank balances and deposit

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

	As at 30 June	
HK$ million	**2020**	**2019**
Bank balances and cash	2,156	2,438
Bank deposits with maturities within three months	75	733
Bank deposits with maturities of more than three months	57	111
Total	**2,288**	**3,282**

The effective interest rate on cash, bank balances and deposits for the year was determined to be 0.7% (2019: 1.4%) per annum.

3.7 Current liabilities

3.7.1 Creditors and accrued charges

	As at 30 June	
HK$ million	**2020**	**2019**
Trade creditors	1,011	425
Financial instruments	**1,011**	**425**
Accruals	989	1,113
Return liabilities	177	202
Other creditors and payables	640	610
Non-financial instruments	**1,806**	**1,925**
Total	**2,817**	**2,350**

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

	As at 30 June	
HK$ million	**2020**	**2019**
0-30 days	164	335
31-60 days	99	54
61-90 days	189	27
Over 90 days	559	9
Total	**1,011**	**425**

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

Accruals consist of the following:

	As at 30 June	
HK$ million	**2020**	**2019**
Staff costs	206	493
Restructuring	33	-
Legal	18	34
Audit fees	15	14
Project costs	10	15
Purchase costs	6	7
Customs duty	5	12
Rent and rates	-	4
Sales commission	-	1
Other[1]	696	533
Accruals total[2]	**989**	**1,113**

[1] Other accruals mainly consist for cost of sales in Germany.
[2] Provisions for reinstatement and litigation have been included as "Provision" in the consolidated balance sheet for the year. Prior year balances which were included as "creditors and accrued charges" are presented accordingly for consistency.

3.7.2 Current lease liabilities

	As at 30 June
HK$ million	**2020**
Current	1,016

For adjustments recognized on adoption of IFRS 16 on 1 July 2019, please refer to note 2.4.

In the previous year the Group did not recognize any lease liabilities in relation to leases that were classified as operating leases under IAS 17.

3.7.3 Provisions

Provisions consist of the following:

	As at 30 June	
HK$ million	**2020**	**2019**
Restructuring[1]	225	940
Reinstatement[2]	122	144
Litigation[2]	10	10
Provision total	**357**	**1,094**

[1] As at 30 June 2019, only restructuring provisions have been presented as "provision for store closure and leases". As at 1 July 2019, provisions for store closure have been reclassified because of first-time adoption of IFRS 16.
[2] Provisions for reinstatement and litigation have been included as "Provisions" in the consolidated balance sheet for the year. Prior year balances which were included as "creditors and accrued charges" are presented accordingly for consistency.

Restructuring provision of HK$225 million (2019: HK$940 million) represent the costs associated with restructuring measures taken in order to preserve the solvency and liquidity of the Group and its ongoing operations that have been negatively affected by COVID-19. Estimated restructuring costs are based on the terms of the relevant contracts and mainly include costs for employee termination benefits that are based on a detailed plan agreed between management and employee representatives.

Movements in provisions are as follows:

HK$ million	**2020**	**2019**
At June 30	**1,094**	**572**
Adjustment due to IFRS 16	(775)	-
At 1 July	**319**	**572**
Amounts used during the year	(127)	(369)
Additions	260	898[2]
Releases	(94)	-
Exchange translation	(1)	(7)
At 30 June[1]	**357**	**1,094**

[1] Provisions for reinstatement and litigation have been included as "Provisions" in the consolidated balance sheet for the year. Prior year balances which were included as "creditors and accrued charges" are presented accordingly for consistency.
[2] Thereof HK$895 million for restructuring provisions.

3.8 Non-current liabilities

3.8.1 Bank loans

	As at 30 June
HK$ million	**2020**
Bank loans	8

In March 2020, the Group's subsidiaries in Switzerland have obtained secured and interest free bank loans amounting to HK$8 million (CHF1 million; 2019: nil) as at 30 June 2020.

Regarding maturity of the bank loans refer to note 4.2.3.

3.8.2 Non-current lease liabilities

	As at 30 June
HK$ million	**2020**
Non-current	2,467

The maturity analysis is included in note 4.2.3. For adjustments recognized on adoption of IFRS 16 on 1 July 2019, please refer to note 2.4.

In the previous year the Group did not recognize any lease liabilities in relation to leases that were classified as operating leases under IAS 17.

3.8.3 Retirement defined benefit obligation

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.

The retirement benefit plans accounted for as defined benefit plans are valued using the Projected Unit Credit Cost Method to determine the present value of the defined benefit obligation and the related service costs. Under this method, the determination is based on actuarial calculations which include assumptions about demographics, salary increases as well as interest and inflation rates. The plans are valued by independent qualified actuaries of Willis Towers Watson Switzerland. The valuation has been made as at 30 June 2020.

(a) The amounts recognized in the consolidated balance sheet are as follows:

HK$ million	As at 30 June 2020	2019
Present value of funded obligations	93	106
Fair value of plan assets	(67)	(75)
Net defined benefit obligations	**26**	**31**

The latest actuarial valuations indicate a funding level of 72.4% (2019: 71.2%).

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

HK$ million	Present value of obligations	Fair Value of plan assets	Total
At 1 July 2019	**106**	**(75)**	**31**
Current service cost	3	-	3
Interest expense/(income)	1	(1)	-
	4	**(1)**	**3**
Remeasurements:			
Gain from change in financial assumptions	(3)	-	(3)
Currency translation differences	(2)	1	(1)
Contributions:			
Employers	-	(4)	(4)
Plan participants	3	(3)	-
Payment from plans:			
Benefit payments	(15)	15	-
At 30 June 2020	**93**	**(67)**	**26**

HK$ million	Present value of obligations	Fair Value of plan assets	Total
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**

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:

As at 30 June 2020

HK$ million	Quoted	Unquoted	Total	% of Total
Insurance Contracts	-	67	67	100.0

As at 30 June 2019

HK$ million	Quoted	Unquoted	Total	% of Total
Insurance Contracts	-	75	75	100.0

The weighted average duration of retirement defined benefit obligations is 15.0 years (2019: 14.6 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 (2019: HK$3 million) to their retirement defined benefit plan in 2021.

The significant actuarial assumptions are as follows:

in percent	As at 30 June 2020	2019
Discount rate	0.2	0.4
Expected future salary increases	1.0	1.3

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

As at 30 June 2020

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

As at 30 June 2019

	(Decrease)/Increase in defined benefit obligations		
HK$ million	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.25%	(3)	2
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 balance sheet.

3.9 Equity

3.9.1 Share Capital

	Number of shares of HK$0.10 each million	HK$ million
Authorized:		
At 30 June 2019 and 30 June 2020	3,000	300

	Number of shares of HK$0.10 each million	nominal value HK$ million
Issued and fully paid:		
At 1 July 2019 and 30 June 2020	**1,887**	**189**

3.9.2 Reserves

A description of the nature and purpose of each reserve is provided below.

Employee share-based payments reserve

The share-based payments reserve is used to recognize:

- the grant date fair value of options issued to employees but not exercised
- the grant date fair value of shares issued to employees
- the grant date fair value of deferred shares granted to employees but not yet vested

Shares held for Share Award Scheme

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. The Group recognizes the impact of the revision of original estimates, if any, in the consolidated statement of profit or loss, and a corresponding adjustment to equity. For further information refer to note 5.2.2.

Hedging reserve

The Cash flow hedge reserve is used to recognize the effective portion of gains or losses on derivatives that are designated and qualify as cash flow hedges. Amounts are subsequently either transferred to the initial cost of inventory or reclassified to profit or loss as appropriate.

Remeasurement of retirement defined benefit obligations

Remeasurements of retirement defined benefit obligations comprise:

- actuarial gains and losses
- the return on plan assets, excluding amounts included in net interest on the net defined benefit liability/(asset) and
- any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability/(asset).

For further information refer to note 3.8.3.

Contributed surplus

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.

Translation reserve

Exchange differences arising on translation of the foreign controlled entity are recognized in other comprehensive income and accumulated in a separate reserve within equity. The cumulative amount is reclassified to profit or loss when the net investment is disposed of.

Capital reserve

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

No dividends have been declared and paid by the Company (2019: nil).

3.9.3 Restated equity because of IFRS 9 and IFRS 15 first time adoption in 2019

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 were therefore not reflected in the consolidated balance sheet as at 30 June 2018, but were recognized in the opening consolidated balance sheet on 1 July 2018.

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:

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

3.10 Notes to consolidated statement of cash flows

Reconciliation of loss before taxation to cash generated from/(used in) operations:

HK$ million	2020	2019 (restated)
	For the year ended 30 June	
Loss before taxation	**(3,493)**	**(2,066)**
Continuing operations	(3,244)	(1,918)
Discontinued operations	(249)	(148)
Adjustments for:		
Interest income	(54)	(49)
Finance costs	100	35
Investment Income	-	(5)
Depreciation of property, plant and equipment	391	455
Depreciation of right-of-use assets	972	-
Impairment loss on property, plant and equipment	241	110
Impairment loss on right-of-use assets	925	-
Impairment loss on goodwill	19	-
Impairment loss on trademarks	397	-
Loss on disposal of investment properties	6	-
Loss on disposal of plant and equipment[1]	3	6
Provision for store closure and leases, net	-	691
Write back of provision for closure costs of Australian and New Zealand operation	-	(25)
Provision for staff reduction cost	-	200
Decrease in fair value of financial assets at fair value through profit or loss	2	5
Increase in fair value of investment properties	-	(3)
Additional/(write back) of employee share-based compensation benefits	7	(5)
Loss before taxation after adjustments	**(484)**	**(651)**

Change in working capital		
Decrease in inventories	580	451
Increase in debtors, deposits and prepayments	(167)	(120)
Increase/(decrease) in creditors and accrued charges	386	(763)
Effect of Foreign Exchange rate changes	117	(60)
Cash generated from/(used in) operations	**432**	**(1,143)**

[1] In the consolidated statement of cash flows, proceeds from disposal of property, plant and equipment comprised.

HK$ million	2020	2019
	For the year ended 30 June	
Net book value	26	11
Loss on disposal of property, plant and equipment	(3)	(6)
Proceeds from disposal of property, plant and equipment	**23**	**5**

	Bank loans	Lease liabilities	Total
Balance as at 1 July 2018 and 30 June 2019	**-**	**-**	**-**
Change in accounting policy (note 2.4)	-	5,103	5,103
Balance at 1 July 2019	**-**	**5,103**	**5,103**
Proceeds from bank loans	8	-	8
Repayment of lease liabilities	-	(1,419)	(1,419)
Repayments of lease liabilities	-	(1,326)	(1,326)
Interests	-	(93)	(93)
Subtotal	**8**	**(1,419)**	**(1,411)**
Foreign Exchange adjustments	-	(81)	(81)
Other changes	-	(120)	(120)
Addititions	-	546	546
Interest expense	-	93	93
Remeasurement	-	(759)	(759)
Balance at 30 June 2020	**8**	**3,483**	**3,491**

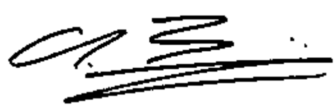
3.11 Balance sheet and reserve movement of the Company

As the report is a combined report for the Group as well as for the Company (Esprit Holdings Limited), please find the statements of the Company below.

3.11.1 Balance sheet of the Company

	As at 30 June	
HK$ million	**2020**	**2019**
Non-current assets		
Investments in subsidiaries, unlisted and at costs	1,330	1,329
Current assets		
Amounts due from subsidiaries	4,695	9,997
Cash, bank balances and deposits	234	1
	4,929	**9,998**
Current liabilities		
Amounts due to subsidiaries	20	12
Accrued charges	18	16
	38	**28**
Net current assets	**4,891**	**9,970**
Total assets less current liabilities	**6,221**	**11,299**
Equity		
Share capital	189	189
Reserves	6,032	11,110
	6,221	**11,299**

Approved by the Board of Directors on 5 November 2020.




ANDERS CHRISTIAN **KRISTIANSEN**
Executive Director

DR JOHANNES GEORG **SCHMIDT-SCHULTES**
Executive Director

3.11.2 Reserve movement of the company

HK$ million	**Share premium**	**Employee share-based payment reserve**	**Shares held for Share Award Scheme**	**Contributed surplus**	**Retained profits/ (accumulated losses)**	**Total equity**
At 1 July 2019	**7,988**	**904**	**(40)**	**474**	**1,784**	**11,110**
Loss attributable to shareholders	-	-	-	-	(5,085)	(5,085)
Employee share-based compensation benefits	-	7	-	-	-	7
Vesting of shares for Share Award Scheme	-	(1)	1	-	-	-
At 30 June 2020	**7,988**	**910**	**(39)**	**474**	**(3,301)**	**6,032**
Representing:						
Proposed final dividend						-
Balance after proposed final dividend						6,032
At 30 June 2020						**6,032**
At 30 June 2018	**7,988**	**916**	**(47)**	**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**	**904**	**(40)**	**474**	**1,784**	**11,110**
Representing:						
Proposed final dividend						-
Balance after proposed final dividend						11,110
At 30 June 2019						**11,110**

4. CRITICAL ESTIMATES AND JUDGMENTS

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 year are discussed below.

4.1 Estimates and judgments

4.1.1 Useful life and impairment of trademarks

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.

Impairment

Goodwill and intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized 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 are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each Reporting Period.

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 2020. Please refer to note 3.3.1.1.

4.1.2 Impairment of goodwill

In accordance with IAS 36 "Impairment of Assets", the Group completed its annual impairment test for goodwill allocated to the Group's various CGUs by comparing their recoverable amount to their carrying amount as at the date of the balance sheet. Please refer to note 3.3.1.2.

4.1.3 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.

4.1.4 Determination of lease terms

The lease term is a significant component in the measurement of both the right-of-use asset and lease liability. Judgment is exercised in determining whether there is reasonable certainty that an option to extend the lease or purchase the underlying asset will be exercised, or an option to terminate the lease will not be exercised when ascertaining the periods to be included in the lease term. In determining the lease term, all facts and circumstances that create an economical incentive to exercise an extension option, or not to exercise a termination option, are considered at the lease commencement date. Factors considered may include the importance of the asset to the Group's operations; comparison of terms and conditions to prevailing market rates; incurrence of significant penalties; existence of significant leasehold improvements; and the costs and disruption to replace the asset. The Group reassesses whether it is reasonably certain to exercise an extension option, or not exercise a termination option, if there is a significant event or significant change in circumstances.

4.1.5 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.

4.1.6 Income taxes and other taxes

The Group is subject to Income taxes 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 year in which such determination is made.

4.1.7 Provisions

4.1.7.1 Provisions for restructuring

A **provision for restructuring** is recognized when the Group has approved a detailed and formal restructuring plan and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for.

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.

For the year ended 30 June 2019, the Group recognized and measured 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 fulfil it. The Group recognized 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 estimated 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 consulted with retail agencies for certain locations in respect of the current market trends. The Group also estimated the provision based on past experience of pay-out 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.

Due to the first-time adoption of IFRS 16 as at 1 July 2019, store closures are now reflected in the (re-)measurement of lease liabilities based on the revised lease term. The right-of-use assets have been decreased accordingly. Therefore, there has been no further provisions for onerous contracts for the year ended 30 June 2020.

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.

4.1.7.2 Provisions for litigation and reinstatement

Provisions for **litigation and reinstatement** are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the Reporting Period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognized as interest expense.

4.2 Financial risk management

4.2.1 Foreign Exchange risk

As at 30 June 2020, the Group has not entered in any financial derivative transaction. The last forward contract in place expired mid of June 2020.

The fair values of the forward Foreign Exchange contracts included in other receivables are as follows:

	As at 30 June			
	2020		2019	
HK$ million	Assets	Liabilities	Assets	Liabilities
Forward Foreign Exchange contracts – cash flow hedges	-	-	7	-

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 balance sheet.

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.

	Recurring fair value measurements at 30 June 2020			
HK$ million	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Derivative financial instruments:				
Forward Foreign Exchange contracts	-	-	-	-

	Recurring fair value measurements at 30 June 2019			
HK$ million	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Derivative financial instruments:				
Forward Foreign Exchange contracts	-	7	-	7

During the year, there were no transfers between Level 1 and Level 2 neither between Level 2 and Level 3.

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 balance sheet, the total notional amount of outstanding forward Foreign Exchange contracts to which the Group was committed is as follows:

	As at 30 June	
HK$ million	**2020**	**2019**
Forward Foreign Exchange contracts	-	173

During the year, there was no material ineffectiveness to be recorded in the consolidated statement of profit or loss arising from cash flow hedges (2019: nil).

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 in the past entered into forward Foreign Exchange contracts with reputable financial institutions to hedge the Foreign Exchange risk.

In March 2020, all credit lines have been cancelled due to the Protective Shield Proceedings and since then no further forward Foreign Exchange contracts have been concluded. The existing derivative contracts have all been settled until the end of June 2020. Thus, the Group has no longer concluded new contracts as per 30 June 2020. Accumulated gains and losses recorded in the cash flow hedge reserve in equity have been reclassified to cost of inventories.

The Group's exposure to currency risk as reported to the management of the Group is as follows:

	As at 30 June 2020		
HK$ million	**USD**	**EUR**	**RMB**
Trade receivables	2	-	-
Trade payables	(35)	-	(1)
Foreign Exchange exposure	**(33)**	**-**	**(1)**
Foreign Exchange contracts	-	-	-
Net exposure	**(33)**	**-**	**(1)**

	As at 30 June 2019		
HK$ million	**USD**	**EUR**	**RMB**
Trade receivables	2	-	-
Trade payables	(19)	-	-
Foreign Exchange exposure	**(17)**	**-**	**-**
Foreign Exchange contracts	22	-	-
Net exposure	**5**	**-**	**-**

The following significant exchange rates have been applied:

	As at 30 June 2020	
HK$ million	**Average rate**	**Spot rate**
USD	7.7504	7.7504
EUR	8.7262	8.7131
RMB (CNY)	1.0941	1.0945

	As at 30 June 2019	
HK$ million	**Average rate**	**Spot rate**
USD	7.8275	7.8152
EUR	8.8387	8.8862
RMB (CNY)	1.1343	1.1363

The impact on the Group's post-tax profit or loss and total comprehensive income in response to a 1.0% strengthening in euro and renminbi against US dollar in relation to monetary items and derivative financial instruments in existence at the date of the balance sheet, with all other variables held constant, would have been:

	For the year ended 30 June	
HK$ million	**2020**	**2019**
Euro against US dollar		
Impact on post-tax profit; gain	5	13
Impact on other comprehensive income; gain	-	12
Renminbi against US dollar		
Impact on post-tax profit; gain	1	5
Impact on other comprehensive income; gain	-	5

The amounts at the reporting date 30 June 2020 relating to items designated as hedged item were as follows:

	As at 30 June 2020	
HK$ million	**Change in value used for calculating hedge ineffectiveness**	**Cash flow hedge reserve**
Foreign currency risk		
Inventory purchases	(10)	-

The amounts at the reporting date 30 June 2019 relating to items designated as hedged item were as follows:

	As at 30 June 2019	
HK$ million	**Change in value used for calculating hedge ineffectiveness**	**Cash flow hedge reserve**
Foreign currency risk		
Inventory purchases	(72)	9

The amounts relating to items designated as hedging instruments and hedge ineffectiveness were as follows:

	For the year ended 30 June 2020		
HK$ million	**Change in value recognized in other comprehensive income**	**Amount reclassified from other comprehensive income to inventory**	**Line item affected by reclassification**
Foreign currency risk			
Foreign Exchange contracts	10	(21)	Inventories

	For the year ended 30 June 2019		
HK$ million	**Change in value recognized in other comprehensive income**	**Amount reclassified from other comprehensive income to inventory**	**Line item affected by reclassification**
Foreign currency risk			
Foreign Exchange contracts	72	(129)	Inventories

No ineffectiveness has been recognized in statement of profit or loss during the year (2019: nil).

The following table provides a reconciliation by risk category of components of equity and analysis of other comprehensive income items, net of tax, resulting from cash flow hedge accounting.

Cash flow hedge reserve HK$ million	**2020**	**2019**
Balance at 1 July	**(9)**	**(49)**
Foreign currency risk		
Change in fair value (effective portion)	(10)	(72)
Amounts included in the costs of inventory	21	129
Deferred tax on movements in the reserve during the year	(2)	(17)
Balance at 30 June	**-**	**(9)**

4.2.2 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 holds securities as collaterals 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 shared credit risk characteristics and the days past due.

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. The historical loss rates are based on the payment profiles of sales over the last five years and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted by a scalar factor to reflect differences between economic conditions during the period over which the historical data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables. Scalar factors are based on projected non-performing loans ("NPL") ratios for all countries in which the Group sells its goods and services. Expected changes of NPL ratios due to COVID-19 are based on macroeconomic scenario projections from the International Monetary Fund.

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.

4.2.3 Liquidity risk

The Group manages liquidity risk by continuously monitoring forecast and actual cash flows, by keeping sufficient available cash on the bank accounts. The Group's liquidity needs have been funded through internal resources, using a Cash Pooling scheme and intercompany loans. Bank facilities have been in place only for guarantees and letter of credits which were already backed by cash collaterals since February 2019. No major overdraft or term loans with the banks were in place. In the Protection Shield Proceedings all banking agreements become invalid but due to the above mentioned funding through internal resources there was no major impact on the business except that further cash collaterals for outstanding bank guarantees had to be provided to the banks.

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

HK$ million	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total contractual cash flows	Carrying amount
At 30 June 2020						
Trade creditors	1,011	-	-	-	1,011	1,011
Lease liabilities	1,016	749	1,388	636	3,789	3,483
Bank loans	-	-	8	-	8	8
At 30 June 2019						
Trade creditors	425	-	-	-	425	425

4.2.4 Interest rate risk

The interest rate profile of the Group's interest-bearing financial instruments is as follows:

	As at 30 June 2020	
HK$ million	**Carrying amount**	**Interest rate**
Fixed-rate instruments		
Cash, bank balances and deposits	2,288	0.7%
Lease liabilities	3,483	1.8%

	As at 30 June 2019	
HK$ million	**Carrying amount**	**Interest rate**
Fixed-rate instruments		
Cash, bank balances and deposits	3,282	1.4%

There are no variable-rate instruments for the year (2019: nil).

Fair value sensitivity analysis for fixed-rate instruments

A change of 100 basis points in interest rates would have increased or decreased equity by HK$23 million (2019: HK$33 million). This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant.

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

4.2.5 Net gains and losses from financial instruments

The following table shows net gains and losses by category of financial instruments including gains and losses from leases:

	For the year ended 30 June	
HK$ million	**2020**	**2019 (restated)**
Interest income from instruments at amortized costs and leases	54	49
Banks	16	45
Leases	2	-
Other	36	4
Finance income	**54**	**49**
Continuing operations	50	46
Discontinued operations	4	3

	For the year ended 30 June	
HK$ million	**2020**	**2019 (restated)**
Interest expense from instruments at amortized costs and leases	100	35
Leases	93	-
Other	7	35
Finance cost	**100**	**35**
Continuing operations	87	18
Discontinued operations	13	17
Change in fair value of financial assets at fair value through profit or loss	(2)	5

4.3 Capital management

4.3.1 Risk management

The Group's capital structure consists of equity and interest-bearing liabilities as shown in the consolidated balance sheet.

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 and interest bearing liabilities as shown in the consolidated balance sheet.

Apart from loans taken out by Esprit Switzerland Retail AG and Esprit Switzerland Distribution AG of in total HK$8 million, there are no further bank loans in place as of 30 June 2020 (2019: nil).

4.3.2 Dividends

The Board of Directors did not declare and recommend the distribution of any dividend for the year ended 30 June 2020 (2019: nil).

5. FURTHER DETAILS

5.1 Related party transactions

Other than the key management compensation as set out below, the Group had no material related party transactions during the year.

For the year ended 30 June 2020

HK$ thousands	Fees[14]	Basic salaries, allowance and benefits in kind	Bonuses[15]	Inducement fee	Employee share-based compensation benefits	Provident fund contributions/ retirement benefit costs	Compensation for loss of office	Total emoluments
Name of Director								
Raymond **OR** Ching Fai[1]	-	7,451	4,500	-	2,338	-	-	14,289
Anders Christian **KRISTIANSEN**[5]	-	8,601	11,762	-	4,362	60	-	24,785
amount in EUR'000	-	998	1,365	-	506	7	-	2,876
Johannes Georg **SCHMIDT-SCHULTES**[6,7]	-	3,401	-	431	186	47	-	4,065
amount in EUR'000	-	395	-	50	22	5	-	472
Jürgen Alfred Rudolf **FRIEDRICH**[1,3,5]	-	-	-	-	-	-	-	-
Carmelo **LEE** Ka Sze[2,4,5,6]	640	-	-	-	-	-	-	640
Sandrine Suzanne Eleonore Agar **ZERBIB**[2,3,5,6,8]	409	-	-	-	-	-	-	409
Joseph **LO** Kin Ching[2,3,4,9]	270	-	-	-	-	-	-	270
Thomas **TANG** Wing Yung[6,11]	-	6,698	806	-	(1,152)	6	1,855	8,213
Alexander Reid **HAMILTON**[2,3,4,6,12]	350	-	-	-	-	-	-	350
Norbert Adolf **PLATT**[2,3,5,13]	315	-	-	-	-	-	-	315
Martin **WECKWERTH**[2,3,5,10]	-	-	-	-	-	-	-	-
Total for the year 2020	**1,984**	**26,151**	**17,068**	**431**	**5,734**	**113**	**1,855**	**53,336**

For the year ended 30 June 2019

HK$ thousands	Fees[14]	Basic salaries, allowance and benefits in kind	Bonuses[15]	Inducement fee	Employee share-based compensation benefits	Provident fund contributions/ retirement benefit costs	Compensation for loss of office	Total emoluments
Name of Director								
Raymond **OR** Ching Fai[1]	-	11,043	1,122	-	2,338	-	-	14,503
Anders Christian **KRISTIANSEN**[5]	-	13,084	1,029	-	3,985	66	-	18,164
amount in EUR'000	-	1,463	115	-	446	7	-	2,031
Thomas **TANG** Wing Yung	-	8,163	-	-	1,076	18	-	9,257
Jürgen Alfred Rudolf **FRIEDRICH**[1,3,14]	574	-	-	-	-	-	-	574
Alexander Reid **HAMILTON**	778	-	-	-	-	-	-	778
Carmelo **LEE** Ka Sze[2,4,5,6]	800	-	-	-	-	-	-	800
Norbert Adolf **PLATT**[2,3,5,13]	702	-	-	-	-	-	-	702
Jose Manuel **MARTINEZ GUTIERREZ**	-	4,733	3,382	-	(6,695)	6	7,434	8,860
amount in EUR'000	-	518	370	-	(749)	1	813	953
Paul **CHENG** Ming Fun	634	-	-	-	-	-	-	634
José María **CASTELLANO RIOS**	283	-	-	-	-	-	-	283
Total for the year 2019	**3,771**	**37,023**	**5,533**	**-**	**704**	**90**	**7,434**	**54,555**

[1] Non-executive Director Dr Raymond OR Ching Fai has been re-designated from Executive Chairman of the Board and Executive Director to Non-executive Chairman of the Board and Non-executive Director with effect from 24 June 2020.

[2] Independent Non-executive Director.

[3] Members of the Audit Committee (Ms Sandrine Suzanne Eleonore Agar ZERBIB has been appointed as member with effect from 21 October 2019. Mr Alexander Reid HAMILTON and Mr Norbert Adolf PLATT have retired as chairman and member respectively, both with effect from the conclusion of the annual general meeting of the Company ("2019 AGM") held on 5 December 2019. Mr Joseph LO Kin Ching has been appointed as chairman with effect from 15 January 2020. Dr Martin Weckwerth has been appointed as member with effect from 15 January 2020 and has resigned with effect from 24 July 2020).

[4] Members of the Nomination Committee (Mr Alexander Reid HAMILTON has retired as member with effect from the conclusion of 2019 AGM held on 5 December 2019. Mr Joseph LO Kin Ching has been appointed as member with effect from 15 January 2020).

[5] Members of the Remuneration Committee (Ms Sandrine Suzanne Eleonore Agar ZERBIB has been appointed as member with effect from 21 October 2019. Mr Norbert Adolf PLATT has retired as chairman with effect from the conclusion of 2019 AGM held on 5 December 2019. Dr Martin Weckwerth has been appointed as chairman with effect from 15 January 2020 and has resigned with effect from 24 July 2020).

[6] Members of the Risk Management Committee (Dr Johannes Georg SCHMIDT-SCHULTES has been appointed as member with effect from 21 October 2019. Mr Thomas TANG has resigned as member with effect from 21 October 2019. Mr Alexander Reid HAMILTON has retired as member with effect from the conclusion of 2019 AGM held on 5 December 2019. Ms Sandrine Suzanne Eleonore Agar ZERBIB has been appointed as a member with effect from 26 February 2020).

[7] Dr Johannes Georg SCHMIDT-SCHULTES has been appointed as Executive Director with effect from 21 October 2019.

[8] Ms Sandrine Suzanne Eleonore Agar ZERBIB has been appointed as Independent Non-executive Director with effect from 3 October 2019.

[9] Mr Joseph LO Kin Ching has been appointed as Independent Non-executive Director with effect from 15 January 2020.

[10] Dr Martin WECKWERTH has been appointed as Independent Non-executive Director with effect from 15 January 2020 and has resigned with effect from 24 July 2020.

[11] Mr Thomas TANG Wing Yung has resigned as Executive Director with effect from 21 October 2019.

[12] Mr Alexander Reid HAMILTON has retired as Independent Non-executive Director with effect from the conclusion of 2019 AGM held on 5 December 2019.

[13] Mr Norbert Adolf PLATT has retired as Independent Non-executive Director with effect from the conclusion of 2019 AGM held on 5 December 2019.

[14] The amount includes directors' fees of HK$2.0 million (2019: HK$3.2 million) paid to Independent Non-executive Directors.

[15] During the current year, there was HK$17.1 million discretionary bonus to the directors (2019: HK$5.5 million).

Directors' retirement benefits
No retirement benefits were provided to or receivable by any director during the year (2019: 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 (2019: 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 (2019: 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 (2019: 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.

Five highest paid individuals
The five individuals whose emoluments were the highest in the Group for the year included three (2019: four) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2019: one) individuals during the year are as follows:

	For the year ended 30 June	
HK$ thousands	**2020**	**2019**
Salaries, housing and other allowances and benefits in kind	8,614	1,891
Bonuses	4,549	-
Charge/(write back) of employee share-based compensation benefits	289	(1,955)
Pensions costs of defined contribution plans	131	22
Compensation for loss of office	6,463	6,198
Total	**20,046**	**6,156**

During the Reporting Period as well as prior period, the Group did not pay the aforementioned two (2019: one) individuals any inducement to join or upon joining the Group.

The emoluments fell within the following bands:

	For the year ended 30 June	
	Number of individuals	
Emoluments band	**2020**	**2019**
HK$6,000,001–HK$6,500,000	-	1
HK$7,500,001–HK$8,000,000	1	-
HK$12,000,001–HK$12,500,000	1	-

5.2 Share-based payments

	For the year ended 30 June	
HK$ million	**2020**	**2019**
Charge/(write back) of employee share-based compensation benefits	7	(5)

5.2.1 Share option scheme
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.

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 2020
The total number of shares available for issue upon exercise of all outstanding share options already granted under the Schemes is 72,995,000 shares (2009 Share Option Scheme: 52,295,000 shares and 2018 Share Option Scheme: 20,700,000 shares), representing 3.9% (2019: 3.6%) of the issued share capital of the Company as at 30 June 2020.

The maximum number of shares available for issue upon exercise of share options not yet granted under the Schemes is 168,021,156 shares (2009 Share Option Scheme: None shares and 2018 Share Option Scheme: 168,021,156 shares), representing 8.9% (2019: 9.7%) of the issued share capital of the Company as at 30 June 2020.

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 1.0% 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.

5.2.1.1 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.

Details of the share options movement during the year and outstanding share options as at 30 June 2020 under the 2009 Share Option Scheme are as follows:

	Average exercise price	Number of share options
At 1 July 2019	6.38	62,965,000
Granted during the year	-	-
Lapsed during the year	-	-
Forfeited during the year	6.19	(10,670,000)
At 30 June 2020	**6.42**	**52,295,000**

	Average exercise price	Number of share options
At 1 July 2018	7.79	82,320,000
Granted during the year	1.88	7,200,000
Lapsed during the year	9.54	(3,050,000)
Forfeited during the year	9.54	(23,505,000)
At 30 June 2019	**6.38**	**62,965,000**

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

	Exercise price	Number of share options outstanding as at 30 June	
Expiry date	**HK$**	**2020**	**2019**
Directors			
11 March 2023[1]	10.040	-	2,300,000
4 November 2023[1]	14.180	-	300,000
30 June 2024[1]	11.000	660,000	880,000
31 October 2024[1]	10.124	-	300,000
25 June 2028[2]	2.660	16,000,000	16,000,000
28 September 2028[1]	1.884	1,000,000	-
28 September 2028[2]	1.884	-	3,500,000
		17,660,000	**23,280,000**
Employees			
27 September 2020[1]	43.000	550,000	700,000
27 September 2021[1]	8.760	1,450,000	1,900,000
12 December 2022[1]	12.320	1,090,000	1,540,000
11 March 2023[1]	10.040	720,000	920,000
4 November 2023[1]	14.180	1,675,000	2,475,000
30 June 2024[1]	11.000	300,000	300,000
31 October 2024[1]	10.124	2,650,000	3,900,000
13 October 2025[1]	6.550	2,600,000	4,050,000
31 October 2026[1]	6.870	2,950,000	-
31 October 2026[2]	6.870	-	4,200,000
7 November 2027[2]	4.650	2,900,000	4,800,000
25 June 2028[2]	2.660	3,700,000	6,100,000
28 September 2028[2]	1.884	2,500,000	3,000,000
		23,085,000	**33,885,000**
Others			
27 September 2020[1]	43.000	100,000	-
27 September 2021[1]	8.760	300,000	-
12 December 2022[1]	12.320	100,000	-
11 March 2023[1]	10.040	7,350,000	5,000,000
4 November 2023[1]	14.180	800,000	400,000
31 October 2024[1]	10.124	900,000	400,000
13 October 2025[1]	6.550	100,000	-
31 October 2026[1]	6.870	100,000	-
20 November 2027[2]	4.650	100,000	-
25 June 2028[2]	2.660	200,000	-
28 September 2028[2]	1.884	1,500,000	-
		11,550,000	**5,800,000**
Total		**52,295,000**	**62,965,000**
Weighted average remaining contractual life of options outstanding at end of the year		**5.9 years**	**7.0 years**

[1] The share options listed above are vested as of the respective dates of the balance sheet.
[2] The share options listed above are not vested as of the respective dates of the balance sheet.

5.2.1.2 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 2020 under the 2018 Share Option Scheme are as follows:

	Average exercise price	Number of share options
At 1 July 2019	1.89	4,900,000
Granted during the year	1.60	16,350,000
Lapsed during the year	1.88	(500,000)
Forfeited during the year	1.88	(50,000)
At 30 June 2020	**1.67**	**20,700,000**

	Average exercise price	Number of share options
At 1 July 2018	-	-
Granted during the year	1.89	4,900,000
Lapsed during the year	-	-
Forfeited during the year	-	-
At 30 June 2019	**1.89**	**4,900,000**

Details of share options granted during the year ended 30 June 2020 are as follows:

	Exercise price HK$	Number of share options
19 September 2020–9 December 2029	1.604	1,000,000
10 December 2020–9 December 2029	1.604	500,000
19 September 2022–9 December 2029	1.604	12,350,000
10 December 2022–9 December 2029	1.604	2,500,000
		16,350,000

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

	Exercise price	Number of share options outstanding as at 30 June	
Expiry date	**HK$**	**2020**	**2019**
Directors			
9 December 2029[1]	1.604	7,500,000	-
Employees			
10 January 2029[1]	1.560	1,000,000	1,000,000
27 February 2029[1]	1.980	3,500,000	3,900,000
9 December 2029[1]	1.604	8,700,000	-
		20,700,000	**4,900,000**
Weighted average remaining contractual life of options outstanding at end of the year		**9.3 years**	**9.6 years**

[1] The share options listed above are not vested as of the respective dates of the balance sheet.

Share option expenses charged to the consolidated statement of profit or loss 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$	Average expected volatility[3] %	Annual risk-free interest rate[4] %	Life of share option[5]	Dividend yield[6] %
10 December 2019	0.38–0.50	1.570	1.604	41.6	1.6–1.7	2–4 years	0.0

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.

5.2.2 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 2020 under the Share Award Scheme are as follows:

Number of awarded shares	2020	2019
At 1 July	2,868,100	9,004,458
Vested during the year	(95,270)	(1,090,599)
Lapsed during the year for awarded shares included forfeited and expired	(677,560)	(5,045,759)
At 30 June	**2,095,270**	**2,868,100**

During the year ended 30 June 2020, a total of 95,270 shares (2019: 1,090,599 shares) of the Company were transferred to relevant Selected Employees upon vesting. The total cost of the vested shares was HK$1 million (including expenses) (2019: HK$7 million). During the year, HK$0.2 million (2019: HK$0.1 million) was debited to retained earnings in respect of vesting of shares whose fair values were lower than the costs.

5.3 Loss per share

5.3.1 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.

For the year ended 30 June	2020	2019
Loss attributable to shareholders of the Company (HK$ million)	**(3,992)**	**(2,144)**
Number of ordinary shares in issue at 1 July (million)	1,887	1,887
Adjustments for share 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	1,879
Basic loss per share (HK$ per share)	**(2.12)**	**(1.14)**
Continuing operations (HK$ per share)	(1.96)	(1.05)
Discontinued operations (HK$ per share)	(0.16)	(0.09)

5.3.2 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.

For the year ended 30 June	2020	2019
Loss attributable to shareholders of the Company (HK$ million)	**(3,992)**	**(2,144)**
Weighted average number of ordinary shares in issues less shares held for Share Award Scheme (million)	1,879	1,879
Adjustments for share options and awarded shares (million)	-	-
Weighted average number of ordinary shares for diluted earnings per share (million)	1,879	1,879
Diluted loss per share (HK$ per share)	**(2.12)**	**(1.14)**
Continuing operations (HK$ per share)	(1.96)	(1.05)
Discontinued operations (HK$ per share)	(0.16)	(0.09)

Diluted loss per share for the years ended 30 June 2020 and 30 June 2019 was the same as the basic loss per share since the share options and awarded shares are antidilutive for the periods presented.

5.4 Auditor's remuneration

For the year ended 30 June	2020	2019
Nature of the services		
Audit services	15	14
Non-audit services	1	1
Auditor's remuneration total	**16**	**15**

6. UNRECOGNIZED ITEMS

6.1 Capital commitments

As at 30 June HK$ million	2020	2019
Property, Plant and Equipment		
Contracted but not provided for	17	31

6.2 Events occurring after the Reporting Period

6.2.1 Insolvency proceedings

On 27 March 2020, the Group applied for Protective Shield Proceedings for the Subject Subsidiaries which were approved by the Düsseldorf District Court. Protective Shield Proceedings serve to protect the Subject Subsidiaries from individual creditors while the management of the Group has worked out an advanced restructuring plan. On 1 July 2020, the Court gave its consent for the opening of the insolvency proceedings as self-administration proceedings and allowed the six German Subject Subsidiaries to continue with the self-administration process under the continued supervision of the custodian who has been confirmed by the Court.

With commencement of the insolvency proceedings on 1 July 2020, Esprit Holdings Limited has no longer rights in terms of IFRS 10 to direct the six German Subject Subsidiaries, so that the consolidation method changes from full consolidation to equity consolidation until the insolvency proceedings are finalized.

On 19 August 2020, a first creditors' meeting ("creditors' assembly") was held at Court. At this meeting, there was a hearing of the creditors and an assessment of claims arising before and during the Protective Shield Proceedings. In addition, the creditors approved the continuation of the business operation, the self-administration format and the person of the custodian.

Esprit Holdings Limited has fulfilled its commitment of a shareholder contribution to the restructuring plans by granting loans to the six German Subject Subsidiaries.

The six German Subject Subsidiaries have submitted on 28 September and 7 October 2020 their insolvency plans to the Court in Düsseldorf as required for the termination of the insolvency proceedings. The second creditors' assemblies for approving the insolvency plans took place on 29 and 30 October 2020. During these meetings the insolvency plans for all six German Subject Subsidiaries have been approved by the creditors. These approved plans are expected to become effective on 14 November 2020 as based on the favorable outcomes of the creditors' assemblies and advice from the Group's legal counsels. It is virtually certain that there will not be any successful appeal against these plans during the two weeks appeal period. Thus, by the end of November 2020, a final decision will be passed by the Court to terminate the PSP proceedings.

With the final court decision, Esprit Holdings Limited gains back the rights in terms of IFRS 10 to direct the six German Subject Subsidiaries and consolidates them in full again.

The positive creditors' vote implies a debt relief for the six German Subject Subsidiaries which in the current scenario forecast is estimated to be approximately HK$1,852 million. This will have a similar positive impact on the Group's result for the coming financial year.

6.2.2 Termination of China Joint Venture

On 2 December 2019, an indirect wholly-owned subsidiary of the Group, Million Success Resources Limited ("Million Success"), has entered into a joint venture agreement (the "JV Agreement") with Mulsanne Group Holdings Limited ("MGH") to establish a joint venture company in the People's Republic of China. Pursuant to the JV Agreement MGH was obliged to complete the formal establishment of the JV Company together with the issuance of a business license within two months of signing the JV Agreement. As MGH has failed to establish the JV Company and is therefore in material breach of the terms of the JV Agreement, Million Success has issued a notice of termination dated 30 July 2020 to MGH through its legal advisors, terminating the JV Agreement with immediate effect.

7. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

7.1 Principles of consolidation

7.1.1 Subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity where 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 to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group.

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 statement of profit or loss.

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 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 statement of profit or loss.

Intercompany 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 transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

7.1.2 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, a controlled 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 year 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.

7.1.3 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.

7.2 Foreign currency translation

7.2.1 Functional and presentation currency

The consolidated financial statements are presented in Hong Kong dollar (HK$), which is Esprit's presentation currency.

7.2.2 Transactions and balances

Foreign currency transactions are translated into the presentation currency using the exchange rates at the dates of the transactions. Foreign Exchange gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates, are generally recognized in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign Exchange gains and losses that relate to borrowings are presented in the statement of profit or loss, within finance costs. All other Foreign Exchange gains and losses are presented in the statement of profit or loss on a net basis within other operating costs.

7.2.3 Group companies

The results and financial position of foreign operations (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:

- assets and liabilities for each balance sheet presented are translated automatically in the system with the closing rate at the date of that balance sheet
- income and expenses for each statement of profit or loss and statement of comprehensive income are translated automatically in the system at monthly average exchange rates (unless this 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
- all resulting exchange differences are recognized in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognized in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, 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 statement of profit or loss.

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

7.3 Rounding of amounts

All amounts disclosed in the financial statements and notes have been rounded off to the nearest million currency units unless otherwise stated.

7.4 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. Goods and services are transferred to customers at a point in time. Revenue is recognized as follows:

7.4.1 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.

7.4.2 Sales of goods – retail including e-shop

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.

Payment of the transaction price is due immediately when the customer purchases the products and takes delivery in store. It is the Group's policy to sell its products to the end customer with a right of return. Therefore, a refund liability (included in creditors and accrued charges) and a right to the returned goods (included in current debtors, deposits and prepayments) are recognized for the products expected to be returned. Accumulated experience is used to estimate such returns at the time of sale at a portfolio level (expected value method). Because the number of products returned has been steady for years, it is highly probable that a significant reversal in the cumulative revenue recognized will not occur. The validity of this assumption and the estimated amount of returns are reassessed at each reporting date.

7.4.3 Customers loyalty program

The Group runs customer loyalty programs which award credit points upon sales of products to the loyal customers who have joined the programs. 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.

7.4.4 Licensing income

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

7.5 Interest income

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

7.6 Income Tax

The income tax expense or income for the year is the tax payable on the current year's taxable income, based on the applicable income tax rate for each jurisdiction, adjusted by deferred tax income or expenses resulting from changes in deferred tax assets and liabilities attributable from temporary differences and from unused tax losses.

The **current income tax** charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the Reporting Period in the countries where the company and its subsidiaries and associates 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 accounts for liabilities, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

Deferred tax expense 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, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill. Deferred tax expense is also not accounted for if it 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. Deferred tax income and expense are determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the Reporting Period and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

The **deferred tax liability** in relation to investment property that is measured at fair value is determined assuming the property will be recovered entirely through sale.

Deferred tax assets are recognized only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

Deferred tax liabilities and assets are not recognized for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Current and deferred tax income or expense is recognized in statement of profit or loss, 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, respectively.

7.7 Impairment

7.7.1 Impairment of receivables

The Group assessed on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortized cost and fair value through other comprehensive income ("FVTOCI"). The impairment methodology applied depends on whether there has been a significant increase in credit risk.

Furthermore, 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.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables, see note 3.6.2 for further details.

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 all other financial assets measured at amortized cost and at FVTOCI, the Group recognizes a loss allowance equal to twelve 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.

7.7.2 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 years 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.

7.8 Intangible assets

7.8.1 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 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.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the operating segments (note 3.1).

7.8.2 Trademarks and licenses

Separately acquired trademarks and licenses are shown at historical cost. Trademarks with indefinite useful lives are carried at cost less accumulated impairment losses, if any. They are not amortized but are tested for impairment (note 3.3.1.1).

7.8.3 Software

Software is stated at cost less any impairment losses and is amortized on the straight-line basis over the shorter of the estimated economic life.

7.9 Leases, right-of-use assets

The Group has changed its accounting policy for leases. The new policy and the impact of the change are described in note 2.

Group as lessee

Until 30 June 2019, leases of property, plant and equipment where the Group, as lessee, had substantially all the risks and rewards of ownership were classified as finance leases. The corresponding rental obligations, net of finance charges, were included in other short-term and long-term payables. Each lease payment was allocated between the liability and finance cost. The finance cost was charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each year. The property, plant and equipment acquired under finance leases was depreciated over the asset's useful life, or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership were not transferred to the Group, as lessee, were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

Group as lessor

Lease income from operating leases where the Group is the lessor, is recognized in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognized as expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet based on their nature.

The Group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

The Group's leasing activities and new accounting policy

The Group leases various offices, warehouses, retail stores, equipment and motor vehicles. Rental contracts are typically made for fixed periods, but may have extension options as described below.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Group is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the Group, as a lessor. Leased assets may not be used as security for borrowing purposes.

Until 30 June 2019, leases of property, plant and equipment were classified as either finance leases or operating leases. From 1 July 2019, leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the Group under residual value guarantees
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third-party financing, and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each year.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability,
- any lease payments made at or before the commencement date less any lease incentives received,
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Extension and termination options

Extension and termination options are included in a number of property and equipment leases across the Group. These are used to maximize operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

7.10 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. Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

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. The carrying amount of any component accounted for as a separate asset is derecognized when replaced. All other repairs and maintenance are charged to the statement of profit or loss during the Reporting Period in which they are incurred.

The depreciation methods and periods used by the Group are the following:

- The principal annual rates are

Buildings	3.3–5.0%
Plant and machinery	30.0%
Furniture and office equipment	10.0–33.3%
Motor vehicles	25.0–30.0%

- 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.
- 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 4.1.3).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the statement of profit or loss.

7.11 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 balance sheet at their fair values. Changes in fair values of investment properties are recognized directly in the statement of profit or loss in the Reporting Period in which they arise.

7.12 Investments and other financial assets

7.12.1 Classification

The Group classifies its financial assets in the following measurement categories:

- Those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- Those to be measured at amortized cost.

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

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at FVTOCI.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

7.12.2 Recognition and derecognition

Regular way purchases and sales of financial assets are recognized on trade date, being 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.

7.12.3 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 ("FVTPL"), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments
Subsequent measurement of debt instruments depends on the Group's 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 cost: 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 on derecognition is recognized directly in profit or loss and presented in other operating costs together with Foreign Exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.
- FVTOCI: 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 FVTOCI. Movements in the carrying amount are taken through OCI, 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 OCI is reclassified from equity to profit or loss and recognized in other operating costs. Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign Exchange gains and losses are presented in other operating costs and impairment expenses are presented as separate line item in the statement of profit or loss.
- FVTPL: Assets that do not meet the criteria for amortized cost or FVTOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL is recognized in profit or loss and presented net within other operating costs in the Reporting Period in which it arises.

Equity instruments
The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognized in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVTPL are recognized in other operating costs in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVTOCI are not reported separately from other changes in fair value.

7.13 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.

7.14 Trade 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 statement of profit or loss, 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 statement of profit or loss. 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 statement of profit or loss.

Trade receivables are written off where there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of greater than 120 days past due. Impairment losses on trade receivables are presented as net impairment losses within operating profit or loss. Subsequent recoveries of amounts previously written off are credited against the same line item.

7.15 Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

7.16 Trade creditors

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. The amounts are unsecured. Invoices are issued on a monthly basis and are usually payable within 30 days. Trade and other payables are presented as current liabilities unless payment is not due within twelve months after the Reporting Period. Payables denominated in foreign currencies are translated at the year-end exchange rates. The resulting gains or losses are recorded in the consolidated statement of profit or loss, 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. They are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

7.17 Provisions

Provisions for legal claims, reinstatements and make good obligations are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the Reporting Period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognized as interest expense.

A provision for restructuring is recognized when the Group has approved a detailed and formal restructuring plan and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for.

7.18 Discontinued operations

A discontinued operation is a component of the Group that is to be abandoned, that has been disposed of and

- represents a separate major line of business or geographical area of operations,
- is part of a single coordinated plan to dispose of such a line of business or area of operations, or
- is a subsidiary acquired exclusively with a view to resale.

The results of discontinued operations are presented separately in the statement of profit or loss. The comparative statement of profit or loss and other comprehensive income is restated as if the operation had been discontinued from the start of the comparative year.

7.19 Derivatives and hedging activities

Derivatives are initially recognized at fair value on the date a derivative contract is entered into, and they are subsequently remeasured to their fair value at the end of each Reporting Period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. The Group designates certain derivatives as either:

- hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedges)
- hedges of a particular risk associated with the cash flows of recognized assets and liabilities and highly probable forecast transactions (cash flow hedges).

At inception of the hedge relationship, the Group documents the economic relationship between hedging instruments and hedged items, including whether changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of hedged items. The Group documents its risk management objective and strategy for undertaking its hedge transactions. As of 30 June 2020, there are no derivative financial instruments designated in hedge relationships. Movements in the hedging reserve in shareholders' equity are shown in note 4.2.1. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than twelve months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than twelve months. Trading derivatives are classified as a current asset or liability.

7.19.1 Cash flow hedges that qualify for hedge accounting

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in the cash flow hedge reserve within equity. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss, within other operating costs.

When forward contracts are used to hedge forecast transactions, the Group generally designates the full change in fair value of the forward contract.

When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative deferred gain or loss and deferred costs of hedging in equity at that time remains in equity until the forecast transaction occurs, resulting in the recognition of a non-financial asset such as inventory. When the forecast transaction is no longer expected to occur, the cumulative gain or loss and deferred costs of hedging that were reported in equity are immediately reclassified to profit or loss.

7.19.2 Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognized immediately in profit or loss and are included in other operating costs.

7.20 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	Level 2	Level 3
Quoted prices (unadjusted) in active markets for identical assets or liabilities.	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).	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 balance sheet. 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. 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.

7.21 Financial guarantee contracts

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 balance sheet and the initial measurement. These estimates are determined based on debtors' payment history, supplemented by the judgment of management of the Group.

7.22 Employee benefits

7.22.1 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 balance sheet 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 statement of profit or loss 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 statement of profit or loss. Changes in the present value of the defined benefit obligations resulting from plan amendments or curtailments are recognized immediately in the statement of profit or loss 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 statement of profit or loss.

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

7.22.2 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 statement of profit or loss, 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.

7.22.3 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 statement of profit or loss, 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.

7.22.4 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 balance sheet.

7.22.5 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.

7.23 Dividends

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

7.24 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.

7.25 Loss per share

7.25.1 Basic loss per share

Basic loss per share is calculated by dividing:

- the loss attributable to owners of the company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares (note 5.3).

7.25.2 Diluted loss per share

Diluted loss per share adjusts the figures used in the determination of basic loss per share to take into account:

- the after-income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

7.26 Government Grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

8. PRINCIPAL SUBSIDIARIES

The following are the principal subsidiaries as at 30 June 2020 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.

Place of incorporation/ operation	Name of subsidiary	Attributable equity interest to the Group (note a)	Currency	Issued and fully paid share capital/ registered capital (note b)	Principal activities
Austria	Esprit Handels-gesellschaft mbH	100%	EUR	100,000	Wholesale and retail distribution of apparel and accessories
Belgium	Esprit Belgie Retail N.V.	100%	EUR	1,200,000	Retail distribution of apparel and accessories
Belgium	Esprit Belgie Wholesale N.V.	100%	EUR	100,000	Wholesale distribution of apparel and accessories
British Virgin Islands (note d)	Glory Raise Limited	100%	USD	1	Investment holding
British Virgin Islands (note d)	Solution Services Limited	100%	USD	1	Property investment
British Virgin Islands/ Hong Kong	Esprit Global Limited	100%	USD	500	Investment holding
British Virgin Islands/ Hong Kong	Esprit Corporate Services Limited	100%	USD	200	Financial services
British Virgin Islands/ Hong Kong	Esprit IP Limited	100%	USD	1	Holding and licensing of trademarks
British Virgin Islands	Esprit China Distribution Limited	100%	USD	100	Investment holding
British Virgin Islands	Esprit Far East (Investments) Limited	100%	USD	100	Investment holding
British Virgin Islands	Esprit Far East (Sourcing) Limited	100%	USD	100	Investment holding
British Virgin Islands	Esprit Thailand Distribution Limited	100%	USD	100	Investment holding
The People's Republic of China (note c and d)	思環貿易（上海）有限公司	100%	USD	35,000,000	Wholesale, retail, and e-commerce distribution of apparel and accessories
The People's Republic of China (note c and d)	創和捷商貿（北京）有限公司	100%	USD	5,000,000	Retail distribution of apparel and accessories
The People's Republic of China (note c and d)	普思埃商業（上海）有限公司	100%	USD	7,900,000	Retail distribution of apparel and accessories
Denmark	Esprit de Corp Danmark A/S	100%	DKK	12,000,000	Wholesale and retail distribution of apparel and accessories
France	Esprit de Corp. France SAS	100%	EUR	10,373,400	Wholesale and retail distribution of apparel and accessories
Germany	Esprit Europe GmbH	100%	EUR	5,112,919	Management and control function; render of services to Esprit Group
Germany	Esprit Retail B.V. & Co. KG (limited partnership)	100%	EUR	5,000,000	Retail and e-commerce distribution of apparel and accessories
Germany	Esprit Wholesale GmbH	100%	EUR	5,000,000	Wholesale distribution of apparel and accessories
Germany	Esprit Europe Services GmbH	100%	EUR	2,700,000	Sourcing, purchase and sale of merchan-dise, distribution of merchandise and other logistic functions, including customs dealing and quality control; holding and licensing of trademarks
Germany	Esprit Design & Product Development GmbH	100%	EUR	100,000	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
Germany	Esprit Card Services GmbH	100%	EUR	25,000	Issuance, accounting of and service in connection with GiftCard, as provided to certain European group subsidiaries and distribution partners in Europe

Place of incorporation/ operation	Name of subsidiary	Attributable equity interest to the Group (note a)	Currency	Issued and fully paid share capital/ registered capital (note b)	Principal activities
Germany	Esprit Global Image GmbH	100%	EUR	25,000	Design and image directions; conceptualization and development of global uniform image; conceptualization and development of global image direction within product development
Hong Kong	Esprit Asia (Distribution) Limited	100%	HK$	9,000	Investment holding
Hong Kong	Esprit Distribution Limited	100%	HK$	2,000,000	Investment holding
Hong Kong (note d)	Esprit Retail (Hong Kong) Limited	100%	HK$	10,000	Retail distribution of apparel and accessories
Hong Kong (note d)	Esprit Regional Distribution Limited	100%	HK$	10,000	Wholesale distribution of apparel and accessories and provision of services
Hong Kong	Esprit de Corp (Far East) Limited	100%	HK$	1,200,000	Sourcing of apparel and accessories
Hong Kong	Million Success Resources Limited	100%	HK$	2	Investment holding
Hong Kong	Esprit (Hong Kong) Limited	100%	HK$	1	Management and control function; render of services to Esprit Group
Republic of Ireland	Esprit Ireland Distribution Ltd.	100%	EUR	1	Wholesale distribution of apparel and accessories
Italy	Esprit Italy Distribution S.R.L.	100%	EUR	12,750	Wholesale distribution of apparel and accessories
Luxembourg	Esprit Luxembourg S.à r.l.	100%	EUR	250,000	Retail distribution of apparel and accessories
Macau (note d)	Garment, Acessories and Cosmetics Esprit Retail (Macau) Limited	100%	MOP	100,000	Retail distribution of apparel and accessories
Malaysia (note d)	Esprit de Corp (Malaysia) Sdn. Bhd.	100%	MYR	5,000,000	Retail distribution of apparel and accessories
The Netherlands	Esprit Europe Holdings B.V.	100%	EUR	30,000,000	Investment holding
The Netherlands	Esprit Europe B.V.	100%	EUR	1,500,000	Investment holding, wholesale and retail distribution of apparel and accessories, and licensing of trademarks
Norway	Esprit (Norway) A/S	100%	NOK	21,800,000	Wholesale distribution of apparel and accessories
Poland	Esprit Poland Retail Sp. z o.o.	100%	PLN	5,147,200	Retail distribution of apparel and accessories
Singapore (note d)	Esprit Retail Pte Ltd	100%	SGD	3,000,000	Retail distribution of apparel and accessories
Spain	Esprit de Corp. (Spain) S.L.	100%	EUR	10,000	Wholesale distribution of apparel and accessories
Sweden	Esprit Sweden AB	100%	SEK	500,000	Wholesale and retail distribution of apparel and accessories
Switzerland	Esprit Switzerland Retail AG	100%	CHF	500,000	Retail distribution of apparel and accessories
Switzerland	Esprit Switzerland Distribution AG	100%	CHF	100,000	Wholesale distribution of apparel and accessories
United Kingdom	Esprit GB Limited	100%	GBP	1	Wholesale distribution of apparel and accessories
United States	Esprit International (limited partnership)	100%	N/A	N/A	Holding and licensing of trademarks
United States	Esprit International (GP), Inc.	100%	USD	1,000	General partner of Esprit International (limited partnership)

Note a): All subsidiaries were held indirectly by the Company (Esprit Holdings Limited), except Esprit Global Limited.
Note b): All are ordinary share capital unless otherwise stated.
Note c): Wholly foreign owned enterprise.
Note d): Discontinued operations.

07

Ten-Year Financial Summary

BALANCE SHEET

HK$ million	2020	2019	2018	2017	2016
Non-current assets					
Intangible assets	1,641	2,050	2,063	2,851	2,902
Property, plant and equipment	530	1,128	1,571	1,900	2,159
Right-of-use assets	2,206	-	-	-	-
Investment properties	-	27	24	23	19
Financial assets at fair value through profit or loss	10	12	-	-	-
Other investments	-	-	7	7	7
Debtors, deposits and prepayments	345	120	140	174	220
Deferred tax assets	32	559	524	822	745
Net current assets	**712**	**3,101**	**5,005**	**6,091**	**5,829**
Total assets less current liabilities	**5,476**	**6,997**	**9,334**	**11,868**	**11,881**
Equity					
Share capital	189	189	189	194	194
Reserves	2,581	6,524	8,837	11,349	11,203
Total equity	**2,770**	**6,713**	**9,026**	**11,543**	**11,397**
Non-current liabilities					
Bank loans	8	-	-	-	-
Lease liabilities	2,467	-	-	-	-
Retirement defined benefit obligations	26	31	26	-	-
Deferred tax liabilities	205	253	282	325	484
Total non-current liablities	**2,706**	**284**	**308**	**325**	**484**
Total equity and non-current liabilities	**5,476**	**6,997**	**9,334**	**11,868**	**11,881**

Notes:
The Group adopted IFRS 16 with effect from 1 July 2019 and has changed its accounting policies in relation to leases. Under the transition methods chosen, the Group recognizes the cumulative effect of the initial application of IFRS 16 as an adjustment to the opening balance of equity at 1 July 2019. Comparative information in years earlier than 2020 is not restated and in accordance with the policies applicable in those years.

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.

STATEMENT OF PROFIT OR LOSS

HK$ million	2020	2019	2018	2017	2016
Revenue	9,874	12,932	15,455	15,942	17,788
Operating (loss)/profit ((LBIT)/EBIT)	(3,447)	(2,080)	(2,253)	(102)	(596)
Interest income	54	49	58	44	40
Finance costs	(100)	(35)	(31)	(48)	(29)
(Loss)/profit before taxation	**(3,493)**	**(2,066)**	**(2,226)**	**(106)**	**(585)**
Taxation (charge)/credit	(499)	(78)	(328)	173	606
(Loss)/profit attributable to shareholders of the Company	**(3,992)**	**(2,144)**	**(2,554)**	**67**	**21**

As at 30 June

2015	2014	2013	2012	2011
3,031	5,670	5,763	7,613	7,672
2,835	3,972	4,363	4,489	4,415
-	-	-	-	-
17	16	15	13	13
-	-	-	-	-
7	7	7	7	8
240	312	384	402	502
649	615	697	549	808
5,718	**6,979**	**6,158**	**4,348**	**5,225**
12,497	**17,571**	**17,387**	**17,421**	**18,643**
194	194	194	129	129
11,704	16,717	16,402	15,477	16,104
11,898	**16,911**	**16,596**	**15,606**	**16,233**
-	-	-	1,040	1,560
-	-	-	-	-
-	-	-	-	-
599	660	791	775	850
599	**660**	**791**	**1,815**	**2,410**
12,497	**17,571**	**17,387**	**17,421**	**18,643**

For the year ended 30 June

2015	2014	2013	2012	2011
19,421	24,227	25,902	30,165	33,767
(3,683)	361	(4,170)	1,171	692
45	55	51	28	45
(29)	(37)	(30)	(37)	(27)
(3,667)	**379**	**(4,149)**	**1,162**	**710**
(29)	(169)	(239)	(289)	(631)
(3,696)	**210**	**(4,388)**	**873**	**79**

08

Glossary of terms

A

ADR
American Depositary Receipt

AGM
Annual General Meeting

C

CAPEX
Capital expenditure

CGUs
Cash-generating units

Company
Esprit Holdings Limited

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/loss before interest and taxes

EBITDA/LBITDA
Earnings/loss before interest, taxes, depreciation and amortization

E-shop
Online store

Esprit
Esprit Holdings Limited

EUNA
Europe and North America

F

FVTOCI
Fair value through other comprehensive income

FVTPL
Fair value through profit or loss

FX
Foreign Exchange

G

Group
Esprit Holdings Limited ("Esprit" or "the Company") and its subsidiaries

I

IAS
International Accounting Standards

IFRIC
International Financial Reporting Interpretations Committee

IFRS
International Financial Reporting Standards

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

J

JV Agreement
Joint Venture Agreement

L

LCY
Local currency terms

N

NPL
Non-performing loans

O

OPEX
Operating expenses

P

POS
Point of sales

R

Reporting Period
The financial year ended 30 June 2020

Imprint

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