ANNUAL REPORT 06|07

ESPRIT

STOCK CODE 0330

esprit is an international youthful **lifestyle brand** offering **smart**, affordable **luxury** and bringing **newness** and **style to life**

contents

CORPORATE PROFILE

Esprit is an international youthful lifestyle brand offering smart and affordable luxury and bringing newness and style to the life of our customers. The Company and its subsidiaries (the "Group") is engaged in the retail and wholesale distribution of quality lifestyle products designed under its globally recognised Esprit brand, and of cosmetic and body care products under its Red Earth brand. The Group operates over 600 directly managed retail stores and over 13,000 controlled-space wholesale point-of-sales internationally occupying over 867,000m^2 of retail space in more than 40 countries. The Group licenses its trademark to third party licensees that offer licensed products abiding to Esprit's quality standards and brand essence. The Group also provides salon services via Salon Esprit.

The Company has been listed on The Stock Exchange of Hong Kong Limited since 1993 and is a constituent stock of the Hang Seng Index, MSCI Hong Kong Index, FTSE All-World Index for Hong Kong, S&P/HKEx LargeCap Index and S&P Asia 50 Index.

CORPORATE OFFICERS

Heinz Jürgen KROGNER-KORNALIK, Chairman of the Board & Group CEO

John POON Cho Ming, Deputy Chairman & Group CFO

Thomas Johannes GROTE, President – Esprit brand

Jerome Squire GRIFFITH, President – Esprit North America

You can’t buy friends.
You don’t find them on the shelf
and they are not for sale.
They don’t expire after a week.
A friend is someone very special.
Someone you would give everything up for –
and they will do the same for you.
Friends are great, you can talk all night,
take road trips together, and love their dog
as if it was your own.

Friends are friends.
Forever.

YEAR AT A GLANCE

July 23, 2006

Esprit's Summer Party took place in Dusseldorf, Germany during the occasion of Collection Premiere Dusseldorf, one of the most important fashion trade fairs. Esprit had a very special surprise for its guests: for the first time in several years, supermodel Tatjana Patitz was back on the catwalk for the evening show, presenting the latest Esprit lines in a unique show for the senses.

August 18/19 & September 1, 2006

Esprit opened three shop-in-stores in Seoul's leading department stores namely, Lotte Jamsil, Samsung Plaza and Lotte Young Plaza. Fabulous opening events marked the Esprit brand launch in Korea: a press conference and catwalk show were followed by the legendary Esprit Skywalk, which had models walking down the outside walls of the department store. The grand finale were the Esprit Launch Parties.

October 19, 2006

Esprit's Group Finance team successfully hosted its first Investor Relations Day at the Global Business Headquarters in Ratingen, Germany. Over 25 analysts and investors from all over the world attended the Investor Relations Day. Our senior management provided attendees with informative presentations on Esprit's operations. Sell-side analysts have generally given positive feedbacks in their reports published after the event.

November 10, 2006

Esprit Singapore held a grand opening show, in celebration of the new store at Vivo City. A fashion show featuring a preview of our Spring 2007 line was done on an innovative stage built over the beach feature of Vivo City's sky park.

November 29, 2006

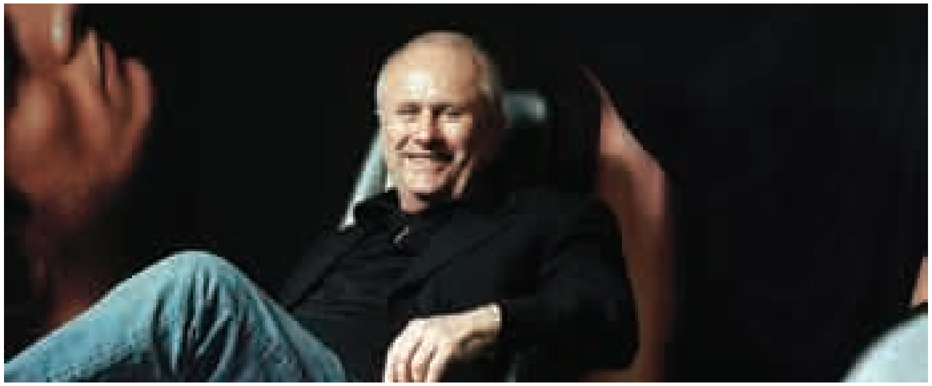
Esprit Academy 2006 continued its sponsorship of young and creative designers. The ideas of the Esprit Academy winner will be integrated into the global Esprit Store design.

December 1, 2006

Esprit launched its first flagship store in Ulaanbaatar, the capital of Mongolia.

December 5, 2006

Heinz Krogner, Executive Director and Group CEO, has been unanimously elected as Chairman of the Board.



December 5, 2006

Esprit opened its first flagship store in Hanoi/Vietnam followed by a large opening event in Ho Chi Minh in March 2007. More Esprit shop-in-stores are planned for Vietnam over the next 5 years.

March 6, 2007

Esprit Skywalk:

A dynamic fashion show to launch the Autumn/Winter line with high-energy choreography and spectacular aerial visuals in Australia.

March 14, 2007

Esprit is the exclusive and official supplier of the Panasonic Toyota Formula 1 Racing Team. Ralf Schumacher and the Panasonic Toyota Formula 1 Team showcased Esprit's new official team suiting at our Esprit store in Melbourne Central.

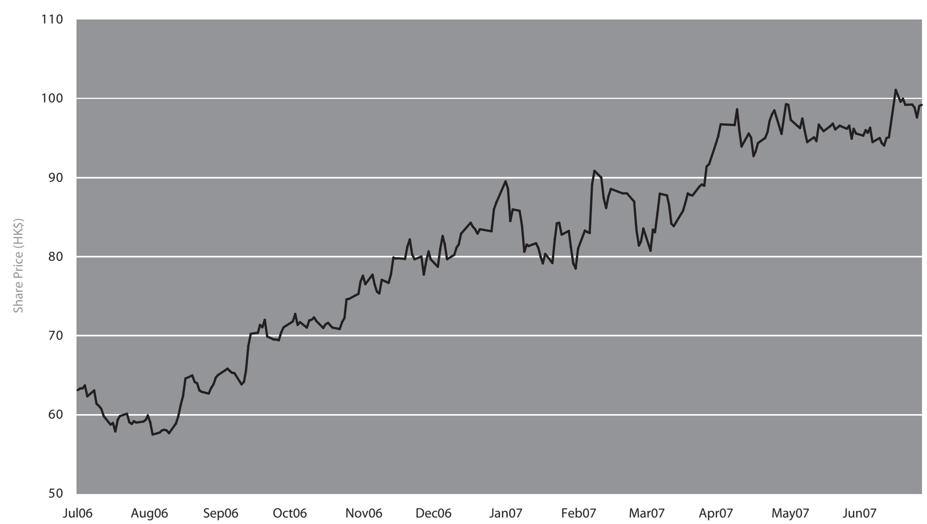
March 2007

edc men, which was set to follow the huge success of edc women range, was launched in Asia. The launch was celebrated with several activities, including in-store give-aways, a launching event, cinema ads as well as a widespread PR campaign.

FINANCIAL HIGHLIGHTS

- **group turnover grew 26.9% to HK$29.6 billion**
- **net profit up 38.6% to HK$5.2 billion**
- **net profit margin improved by 1.5% points to 17.5%**
- **net cash position increased to over HK$5.2 billion**
- **proposed full year dividend payout ratio: 75.4% of EPS**
  final dividend : HK$1.00 per share
  special dividend : HK$1.48 per share

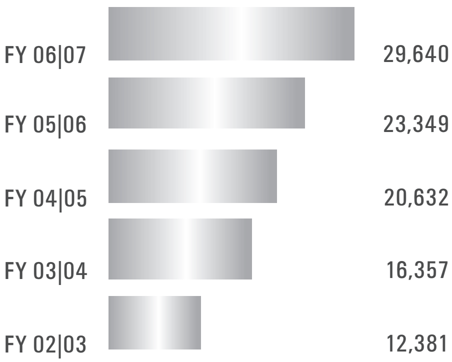
SHARE PRICE PERFORMANCE DURING THE FINANCIAL YEAR



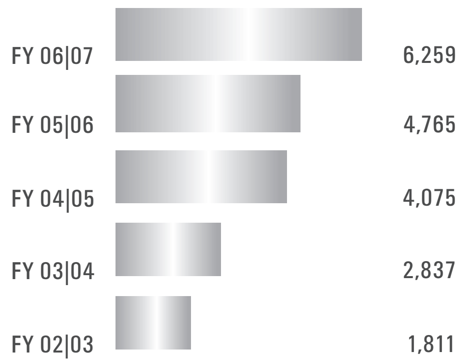
The Company is a constituent stock of the Hang Seng Index, MSCI Hong Kong Index, FTSE All-World Index for Hong Kong, S&P/HKEx LargeCap Index and S&P Asia 50 Index.

FIVE YEAR FINANCIAL HIGHLIGHTS

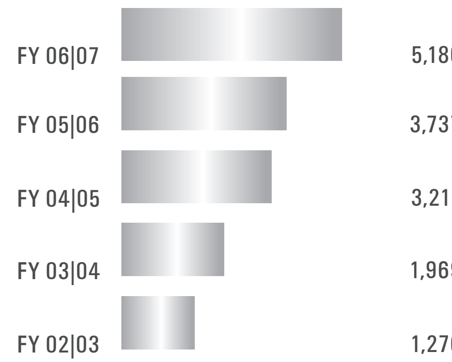
Turnover (HK$ million)



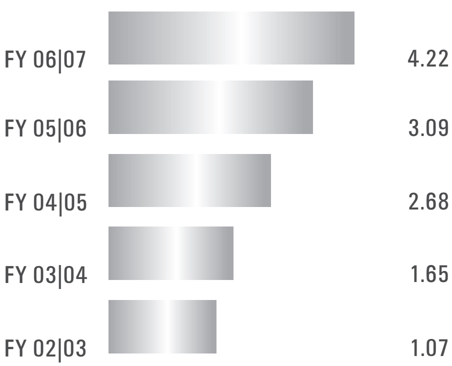
Operating profit (HK$ million)



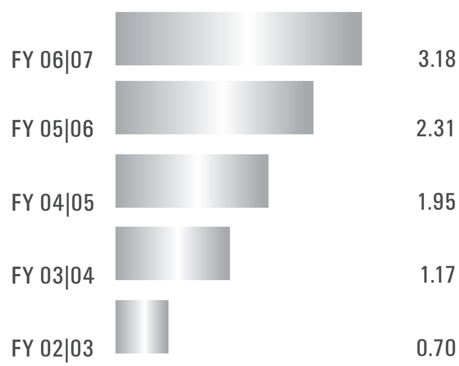
Net profit (HK$ million)



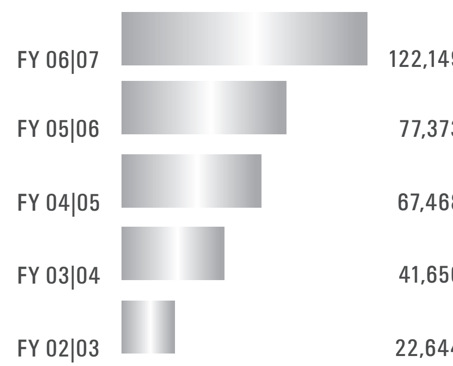
Earnings per share - basic (HK$)



Dividend per share[Δ] (HK$)



Market capitalization* (HK$ million)



Δ include special dividend
* as at financial year end

Key Statistics

year ended June 30	net change	FY 06|07	FY 05|06
operating profit margin	0.7% pt	21.1%	20.4%
net profit margin	1.5% pts	17.5%	16.0%
return on shareholders' equity (ROE)	2.6% pts	48.9%	46.3%
net debt to equity ratio**	n.a.	net cash	net cash
current ratio (times)	0.2	2.5	2.3
financial position (HK$ million)			
net cash inflow from operating activities	71.6%	5,881	3,428
net cash△	111.9%	5,232	2,469
net current assets	62.7%	6,893	4,237
per share data (HK$)			
earnings per share - diluted	36.8%	4.16	3.04
book value per share *	31.5%	9.81	7.46
share information #			
number of share in issue (million)	0.9%	1,231	1,220
market capitalization (HK$ million)	57.9%	122,149	77,373

△ cash and cash equivalents less short-term bank loan
* book value refers to shareholders' funds
** net debt refers to all interest bearing borrowings less cash and cash equivalents
\# as at financial year end
n.a. not applicable

INTERNATIONAL DISTRIBUTION NETWORK ACROSS OVER 40 COUNTRIES

LETTER TO SHAREHOLDERS

Dear shareholders,

Writing to you as Chairman of the Board for the first time, I am delighted to report another outstanding year for Esprit with many accomplishments.

The Group's turnover increased by 26.9% to HK$29.6 billion while basic earnings per share grew by 36.6% to HK$4.22. The net profit margin improved by 1.5% points to 17.5%. Return to shareholder is further enhanced by increasing the total dividend per share, including the amount paid at interim and the proposed final and special dividend, for the year by 37.7% to HK$3.18 totaling HK$3.9 billion.

Our performance in FY2006/2007 has strengthened the Group's foundation to sustain its success in the long-term. We continued in expanding into new markets, widening our distribution network, and broadening our brand and product portfolio in order to extend our geographical and demographical reach.

While we continue to place priorities in Germany, Benelux and France where the Esprit brand is already strong, considerable effort has been put in developing high potential markets, such as Spain, Italy, the Middle East and India, where we are gaining market recognition rapidly. Encouraged by the strong performance in these countries, the Group will continue to commit resources to unlock their full potential. Asia Pacific, on the other hand, has undergone significant recovery with much improved profitability. We will speed up the expansion in this region in the new financial year.

We are excited about the progress we have made in the retail operation. The strong retail sales growth and margin expansion this year provides reassurance to our ongoing retail expansion initiative. With an enhanced merchandising strategy, retail operating margins are expected to further improve along with the right assortments and enhanced operational efficiencies.

Another important milestone of the year was our initiatives in diversifying our brand portfolio. We believe giving edc its own identity will add a whole new dimension to the Group's future. Over time, edc has the potential to expand into new product categories and to grow internationally. Brand management is our core competence; therefore in addition to building our own brands, the group will maintain an open attitude to explore acquisition opportunities in the future.

Our commitment to act responsibly is vital to our success. Not only are we passionate about providing support to worthy causes and giving back to our communities, the Group also places a great deal of emphasis on ethical sourcing practices and continual efforts are made in enforcing this belief with our suppliers and business partners.

Looking ahead, the new financial year marks the 40th anniversary of the Esprit brand. I would like to firstly say thank you to my predecessor, Mr. Michael Ying for having established a solid foundation and for his continued support on the Board as a non-executive director. I would also like to thank my colleagues and staff for all their hard work and dedication which forms the backbone of our growth story. I truly believe Esprit is in the early chapters of an enduring success story. I am confident that we will build on our past achievements and make further important strides towards future growth.

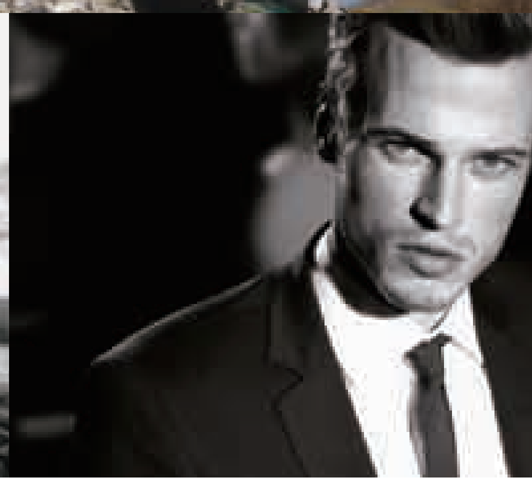
Heinz Jürgen KROGNER-KORNALIK
Chairman & Group CEO
August 29, 2007

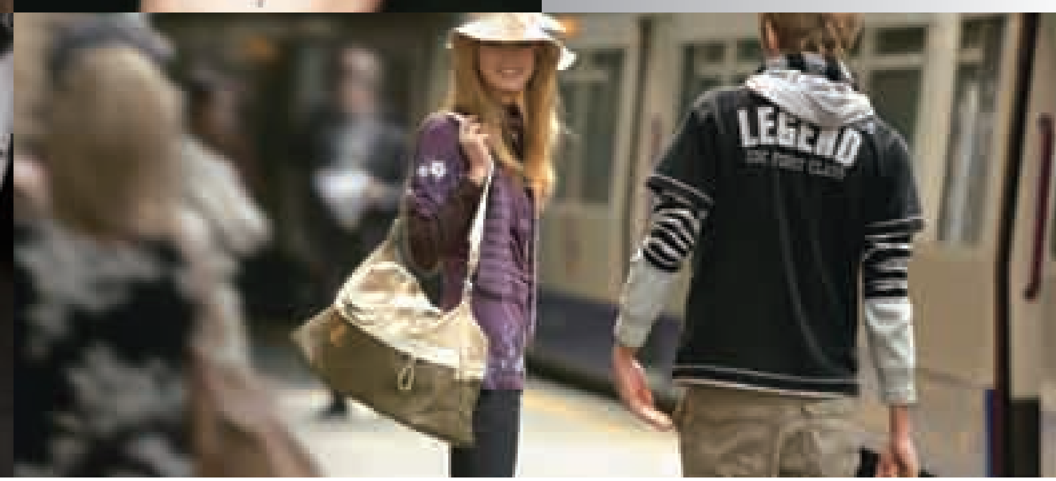
ESPRIT

ESPRIT
collection

ESP
ESPRIT SPORTS

edc
by esprit





OPERATIONS REVIEW

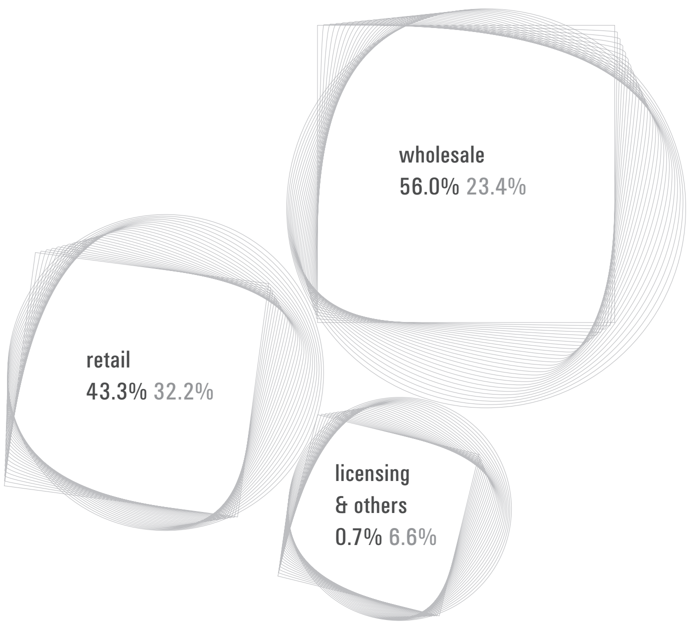
Esprit has once again achieved an excellent set of results, demonstrating our ability to deliver sustainable growth in turnover and earnings. Setting another new record, the Group's turnover reached HK$29.6 billion, an increase of 26.9% in Hong Kong dollar terms. With improving efficiency, the Group's operating profit grew 31.4% to HK$6,259 million.

CHANNELS OF DISTRIBUTION

The Group continued to extend geographical reach through our multi-distribution channels, namely wholesale, retail, and licensing & others. These three channels accounted for 56.0%, 43.3% and 0.7% of the Group's turnover respectively during the financial year.

Benefiting from improving operational efficiency, our retail segment registered an EBIT margin improvement of 2.8% points to 15.1%. Together with a wholesale segment EBIT margin of 26.4%, the Group's operating profit margin recorded an improvement of 0.7% point to 21.1%.

Group turnover by channels of distribution



% of group's turnover % growth from last year

Breakdown of group turnover*

year ended June 30	2007	2006	2005	2004	2003
geographical mix (%)					
europe	86	85	85	84	80
asia pacific	11	12	13	13	18
north america and others	3	3	2	3	2
product mix (%)					
casual women	36	37	39	39	40
casual men	11	10	11	13	13
collection	9	9	10	7	5
shoes	5	5	5	6	7
accessories	5	5	5	5	6
edc women	18	16	13	13	11
edc men	2	2	1	-	-
others**	14	16	16	17	18
channel mix (%)					
wholesale	56	58	58	59	57
retail	43	41	41	40	41
licensing and others	1	1	1	1	2

* excludes inter-segment revenue
** others includes kids, sports, bodywear, salon, licensed products and red earth

Wholesale

After experiencing a challenging first half of the financial year, wholesale sales were back on track in the second half of the financial year following the removal of the uncertainty in relation to German value-added tax ("VAT") rate increase in January 2007. The Group's wholesale operation recorded an improving turnover growth rate, from 17.1% in the first half of the financial year, to 23.4% for the full year. This strong turnover growth was supported by both the stable performance in the core markets as well as the impressive performance in the new markets. Germany, our largest wholesale market, reported turnover growth of 21.2%, driven by the continuous wholesale network expansion in which there was a net addition of 881 controlled-space wholesale point-of-sales during the year. At the same time, Esprit's high growth wholesale markets, such as Italy and Spain, also delivered impressive turnover growth rates at 49.3% and 72.0% with total controlled-space wholesale point-of-sales of 346 and 184 respectively.

As at June 30, 2007, the Group had over 629,000m^2 controlled wholesale space, a net increase of over 104,000m^2 or 20.0% increase from June 30, 2006. During the financial year, the Group's total controlled-space wholesale point-of-sales increased by 1,636 to 13,095, comprised of 1,176 partnership stores, 4,090 shop-in-stores and 7,829 identity corners.

Wholesale turnover by region

europe	92.8%	22.7%
asia pacific	6.4%	35.9%
north america	0.8%	16.7%

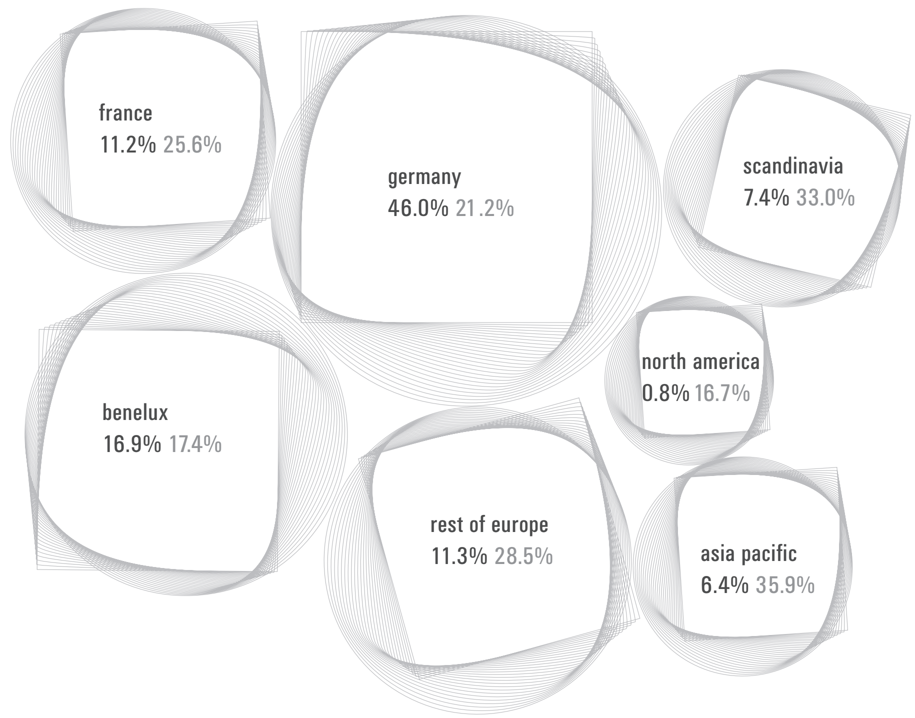
% group's wholesale turnover % growth from last year

Wholesale performance scorecard

	FY 06|07	FY 05|06
YoY sales growth	23.4%	13.1%
segment EBIT margin*	26.4%	28.1%
no. of controlled-space POS	13,095	11,459
net change in controlled wholesale space	20.0%	18.4%

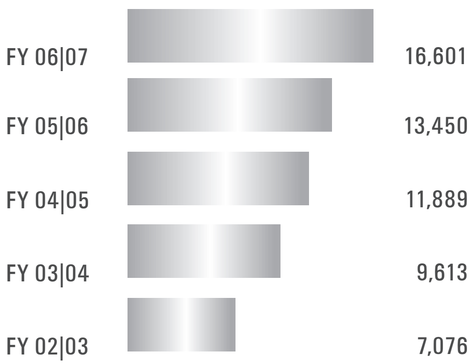
* segment EBIT margin excluding inter-segment licensing expense

Wholesale turnover by major market

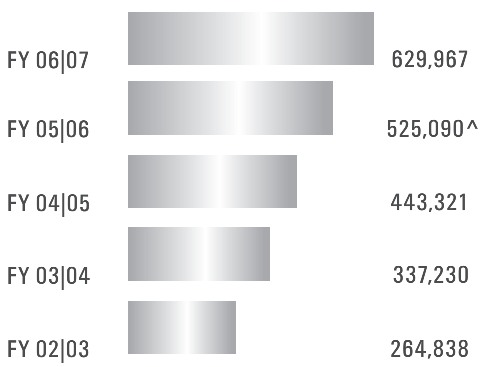


% of group's wholesale turnover % growth from last year

Wholesale turnover (HK$ million)



Controlled wholesale space (m²)



^ controlled wholesale space area of FY2005/2006 has been restated to 525,090 sq.m. from 540,025 sq.m. as shown in the FY2005/2006 annual report as a result of restating from gross sales area to net sales area of certain controlled-space wholesale point-of-sales

Key wholesale distribution channels (controlled-space only)

as at June 30, 2007	partnership stores no. of stores	partnership stores sales area sq. m.	partnership stores net change in sales area*	shop-in-stores no. of stores	shop-in-stores sales area sq. m.	shop-in-stores net change in sales area*	identity corners I others no. of stores	identity corners I others sales area sq. m.	identity corners I others net change in sales area*
europe	928	198,526	33.5%	3,909	162,153	15.5%	6,722	150,405	9.7%
germany	315	76,508	34.8%	3,091	133,651	15.5%	3,966	89,293	9.6%
france	195	26,365	45.0%	335	9,352	12.1%	413	10,854	29.2%
scandinavia	67	21,293	40.4%	99	4,213	-0.9%	782	12,671	19.9%
austria	101	19,480	18.1%	58	2,757	37.6%	164	3,947	31.7%
the netherlands	82	18,963	21.9%	25	898	126.2%	447	10,857	1.2%
belgium	64	15,891	17.0%	91	4,008	6.4%	437	10,450	2.2%
switzerland	45	9,624	34.9%	29	1,561	50.1%	103	2,645	-45.7%
italy	40	6,418	91.7%	9	577	26.3%	297	7,678	28.0%
great britain	14	2,914	58.7%	41	2,104	7.2%	65	1,537	7.0%
spain	5	1,070	82.3%	131	3,032	20.4%	48	473	29.2%
asia pacific	248	46,561	17.0%^	149	7,853	22.9%^	914	64,469	22.2%^
china**	75	20,395	3.3%^	8	162	-41.1%^	677	63,415	21.8%^
the middle east	59	10,551	36.9%	5	1,118	12.5%	8	78	62.5%
thailand	30	3,926	9.7%	84	3,328	-3.8%	21	237	-18.0%
philippines	16	2,076	-17.7%	-	-	-	3	3	n.a.
korea	-	-	-	4	403	n.a.	26	182	18.2%
japan	1	94	-19.7%	-	-	-	-	-	-
others	67	9,519	55.6%	48	2,842	71.1%	179	554	149.5%
north america	-	-	-	32	n.a.	n.a.	193	n.a.	n.a.
canada	-	-	-	32	n.a.	n.a.	193	n.a.	n.a.
group total	**1,176**	**245,087**	**30.0%^**	**4,090**	**170,006**	**15.8%^**	**7,829**	**214,874**	**13.2%^**

* net change from June 30, 2006
** managed by china joint venture or its franchise partners
n.a. means not applicable or stores/identity corners opened in FY2006/2007
^ the sales areas of partnership stores, shop-in-stores and identity corners of china (including esprit and red earth stores) as at June 30, 2006 shown in the annual report of FY2005/2006 were restated from gross sales areas to net sales areas. as at June 30, 2006, the gross sales areas of partnership stores, shop-in-stores and identity corners of china were 24,177 sq.m., 321 sq.m. and 62,494 sq.m. respectively, and the net sales areas of partnership stores, shop-in-stores and identity corners of china were restated to 19,738 sq.m., 275 sq.m. and 52,044 sq.m.,respectively. the above net changes in sales area of china were calculated based on the restated net sales areas as at June 30, 2006.

OPERATIONS REVIEW

Retail

The Group believes the retail model is an effective tool to increase brand awareness. This involves selecting prime store locations, continual uplifting of store image and improving store layout.

Fueled by a strong comparable-store-sales growth of 19.8%, the Group's retail operation delivered a strong turnover growth of 32.2% to HK$12,828 million, representing 43.3% of the Group's turnover. The enhanced merchandising strategy and increased popularity of our brand were the key drivers behind the robust retail turnover growth.

During the financial year, the Group invested around HK$500 million in opening 90 new directly managed retail stores and refurbishing the existing directly managed retail stores. Among these new directly managed retail stores, 52 were located in Asia Pacific while 30 and 8 were located in Europe and North America respectively. At the same time, 154 directly managed retail stores were closed during the financial year, with 51 and 71 of these closed stores being Esprit stores in Australia and Red Earth counters in Asia respectively. As at June 30, 2007, the Group had 604 directly managed retail stores with 237,719m^2 retail selling space worldwide.

On-line shopping is a global trend. We foresee a bright future in this channel of distribution and therefore have integrated internet sales as part of our distribution strategy. We will continue to roll out on-line shopping platform internationally to capitalize on such trend.

Retail turnover by region

europe	78.9%	39.2%	23.4%$^{\Delta}$
asia pacific	16.9%	9.8%	2.5%$^{\Delta}$
north america	4.2%	18.4%	11.0%$^{\Delta}$

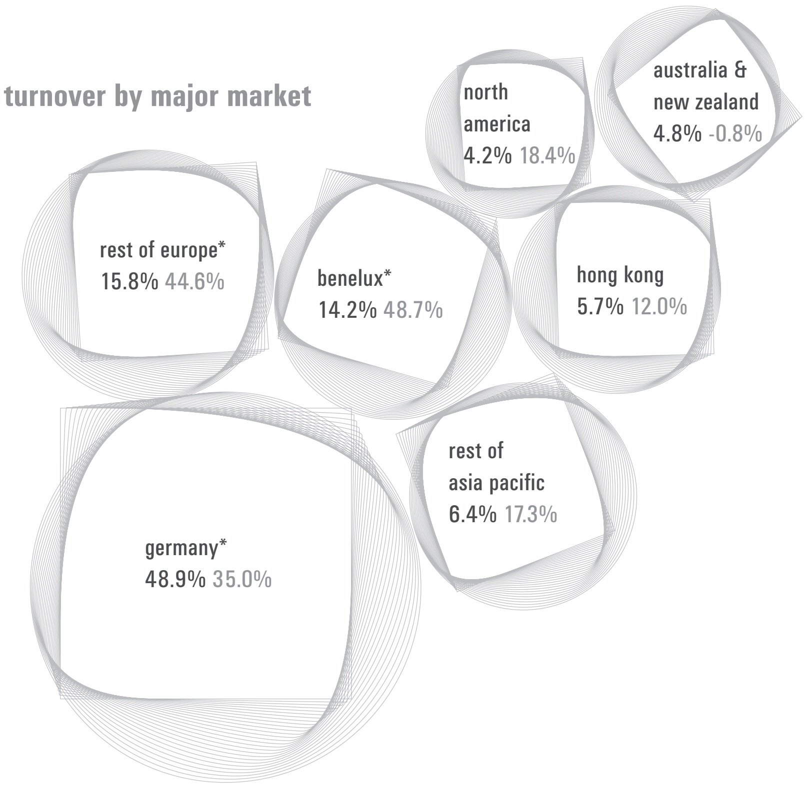
% group's retail turnover % growth from last year
Δ comparable-store-sales growth from last year

Retail performance scorecard

	FY 06|07	FY 05|06
YoY sales growth	32.2%	13.5%
segment EBIT margin*	15.1%	12.3%
no. of POS**	604	668
net change in sales area	6.1%	15.9%
comparable-store-sales growth	19.8%	9.0%

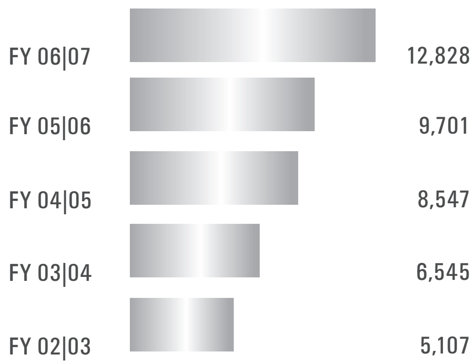
* segment EBIT margin excluding inter-segment licensing expense
** calculation excludes salon

Retail turnover by major market

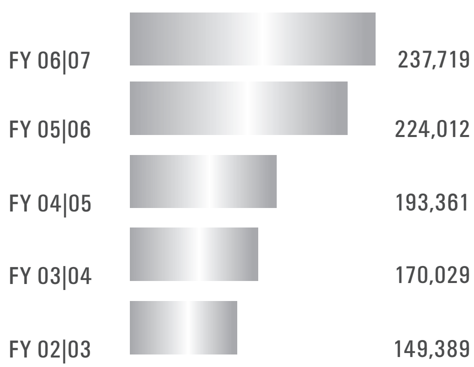


% of group's retail turnover % growth from last year
* restated FY2005/2006 retail turnover to reflect e-shop turnover in the originating country of sales in europe

Retail turnover (HK$ million)



Retail selling space (m²)



Key retail distribution channels

	directly managed stores		
as at June 30, 2007	no. of stores	sales area sq.m.	net change in sales area *
europe	**263**	**160,332**	**11.6%**
germany	125	91,563	10.8%
the netherlands	39	14,739	17.7%
belgium	20	14,300	2.2%
france	27	11,083	16.6%
switzerland	28	9,931	11.3%
austria	9	9,005	7.7%
great britain	10	6,489	8.9%
denmark	3	2,073	61.8%
luxembourg	2	1,149	129.8%
asia pacific	**277**	**53,880**	**-7.7%**
australia & new zealand	110	19,579	-23.4%
hong kong	26	11,994	-14.9%
taiwan	82	7,744	-1.9%
singapore	26	7,449	34.6%
malaysia	30	5,853	23.5%
macau	3	1,261	117.8%
north america	**64**	**23,507**	**7.0%**
canada	46	15,772	-1.4%
u.s.	18	7,735	29.7%
group total**	**604**	**237,719**	**6.1%**

* net change from June 30, 2006
** include esprit & red earth stores, but exclude salon


DIVISION STYLE

Licensing

Working with around 30 licensees, our licensing operation offered over 30 categories of Esprit licensed products to consumers worldwide. Fragrance, Eyewear, Timewear and Jewelry are the major licensed product categories. During the financial year, the Esprit golf line was also successfully launched in the China market. In future, we will launch maternity licensed product category and expand the home product category range.

Key licensed product category

as at June 30, 2007	Europe	Asia Pacific	North America	Latin America
baby carriages	■	■	■	
baby furniture	■	■		
bathroom	■			
bedding	■	■	■	
belts			■	
carpets	■	■		
custom jewelry edc	■		■	
down	■	■		
eyewear	■	■	■	■
fragrance	■	■	■	■
furniture	■			
glassware	■	■		
golf		■		
home	■	■	■	■
jewelry	■	■		
kids' accessories			■	
kids apparel			■	
kids' bedding	■	■		
kids' shoes		■	■	
lighting	■	■		
maternity	■			
outerwear			■	
school	■			
shoes		■		
sleepwear/daywear			■	
socks + tights edc	■			
socks + tights Esprit	■	■	■	■
soft toys	■			
stationary	■	■		
swimwear			■	■
timewear	■	■	■	■
towels	■	■	■	
umbrellas	■	■		
wallpaper	■			

OPERATIONS REVIEW

REGIONS

Europe

During the financial year, our turnover in Europe rose by 28.8% to HK$25,573 million, accounted for 86.2% of the Group's turnover. The region remained our largest wholesale and retail market. Our wholesale turnover in Europe grew 22.7% to HK$15,401 million, driven by the net addition of over 1,200 controlled-space wholesale point-of-sales or over 84,000m^2 controlled wholesale space. Our retail turnover in Europe grew even stronger by 39.2%, backed by the strong comparable-store-sales growth of 23.4% and an increase of 11.6% or 16,672m^2 in retail selling space.

In general, all our European markets delivered strong results in the financial year. Germany and Benelux, our core markets, delivered solid turnover growth rates of 27.1% and 28.0% respectively, as we continued to grow our wholesale and retail distribution networks in these markets. Despite of the increase of VAT rate in Germany, the country reported a respectable wholesale and retail turnover growth rates of 21.2% and 35.0% which were driven by 17.9% increase in controlled wholesale space and 10.8% increase in retail selling space respectively, plus 22.0% comparable-store-sales growth. France, our third largest market in Europe, also continued to report a robust turnover growth rate of 35.3% driven by additional sales contribution from new retail selling space, which increased by 16.6% and represented 11.5% of the total net new retail selling space of the Group.

Besides the strong performance reported in our core markets, the Group continued to expand its geographical footprint in emerging markets. During the financial year, impressive turnover growth rates of 26.8%, 49.3% and 72.0% were recorded in the UK, Italy and Spain respectively. Also, the Group has established a number of new wholesale partnerships in Eastern Europe.

Asia Pacific

Asia Pacific contributed 11.4% of the Group's turnover, delivered a stable turnover growth of 16.6%. Our core Asian retail market continued to recover with improving profitability, driven by store renovation that helped improving the brand image in such market. Taiwan has recorded negative turnover growth from last year at -5.6% but we saw pick up in the second half of the financial year. Encouraging results were also found in Australia and New Zealand following the ongoing restructuring of their operations. Turnover growth in these countries improved from -11.4% in the first half of the financial year to 9.2% in the second half. Riding on these positive signs, the Group will accelerate its retail expansion in Taiwan, Australia and New Zealand in the next financial year.

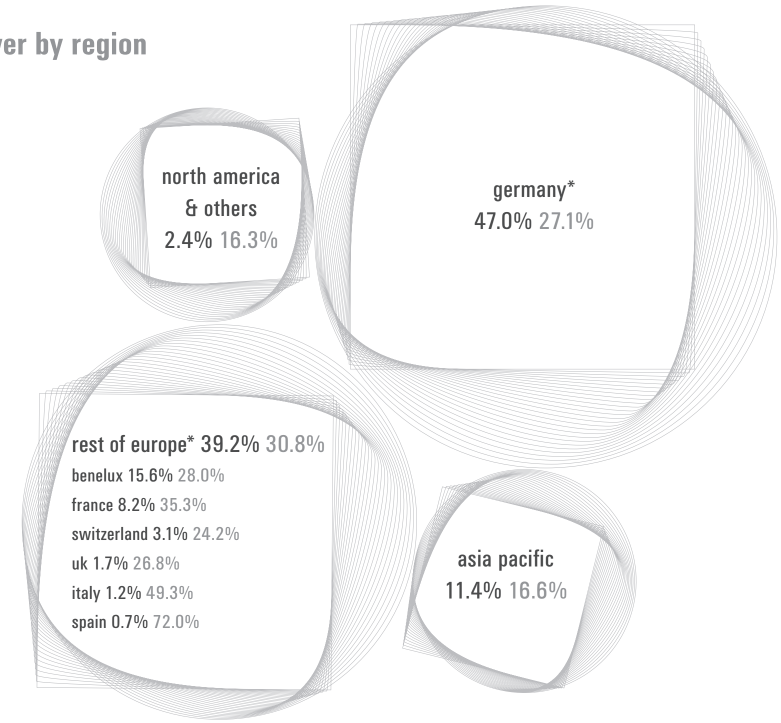
Relentless efforts in nurturing new markets are also bearing fruits. Under close cooperation with our business partners, we expanded our controlled wholesale space in India and the Middle East by adding 10 and 29 controlled-space wholesale point-of-sales to 14 and 61 respectively during the financial year, and remarkable turnover growth was posted by these countries at 135.0% and 48.8% respectively. The Group also entered new partnerships in Korea with a net opening of 8 controlled-space wholesale point-of-sales during the financial year. The Group sees huge growth potential in these Asian markets going forward.

North America and others

North America and others, represented 2.4% of the Group's turnover during the financial year, recorded a stable turnover growth rate of 16.3% to HK$700 million. North America retail and wholesale operations recorded turnover growth rates of 18.4% and 16.7% respectively. During the financial year, the Group opened 8 new directly managed retail stores, bringing the total number of directly managed retail stores to 64. On the wholesale front, the Group continued its expansion through partnering with local department stores.

The Group will continue its investment to further strengthen our presence in the region. The Group plans to open over 10 new directly managed retail stores in the region in the new financial year, including the opening of a new flagship store in the Fifth Avenue, New York, during the first half of the next financial year. The Group also believes the continuous development of our retail distribution network is an effective way to rebuild recognition of the Esprit brand to our target customers, which also complements the wholesale development in the region.

Turnover by region



% of group's turnover % growth from last year

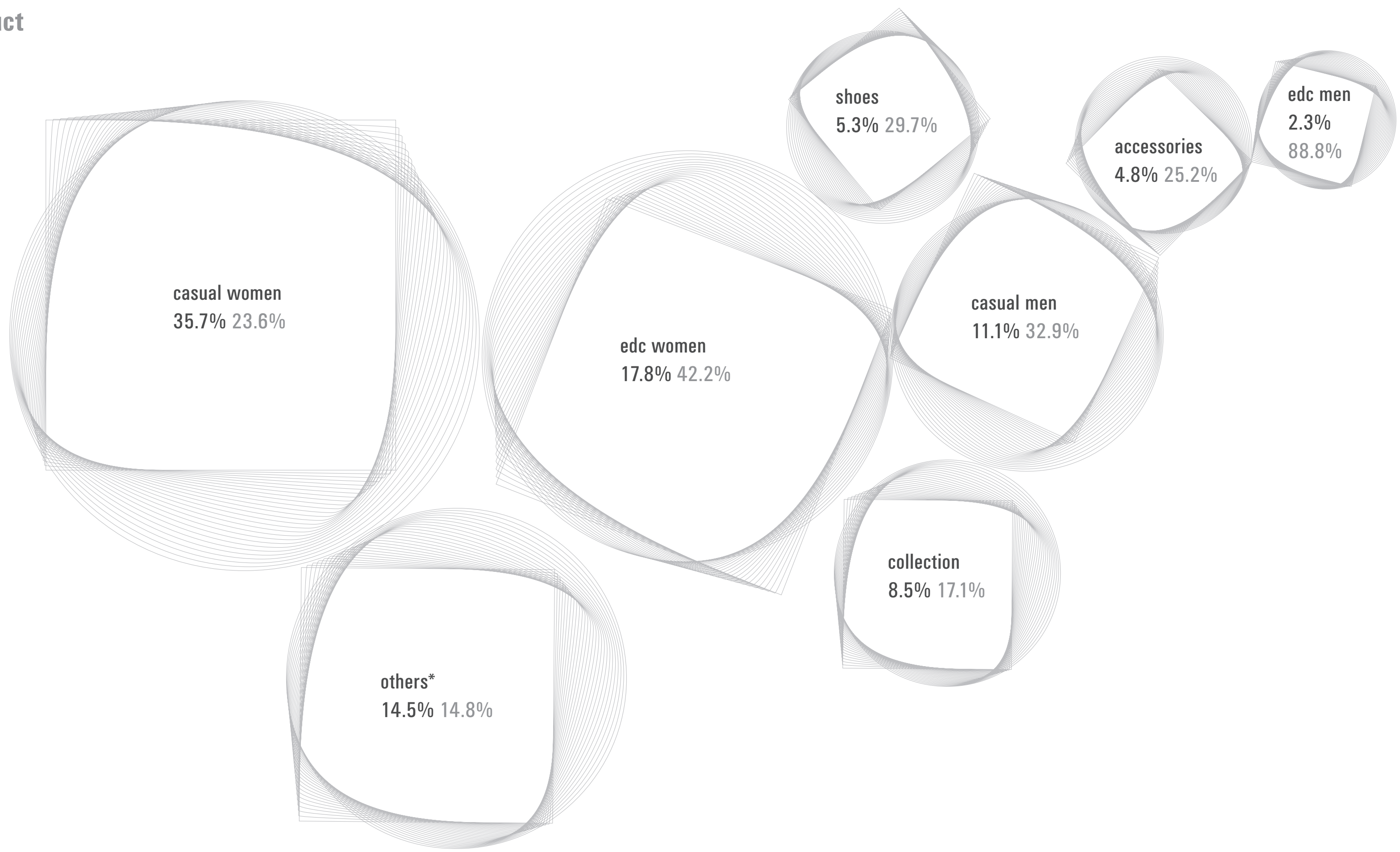
* restated FY2005/2006 retail turnover to reflect e-shop turnover in the originating country of sales in europe

PRODUCTS

During the financial year, all key Esprit and edc product divisions recorded double digit percentage turnover growth rates, with edc posting the highest turnover growth rate of 46.4%. Compared with the Group's turnover growth rate of 26.9%, inventory only grew by less than 10% demonstrating improved inventory control and increasing popularity of our products. The Group's commitment to expand the brand and product portfolio was reflected by branching out edc from Esprit as a separate brand.

During the financial year, Casual Women remained the largest product category of the Group followed by edc Women. Thanks to the increasing popularity of the edc brand, both edc Women and edc Men recorded remarkable turnover growth rates and they collectively accounted for 20.1% of the Group's turnover during the financial year, up from 17.4% as recorded in the last financial year. The recent launch of edc shoes, a line of cool, fresh and lively design shoes, will further strengthen the edc product portfolio and growth momentum in future.

Turnover by product



% of group's turnover % growth from last year

* others includes kids, sports, bodywear, salon, licensed products and red earth

FINANCIAL REVIEW

Turnover

During the financial year, the Group continued to benefit from its strong organic growth, achieving double digit percentage turnover growth rate of 26.9% to HK$29.6 billion. While Europe remains the major driver, it is encouraging to see that both Asia Pacific and North America also contributed to this strong turnover growth.

Profitability

The Group's operating profit increased by 31.4% to HK$6,259 million, with operating profit margin moving up modestly by 0.7% point to 21.1%, mainly due to the EBIT margin improvement of the retail segment.

Our China associated companies also recorded satisfactory results during the financial year. Their profit contribution increased from HK$84 million to HK$130 million due to strong turnover growth and an improving EBIT margin.

The Group's earnings before tax rose to HK$6,538 million, representing an increase of 33.8% from the last financial year. The overall effective tax rate was lowered for the financial year mainly due to an one-time tax provision write-back arising out of final determination of tax dispute in Germany. With higher turnover, expanded margins and lower overall effective tax rate, net earnings of the Group increased by 38.6% to HK$5,180 million and net earnings margin expanded by 1.5% points to 17.5%. Return on asset ratio expanded by 2.0% points to 34.7% while return on equity improved by 2.6% points to 48.9% from that of the last financial year.

Earnings Per Share

Based on the 1,226,436,242 weighted average number of ordinary shares in issue during the financial year, the basic earnings per share were HK$4.22, an increase of 36.6% from the last financial year.

Liquidity and Financial Resources

Our liquidity and financial position continued to improve. As at June 30, 2007, the Group had a net cash balance of HK$5,232 million, an increase of 111.9% from June 30, 2006. This strong financial position is mainly a result of increasing net cash inflow from operating activities, which increased by 71.6% over the last financial year to HK$5,881 million.

As at June 30, 2007, the Group had no long-term bank borrowings and did not pledge any assets as security for overdraft or any short-term revolving facility. Our debt-to-equity ratio (interest bearing external borrowings divided by shareholders' funds) was 0% while our current ratio (current assets divided by current liabilities) improved to 2.5 as at June 30, 2007 (June 30, 2006: 2.3).

Foreign Exchange

To minimize our foreign exchange exposure on sourcing costs for merchandise produced for Europe in Asia, most of the suppliers in Asia were asked to quote and settle in Euros. In addition, the Group entered into foreign exchange forward contracts with major and reputable financial institutions to hedge foreign exchange risk. The notional amount of outstanding forward contracts amounted to HK$948 million as at June 30, 2007, a decrease of HK$384 million over the balance of HK$1,332 million as at June 30, 2006.

Human Resources

As at June 30, 2007, the Group employed over 9,600 staff (June 30, 2006: 8,400), after converting to full-time position terms, around the globe. Remuneration packages that take into account of business performance, market practices and competitive market conditions are offered to employees in compensation for their contributions. In addition, share options and discretionary bonuses are also granted based on the Group's and individual's performances. Employees are connected through the Group's quarterly newsletters and global intranet.

Dividends

With the strong profitability and our solid financial position, the Board is pleased to recommend the distribution of a final dividend of HK$1.00 per share (FY2005/2006: HK$0.73) and a special dividend of HK$1.48 per share (FY2005/2006: HK$1.08) for the year ended June 30, 2007. Subject to the approval of shareholders of the Company at the forthcoming annual general meeting, the dividends will be payable on or about Friday, December 7, 2007 to the shareholders whose names appear on the Registers of Members of the Company at close of business on Tuesday, December 4, 2007. The relevant dividend warrants will be despatched to shareholders on or about Thursday, December 6, 2007.

The total dividend, including the interim dividend paid and the proposed final and special dividends, represents a total full year dividend payout ratio of 75.4% (FY2005/2006: 74.8%). The Board will continue to review the Group's financial position and capital needs every year in deciding its dividend recommendation going forward.

PROSPECTS

The success of the Esprit brand and our competence in brand management has enabled us to generate respectable growth over the past years. Looking ahead, we will continue to focus on 1) expansion of our distribution network, 2) further development in high growth potential markets, and 3) expansion of brand and product range, to drive sustainable and profitable growth.

We see vast potential for expansion in our core markets. Over HK$1 billion will be spent on opening new stores and renovating existing stores with a planned net addition of over 100 new directly managed retail stores or 31,000m^2 retail selling space. On the other hand, over 2,000 new controlled-space wholesale point-of-sales are expected to be added with over half of the new controlled wholesale space being partnership stores, which are relatively bigger in size and more instrumental in brand building.

Riding on our strong brand equity in Europe, the Group will continue focusing on developing high growth potential markets such as France, the UK, Spain and Scandinavia. With brand building being a top priority, these markets will speed up their retail network expansion with a total net increase of over 9,000m^2 retail selling space. Over 15 new directly managed retail stores are planned in France. In the UK, we will expand our reach outside London to Manchester, Liverpool and Glasgow. In Spain, we will have flagship stores in Barcelona and Madrid. For Scandinavia, retail stores roll-out are planned in Finland, Norway and Denmark. In Asia Pacific, while Hong Kong remains our focus retail market, retail expansion will resume in Taiwan and Australia with a net addition of approximately 5 and 30 new directly managed retail stores in these locations respectively. Last but not least, we will continue to explore growth opportunities with our partners in Spain, Italy, India and the Middle East.

We believe diversifying our brand portfolio is crucial to the long-term success of the Group. Therefore, we see the separation of edc from Esprit a major milestone for the Group. As at June 30, 2007, there were around 13 standalone edc stores located in Germany, Benelux and Switzerland and new edc standalone stores are planned in France, Austria, Hong Kong and India in the new financial year. In addition, edc has teamed up with MTV to produce a multi-national promotional campaign that will be launched in Europe and the Asia Pacific region in the first half of the new financial year. We are very excited about this major event as we believe this marketing campaign will help further strengthen edc's brand positioning and distinguish its identity to its target customers. While we will continue to enrich edc product portfolio, a new product line under the Esprit family, "de.corp ESPRIT URBAN CASUAL" will be launched in Spring 2008. Furthermore, the Group has adopted an open attitude to explore acquisition opportunities. Enhancing shareholder value will be our key consideration in assessing any potential transaction.

Entering the new financial year, the Group targets to maintain the growth momentum and a stable operating profit margin. Wholesale orders booked to December 2007 showed a mid-teen percentage year-on-year growth. As a consequence of the recent tax reform in Germany, the Group's effective tax rate is expected to be reduced by 2-3% points going forward provided that there is no material change in circumstances. The Group is confident in its proven business model that enables us to overcome new challenges in the increasingly competitive operating environment and sustain our performance in the years to come.

KEY FINANCIAL DATA

year ended June 30	2007	2006	2005	2004	2003
operating results+ (HK$ million)					
turnover	29,640	23,349	20,632	16,357	12,381
operating profit	6,259	4,765	4,075	2,837	1,811
profit attributable to shareholders	5,180	3,737	3,211	1,969	1,276
per share data+ (HK$)					
earnings per share - basic	4.22	3.09	2.68	1.65	1.07
dividend per share++	3.18	2.31	1.95	1.17	0.70
key statistics+ (HK$ million)					
shareholders' funds	12,081	9,107	7,039	5,415	4,192
working capital	6,893	4,237	2,728	1,964	2,027
cash position (net of overdraft)	5,232	2,469	1,729	1,758	2,097
term loans	-	250	-	-	776
other data					
number of directly managed stores#	607	671	634	562	569
directly managed selling space (sq.m.)#	239,400	225,693	195,042	172,343	152,108
number of controlled-space POS	13,095	11,459	9,751	7,970	6,459
controlled-space sales area (sq.m.)	629,967	525,090^	443,321	337,230	264,838
capital expenditure (HK$ million)	615	838	1,236	662	333
number of employees ##	9,617	8,400	7,720	6,796	5,751
key ratios+					
return on shareholders' equity (ROE)###	48.9%	46.3%	51.6%	41.0%	35.3%
return on total assets (ROA)*	34.7%	32.7%	34.8%	24.7%	19.1%
net debt to equity**	net cash	net cash	net cash	net cash	net cash
interest cover (times)	21,363	3,370	2,125	132	57
current ratio (times)	2.5	2.3	2.0	1.7	1.9
inventory turnover period***(days)	55	54	47	45	51
operating profit before depreciation and amortization margin	23.1%	22.7%	21.9%	19.4%	16.8%
operating profit margin	21.1%	20.4%	19.8%	17.3%	14.6%
earnings before taxation margin	22.1%	20.9%	20.2%	17.8%	15.1%

+ the group adopted IFRS retrospectively with effect from July 1, 2002. the financial information is prepared in accordance with IFRS
++ calculated after including the HK$1.48 special dividend for FY2006/2007, HK$1.08 special dividend for FY2005/2006, HK$0.84 special dividend for FY2004/2005, HK$0.50 special dividend for FY2003/2004 and HK$0.30 special dividend for FY2002/2003
# include esprit, red earth stores and salon
after converting the part-time positions into full-time positions based on working hours
calculated based on net earnings as a percentage of average shareholders' equity
* calculated based on net earnings as a percentage of average total assets
** net debt refers to all interest bearing borrowings less cash and cash equivalents
*** calculated as average inventory (excluding consumables) over cost of goods sold for the year
^ controlled wholesale space area of FY2005/2006 has been restated to 525,090 sq.m. from 540,025 sq.m. as shown in the FY2005/2006 annual report as a result of restating from gross sales area to net sales area of certain controlled-space wholesale point-of-sales


ROCK 'N' ROL
Atti tude

Esprit is committed in achieving high standards of corporate governance. The Esprit Corporate Governance Code was adopted by the board of directors (the "Board" or the "Director(s)") of the Company aiming at providing greater transparency, quality of disclosure as well as more effective risk control. 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.

Our commitment to excel in corporate governance is manifested in three major set-ups, namely, (1) the Board; (2) internal control and risk management; and (3) channels for shareholders participation.

THE BOARD

Between the Board and shareholders

The Board's primary role is to protect and enhance long-term shareholder value. It focuses on the Group's overall strategic policy, monitors performance and provides proper supervision to ensure proper business conduct and effective management of the highest quality. The Board views that the collective and individual responsibilities of the Directors to all shareholders for the manner in which the affairs of the Company are managed, controlled and operated are important.

Between the Board and management

The Board has delegated the authority and responsibility for implementing business strategy and managing the day-to-day operations of the Group's business to the management. While allowing management substantial autonomy to run and develop the business, the Board plays a key role in structuring and monitoring the reporting systems and internal controls.

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 a framework of prudent and effective internal controls is in place to enable risks to be assessed and managed;
- Monitoring the quality and timeliness of external reporting; and
- Monitoring the compliance with applicable laws and regulations, and also with corporate governance policies

Additional features of our Board

Membership

The Board comprises nine Directors, including the Chairman of the Board. Four of them are Executive Directors. The remaining are Non-executive Directors of whom three are independent. The Non-executive Directors come from diverse business and professional backgrounds, bringing in valuable expertise and experience that promote the best interests of the Group and its shareholders. Independent Non-executive Directors ensure the Board accounts for the interests of all shareholders and subject matters are considered in an objective manner. The Company has received confirmation from each Independent Non-executive Director about his independence as set out in Rule 3.13 of the Listing Rules and continues to consider each of them to be independent.

Under the code provision A.4.1 of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), Non-executive Directors should be appointed for a specific term, subject to re-election. Non-executive Directors of the Company have not been appointed for a specific term. However, under Bye-law 87 of the Company's Bye-laws, all Directors, including Non-executive Directors, of the Company are subject to retirement by rotation and re-election in the annual general meeting of the Company ("AGM") and each Director is effectively appointed under an average term of three years.

Under the Company's Bye-laws, one-third of the Directors must retire, thus becoming eligible for re-election at each AGM. This year, Messrs. John POON Cho Ming, Jerome Squire GRIFFITH and Alexander Reid HAMILTON will retire at the forthcoming AGM and all being eligible to offer themselves for re-election. Their biographical details will be set out in the circular to shareholders to assist shareholders in making an informed decision on their re-elections. None of the Directors 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).

Mr. John POON Cho Ming and Mr. Jerome Squire GRIFFITH have entered into service contracts with members of the Group that do not provide for a fixed term of service and can be terminated by the Company by giving a period of notice of not more than one year.

Mr. Alexander Reid HAMILTON has not entered into a service contract with any member of the Group. He has no fixed term of service with the Company and is subject to retirement by rotation and re-election in accordance with the Company's Bye-laws.

Board Committees

To oversee particular aspects of the Company's affairs and to assist in the execution of its responsibilities, the Board has established four Board Committees, namely Audit Committee, Nomination Committee, Remuneration Committee and General Committee. Non-executive Directors play an important role in these committees to ensure independent and objective views are expressed and to promote critical review and control.

Terms of reference of the Audit Committee, the Nomination Committee and the Remuneration Committee are available on the Company's website. A summary of the membership and responsibilities of each committee is included below:

Audit Committee

Audit Committee – members

Alexander Reid HAMILTON (Chairman)
Paul CHENG Ming Fun
Jürgen Alfred Rudolf FRIEDRICH
Raymond OR Ching Fai

Responsibilities
- Provide an independent review of the effectiveness of the financial reporting process and the internal control and risk management systems;
- Review of financial information of the Company; and
- Oversee the audit process and perform other duties as assigned by the Board

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. During the financial year, the Audit Committee reviewed the interim results and the annual results of the Group for the year ended June 30, 2007 as well as the accounting principles and practices adopted by the Group. It also reviewed the nature, scope and findings of internal and external audits, and the Company's treasury activities, liquidity and risk management. Our Group CFO, the external auditors, internal auditors and senior management attended the meetings to answer any questions raised by the Audit Committee.

Nomination Committee

Nomination Committee – members

Paul CHENG Ming Fun (Chairman)
Heinz Jürgen KROGNER-KORNALIK (appointed on December 5, 2006)
John POON Cho Ming
Alexander Reid HAMILTON (appointed on December 5, 2006)
Raymond OR Ching Fai (appointed on December 5, 2006)
Simon LAI Sau Cheong (resigned on November 7, 2006)

Responsibilities
- Review and recommend the structure, size and composition of the Board;
- Identify and recommend individuals suitably qualified to become Board member(s);
- Assess the independence of Independent Non-executive Directors;
- Recommend to the Board on relevant matters relating to the appointment or re-appointment of Directors and succession planning for Directors;
- Keep under review the leadership needs of the organization with a view to ensuring the Company to compete effectively in the market place; and
- Make recommendations concerning membership of the Audit Committee, Remuneration Committee and General Committee

In evaluating whether an appointee is suitable to act as a Director, the Board will consider the skills and expertise of the appointee; as well as personal ethics, integrity and the willingness to commit time to the affairs of the Group. Where the appointee is appointed as an Independent Non-executive Director, the Nomination Committee will also consider his/her independence.

Remuneration Committee

Remuneration Committee – members

Raymond OR Ching Fai (Chairman)
Heinz Jürgen KROGNER-KORNALIK (appointed on December 5, 2006)
Paul CHENG Ming Fun (appointed on December 5, 2006)
Alexander Reid HAMILTON
Michael YING Lee Yuen (resigned on December 5, 2006)

Responsibilities
- Recommend to the Board on the Group's policy and structure for all remuneration of Directors and Senior Management and on the establishment of a formal and transparent procedure for developing policy on such remuneration;
- Determine specific remuneration packages of all Executive Directors and Senior Management;
- Review and approve the compensation payable to Executive Directors and Senior Management in connection with any loss or termination of office or appointment; and those in connection with dismissal or removal of Directors for misconduct;
- Recommend remuneration for Non-executive Directors;
- Review and approve performance-based remuneration of Executive Directors and Senior Management;
- Review the design of share incentive schemes for approval by the Board and shareholders and determine whether awards will be made; and
- Ensure that no Director or any of his associates is involved in deciding his own remuneration

General Committee

General Committee – members

Heinz Jürgen KROGNER-KORNALIK
John POON Cho Ming
Thomas Johannes GROTE (appointed on December 5, 2006)
Simon LAI Sau Cheong (resigned on November 7, 2006)
Michael YING Lee Yuen (resigned on December 5, 2006)

Responsibilities
- Discuss, consider and approve routine corporate administrative matters of the Company

Board meetings and minutes

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. Minutes of the Board, the Audit Committee, the Remuneration Committee, the Nomination Committee and the General Committee are kept by the Company Secretary, which are open for inspection following reasonable notice by any Director.

Minutes of the Board meetings and Board Committee 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 the Board and other Board Committees are sent to all Directors or committee members for comments and records respectively within a reasonable time after the meeting.

The attendance of individual members of the Board and other Board Committees meetings during the financial year ended June 30, 2007 is set out in the table below:

Meetings attended/held

Directors	Board	Audit Committee	Nomination Committee	Remuneration Committee
Executive Directors				
Heinz Jürgen KROGNER-KORNALIK	4/4			2/2
John POON Cho Ming	4/4		1/1	
Thomas Johannes GROTE	4/4			
Jerome Squire GRIFFITH	4/4			
Non-executive Directors				
Jürgen Alfred Rudolf FRIEDRICH	4/4	4/4		
Michael YING Lee Yuen	3/4			
Simon LAI Sau Cheong	1/1			
Independent Non-executive Directors				
Alexander Reid HAMILTON	4/4	4/4		2/2
Paul CHENG Ming Fun	4/4	3/4	1/1	2/2
Raymond OR Ching Fai	4/4	4/4		2/2

Note: Mr. Simon LAI Sau Cheong resigned as Non-executive Director of the Company on November 7, 2006. His memberships with the Nomination Committee and General Committee had ceased on the same day.

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.

INTERNAL CONTROL AND RISK MANAGEMENT

A sound internal control system minimizes the Group's risk exposure while facilitating the effectiveness and efficiency of its operations. The system is independently reviewed on an on-going basis so that practical and effective control systems are implemented. Such controls aim to provide reasonable assurance in protecting material assets and in identifying, monitoring and managing risks associated with its business activities. The Group has implemented practical and effective control systems including:

- A tailored organizational and governance structure with clearly defined lines of responsibility;
- Effective budgeting and forecasting systems for performance measurement and monitoring of business units;
- A quarterly review of performance by the Audit Committee and the Board;
- Global protection of the Group's intellectual property rights;
- Group wide insurance programs as a measure to minimize risks; and
- A global cash management system for the enhancement of control and yield of cash assets

In addition, the on-going risk assessment also serves as a mechanism that enables us to maintain the strength in our internal control system.

Internal audit function

The Company's Internal Audit function ("Internal Audit") is responsible for performing regular and systematic reviews of internal control system. The reviews provide reasonable assurance that the internal control system continues to operate satisfactorily and effectively within the Group and the Company. The attainment of such objectives involves the following activities being carried out by Internal Audit:

- Reviewing and appraising the soundness, adequacy and application of accounting, financial and other controls and promoting effective control in the Group and the Company;
- 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 and safeguarded from losses of all kinds;
- Appraising the reliability and usefulness of information for reporting to management;
- Recommending improvements to the existing system of internal control; and
- Carrying out investigations and special reviews requested by management and/or the Audit Committee of the Company

To complement the in-house Internal Audit, the Company has appointed an outside internal auditor to perform periodic internal audits. Internal auditors present the audit reports to the Audit Committee and would follow up on any action plans agreed by management.

The Board has reviewed the effectiveness of the internal control system of the Group. The Code requires the Board to carry out a review on the effectiveness of the Company's system of internal control. During the year, the Board, through the Audit Committee and the assistance of Internal Audit, has reviewed the effectiveness of the Group's system of internal control against the COSO (the Committee of Sponsoring Organizations of the Treadway Commission) framework. Testing was also performed on high level controls in the current year.

CHANNELS FOR SHAREHOLDERS PARTICIPATION

Meeting procedures

Shareholders holding 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 submit a signed written requisition, specifying the objectives, to the Board or the Secretary of the Company to require the convening of a special general meeting ("SGM") and deposit the requisition at the Company's Hong Kong head office at 43/F, Enterprise Square Three, 39 Wang Chiu Road, Kowloon Bay, Kowloon, Hong Kong.

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 2006 AGM, the Chairman of the Meeting demanded voting by poll on all resolutions put forth at the meeting. The procedures for demanding a poll by the shareholders were set out in the circular sent to the shareholders in the time stipulated and were explained to the shareholders on commencement of the 2006 AGM. Tricor Secretaries Limited (previously known as "Secretaries Limited"), the Company's branch share registrar in Hong Kong, was appointed as the scrutineer for voting by poll at the 2006 AGM to ensure the votes were properly counted.

Pro-active investor relations

The Board of Esprit recognizes the importance of maintaining two-way communication with its shareholders. Annual and interim reports offer comprehensive operational and financial performance information to shareholders and the AGM provides a forum for shareholders to exchange views directly with the Board. Our Investor Relations Department communicates with research analysts and institutional investors in an on-going manner. To ensure our investors have a better understanding of the Company, including, among others, its performance, business activities and strategy, our management also engages in pro-active investor relations program. Our Group CEO, Group CFO and President Esprit brand meet with research analysts and the press after our results announcements, attend major investors' conferences and participate in international non-deal roadshows to communicate the Company's financial performance and global business strategy. The Company also practises timely and non-selective dissemination of material information. Current information on the Company including interim and annual reports, announcements and press releases, presentations and webcasts can be retrieved through our investor relations website www.espritholdings.com. Information on the website is updated in a timely manner to ensure that speed, fairness and transparency remain the hallmarks of our disclosure practices. Our continuing efforts to enhance our investor relations program and shareholder value gained market recognition in the past years. The list of recognition honored to the Company by different parties recently is tabled below:

Time	Recognition	Awarding Party
August 2007	New Growth Stock	BÖRSE AKTUELL
June 2007	Best Managed Company (No. 2) Best Corporate Governance (No. 3) Best Investor Relations (No. 4) Most Committed to a Strong Dividend Policy (No. 2)	FINANCEASIA
November 2006	2006 HKMA Best Annual Reports Awards: Citation for Achievement in Design	HONG KONG MANAGEMENT ASSOCIATION
November 2006	Best Quoted Company – APAC (No.6)	THOMSON EXTEL SURVEY – ASIA PACIFIC SURVEY
October 2006	Second Annual Fabulous 50: One of the best 50 Asia-Pacific publicly traded companies	FORBES ASIA
October 2006	Hong Kong's Top 10	THE WALL STREET JOURNAL ASIA 200 SURVEY

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has applied the principles and complied with the Code throughout the year ended June 30, 2007, except that: (i) Non-executive Directors of the Company do not have a specific term of appointment as detailed above (code provision A.4.1); and (ii) the role of chairman and chief executive officer is performed by the same individual as noted below (code provision A.2.1).

Under the code provision A.2.1 of the Code, the role of chairman and chief executive officer should be separated and should not be performed by the same individual. Mr. Heinz Jürgen Krogner-Kornalik, Group CEO, was unanimously elected by the Board as Chairman on December 5, 2006. The dual role arrangement is considered to be appropriate by the Board at the current stage of development of the Company and will be reviewed periodically. The respective responsibilities of the Chairman and the Group CEO are set out in the Esprit Corporate Governance handbook.

The Esprit Corporate Governance Code has been adopted by the Board of the Company throughout the financial year ended June 30, 2007 which ensures greater transparency and quality of disclosure as well as more effective risk control.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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, for the financial year ended June 30, 2007, they have complied with the required standard set out in the Model Code.

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors are responsible for overseeing the preparation of financial statements for the year ended June 30, 2007, to ensure that they give a true and fair view of the state of affairs of the Group and of its profit and cash flows for that financial year. In reviewing the financial statements for the year ended June 30, 2007, the Directors are satisfied that Management have selected appropriate accounting policies, applied them consistently in accordance with the International Financial Reporting Standards and made judgments and estimates that are prudent and reasonable, and have prepared the financial statements on the going concern basis.

The Directors are responsible to ensure 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.

AUDITORS' REMUNERATION

A summary of fees for audit and non-audit services to the external auditors for the financial years ended June 30, 2007 and June 30, 2006 is as follows:

	2007	2006
Nature of the services	HK$ milliion	HK$ milliion
Audit services		
– Current year	11	11
– Underprovision in prior year	–	1
Other services	8	8
	19	20

CORPORATE SOCIAL RESPONSIBILITIES

At Esprit, we believe in effective management of social, ethical and environmental issues to maintain a sustainable environment – an environment in which both the company and its stakeholders could grow and prosper.

RESPONSIBILITIES TO BUSINESS PARTNERS AND CUSTOMERS

We aim to ensure good workplace standards, health and safety, fair pay, fair employment conditions and care for the environment considerations are met in our supply chain.

We want to make sure our suppliers honour the same high standards as we do. We expect our suppliers to comply with our global sourcing policy. We will not tolerate child labour and forced labour. In addition, we will continue to work with our suppliers to improve in the areas of freedom of association, discrimination, health and safety, working hours and wages. We are a member of the Business Social Compliance Initiative (BSCI). The principles of BSCI include the compliance with human rights and minimum social standards. They are also communicated to suppliers worldwide. Social compliance audits are conducted on suppliers and we value suppliers who demonstrate socially, ethically and environmentally responsible practices.

We endeavour to deliver our products in a responsible manner e.g. we do not accept animal testing on our skin care and cosmetics products for almost a decade, products are being chemically spot-checked to ensure compliance with applicable legislations such as those on nickel release, etc.

RESPONSIBILITIES TO EMPLOYEES

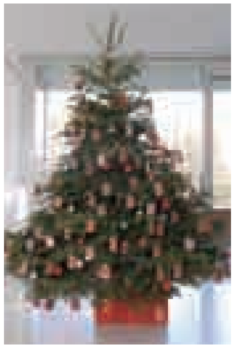
Esprit places high regard on the health and safety of its employees. We are committed to develop a positive and respectable working environment that encourages collaboration and cooperation between employees.

We have rolled out, in the first half of FY2006/2007, a worldwide code of conduct for our employees. Provisions in the code of conduct include provisions for equal employment opportunity and diversity, harassment-free work environment and workplace safety. Updates are continuously provided to employees on health issues such as the avian flu. We also provide resources for the organization of workshops and seminars such as our Store Manager in Training program, teambuilding exercise and extra occupational study course to better equip our employees.

RESPONSIBILITIES TO THE COMMUNITY

Esprit and its employees worldwide make significant contributions to the community by grants, donations in kind and volunteering activities. We have set up Esprit Cares Trusts to provide dedicated resources for worthy charitable causes.

During FY2006/2007, our fund raising and donation activities included: CARE International – donation of proceeds from sample sale; Aids Walk for Life in Toronto, Canada – fund raising for the AIDS Committee of Toronto and its Community Partners Fund; Christmas Tree donations (in association with Diakonie Ratingen) – donations and gifts for poorer children; Pink Ribbon Campaign in Australia to support breast cancer research, and flag day fund raising activity for Christian Action. We also volunteered to pay visit to homeless children at Po Leung Kuk in Hong Kong and participated in "London Taxi Drivers Fund for Underprivileged Children" day trip.



Christmas donations

Visit to Po Leung Kuk in Hong Kong

Flag day fund

Aids Walk for Life

Executive directors
Heinz Jürgen KROGNER-KORNALIK, Chairman
John POON Cho Ming, Deputy Chairman
Thomas Johannes GROTE
Jerome Squire GRIFFITH

Non-executive directors
Jürgen Alfred Rudolf FRIEDRICH
Michael YING Lee Yuen

Independent non-executive directors
Paul CHENG Ming Fun
Alexander Reid HAMILTON
Raymond OR Ching Fai

Corporate officers
Heinz Jürgen KROGNER-KORNALIK, Group CEO
John POON Cho Ming, Group CFO
Thomas Johannes GROTE, President – Esprit brand
Jerome Squire GRIFFITH, President – Esprit North America

Company secretary
John POON Cho Ming

Principal banker
The Hongkong and Shanghai Banking Corporation Limited

Auditors
PricewaterhouseCoopers
Certified Public Accountants

Principal legal advisors
Baker & Mckenzie

Stock code
The shares of Esprit Holdings Limited are listed for trading on
The Stock Exchange of Hong Kong Limited (stock code: 330)

Principal share registrar
Butterfield Fund Services (Bermuda) Limited
11 Rosebank Centre, Bermudiana Road, Pembroke, Bermuda

Hong Kong branch share registrar
Tricor Secretaries Limited
26/F., Tesbury Centre
28 Queen's Road East
Wanchai, Hong Kong

Registered office
Clarendon House, Church Street
Hamilton HM 11, Bermuda

Hong Kong head office
43/F, Enterprise Square Three
39 Wang Chiu Road
Kowloon Bay
Kowloon, Hong Kong
Tel: (+852) 2765 4321
Fax: (+852) 2362 5576

Global business headquarters
Esprit-Allee, 40882 Ratingen, Germany
Tel: (+49) 2102 123 0
Fax: (+49) 2102 123 15100

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39 Wang Chiu Road
Kowloon Bay
Kowloon, Hong Kong
Tel: (+852) 2765 4232
Fax: (+852) 2362 5576
E-mail: esprit-ir@esprit.com

Website
www.espritholdings.com

The Directors have pleasure in presenting their annual report and the audited financial statements for the year ended June 30, 2007.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of the principal subsidiaries are shown in note 31 to the financial statements. The Group is principally engaged in wholesale and retail distribution and licensing of quality fashion and life-style products designed under its own internationally-known Esprit brand name, together with Red Earth cosmetics, skin and body care products.

RESULTS AND APPROPRIATIONS

The results of the Group and appropriations of the Company are set out in the consolidated income statement on page 73 and in the accompanying notes to the financial statements.

The interim dividend of HK$0.70 per share, totaling HK$861 million, was paid on April 10, 2007.

The Directors recommend the payment of a final dividend of HK$1.00 per share and a special dividend of HK$1.48 per share. Details are set out in note 10 to the financial statements.

RESERVES

Movements in reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on page 76 and in note 30 to the financial statements respectively.

SHARE CAPITAL

During the year, 10,950,000 (2006: 20,965,000) ordinary shares of HK$0.10 each were issued in relation to the share options exercised by Directors and employees under the share option scheme of the Company adopted on November 26, 2001 at exercise prices in the range of HK$14.60 to HK$64.31 each (representing a premium in the range of HK$14.50 to HK$64.21 each). Further details of movements in share capital of the Company are set out in note 21 to the financial statements.

FINANCIAL SUMMARY

A summary of the results and the balance sheets of the Group for the last five financial years is set out on pages 122 and 121 respectively.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the year are set out in note 15 to the financial statements.

PENSION SCHEMES

Particulars of pension schemes of the Group are set out in note 12 to the financial statements.

PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at June 30, 2007 are set out in note 31 to the financial statements.

CHARITABLE DONATIONS

During the year, the Group made charitable donations totaling HK$32 million.

DIRECTORS

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

Executive Directors

Heinz Jürgen KROGNER-KORNALIK (Chairman)
John POON Cho Ming (Deputy Chairman)
Thomas Johannes GROTE
Jerome Squire GRIFFITH

Non-executive Directors

Jürgen Alfred Rudolf FRIEDRICH
Michael YING Lee Yuen (re-designated as Non-executive Director on December 5, 2006)
Simon LAI Sau Cheong (resigned on November 7, 2006)

Independent Non-executive Directors

Paul CHENG Ming Fun
Alexander Reid HAMILTON
Raymond OR Ching Fai

The Company has received written confirmation from each of the Independent Non-executive Directors confirming their independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), and considers them to be independent.

DIRECTORS AND SENIOR MANAGEMENT PROFILE

Executive Directors

Heinz Jürgen KROGNER-KORNALIK, aged 66, is Executive Director and Group Chief Executive Officer, became Chairman of the Board effective from December 5, 2006. He has been with the Group since January 1995. Mr. Krogner is primarily responsible for the overall corporate direction and strategy of the Group, as well as providing leadership for the management in achieving the goals and targets set by the Board. He possesses a degree in business administration and industrial engineering. He was a consultant with Kurt Salmon Associates in a variety of areas, including production, organization, marketing, strategy and brand positioning, as well as with several textile firms, always in executive positions, before joining the Group.

John POON Cho Ming, aged 53, is Deputy Chairman, Group Chief Financial Officer and Company Secretary. Mr. Poon is primarily responsible for managing the Group's financial and legal functions, including strategic planning and corporate finance, investor relations, accounting and tax, treasury management as well as company secretarial affairs. Prior to joining the Group in December 1999, he held executive directorships in other public companies and has extensive experience in corporate management, corporate finance and legal affairs. Mr. Poon is a qualified solicitor in Hong Kong, England and Wales, and a barrister and solicitor in Alberta, Canada. He graduated from the University of Alberta, Canada with a Bachelor of Arts Degree in Economics and a Bachelor of Laws Degree. He is a council member of the Hong Kong Institute of Certified Public Accountants.

Thomas Johannes GROTE, aged 44, is President of the Esprit brand. Mr. Grote is responsible for all operational matters in relation to the Esprit brand, including wholesale, retail and licensing business. He completed business college in 1983 and then worked in a German textile printing company for six years. He joined the Group in 1990 as key account manager of the accessories division. He left the Group in 1992 and returned to the Group in June 1996.

Jerome Squire GRIFFITH, aged 49, is President of Esprit North America. Before taking up his current position, Mr. Griffith has years of experience at the global business headquarters in Ratingen, Germany where he was responsible for the global retail operation. Before joining the Group in 2002 he held senior positions in major retail companies in the United States and Europe. He received his Bachelor of Science Degree in Marketing from Pennsylvania State University.

Non-executive Directors

Paul CHENG Ming Fun, aged 70, was appointed an Independent Non-executive Director of the Company in November 2002. Mr. Cheng was a former member of the Hong Kong Legislative Council as well as Chairman of Inchcape Pacific Limited, N M Rothschild & Sons (Hong Kong) Ltd., the Hong Kong General Chamber of Commerce, and the American Chamber of Commerce in Hong Kong. He is currently an Honorary Steward of the Hong Kong Jockey Club.

Jürgen Alfred Rudolf FRIEDRICH, aged 69, founded Esprit's European operations in 1976 and was appointed a Non-executive Director in 1997. He has over 32 years of experience in the apparel distribution and marketing business and is currently retired in the United States.

Alexander Reid HAMILTON, aged 65, has been an Independent Non-executive Director of the Company since August 1995. He is also a Director of CITIC Pacific Limited, China Cosco Holdings Company Limited, Shangri-La Asia Limited, China Central Properties Limited and a number of other Hong Kong companies. He was a partner of Price Waterhouse with whom he practiced for 16 years.

Raymond OR Ching Fai, aged 57, was appointed an Independent Non-executive Director of the Company in 1996. He is the Vice Chairman and Chief Executive of Hang Seng Bank Limited, a director of The Hongkong and Shanghai Banking Corporation Limited, Cathay Pacific Airways Limited, Hutchison Whampoa Limited, 2009 East Asian Games (Hong Kong) Limited and Chairman of Hang Seng Life Limited.

Michael YING Lee Yuen, aged 57, has been re-designated as a Non-executive Director with effect from December 5, 2006, after serving as Chairman of the Board of Directors for 13 years. Mr. Ying has over 30 years of experience in the apparel industry.

DIRECTORS AND SENIOR MANAGEMENT PROFILE (continued)

Senior Management

Ursula BUCK, aged 45, is Head of Global Licensing. She holds a Bachelor Degree in Business Management and Economics from the University of Augsburg. She joined the Group in 2002 and has 14 years' experience in licensing fashion products. Prior to joining the Group, she worked in lifestyle companies such as Valentino and Hugo Boss and has 7 years' experience with McKinsey & Company, a management consultancy firm.

Edo van ELDEREN, aged 40, is Global Retail Manager. Following his 16 years experience in the retail industry in various sales and buying positions with several companies including an international textile trading company, he joined Esprit in 2000 and has held numerous management positions within the Group, including Division Manager – Men and Global Business Manager – edc Men.

Udo GREISER, aged 50, is Global Product Director – edc. He began his professional career in the consumer electronics sector in 1991, where he gained his expertise in the areas of sales and distribution in retail, of which his last position was Managing Director. In 2002, he joined the Group as Sales Manager – edc and was appointed as Global Business Manager – edc in 2003.

Steve LAM Sing Keung, aged 47, is Deputy Chief Financial Officer. He is primarily responsible for the Group's finance functions including the Group's statutory and management reporting. He is involved in internal controls and compliance. Prior to joining the Group in September 2006, he was the Group Director of Finance of a public company listed in Hong Kong and in the United States for over 5 years. Prior to that, he had been holding a chief financial officer position in two regional operations and was Vice President – Business Development and Government Relation in the China division of a prominent international beverage company. He had also worked in the Hong Kong and Vancouver office of Arthur Andersen for about 12 years. He is an associate member of the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Accountants in England & Wales.

DIRECTORS' EMOLUMENTS

A Remuneration Committee currently comprising of three Independent Non-executive Directors and one Executive Director has been established to make recommendations to the Board on the Group's policy and structure for all remuneration of Directors and senior management. The Remuneration Committee is responsible for determining the specific remuneration packages of all Executive Directors and senior management and to make recommendations of remuneration for Non-executive Directors to the Board. No individual Director or senior management would be involved in deciding his own remuneration.

The fundamental policy of the Group's remuneration and incentive scheme is to link total compensation of Executive Directors, senior management and employees with the achievement of annual and long-term corporate goals and objectives. 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 will consult with the Chairman of the Board and the Chief Executive Officer in respect of their recommendations in determining the remuneration of Executive Directors and senior management. The recommended remuneration package comprises of salaries, bonus agreements, discretionary bonuses 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 various committee meetings. The recommended remuneration package comprises of annual directorship fee and fee for representation on Board committees.

The remuneration of all the Directors during the financial year, excluding Directors' interests in share options of the Company which are detailed in "share options" section below, is set out in note 13 to the financial statements.

Particulars of the Directors' and senior management's emoluments disclosed pursuant to Section 161 of the Companies Ordinance and Appendix 16 of the Listing Rules are set out in note 13 to the financial statements.

SHARE OPTIONS

The Company adopted a share option scheme on November 26, 2001 (the "2001 Share Option Scheme"). Particulars of the 2001 Share Option Scheme are set out in note 21 to the financial statements.

Details of the grant of share options and a summary of the movements of the outstanding share options during the financial year under the 2001 Share Option Scheme are as follows:

					Number of Share Options				
	Date of Grant (mm/dd/yyyy)	Exercise Price (HK$)	Vesting Date (mm/dd/yyyy)	Exercise Period (mm/dd/yyyy)	As at 07/01/2006	Granted	Exercised	Lapsed	As at 06/30/2007
Directors									
Heinz Jürgen	11/26/2002	14.60	11/26/2006	11/26/2006 – 11/25/2008	800,000	–	800,000	–	–
Krogner-Kornalik			11/26/2007	11/26/2007 – 11/25/2008	800,000	–	–	–	800,000
	11/26/2003	24.20	11/26/2006	11/26/2006 – 11/25/2009	600,000	–	600,000	–	–
			11/26/2007	11/26/2007 – 11/25/2009	600,000	–	–	–	600,000
			11/26/2008	11/26/2008 – 11/25/2009	600,000	–	–	–	600,000
	11/27/2004	42.58	11/27/2006	11/27/2006 – 11/26/2010	600,000	–	600,000	–	–
			11/27/2007	11/27/2007 – 11/26/2010	600,000	–	–	–	600,000
			11/27/2008	11/27/2008 – 11/26/2010	600,000	–	–	–	600,000
			11/27/2009	11/27/2009 – 11/26/2010	600,000	–	–	–	600,000
	02/07/2007	83.00	02/07/2008	02/07/2008 – 02/06/2013	–	160,000	–	–	160,000
			02/07/2009	02/07/2009 – 02/06/2013	–	160,000	–	–	160,000
			02/07/2010	02/07/2010 – 02/06/2013	–	160,000	–	–	160,000
			02/07/2011	02/07/2011 – 02/06/2013	–	160,000	–	–	160,000
			02/07/2012	02/07/2012 – 02/06/2013	–	160,000	–	–	160,000
In aggregate					5,800,000	800,000	2,000,000	–	4,600,000

SHARE OPTIONS (continued)

	Date of Grant (mm/dd/yyyy)	Exercise Price (HK$)	Vesting Date (mm/dd/yyyy)	Exercise Period (mm/dd/yyyy)	Number of Share Options As at 07/01/2006	Granted	Exercised	Lapsed	As at 06/30/2007
John Poon Cho Ming	11/26/2002	14.60	11/26/2006	11/26/2006 – 11/25/2008	480,000	–	480,000	–	–
			11/26/2007	11/26/2007 – 11/25/2008	480,000	–	–	–	480,000
	11/26/2003	24.20	11/26/2006	11/26/2006 – 11/25/2009	360,000	–	360,000	–	–
			11/26/2007	11/26/2007 – 11/25/2009	360,000	–	–	–	360,000
			11/26/2008	11/26/2008 – 11/25/2009	360,000	–	–	–	360,000
	11/27/2004	42.58	11/27/2006	11/27/2006 – 11/26/2010	360,000	–	360,000	–	–
			11/27/2007	11/27/2007 – 11/26/2010	360,000	–	–	–	360,000
			11/27/2008	11/27/2008 – 11/26/2010	360,000	–	–	–	360,000
			11/27/2009	11/27/2009 – 11/26/2010	360,000	–	–	–	360,000
	02/07/2007	83.00	02/07/2008	02/07/2008 – 02/06/2013	–	160,000	–	–	160,000
			02/07/2009	02/07/2009 – 02/06/2013	–	160,000	–	–	160,000
			02/07/2010	02/07/2010 – 02/06/2013	–	160,000	–	–	160,000
			02/07/2011	02/07/2011 – 02/06/2013	–	160,000	–	–	160,000
			02/07/2012	02/07/2012 – 02/06/2013	–	160,000	–	–	160,000
In aggregate					3,480,000	800,000	1,200,000	–	3,080,000

SHARE OPTIONS (continued)

	Date of Grant (mm/dd/yyyy)	Exercise Price (HK$)	Vesting Date (mm/dd/yyyy)	Exercise Period (mm/dd/yyyy)	Number of Share Options: As at 07/01/2006	Granted	Exercised	Lapsed	As at 06/30/2007
Thomas Johannes Grote	11/26/2002	14.60	11/26/2006	11/26/2006 – 11/25/2008	320,000	–	–	–	320,000
			11/26/2007	11/26/2007 – 11/25/2008	320,000	–	–	–	320,000
	11/26/2003	24.20	11/26/2006	11/26/2006 – 11/25/2009	240,000	–	–	–	240,000
			11/26/2007	11/26/2007 – 11/25/2009	240,000	–	–	–	240,000
			11/26/2008	11/26/2008 – 11/25/2009	240,000	–	–	–	240,000
	11/27/2004	42.58	11/27/2006	11/27/2006 – 11/26/2010	240,000	–	–	–	240,000
			11/27/2007	11/27/2007 – 11/26/2010	240,000	–	–	–	240,000
			11/27/2008	11/27/2008 – 11/26/2010	240,000	–	–	–	240,000
			11/27/2009	11/27/2009 – 11/26/2010	240,000	–	–	–	240,000
	12/05/2006	80.95	12/05/2007	12/05/2007 – 12/04/2012	–	160,000	–	–	160,000
			12/05/2008	12/05/2008 – 12/04/2012	–	160,000	–	–	160,000
			12/05/2009	12/05/2009 – 12/04/2012	–	160,000	–	–	160,000
			12/05/2010	12/05/2010 – 12/04/2012	–	160,000	–	–	160,000
			12/05/2011	12/05/2011 – 12/04/2012	–	160,000	–	–	160,000
In aggregate					2,320,000	800,000	–	–	3,120,000

SHARE OPTIONS (continued)

	Date of Grant (mm/dd/yyyy)	Exercise Price (HK$)	Vesting Date (mm/dd/yyyy)	Exercise Period (mm/dd/yyyy)	Number of Share Options: As at 07/01/2006	Granted	Exercised	Lapsed	As at 06/30/2007
Jerome Squire Griffith	11/26/2002	14.60	11/26/2006	11/26/2006 – 11/25/2008	320,000	–	–	–	320,000
			11/26/2007	11/26/2007 – 11/25/2008	320,000	–	–	–	320,000
	11/26/2003	24.20	11/26/2006	11/26/2006 – 11/25/2009	240,000	–	–	–	240,000
			11/26/2007	11/26/2007 – 11/25/2009	240,000	–	–	–	240,000
			11/26/2008	11/26/2008 – 11/25/2009	240,000	–	–	–	240,000
	11/27/2004	42.58	11/27/2006	11/27/2006 – 11/26/2010	240,000	–	–	–	240,000
			11/27/2007	11/27/2007 – 11/26/2010	240,000	–	–	–	240,000
			11/27/2008	11/27/2008 – 11/26/2010	240,000	–	–	–	240,000
			11/27/2009	11/27/2009 – 11/26/2010	240,000	–	–	–	240,000
In aggregate					2,320,000	–	–	–	2,320,000

SHARE OPTIONS (continued)

	Date of Grant (mm/dd/yyyy)	Exercise Price (HK$)	Vesting Date (mm/dd/yyyy)	Exercise Period (mm/dd/yyyy)	Number of Share Options As at 07/01/2006	Granted	Exercised	Lapsed	As at 06/30/2007
Employees & Consultants	11/26/2002	14.60	11/26/2005	11/26/2005 – 11/25/2008	120,000	–	–	–	120,000
			11/26/2006	11/26/2006 – 11/25/2008	2,880,000	–	1,756,000	544,000	580,000
			11/26/2007	11/26/2007 – 11/25/2008	2,880,000	–	–	584,000	2,296,000
	11/26/2003	24.20	11/26/2004	11/26/2004 – 11/25/2009	165,000	–	165,000	–	–
			11/26/2005	11/26/2005 – 11/25/2009	360,000	–	295,000	–	65,000
			11/26/2006	11/26/2006 – 11/25/2009	2,620,000	–	1,612,000	408,000	600,000
			11/26/2007	11/26/2007 – 11/25/2009	2,620,000	–	–	438,000	2,182,000
			11/26/2008	11/26/2008 – 11/25/2009	2,620,000	–	–	438,000	2,182,000
	12/23/2003	24.45	12/23/2006	12/23/2006 – 12/22/2009	120,000	–	–	–	120,000
			12/23/2007	12/23/2007 – 12/22/2009	120,000	–	–	–	120,000
			12/23/2008	12/23/2008 – 12/22/2009	120,000	–	–	–	120,000
	11/27/2004	42.58	11/27/2005	11/27/2005 – 11/26/2010	1,370,000	–	710,000	–	660,000
			11/27/2006	11/27/2006 – 11/26/2010	3,645,000	–	2,077,000	488,000	1,080,000
			11/27/2007	11/27/2007 – 11/26/2010	3,645,000	–	–	798,000	2,847,000
			11/27/2008	11/27/2008 – 11/26/2010	3,645,000	–	–	798,000	2,847,000
			11/27/2009	11/27/2009 – 11/26/2010	3,645,000	–	–	798,000	2,847,000
	12/23/2004	47.10	12/23/2005	12/23/2005 – 12/22/2010	90,000	–	–	–	90,000
			12/23/2006	12/23/2006 – 12/22/2010	90,000	–	–	–	90,000
			12/23/2007	12/23/2007 – 12/22/2010	90,000	–	–	–	90,000
			12/23/2008	12/23/2008 – 12/22/2010	90,000	–	–	–	90,000
			12/23/2009	12/23/2009 – 12/22/2010	90,000	–	–	–	90,000
	01/21/2005	45.60	01/21/2007	01/21/2007 – 01/20/2011	80,000	–	80,000	–	–
			01/21/2008	01/21/2008 – 01/20/2011	80,000	–	–	–	80,000
			01/21/2009	01/21/2009 – 01/20/2011	80,000	–	–	–	80,000
			01/21/2010	01/21/2010 – 01/20/2011	80,000	–	–	–	80,000

SHARE OPTIONS (continued)

	Date of Grant (mm/dd/yyyy)	Exercise Price (HK$)	Vesting Date (mm/dd/yyyy)	Exercise Period (mm/dd/yyyy)	Number of Share Options: As at 07/01/2006	Granted	Exercised	Lapsed	As at 06/30/2007
Employees & Consultants (continued)	11/28/2005	55.11	11/28/2006	11/28/2006 – 11/27/2011	1,080,000	–	675,000	60,000	345,000
			11/28/2007	11/28/2007 – 11/27/2011	1,080,000	–	–	270,000	810,000
			11/28/2008	11/28/2008 – 11/27/2011	1,080,000	–	–	270,000	810,000
			11/28/2009	11/28/2009 – 11/27/2011	1,080,000	–	–	270,000	810,000
			11/28/2010	11/28/2010 – 11/27/2011	1,080,000	–	–	270,000	810,000
	12/02/2005	56.20	12/02/2006	12/02/2006 – 12/01/2011	520,000	–	300,000	120,000	100,000
			12/02/2007	12/02/2007 – 12/01/2011	520,000	–	–	140,000	380,000
			12/02/2008	12/02/2008 – 12/01/2011	520,000	–	–	140,000	380,000
			12/02/2009	12/02/2009 – 12/01/2011	520,000	–	–	140,000	380,000
			12/02/2010	12/02/2010 – 12/01/2011	520,000	–	–	140,000	380,000
	12/23/2005	56.50	12/23/2006	12/23/2006 – 12/22/2011	90,000	–	–	–	90,000
			12/23/2007	12/23/2007 – 12/22/2011	90,000	–	–	–	90,000
			12/23/2008	12/23/2008 – 12/22/2011	90,000	–	–	–	90,000
			12/23/2009	12/23/2009 – 12/22/2011	90,000	–	–	–	90,000
			12/23/2010	12/23/2010 – 12/22/2011	90,000	–	–	–	90,000
	02/23/2006	64.31	02/23/2007	02/23/2007 – 02/22/2012	140,000	–	80,000	–	60,000
			02/23/2008	02/23/2008 – 02/22/2012	140,000	–	–	–	140,000
			02/23/2009	02/23/2009 – 02/22/2012	140,000	–	–	–	140,000
			02/23/2010	02/23/2010 – 02/22/2012	140,000	–	–	–	140,000
			02/23/2011	02/23/2011 – 02/22/2012	140,000	–	–	–	140,000
	11/27/2006	80.60	11/27/2007	11/27/2007 – 11/26/2012	–	525,000	–	120,000	405,000
			11/27/2008	11/27/2008 – 11/26/2012	–	525,000	–	120,000	405,000
			11/27/2009	11/27/2009 – 11/26/2012	–	525,000	–	120,000	405,000
			11/27/2010	11/27/2010 – 11/26/2012	–	525,000	–	120,000	405,000
			11/27/2011	11/27/2011 – 11/26/2012	–	525,000	–	120,000	405,000
	12/04/2006	79.49	12/04/2007	12/04/2007 – 12/03/2012	–	255,000	–	15,000	240,000
			12/04/2008	12/04/2008 – 12/03/2012	–	255,000	–	15,000	240,000
			12/04/2009	12/04/2009 – 12/03/2012	–	255,000	–	15,000	240,000
			12/04/2010	12/04/2010 – 12/03/2012	–	255,000	–	15,000	240,000
			12/04/2011	12/04/2011 – 12/03/2012	–	255,000	–	15,000	240,000

SHARE OPTIONS (continued)

	Date of Grant (mm/dd/yyyy)	Exercise Price (HK$)	Vesting Date (mm/dd/yyyy)	Exercise Period (mm/dd/yyyy)	Number of Share Options: As at 07/01/2006	Granted	Exercised	Lapsed	As at 06/30/2007
Employees & Consultants (continued)	12/05/2006	80.95	12/05/2007	12/05/2007 – 12/04/2012	–	1,136,000	–	–	1,136,000
			12/05/2008	12/05/2008 – 12/04/2012	–	1,136,000	–	–	1,136,000
			12/05/2009	12/05/2009 – 12/04/2012	–	1,136,000	–	–	1,136,000
			12/05/2010	12/05/2010 – 12/04/2012	–	1,136,000	–	–	1,136,000
			12/05/2011	12/05/2011 – 12/04/2012	–	1,136,000	–	–	1,136,000
	02/07/2007	83.00	02/07/2008	02/07/2008 – 02/06/2013	–	80,000	–	–	80,000
			02/07/2009	02/07/2009 – 02/06/2013	–	80,000	–	–	80,000
			02/07/2010	02/07/2010 – 02/06/2013	–	80,000	–	–	80,000
			02/07/2011	02/07/2011 – 02/06/2013	–	80,000	–	–	80,000
			02/07/2012	02/07/2012 – 02/06/2013	–	80,000	–	–	80,000
	02/28/2007	86.85	02/28/2008	02/28/2008 – 02/27/2013	–	120,000	–	–	120,000
			02/28/2009	02/28/2009 – 02/27/2013	–	120,000	–	–	120,000
			02/28/2010	02/28/2010 – 02/27/2013	–	120,000	–	–	120,000
			02/28/2011	02/28/2011 – 02/27/2013	–	120,000	–	–	120,000
			02/28/2012	02/28/2012 – 02/27/2013	–	120,000	–	–	120,000
In aggregate					40,495,000	10,580,000	7,750,000	7,789,000	35,536,000
TOTAL					**54,415,000**	**12,980,000**	**10,950,000**	**7,789,000**	**48,656,000**

Notes:
1. The closing prices of the shares of the Company immediately before the options granted on November 27, 2006, December 4, 2006, December 5, 2006, February 7, 2007 and February 28, 2007 were HK$79.65, HK$79.65, HK$78.70, HK$83.10 and HK$83.30 respectively.
2. The weighted average closing price of the shares immediately before the date of exercise by Mr. Heinz Jürgen Krogner-Kornalik was HK$79.45.
3. The weighted average closing price of the shares immediately before the date of exercise by Mr. John Poon Cho Ming was HK$79.45.
4. The weighted average closing price of the shares immediately before the dates of exercise by the employees and consultants was HK$80.50.
5. No share options were cancelled under the 2001 Share Option Scheme during the year.

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.

ACCOUNTING TREATMENT FOR SHARE OPTIONS

Details of accounting treatment for share options are set out in note 2(l) to the financial statements.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at June 30, 2007, 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 under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited ("SEHK") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Listing Rules, were as follows:

(1) Shares of the Company

Name of Directors	Capacity	Beneficial interest in shares	Beneficial interest in unlisted underlying shares (Note 4)	Total number of shares	Approximate percentage of aggregate interests to total issued share capital
Heinz Jürgen Krogner-Kornalik	Beneficial owner	–	4,600,000	4,600,000	0.37%
John Poon Cho Ming	Beneficial owner	1,270,000	3,080,000	4,350,000	0.35%
Thomas Johannes Grote	Beneficial owner	–	3,120,000	3,120,000	0.25%
Jerome Squire Griffith	Beneficial owner	230,000	2,320,000	2,550,000	0.21%
Jürgen Alfred Rudolf Friedrich	Beneficial owner	79,101,176	–	80,693,777	6.55%
	Interest of a controlled corporation (Note 1)	1,541,700	–		
	Interest of spouse (Note 2)	50,901	–		
Michael Ying Lee Yuen	Interest of a controlled corporation (Note 3)	106,208,352	–	106,208,352	8.63%

Notes:
1. The shares were held by JAF Foundation of which Mr. Jürgen Alfred Rudolf Friedrich controlled 100% share interest.
2. The shares were held by Mrs. Anke Beck Friedrich, the spouse of Mr. Jürgen Alfred Rudolf Friedrich.
3. The shares were held by HSBC International Trustee Limited, being the trustee of the discretionary trust set up by Mr. Michael Ying Lee Yuen on January 9, 2006. Mr. Ying was deemed to be interested in these shares as founder of the discretionary trust. Details of which are set out in note 5 of "substantial shareholders' interests" section.
4. The interests of Directors and chief executives of the Company in the underlying shares of equity derivatives in respect of options granted to them pursuant to the 2001 Share Option Scheme are detailed in "share options" section above.
5. All interests disclosed above represent long position in the shares and underlying shares of the Company.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (continued)

(2) Share Options of the Company

The interests of the Directors and chief executives of the Company in the share options of the Company are detailed in "share options" section above.

As at June 30, 2007, save as disclosed above, none of the Directors, chief executives of the Company or their associates had any interests or short positions (within the meaning of Part XV of the SFO), whether beneficial or non-beneficial, in the shares, underlying shares or debentures of the Company or any of its associated corporations as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and SEHK pursuant to the Model Code.

DIRECTORS' INTERESTS IN CONTRACTS

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

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at June 30, 2007, 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 as 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	Approximate percentage of aggregate interests to total issued share capital
JPMorgan Chase & Co.	Interest of controlled corporations (Notes 1 to 3)	146,399,971	11.89%
Capital Research and Management Company	Investment Manager (Note 4)	135,877,000	11.03%
HSBC International Trustee Limited	Trustee (Notes 5 and 6)	106,853,017	8.68%
State Street Corporation	Interest of controlled corporations (Notes 7 and 8)	94,608,529	7.68%

SUBSTANTIAL SHAREHOLDERS' INTERESTS (continued)

Notes:
1. The shares held by JPMorgan Chase & Co. were held in the following capacities:

No. of shares	Capacity
2,186,245	Beneficial owner
85,585,163	Investment manager
58,628,563	Custodian corporation/approved lending agent

2. Details of the interest in the 146,399,971 shares held by JPMorgan Chase & Co. were as follows:

Name	Direct (D)/Indirect (I) interests in the shares	Aggregate long position in the shares	Approximate percentage of aggregate interests to total issued share capital
JPMorgan Chase Bank, N.A.	D	62,811,563	5.10%
JPMorgan Chase Bank, N.A.	I	2,397,388	0.19%
J.P. Morgan International Inc.	I	2,397,388	0.19%
Bank One International Holdings Corporation	I	2,397,388	0.19%
J.P. Morgan International Finance Limited	I	2,397,388	0.19%
J.P. Morgan Overseas Capital Corporation	I	1,069,643	0.09%
J.P. Morgan Whitefriars Inc.	D	858,500	0.07%
J.P. Morgan International Bank Limited	D	211,143	0.02%
JPMorgan Asset Management Holdings Inc.	I	81,191,020	6.59%
JPMorgan Asset Management (Canada) Inc.	D	4,615,500	0.37%
J.P. Morgan Investment Management Inc.	D	20,201,883	1.64%
JPMorgan Asset Management (Asia) Inc.	I	40,667,637	3.30%
JF International Management Inc.	D	804,000	0.07%
JF Asset Management (Singapore) Limited – Co Reg #: 197601586K	D	909,000	0.07%
JF Asset Management Limited	D	34,419,637	2.80%
JF Asset Management Limited	I	879,500	0.07%
JF Funds Limited	I	879,500	0.07%
JF Asset Management (Taiwan) Limited	D	879,500	0.07%
JPMorgan Asset Management (Japan) Limited	D	3,655,500	0.30%
JPMorgan Asset Management International Limited	I	15,706,000	1.28%
JPMorgan Asset Management Holdings (UK) Limited	I	15,706,000	1.28%
JPMorgan Asset Management (UK) Limited	D	15,576,500	1.27%
JPMorgan Asset Management Holdings (Luxembourg) S.à.r.l.	I	129,500	0.01%
JPMorgan Asset Management Societa di Gestione del Risparmio SpA	D	129,500	0.01%
J.P. Morgan Capital Holdings Limited	I	1,327,745	0.11%
J.P. Morgan Chase (UK) Holdings Limited	I	1,327,745	0.11%
J.P. Morgan Chase International Holdings Limited	I	1,327,745	0.11%
J.P. Morgan Securities Ltd.	D	1,327,745	0.11%

SUBSTANTIAL SHAREHOLDERS' INTERESTS (continued)

Notes: (continued)

2. (continued)

Explanatory Notes:

All the following interests were deemed to be held by the relevant company under the SFO. JPMorgan Chase & Co. was deemed to be interested in an aggregate of 146,399,971 shares held or deemed to be held by: (I) JPMorgan Chase Bank, N.A. (65,208,951 shares); and (II) JPMorgan Asset Management Holdings Inc. (81,191,020 shares), all were wholly-owned subsidiaries of JPMorgan Chase & Co.

(I) JPMorgan Chase Bank, N.A. directly held 62,811,563 shares and was also deemed to be interested in an aggregate of 2,397,388 shares held by the following indirect subsidiaries held through J.P. Morgan International Finance Limited ("JPIF"):
- (a) 858,500 shares were held by J.P. Morgan Whitefriars Inc., wholly-owned by J.P. Morgan Overseas Capital Corporation, a wholly-owned subsidiary of JPIF;
- (b) 1,327,745 shares were held by J.P. Morgan Securities Ltd., 98.95% subsidiary of J.P. Morgan Chase International Holdings Limited, 97.58% subsidiary of J.P. Morgan Chase (UK) Holdings Limited, wholly-owned by J.P. Morgan Capital Holdings Limited, wholly-owned by JPIF; and
- (c) 211,143 shares were held by J.P. Morgan International Bank Limited, wholly-owned by J.P. Morgan Overseas Capital Corporation, a wholly-owned subsidiary of JPIF.

(II) JPMorgan Asset Management Holdings Inc. ("JPAMH") was deemed to be interested in an aggregate of 81,191,020 shares held by the following subsidiaries:
- (a) 4,615,500 shares were held by JPMorgan Asset Management (Canada) Inc., directly wholly-owned by JPAMH;
- (b) 20,201,883 shares were held by J.P. Morgan Investment Management Inc., directly wholly-owned by JPAMH;
- (c) 40,667,637 shares were deemed to be held by JPMorgan Asset Management (Asia) Inc. ("JPAsia"), directly wholly-owned by JPAMH, through the following subsidiaries:
  - (i) 804,000 shares were held by JF International Management Inc., wholly-owned by JPAsia;
  - (ii) 909,000 shares were held by JF Asset Management (Singapore) Limited – Co Reg #:197601586K, wholly-owned by JPAsia;
  - (iii) 34,419,637 shares were held by JF Asset Management Limited, wholly-owned by JPAsia;
  - (iv) 879,500 shares were held by JF Asset Management (Taiwan) Limited, 99.90% subsidiary of JF Funds Limited, wholly-owned by JF Asset Management Limited, wholly-owned by JPAsia; and
  - (v) 3,655,500 shares were held by JPMorgan Asset Management (Japan) Limited, wholly-owned by JPAsia; and
- (d) 15,706,000 shares were deemed to be held by JPMorgan Asset Management International Limited ("JPAMI"), directly wholly-owned by JPAMH, through the following subsidiaries:
  - (i) 15,576,500 shares were held by JP Morgan Asset Management (UK) Limited, wholly-owned by JPMorgan Asset Management Holdings (UK) Limited, a wholly-owned subsidiary of JPAMI; and
  - (ii) 129,500 shares were held by JPMorgan Asset Management Societa di Gestione del Risparmio SpA, 99.90% subsidiary of JPMorgan Asset Management Holdings (Luxembourg) S.à.r.l., wholly-owned by JPMorgan Asset Management Holdings (UK) Limited, a wholly-owned subsidiary of JPAMI.

3. All interests disclosed in Note 2 above represent long positions in the shares of the Company of which 58,628,563 shares represent lending pool.

4. All interests held by Capital Research and Management Company represent long positions in the shares of the Company.

SUBSTANTIAL SHAREHOLDERS' INTERESTS (continued)

Notes: (continued)

5. Details of the interest in the 106,853,017 shares held by HSBC International Trustee Limited were as follows:

Name	Direct (D)/Indirect (I) interests in the shares	Aggregate long position in the shares	Approximate percentage of aggregate interests to total issued share capital
YET Holdings Limited	I	106,208,352	8.63%
Great View International Limited	D	106,208,352	8.63%
HSBC International Trustee Limited	D	644,665	0.05%

Explanatory Notes:
All the following interests were deemed to be held by the relevant company under SFO. HSBC International Trustee Limited ("HITL"), being the trustee of the discretionary trust set up by Mr. Michael Ying Lee Yuen on January 9, 2006 and other discretionary trusts, was directly interested or deemed to be interested in an aggregate of 106,853,017 shares. HITL was directly interested in 644,665 shares. HITL was also deemed to be interested in 106,208,352 shares held by Great View International Limited, a wholly-owned subsidiary of YET Holdings Limited, 100% controlled by HITL. These interests have also been included as trust interest of Mr. Michael Ying Lee Yuen as disclosed under the "directors' interests and short positions in shares, underlying shares and debentures" section above.

6. All interests disclosed in Note 5 above represent long positions in the shares of the Company.

7. State Street Corporation was deemed to be interested in 94,608,529 shares through its 100% interest in State Street Bank & Trust Company.

8. All interests disclosed in Note 7 above represent lending pool.

Save as aforesaid and as disclosed in the "directors' interests and short positions in shares, underlying shares and debentures" section of this report, 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 June 30, 2007 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.

PRE-EMPTIVE RIGHTS

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

MAJOR CUSTOMERS AND SUPPLIERS

During the year, less than 10% of the Group's sales were attributable to the five largest customers and less than 16% of the Group's purchases were attributable to the five largest suppliers.

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 28 to the financial statements. None of these related party transactions constitutes a connected transaction as defined in the Listing Rules.

AUDIT COMMITTEE

As required under the Listing Rules, the Company has an Audit Committee comprising of four Non-executive Directors of the Company, three of whom are Independent Non-executive Directors of the Company. The Audit Committee has reviewed the accounting principles and practices adopted by the Group and has also discussed auditing, internal controls, and financial reporting matters including the review of the consolidated results for the year ended June 30, 2007 of the Group.

CORPORATE GOVERNANCE

Particulars of the Company's corporate governance practices are set out on pages 42 to 47 of this report.

AUDITORS

The financial statements have been audited by PricewaterhouseCoopers who are due to retire and, being eligible, offer themselves for re-appointment at the 2007 Annual General Meeting.

On behalf of the board

John POON Cho Ming
Deputy Chairman

Hong Kong, August 29, 2007

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF ESPRIT HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Esprit Holdings Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 73 to 120, which comprise the consolidated balance sheet as of June 30, 2007, and the consolidated income statement, the consolidated cash flow statement and the consolidated statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and of the Group as of June 30, 2007, and of the Group's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

OTHER MATTERS

This report, including the opinion, has been prepared for and only for 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.

PricewaterhouseCoopers

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, August 29, 2007

CONSOLIDATED INCOME STATEMENT

For the year ended June 30, 2007

	Notes	**2007 HK$ million**	2006 HK$ million
Turnover	5	**29,640**	23,349
Cost of goods sold		**(13,755)**	(11,051)
Gross profit		**15,885**	12,298
Staff costs	12	**(3,514)**	(2,815)
Operating lease charge		**(2,325)**	(1,938)
Depreciation		**(597)**	(532)
Other operating costs		**(3,190)**	(2,248)
Operating profit	6	**6,259**	4,765
Interest income		**149**	37
Finance costs	7	**–**	(1)
Share of results of associates		**130**	84
Profit before taxation		**6,538**	4,885
Taxation	8	**(1,358)**	(1,148)
Profit attributable to shareholders	9	**5,180**	3,737
Dividends	10	**3,916**	2,817
Earnings per share	11		
– Basic		**HK$4.22**	HK$3.09
– Diluted		**HK$4.16**	HK$3.04

The notes on pages 78 to 120 form an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

As at June 30, 2007

	Notes	**2007 HK$ million**	2006 HK$ million
Non-current assets			
Intangible assets	14	**2,057**	2,027
Property, plant and equipment	15	**2,525**	2,429
Other investments		**7**	8
Investments in associates	16	**406**	269
Prepaid lease payments	17	**175**	180
Deferred tax assets	23	**396**	315
		5,566	5,228
Current assets			
Inventories	18	**2,192**	2,101
Debtors, deposits and prepayments	19	**3,991**	2,702
Amounts due from associates	16	**48**	102
Bank balances and cash	20	**1,829**	1,394
Short-term bank deposits	20	**3,403**	1,325
		11,463	7,624
Current liabilities			
Creditors and accrued charges	22	**3,637**	2,623
Unsecured short-term bank loan	20	**–**	250
Taxation		**933**	514
		4,570	3,387
Net current assets		**6,893**	4,237
Total assets less current liabilities		**12,459**	9,465
Financed by:			
Share capital	21	**123**	122
Reserves		**11,958**	8,985
Shareholders' funds		**12,081**	9,107
Deferred tax liabilities	23	**378**	358
		12,459	9,465

Approved by the Board of Directors on August 29, 2007.

Heinz Jürgen KROGNER-KORNALIK
Chairman

John POON Cho Ming
Deputy Chairman

The notes on pages 78 to 120 form an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended June 30, 2007

	Notes	**2007 HK$ million**	2006 HK$ million
Cash flows from operating activities			
Cash generated from operations	24	**6,985**	4,652
Interest paid		**–**	(1)
Hong Kong profits tax paid		**(1)**	(5)
Overseas tax paid		**(1,103)**	(1,226)
Overseas tax refund received		**–**	8
Net cash inflow from operating activities		**5,881**	3,428
Cash flows from investing activities			
Purchase of property, plant and equipment		**(615)**	(838)
Proceeds from disposal of property, plant and equipment	24	**5**	8
Proceeds from disposal of other investments		**1**	–
Interest received		**119**	38
Net cash used in investing activities		**(490)**	(792)
Cash flows from financing activities			
Net proceeds on issue of shares for cash		**340**	484
Dividends paid		**(3,086)**	(2,421)
Net cash used in financing activities		**(2,746)**	(1,937)
Net increase in cash and cash equivalents		**2,645**	699
Cash and cash equivalents at beginning of year		**2,469**	1,729
Effect of change in exchange rates		**118**	41
Cash and cash equivalents at end of year	20	**5,232**	2,469

The notes on pages 78 to 120 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended June 30, 2007

	Share capital HK$ million	Share premium HK$ million	Employee share-based payment reserve HK$ million	Hedging reserve HK$ million	Contributed surplus HK$ million	Translation reserve HK$ million	Capital reserve HK$ million	Retained profits HK$ million	Total HK$ million
At July 1, 2006	**122**	**1,975**	**230**	**(41)**	**7**	**373**	**1**	**6,440**	**9,107**
Exchange translation recognized directly in equity	–	–	–	–	–	382	–	–	382
Fair value gain on cash flow hedge	–	–	–	29	–	–	–	–	29
Profit attributable to shareholders	–	–	–	–	–	–	–	5,180	5,180
Total recognized income	–	–	–	29	–	382	–	5,180	5,591
2005/06 final and special dividends paid (Note 10)	–	–	–	–	–	–	–	(2,225)	(2,225)
2006/07 interim dividend paid (Note 10)	–	–	–	–	–	–	–	(861)	(861)
Issues of shares (Note 21)	1	339	–	–	–	–	–	–	340
Employee share option benefits	–	–	129	–	–	–	–	–	129
Transfer of reserve	–	77	(77)	–	–	–	–	–	–
At June 30, 2007	**123**	**2,391**	**282**	**(12)**	**7**	**755**	**1**	**8,534**	**12,081**
Representing:									
Proposed final and special dividends									3,055
Balance after proposed final and special dividends									9,026
At June 30, 2007									**12,081**

The notes on pages 78 to 120 form an integral part of these consolidated financial statements.

	Share capital HK$ million	Share premium HK$ million	Employee share-based payment reserve HK$ million	Hedging reserve HK$ million	Contributed surplus HK$ million	Translation reserve HK$ million	Capital reserve HK$ million	Retained profits HK$ million	Total HK$ million
At July 1, 2005	120	1,417	174	–	7	196	1	5,124	7,039
Exchange translation recognized directly in equity	–	–	–	–	–	177	–	–	177
Fair value loss on cash flow hedge	–	–	–	(41)	–	–	–	–	(41)
Profit attributable to shareholders	–	–	–	–	–	–	–	3,737	3,737
Total recognized (expense)/income	–	–	–	(41)	–	177	–	3,737	3,873
2004/05 final and special dividends paid	–	–	–	–	–	–	–	(1,813)	(1,813)
2005/06 interim dividend paid (Note 10)	–	–	–	–	–	–	–	(608)	(608)
Issues of shares (Note 21)	2	482	–	–	–	–	–	–	484
Employee share option benefits	–	–	132	–	–	–	–	–	132
Transfer of reserve	–	76	(76)	–	–	–	–	–	–
At June 30, 2006	122	1,975	230	(41)	7	373	1	6,440	9,107
Representing:									
Proposed final and special dividends									2,209
Balance after proposed final and special dividends									6,898
At June 30, 2006									9,107

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

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

The notes on pages 78 to 120 form an integral part of these consolidated financial statements.

1 GENERAL INFORMATION

Esprit Holdings Limited (the "Company") and its subsidiaries (together the "Group") are principally engaged in wholesale and retail distribution and licensing of quality fashion and life-style products designed under its own internationally-known Esprit brand name, together with Red Earth cosmetics, skin and body care products.

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 (code: 0330) and also has its shares traded on the International Bulletin Board of the London Stock Exchange.

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

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

These consolidated financial statements have been approved for issue by the Board of Directors on August 29, 2007.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

These consolidated financial statements of the Group have been prepared in accordance with IFRS.

The Group did not early adopt the following International Accounting Standard ("IAS"), IFRS and International Financial Reporting Interpretations Committee ("IFRIC") interpretations that have been issued in the period from July 1, 2006 up to the date of approval of these consolidated financial statements. The adoption of such standards will not result in substantial changes to the Group's accounting policies.

		Effective for accounting periods beginning on or after
IAS 23 (Amendment)	Borrowing Costs	January 1, 2009
IFRS 8	Operating Segments	January 1, 2009
IFRIC 10	Interim Financial Reporting and Impairment	November 1, 2006
IFRIC 11	IFRS 2 – Group and Treasury Share Transactions	March 1, 2007
IFRIC 12	Service Concession Arrangements	January 1, 2008
IFRIC 13	Customer Loyalty Programmes	July 1, 2008
IFRIC 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	January 1, 2008

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of preparation (continued)

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

(b) Consolidation

(i) Subsidiaries

Subsidiaries are all entities over which the Group has control. Control is the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired and contingent liabilities assumed is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired and contingent liabilities assumed, the difference is recognized directly in the income statement.

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

(ii) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognized at cost.

The Group's share of its associates' post-acquisition profits or losses is recognized in the income statement, and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any long-term interests that form part of the investor's net investment in the associates, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

(d) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

(iii) Group companies

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

(a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

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

(c) all resulting exchange differences are recognized as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognized in the income statement as part of the gain or loss on sale.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Property, plant and equipment

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

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

Buildings	$3\frac{1}{3}$ – 5%
Plant and machinery	30%
Furniture and office equipment	10 – $33\frac{1}{3}$%
Motor vehicles	30%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

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

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

(f) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill 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.

(ii) Trademarks

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Impairment of 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 to sell and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

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

(h) 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 and charges that have been incurred in bringing inventories to their current location and condition. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

(i) Receivables and payables

Receivables and payables are recognized at cost which approximates to their fair values, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all the amounts due according to the original terms of receivables. 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 effective interest rate. The amount of provision is recognized in the income statement. Receivables and payables denominated in foreign currencies are stated at the year-end exchange rates. The resulting gains or losses are recorded in the consolidated income statement, with the exception of the gains or losses resulting from the translation of inter-company long-term loans, which are considered to form part of the net investment in the related subsidiaries because settlement is neither planned nor likely to occur in the foreseeable future. The impact of translation of these items have been reflected in equity.

(j) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks and bank overdrafts. Bank overdrafts are shown under current liabilities on the balance sheet.

(k) Deferred tax

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Deferred tax (continued)

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

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

(l) Employee benefits

(i) Pension obligations

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

(ii) Share options

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

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

(iii) 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 balance sheet date.

(iv) 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.

(m) Provisions

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Revenue recognition

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

(i) Sales of goods – wholesale

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

(ii) Sales of goods – retail

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

(iii) Licensing income

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

(iv) Interest income

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

(o) Accounting for derivative financial instruments

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

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

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

(i) Fair value hedge

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Accounting for derivative financial instruments (continued)

(ii) Cash flow hedge

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

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

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

(p) Leases

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

(q) Dividend distributions

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

3 FINANCIAL RISK MANAGEMENT

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

(a) 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. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations.

To minimize the Group's foreign exchange exposure on costs for merchandise produced for Europe in Asia, suppliers in Asia are asked to quote and settle in Euro. In addition, to manage the foreign exchange risk arising from future commercial transactions, the Group enters into foreign currency forward contracts to reduce foreign exchange risk.

(b) Credit risk

The Group has no significant concentrations of credit risk. It 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 mainly in cash or via major credit cards.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

Critical accounting estimates and assumptions

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

(a) Useful life and impairment of trademarks

(i) Indefinite useful life

The Group's acquired Esprit trademarks are classified as an indefinite-lived intangible asset in accordance with IAS 38 "Intangible Assets". This conclusion is supported by the fact that Esprit trademark legal rights are capable of being renewed indefinitely at insignificant cost and therefore are perpetual in duration, relate to a well known and long established fashion brand since 1968, and based on future financial performance of the Group, they are expected to generate positive cash flows indefinitely. This view is 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 as at June 30, 2004. 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.

(ii) Impairment

In accordance with IAS 36 "Impairment of Assets", the Group completed its annual impairment test for Esprit trademarks by comparing their recoverable amount to their carrying amount as at June 30, 2007. The Group has conducted a valuation of the Esprit trademarks as one corporate asset based on a value-in-use calculation. The resulting value of the Esprit trademarks as at June 30, 2007 was significantly higher than their carrying amount. This valuation uses cash flow projections based on financial estimates covering a three-year period, expected royalty rates deriving from the Esprit trademarks in the range of 3% to 6% and a discount rate of 10%. The cash flows beyond the three-year period are extrapolated using a steady 3% growth rate. This growth rate does not exceed the long-term average growth rate for apparel markets in which the Group operates. Management has considered the above assumptions and valuation and has also taken into account the business expansion plan going forward, the current wholesale order books and the strategic retail expansion worldwide and believes that there is no impairment in the Esprit trademarks. Management believes that any reasonably foreseeable change in any of the above key assumptions would not cause the aggregate carrying amount of trademarks to exceed the aggregate recoverable amount.

(b) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income 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 tax and deferred tax provisions in the period in which such determination is made.

5 TURNOVER AND SEGMENT INFORMATION

The Group is principally engaged in wholesale and retail distribution and licensing of quality fashion and life-style products designed under its own internationally-known Esprit brand name, together with Red Earth cosmetics, skin and body care products.

	2007 HK$ million	2006 HK$ million
Turnover		
Sales of goods	**29,429**	23,151
Licensing and other income	**211**	198
	29,640	23,349

5 TURNOVER AND SEGMENT INFORMATION (continued)

Primary reporting format – business segments

The Group's businesses are managed according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Inter-segment transactions are entered into under the normal commercial terms and conditions that would also be available to unrelated third parties. Global brand development costs are fully reflected within the licensing segment to reflect the Esprit brand owners' initiative to develop the brand globally both in existing and prospective new markets.

	For the year ended June 30, 2007				
	Wholesale HK$ million	Retail HK$ million	Licensing & others HK$ million	Eliminations HK$ million	Group HK$ million
Turnover	16,601	12,828	211	–	29,640
Inter-segment sales	–	–	727	(727)	–
	16,601	12,828	938	(727)	29,640
Segment results	4,126	1,854	470	(43)	6,407
Unallocated net expenses					(148)
Interest income					149
Finance costs					–
Share of results of associates					130
Profit before taxation					6,538
Segment EBIT – ex-inter-segment licensing expense/income (note)	4,387	1,943	120	(43)	6,407
Segment assets	9,952	5,456	672	(3,696)	12,384
Investments in associates					454
Intangible assets					2,057
Other unallocated assets					2,134
Total assets					17,029
Segment liabilities	2,885	4,260	74	(3,696)	3,523
Other unallocated liabilities					1,425
Total liabilities					4,948
Capital expenditure	117	448	1	–	566
Depreciation	96	474	3	–	573
Provision for retail store exit costs	–	4	–	–	4

5 TURNOVER AND SEGMENT INFORMATION (continued)

Primary reporting format – business segments (continued)

	For the year ended June 30, 2006				
	Wholesale HK$ million	Retail HK$ million	Licensing & others HK$ million	Eliminations HK$ million	Group HK$ million
Turnover	13,450	9,701	198	–	23,349
Inter-segment sales	–	–	592	(592)	–
	13,450	9,701	790	(592)	23,349
Segment results	3,595	1,126	404	(178)	4,947
Unallocated net expenses					(182)
Interest income					37
Finance costs					(1)
Share of results of associates					84
Profit before taxation					4,885
Segment EBIT – ex-inter-segment licensing expense/income (note)	3,784	1,191	150	(178)	4,947
Segment assets	7,834	4,250	679	(3,720)	9,043
Investments in associates					371
Intangible assets					2,027
Other unallocated assets					1,411
Total assets					12,852
Segment liabilities	2,353	3,836	23	(3,720)	2,492
Other unallocated liabilities					1,253
Total liabilities					3,745
Capital expenditure	66	712	–	–	778
Depreciation	85	419	4	–	508
Provision for retail store exit costs	–	7	–	–	7

note: Wholesale and retail segments pay intra-group licensing fees to the licensing segment. Should the wholesale and retail segments not be required to pay the intra-group licensing fees to the licensing segment, the segment EBIT ("earnings before interest and taxation, finance costs, share of results of associates and unallocated net income/expenses") of the wholesale and retail segments would have been **HK$4,387 million** (2006: HK$3,784 million) and **HK$1,943 million** (2006: HK$1,191 million) respectively, representing wholesale segment EBIT margin ("segment EBIT/segment turnover") of **26.4%** (2006: 28.1%) and retail segment EBIT margin of **15.1%** (2006: 12.3%).

5 TURNOVER AND SEGMENT INFORMATION (continued)

Secondary reporting format – geographical segments

In determining the Group's geographical segments, turnover is attributed to the segments based on the location of customers.

	Turnover 2007 HK$ million	Capital expenditure 2007 HK$ million	Segment assets 2007 HK$ million
Europe	**25,573**	**388**	**12,212**
Asia Pacific*	**3,367**	**121**	**2,468**
North America and others	**700**	**57**	**1,400**
Eliminations	**–**	**–**	**(3,696)**
	29,640	**566**	**12,384**
Unallocated assets:			
Intangible assets			**2,057**
Investments in associates			**454**
Other assets			**2,134**
Total			**17,029**

	Turnover 2006 HK$ million	Capital expenditure 2006 HK$ million	Segment assets 2006 HK$ million
Europe	19,860	514	8,998
Asia Pacific*	2,887	89	2,385
North America and others	602	175	1,380
Eliminations	–	–	(3,720)
	23,349	778	9,043
Unallocated assets:			
Intangible assets			2,027
Investments in associates			371
Other assets			1,411
Total			12,852

* Asia Pacific includes Asia, Australia and New Zealand

6 OPERATING PROFIT

	2007 HK$ million	2006 HK$ million
Operating profit is arrived at after charging and (crediting) the following:		
Auditors' remuneration		
Current year	**11**	11
Underprovision in prior year	**–**	1
Depreciation	**597**	532
Impairment of property, plant and equipment	**16**	–
Loss on disposal of property, plant and equipment	**25**	12
Amortization of prepaid lease payments	**5**	4
Operating lease rental expenses – land and buildings (including variable rental of **HK$126 million** (2006: HK$98 million))	**2,325**	1,938
Net exchange losses on foreign currency forward contracts	**78**	16
Other net exchange gains	**(54)**	(42)
Net charge/(write back) for provision for obsolete inventories	**21**	(92)
Provision for impairment of trade debtors/bad debts written off	**76**	28
Provision for retail store exit costs	**4**	7

7 FINANCE COSTS

	2007 HK$ million	2006 HK$ million
Interest on bank loans and overdrafts wholly repayable within five years	**–**	1

8 TAXATION

	2007 HK$ million	2006 HK$ million
Current tax		
Hong Kong profits tax		
Provision for current year	–	–
Overseas taxation		
Provision for current year	**1,586**	1,227
Reversal of provision in respect of prior years	**(178)**	–
	1,408	1,227
Deferred tax (Note 23)		
Current year	**(50)**	(79)
Taxation	**1,358**	1,148

Hong Kong profits tax is calculated at **17.5%** (2006: 17.5%) on the estimated assessable profit for the year, net of tax losses carried forward, if applicable.

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

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the Group's subsidiaries. The weighted average applicable tax rate was **20.8%** (2006: 23.5%).

	2007 HK$ million	2006 HK$ million
Profit before taxation	**6,538**	4,885
Tax calculated at applicable tax rate	**1,517**	1,115
Expenses not deductible for tax purpose	**47**	49
Non-taxable income	**(11)**	(9)
Utilization of carried forward tax losses	**(32)**	(27)
Tax effect of tax losses not recognized	**21**	21
Tax effect of share of results of associates	**(30)**	(20)
(Over)/Under provision in prior years and others	**(154)**	19
Taxation	**1,358**	1,148

9 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders of the Company is dealt with in the financial statements of the Company to the extent of **HK$3,827 million** (2006: HK$1,648 million).

10 DIVIDENDS

	2007 HK$ million	2006 HK$ million
Paid interim dividend of **HK$0.70** (2006: HK$0.50) per share	**861**	608
Proposed – final dividend of **HK$1.00** (2006: HK$0.73) per share	**1,232**	891*
– special dividend of **HK$1.48** (2006:HK$1.08) per share	**1,823**	1,318*
	3,916	2,817

The amount of 2007 proposed final and special dividends is based on **1,231,930,434 shares** (2006: 1,220,390,434 shares as at September 13, 2006) in issue as at **August 29, 2007**. The proposed final and special dividends for 2007 will not be reflected as dividends payable in the balance sheet until they are approved at the forthcoming annual general meeting by the shareholders of the Company, and they will be recorded as an appropriation of retained profits for the year ending June 30, 2008.

* The actual final and special dividends paid for 2006 was HK$2,225 million due to additional shares issued during the period from September 14, 2006 to December 5, 2006, the date of closure of the register of members.

11 EARNINGS PER SHARE

Basic

Basic earnings per share is calculated by dividing the profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year.

	2007 HK$ million	2006 HK$ million
Profit attributable to shareholders	**5,180**	3,737
Weighted average number of ordinary shares in issue (million)	**1,226**	1,209
Basic earnings per share (HK dollars per share)	**4.22**	3.09

11 EARNINGS PER SHARE (continued)

Diluted

Diluted earnings per share is calculated based on the profit attributable to shareholders, and the weighted average number of shares in issue during the year after adjusting for the number of dilutive potential ordinary shares granted under the Company's share option scheme.

	2007 HK$ million	2006 HK$ million
Profit attributable to shareholders	**5,180**	3,737
Weighted average number of ordinary shares in issue (million)	**1,226**	1,209
Adjustments for share options (million)	**19**	19
Weighted average number of ordinary shares for diluted earnings per share (million)	**1,245**	1,228
Diluted earnings per share (HK dollars per share)	**4.16**	3.04

12 STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	2007 HK$ million	2006 HK$ million
Salaries and wages	**2,605**	1,925
Social security costs and other staff costs	**714**	700
Pensions costs of defined contribution plans	**66**	58
Employee share option benefits	**129**	132
	3,514	2,815

Retirement contribution retirement schemes

The Group principally participates in defined contribution plans. In Hong Kong the Group participates in the Mandatory Provident Fund Scheme operated by HSBC Provident Fund Trustee (Hong Kong) Limited. Contribution at a fixed rate of 5 per cent of the employee's relevant income, subject to a cap of monthly relevant income of HK$20,000 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 contributions forfeited in accordance with the schemes' rules amounted to **HK$1.0 million** (2006: HK$0.4 million) which have been applied towards the contributions payable by the Group.

13 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

Name of Director	Fees[4] HK$'000	Basic salaries, allowance and benefits-in-kind HK$'000	Bonuses HK$'000	Share option benefits HK$'000	Provident fund contributions/ retirement benefit costs HK$'000	2007 Total emoluments HK$'000	2006 Total emoluments HK$'000
Heinz Jürgen KROGNER-KORNALIK	–	5,450	40,728	13,108	5	59,291	62,926
		(EUR535,301)	(EUR4,000,000)	(EUR1,287,402)	(EUR509)	(EUR5,823,212)	(EUR6,659,329)
John POON Cho Ming	–	6,034	8,813	8,929	12	23,788	22,682
Thomas Johannes GROTE	–	7,343	8,146	7,367	–	22,856	15,938
		(EUR721,199)	(EUR800,000)	(EUR723,554)		(EUR2,244,753)	(EUR1,686,686)
Jerome Squire GRIFFITH	–	5,702	2,942	4,179	–	12,823	16,026
		(USD731,430)	(USD377,439)	(USD536,086)		(USD1,644,955)	(EUR1,695,999)
Michael YING Lee Yuen[1]	250	3,431	–	–	6	3,687	8,038
Jürgen Alfred Rudolf FRIEDRICH[1, 3]	300	–	–	–	–	300	250
Simon LAI Sau Cheong[1]	106	–	–	–	–	106	300
Alexander Reid HAMILTON[2, 3]	450	–	–	–	–	450	300
Raymond OR Ching Fai[2, 3]	450	–	–	–	–	450	300
Paul CHENG Ming Fun[2, 3]	450	–	–	–	–	450	300
Total for the year 2007	2,006	27,960	60,629	33,583	23	124,201	
Total for the year 2006	1,450	32,002	54,051	39,528	29		127,060

1 Non-executive directors
2 Independent non-executive directors
3 Members of the Audit Committee
4 The amount includes directors' fees of **HK$1.4 million** (2006: HK$0.9 million) paid to independent non-executive directors

13 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (continued)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included **four** (2006: four) Directors whose emoluments are reflected in the analysis presented above. The emoluments receivable by the remaining **one** (2006: one) during the year are listed below:

	2007 **HK$'000**	2006 HK$'000
Salaries, housing and other allowances and benefits in kind	**2,251**	6,036
Bonuses	**4,073**	1,940
Share option benefits	**2,886**	4,941
Pensions costs of defined contribution plans	**5**	–
	9,215	12,917

Emoluments Band	**Number of Individuals**	
	2007	2006
HK$ 9,000,001 – HK$ 9,500,000	**1**	–
HK$ 12,500,001 – HK$ 13,000,000	–	1

14 INTANGIBLE ASSETS

	Trademarks **HK$ million**	**Goodwill** **HK$ million**	**Total** **HK$ million**
Cost			
At July 1, 2005	1,969	40	2,009
Exchange translation	16	2	18
At July 1, 2006	**1,985**	**42**	**2,027**
Exchange translation	**30**	–	**30**
At June 30, 2007	**2,015**	**42**	**2,057**

The trademarks are considered to have an indefinite useful life and were tested for impairment at June 30, 2007, as described in Note 4(a).

15 PROPERTY, PLANT AND EQUIPMENT

	Freehold land outside Hong Kong HK$ million	Buildings HK$ million	Leasehold improvements and fixtures HK$ million	Plant and machinery HK$ million	Furniture and office equipment HK$ million	Motor vehicles HK$ million	Total HK$ million
Cost							
At July 1, 2006	23	200	2,815	10	1,527	40	4,615
Exchange translation	–	2	177	1	78	3	261
Additions	–	–	425	–	175	15	615
Disposals	–	–	(120)	–	(37)	(9)	(166)
At June 30, 2007	23	202	3,297	11	1,743	49	5,325
Depreciation							
At July 1, 2006	–	48	1,182	4	935	17	2,186
Exchange translation	–	1	80	–	55	1	137
Charge for the year	–	9	313	1	263	11	597
Disposals	–	–	(98)	–	(32)	(6)	(136)
Impairment charge	–	–	16	–	–	–	16
At June 30, 2007	–	58	1,493	5	1,221	23	2,800
Net book value							
At June 30, 2007	23	144	1,804	6	522	26	2,525

15 PROPERTY, PLANT AND EQUIPMENT (continued)

	Freehold land outside Hong Kong HK$ million	Buildings HK$ million	Leasehold improvements and fixtures HK$ million	Plant and machinery HK$ million	Furniture and office equipment HK$ million	Motor vehicles HK$ million	Total HK$ million
Cost							
At July 1, 2005	24	198	2,338	12	1,260	36	3,868
Exchange translation	–	3	108	–	69	2	182
Additions	–	–	549	1	280	9	839
Disposals	(1)	(1)	(180)	(3)	(82)	(7)	(274)
At June 30, 2006	23	200	2,815	10	1,527	40	4,615
Depreciation							
At July 1, 2005	–	37	1,039	6	721	12	1,815
Exchange translation	–	2	44	–	47	–	93
Charge for the year	–	9	270	1	242	10	532
Disposals	–	–	(171)	(3)	(75)	(5)	(254)
At June 30, 2006	–	48	1,182	4	935	17	2,186
Net book value							
At June 30, 2006	23	152	1,633	6	592	23	2,429

16 INVESTMENTS IN ASSOCIATES

	2007 HK$ million	2006 HK$ million
Share of net assets	**406**	269

The following is a list of the principal associates, all of which are unlisted as at June 30, 2007:

Name of associates	Place of incorporation/ operation	Attributable equity interest to the Group	Issued and fully paid share capital/ registered capital	Principal activities
Tactical Solutions Incorporated ("TSI")	British Virgin Islands/ The People's Republic of China	49%	US$100	Investment holding
CRE Esprit Inc. ("CRE")	The People's Republic of China	49%	RMB5,000,000	Retail and wholesale distribution of apparel, accessories and cosmetics products

Except for royalty payments by TSI which have scheduled payment due dates and bear interest at Hong Kong dollar prime rate plus 3% on overdue balances, the amounts due from associates are unsecured, interest free and have no fixed terms of repayment.

Summary of unaudited consolidated financial information of TSI as at June 30 is as follows:

	2007 HK$ million	2006 HK$ million
Assets	**1,009**	728
Liabilities	**(181)**	(180)
Net assets	**828**	548
Revenue	**1,595**	1,188
Net Profit	**265**	172

17 PREPAID LEASE PAYMENTS

	2007 HK$ million	2006 HK$ million
Net book value at beginning of year	**185**	189
Amortization	**(5)**	(4)
Net book value at end of year	**180**	185
Current portion of non-current assets	**(5)**	(5)
Non-current portion	**175**	180

Prepaid lease payments represent costs of a share of medium-term leasehold land in Hong Kong. The costs are amortized over the leasehold period.

18 INVENTORIES

	2007 HK$ million	2006 HK$ million
Finished goods	**2,070**	2,014
Consumables	**118**	83
Raw materials	**4**	4
	2,192	2,101

19 DEBTORS, DEPOSITS AND PREPAYMENTS

	2007 HK$ million	2006 HK$ million
Trade debtors	**3,090**	2,137
Less: provision for impairment of trade debtors	**(122)**	(81)
	2,968	2,056
Deposits	**481**	401
Prepayments	**101**	33
Other debtors and receivables	**441**	212
	3,991	2,702

19 DEBTORS, DEPOSITS AND PREPAYMENTS (continued)

The Group's sales to retail customers are made mainly in cash or by credit card. The Group also grants credit for a period which is usually 30 days to certain wholesale and franchise customers. The ageing analysis of trade debtors is as follows:

	2007 HK$ million	2006 HK$ million
0-30 days	**2,717**	1,867
31-60 days	**84**	53
61-90 days	**76**	41
Over 90 days	**91**	95
	2,968	2,056

The carrying amount of debtors, deposits and prepayments approximates their fair values.

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

20 CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following for the purposes of the cash flow statement:

	2007 HK$ million	2006 HK$ million
Bank balances and cash	**1,829**	1,394
Short-term bank deposits	**3,403**	1,325
	5,232	2,719
Unsecured short-term bank loan	–	(250)
	5,232	2,469

For financial reporting purposes, the effective interest rate on cash and cash equivalents for 2007 was determined to be **3.0%** (2006: 1.3%); the short-term bank deposits have an average maturity of less than 30 days.

The Group's short-term bank loan's effective interest rate was **4.35%** (2006: 4.35%).

21 SHARE CAPITAL

	2007 HK$ million	2006 HK$ million
Authorized:		
2,000,000,000 shares of HK$0.10 each	**200**	200

	Number of shares of HK$0.10 each million	**Nominal value HK$ million**
Issued and fully paid:		
Balance at July 1, 2005	1,199	120
Exercise of share options	21	2
Balance at June 30, 2006	1,220	122
Balance at July 1, 2006	**1,220**	**122**
Exercise of share options (note (a))	**11**	**1**
Balance at June 30, 2007	**1,231**	**123**

(a) During the year, **10,950,000** (2006: 20,965,000) ordinary shares of HK$0.10 were issued in respect of the share options exercised by Directors and employees under the share option scheme (defined in Note (b) below) at exercise prices in the range of **HK$14.60 to HK$64.31** (2006: HK$14.60 to HK$45.60) each (representing a premium in the range of **HK$14.50 to HK$64.21** (2006: HK$14.50 to HK$45.50) each).

(b) Share options

The Company adopted a share option scheme on November 26, 2001 (the "Scheme").

Information on Share Option Scheme

The following is a summary of the Scheme disclosed in accordance with the Rules governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

21 SHARE CAPITAL (continued)

Purpose of the Scheme

The Scheme is a share incentive scheme and is established to recognize and acknowledge the contributions that eligible persons make or may make to the Group.

The Scheme provides 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 Group.

Participants of the Scheme

The board may at its discretion grant 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 Scheme and percentage of issued share capital at June 30, 2007

The total number of shares available for issue upon exercise of all outstanding options already granted under the Scheme is 48,656,000 shares, representing 3.95% of the issued share capital of the Company at June 30, 2007.

The maximum number of shares available for issue upon exercise of options not yet been granted under the Scheme is 46,991,371 shares, representing 3.82% of the issued share capital of the Company at June 30, 2007.

Maximum entitlement of each participant under the Scheme

The maximum entitlement of each participant under the Scheme 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 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 Scheme or any other schemes of the Company (including exercised, cancelled and outstanding share options) in the 12-month period up to and including the date of such new grant exceeding 1% of the issued share capital of the Company at the date of such new grant. Any grant of further 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 an option

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

21 SHARE CAPITAL (continued)

The minimum period for which an option must be held before it can be exercised

There is no general requirement on the minimum period for which an option must be held or the performance targets which must be achieved before an option can be exercised under the Scheme. At the time of granting an option, however, the board may, on a case by case basis, make such grant subject to such conditions, restrictions or limitations in relation to the minimum period for which the option must be held and/or the performance targets to be achieved as the board may in its absolute discretion determine.

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

No amount payable on application or acceptance of the 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

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

(i) the closing price of the Company's shares as stated in The Stock Exchange of Hong Kong Limited ("SEHK")'s daily quotations sheet on the date of grant of the relevant 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 SEHK's daily quotations sheets for the five Business Days immediately preceding the date of grant of the relevant option; and

(iii) the nominal value of the Company's shares.

The remaining life of the Scheme

Options may be granted to eligible persons under the Scheme for the period until November 26, 2011.

Details of the share options granted during the year and outstanding share options as at June 30, 2007 under the Scheme were as follows:

	Number of share options	
	2007	2006
Opening balance	**54,415,000**	70,516,000
Granted during the year (Note (i))	**12,980,000**	9,450,000
Exercised during the year (Note (ii))	**(10,950,000)**	(20,965,000)
Lapsed during the year	**(7,789,000)**	(4,586,000)
Closing balance (Note (iii))	**48,656,000**	54,415,000

21 SHARE CAPITAL (continued)

(i) Details of share options granted during the year ended June 30, 2007 were as follows:

Exercise period	Exercise price HK$	Number of options
November 27, 2007 – November 26, 2012	80.60	525,000
November 27, 2008 – November 26, 2012	80.60	525,000
November 27, 2009 – November 26, 2012	80.60	525,000
November 27, 2010 – November 26, 2012	80.60	525,000
November 27, 2011 – November 26, 2012	80.60	525,000
December 4, 2007 – December 3, 2012	79.49	255,000
December 4, 2008 – December 3, 2012	79.49	255,000
December 4, 2009 – December 3, 2012	79.49	255,000
December 4, 2010 – December 3, 2012	79.49	255,000
December 4, 2011 – December 3, 2012	79.49	255,000
December 5, 2007 – December 4, 2012	80.95	1,296,000
December 5, 2008 – December 4, 2012	80.95	1,296,000
December 5, 2009 – December 4, 2012	80.95	1,296,000
December 5, 2010 – December 4, 2012	80.95	1,296,000
December 5, 2011 – December 4, 2012	80.95	1,296,000
February 7, 2008 – February 6, 2013	83.00	400,000
February 7, 2009 – February 6, 2013	83.00	400,000
February 7, 2010 – February 6, 2013	83.00	400,000
February 7, 2011 – February 6, 2013	83.00	400,000
February 7, 2012 – February 6, 2013	83.00	400,000
February 28, 2008 – February 27, 2013	86.85	120,000
February 28, 2009 – February 27, 2013	86.85	120,000
February 28, 2010 – February 27, 2013	86.85	120,000
February 28, 2011 – February 27, 2013	86.85	120,000
February 28, 2012 – February 27, 2013	86.85	120,000
		12,980,000

21 SHARE CAPITAL (continued)

Details of share options granted during the year ended June 30, 2006 were as follows:

Exercise period	Exercise price HK$	Number of options
November 28, 2006 – November 27, 2011	55.11	1,140,000
November 28, 2007 – November 27, 2011	55.11	1,140,000
November 28, 2008 – November 27, 2011	55.11	1,140,000
November 28, 2009 – November 27, 2011	55.11	1,140,000
November 28, 2010 – November 27, 2011	55.11	1,140,000
December 2, 2006 – December 1, 2011	56.20	520,000
December 2, 2007 – December 1, 2011	56.20	520,000
December 2, 2008 – December 1, 2011	56.20	520,000
December 2, 2009 – December 1, 2011	56.20	520,000
December 2, 2010 – December 1, 2011	56.20	520,000
December 23, 2006 – December 22, 2011	56.50	90,000
December 23, 2007 – December 22, 2011	56.50	90,000
December 23, 2008 – December 22, 2011	56.50	90,000
December 23, 2009 – December 22, 2011	56.50	90,000
December 23, 2010 – December 22, 2011	56.50	90,000
February 23, 2007 – February 22, 2012	64.31	140,000
February 23, 2008 – February 22, 2012	64.31	140,000
February 23, 2009 – February 22, 2012	64.31	140,000
February 23, 2010 – February 22, 2012	64.31	140,000
February 23, 2011 – February 22, 2012	64.31	140,000
		9,450,000

21 SHARE CAPITAL (continued)

(ii) Details of share options exercised during the year ended June 30, 2007 were as follows:

Exercise date	Exercise price HK$	Number of options	Proceeds received Share capital HK$'000	Proceeds received Share premium HK$'000	Market value* per share at exercise date HK$
September 18, 2006	42.58	120,000	12	5,098	70.35
October 12, 2006	42.58	80,000	8	3,398	72.30
October 18, 2006	24.20	50,000	5	1,205	71.60
November 8, 2006	24.20	330,000	33	7,953	75.55
November 23, 2006	24.20	80,000	8	1,928	80.25
November 30, 2006	14.60	2,756,000	276	39,962	80.65
November 30, 2006	24.20	2,242,000	224	54,032	80.65
November 30, 2006	42.58	2,797,000	280	118,817	80.65
November 30, 2006	55.11	405,000	40	22,279	80.65
December 6, 2006	42.58	80,000	8	3,398	82.60
December 6, 2006	55.11	30,000	3	1,650	82.60
December 6, 2006	56.20	80,000	8	4,488	82.60
December 12, 2006	14.60	120,000	12	1,740	81.15
December 12, 2006	24.20	90,000	9	2,169	81.15
December 12, 2006	42.58	90,000	9	3,823	81.15
December 12, 2006	56.20	100,000	10	5,610	81.15
January 11, 2007	42.58	240,000	24	10,195	81.50
January 11, 2007	55.11	90,000	9	4,951	81.50
January 24, 2007	56.20	60,000	6	3,366	84.20
February 5, 2007	14.60	160,000	16	2,320	83.30
February 5, 2007	24.20	120,000	12	2,892	83.30
February 5, 2007	42.58	120,000	12	5,098	83.30
February 5, 2007	56.20	40,000	4	2,244	83.30
February 8, 2007	56.20	20,000	2	1,122	89.10
March 20, 2007	64.31	80,000	8	5,137	86.85
April 3, 2007	42.58	160,000	16	6,796	95.25
April 3, 2007	55.11	60,000	6	3,301	95.25
April 20, 2007	24.20	120,000	12	2,892	94.35
May 9, 2007	45.60	80,000	8	3,640	97.45
May 30, 2007	42.58	60,000	6	2,549	94.90
June 14, 2007	55.11	90,000	9	4,951	95.00
		10,950,000	1,095	339,004	

* "Market value" represents the closing price of the share in Hong Kong on the exercise date or on the trading day immediately before the exercise date (if it is a non-trading day).

21 SHARE CAPITAL (continued)

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

Expiry date	Exercise price HK$	Number of share options outstanding as at June 30 2007	2006
Directors			
November 26, 2008*	14.60	**640,000**	–
November 26, 2008**	14.60	**1,920,000**	3,840,000
November 26, 2009*	24.20	**480,000**	–
November 26, 2009**	24.20	**2,880,000**	4,320,000
November 27, 2010*	42.58	**480,000**	–
November 27, 2010**	42.58	**4,320,000**	5,760,000
December 5, 2010**	80.95	**800,000**	–
February 7, 2013**	83.00	**1,600,000**	–
Employees and consultants			
November 26, 2008*	14.60	**700,000**	120,000
November 26, 2008**	14.60	**2,296,000**	5,760,000
November 26, 2009*	24.20	**665,000**	525,000
November 26, 2009**	24.20	**4,364,000**	7,860,000
December 23, 2009*	24.45	**120,000**	–
December 23, 2009**	24.45	**240,000**	360,000
November 27, 2010*	42.58	**1,740,000**	1,370,000
November 27, 2010**	42.58	**8,541,000**	14,580,000
December 23, 2010*	47.10	**180,000**	90,000
December 23, 2010**	47.10	**270,000**	360,000
January 21, 2011**	45.60	**240,000**	320,000
November 28, 2011*	55.11	**345,000**	–
November 28, 2011**	55.11	**3,240,000**	5,400,000
December 2, 2011*	56.20	**100,000**	–
December 2, 2011**	56.20	**1,520,000**	2,600,000
December 23, 2011*	56.50	**90,000**	–
December 23, 2011**	56.50	**360,000**	450,000
February 23, 2012*	64.31	**60,000**	–
February 23, 2012**	64.31	**560,000**	700,000
November 27, 2012**	80.60	**2,025,000**	–
December 4, 2012**	79.49	**1,200,000**	–
December 5, 2012**	80.95	**5,680,000**	–
February 7, 2013**	83.00	**400,000**	–
February 28, 2013**	86.85	**600,000**	–
		48,656,000	54,415,000

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

21 SHARE CAPITAL (continued)

Employees share option expenses charged to the consolidated income statement are determined using the Binomial model based on the following assumptions:

Date of grant	Option value HK$	Share price at the date of grant[2] HK$	Exercisable price HK$	Expected volatility[3]	Annual risk-free interest rate[4]	Life of option[5]	Dividend yield[6]
November 26, 2002	3.22 – 5.38	14.60	14.60	47.19%	2.14% – 3.73%	2 – 6 years	1.87%
November 26, 2003	4.42 – 7.70	24.20	24.20	38.29%	1.53% – 3.54%	2 – 6 years	1.85%
December 23, 2003	4.39 – 7.71	24.45	24.45	38.09%	1.18% – 3.42%	2 – 6 years	1.85%
November 27, 2004	7.64 – 13.17	42.20	42.58	38.88%	1.35% – 2.90%	2 – 6 years	1.77%
December 23, 2004	8.46 – 14.64	47.10	47.10	38.18%	1.00% – 2.88%	2 – 6 years	1.77%
January 21, 2005	8.15 – 14.00	45.60	45.60	37.23%	1.55% – 3.03%	2 – 6 years	1.77%
November 28, 2005	8.44 – 14.59	54.45	55.11	28.98%	4.10% – 4.28%	2 – 6 years	1.89%
December 2, 2005	9.01 – 15.37	56.20	56.20	29.05%	4.16% – 4.37%	2 – 6 years	1.89%
December 23, 2005	7.67 – 14.67	56.50	56.50	23.50%-27.50%	4.03% – 4.20%	2 – 6 years	1.89%
February 23, 2006	7.67 – 16.78	58.80	64.31	31.10%	4.07% – 4.20%	2 – 6 years	1.89%
November 27, 2006	12.57 – 21.01	80.00	80.60	28.64%	3.66% – 3.79%	2 – 6 years	1.84%
December 4, 2006	12.16 – 20.36	78.70	79.49	28.26%	3.49% – 3.67%	2 – 6 years	1.84%
December 5, 2006	12.42 – 20.81	80.95	80.95	28.38%	3.48% – 3.68%	2 – 6 years	1.84%
February 7, 2007	13.42 – 22.58	83.00	83.00	29.18%	4.10% – 4.22%	2 – 6 years	1.84%
February 28, 2007	13.81 – 23.23	81.40	86.85	28.85%	3.94% – 4.08%	2 – 6 years	1.84%

1. Since 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 SEHK's daily quotation sheet on the date of grant of the relevant option; where the date of grant of the relevant 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 SEHK's daily quotation 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; or ii) historical volatilities as expected volatility input to the Binomial option pricing model. With the exception of those share options granted on December 23, 2005 that used implied volatilities over Esprit shares of similar maturity to the employee options, Esprit has estimated volatility based on the historical stock prices over 1 year preceding the grant date, 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 option life.

5. The expected option life was determined by reference to historical data of option holders' behaviour.

6. Dividend yield was based on the average dividend yield for the three years preceding the year of grant.

22 CREDITORS AND ACCRUED CHARGES

	2007 HK$ million	2006 HK$ million
Trade creditors	**1,438**	1,057
Accruals	**1,390**	1,066
Other creditors and payables	**809**	500
	3,637	2,623

The ageing analysis of trade creditors is as follows:

	2007 HK$ million	2006 HK$ million
0-30 days	**1,347**	967
31-60 days	**55**	40
61-90 days	**7**	12
Over 90 days	**29**	38
	1,438	1,057

The carrying amount of creditors and accrued charges approximates their fair value.

23 DEFERRED TAXATION

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

The Group:

	Accelerated accounting depreciation HK$ million	Elimination of unrealized profits HK$ million	Trademarks HK$ million	Tax losses HK$ million	Other deferred tax assets HK$ million	Other deferred tax liabilities HK$ million	Total HK$ million
At July 1, 2005	29	129	(315)	29	18	(15)	(125)
(Charged)/ credited to income statement	(5)	97	9	4	2	(28)	79
Exchange difference recognized in equity	–	12	(7)	–	–	(2)	3
At June 30, 2006	**24**	**238**	**(313)**	**33**	**20**	**(45)**	**(43)**
(Charged)/credited to income statement	**(10)**	**58**	**(8)**	**4**	**8**	**(2)**	**50**
Exchange Difference recognized in equity	**1**	**16**	**(9)**	**–**	**4**	**(1)**	**11**
At June 30, 2007	**15**	**312**	**(330)**	**37**	**32**	**(48)**	**18**

For the purpose of balance sheet presentation, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2007 HK$ million	2006 HK$ million
Deferred tax assets	**396**	315
Deferred tax liabilities	**378**	358

At June 30, 2007, the Group had unused tax losses of approximately **HK$965 million** (2006: HK$1,238 million) available for offset against future taxable profits. A deferred tax asset has been recognized in respect of approximately **HK$201 million** (2006: HK$178 million) of such losses. No deferred tax asset has been recognized in respect of the remaining losses of approximately **HK$764 million** (2006: HK$1,060 million). Included in unrecognized tax losses are losses of approximately **HK$157 million** (2006: HK$471 million) that will expire in the next five to twenty years. Other losses may be carried forward indefinitely.

24 NOTES TO CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of profit before taxation to cash generated from operations:

	2007 HK$ million	2006 HK$ million
Profit before taxation	**6,538**	4,885
Adjustments for:		
Interest income	**(149)**	(37)
Interest expense	**–**	1
Amortization of prepaid lease payments	**5**	4
Depreciation	**597**	532
Impairment of property, plant and equipment	**16**	–
Loss on disposal of property, plant and equipment	**25**	12
Provision for retail store exit costs	**4**	7
Share of results of associates	**(130)**	(84)
Employee share option expense	**129**	132
Operating profit before changes in working capital	**7,035**	5,452
Increase in inventories	**(91)**	(714)
Increase in debtors, deposits and prepayments	**(1,145)**	(464)
Decrease/(Increase) in amounts due from associates	**54**	(63)
Increase in creditors and accrued charges	**1,040**	412
Effect of foreign exchange rate changes	**92**	29
Cash generated from operations	**6,985**	4,652

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

	2007 HK$ million	2006 HK$ million
Net book amount	**30**	20
Loss on disposal of property, plant and equipment	**(25)**	(12)
Proceeds from disposal of property, plant and equipment	**5**	8

25 OPERATING LEASE COMMITMENTS

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

	2007 **HK$ million**	2006 HK$ million
Land and buildings		
– within one year	**1,810**	1,579
– in the second to fifth year inclusive	**6,521**	5,354
– after the fifth year	**7,346**	6,594
	15,677	13,527
Other equipment		
– within one year	**23**	16
– in the second to fifth year inclusive	**15**	14
	38	30
	15,715	13,557

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

The total future minimum lease receipts under non-cancelable subleases in respect of land and buildings at June 30, 2007 are **HK$110 million** (2006: HK$109 million).

26 CAPITAL COMMITMENTS

	2007 **HK$ million**	2006 HK$ million
Contracted but not provided for	**186**	77
Authorized but not contracted for	**770**	374
	956	451

27 DERIVATIVE FINANCIAL INSTRUMENTS

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

At the balance sheet date, the total notional amount of outstanding foreign currency forward contracts to which the Group has committed is as below:

	2007 HK$ million	2006 HK$ million
Foreign currency forward contracts – cash flow hedges	**948**	1,332

At June 30, 2007, the fair value of the foreign currency forward contracts is estimated to be approximately **HK$22 million** (2006: HK$51 million). These amounts are based on market values of equivalent instruments at the balance sheet date and are included in other creditors and payables.

Losses in equity on foreign currency forward contracts as of June 30, 2007 will be released to the income statement at various dates between one month to one year from the balance sheet date, to match the recognition of the hedged items in the income statement.

28 RELATED PARTY TRANSACTIONS

The Group entered into transactions with related companies in the ordinary course of business and on similar terms made available to those unrelated third parties during the year. Details relating to these related party transactions are as follows:

	2007 HK$ million	2006 HK$ million
Transactions with associates		
Sales of finished goods	**690**	478
Royalty and accrued interest receivable/received	**38**	21
Commission received	**4**	2

29 EVENTS AFTER THE BALANCE SHEET DATE

On July 6, 2007, the parliament of Germany enacted certain changes in the local tax law which generally reduced the average corporate tax rate with effect from January 1, 2008. The Company is advised that such changes are applicable to the Group for the financial year commencing July 1, 2007. As the changes in the local tax law were enacted after June 30, 2007, there has been no change to the carrying value of deferred tax assets and liabilities as at June 30, 2007. As at the date that these consolidated financial statements are approved by the Directors for issue, the Group is in the process of assessing the impact, if any, to the Group as a whole.

30 SUMMARIZED BALANCE SHEET OF THE COMPANY

Included below is summarized balance sheet information of the Company as at June 30, disclosed in accordance with Bermuda Law:

	Notes	**2007 HK$ million**	2006 HK$ million
Investments in subsidiaries, at cost		**217**	217
Loans to subsidiaries	(i)	**1,637**	1,628
Amounts due from subsidiaries	(i)	**8,164**	6,264
Current assets		**12**	6
Current liabilities		**(15)**	(12)
Amounts due to subsidiaries	(i)	**(4,240)**	(3,538)
Net assets		**5,775**	4,565
Share capital	21	**123**	122
Share premium	(ii)	**2,391**	1,975
Contributed surplus	(ii)	**474**	474
Employee share-based payment reserve	(ii)	**282**	230
Retained profits	(ii)	**2,505**	1,764
Shareholders' funds		**5,775**	4,565

i. The loans to subsidiaries and the amounts due from/to subsidiaries are unsecured, interest free and have no fixed term of repayment.

30 SUMMARIZED BALANCE SHEET OF THE COMPANY (continued)

ii. Movements of reserves are as follows:

	Share premium HK$ million	Contributed surplus HK$ million	Employee share-based payment reserve HK$ million	Retained profits HK$ million	Total HK$ million
At July 1, 2005	1,417	474	174	2,537	4,602
Profit attributable to shareholders	–	–	–	1,648	1,648
2004/05 final and special dividends paid	–	–	–	(1,813)	(1,813)
2005/06 interim dividend paid (Note 10)	–	–	–	(608)	(608)
Issues of shares	482	–	–	–	482
Employee share option benefits	–	–	132	–	132
Transfer of reserve	76	–	(76)	–	–
Balance at June 30, 2006	1,975	474	230	1,764	4,443
Representing:					
Proposed final and special dividends					2,209
Balance after proposed final and special dividends					2,234
Balance at June 30, 2006					4,443
At July 1, 2006	**1,975**	**474**	**230**	**1,764**	**4,443**
Profit attributable to shareholders	**–**	**–**	**–**	**3,827**	**3,827**
2005/06 final and special dividends paid (Note 10)	**–**	**–**	**–**	**(2,225)**	**(2,225)**
2006/07 interim dividend paid (Note 10)	**–**	**–**	**–**	**(861)**	**(861)**
Issues of shares (Note 21)	**339**	**–**	**–**	**–**	**339**
Employee share option benefits	**–**	**–**	**129**	**–**	**129**
Transfer of reserve	**77**	**–**	**(77)**	**–**	**–**
Balance at June 30, 2007	**2,391**	**474**	**282**	**2,505**	**5,652**
Representing:					
Proposed final and special dividends					**3,055**
Balance after proposed final and special dividends					**2,597**
Balance at June 30, 2007					**5,652**

30 SUMMARIZED BALANCE SHEET OF THE COMPANY (continued)

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 November 17, 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 January 10, 1997.

Contributed surplus is available for distribution to shareholders under the laws of Bermuda. Distributable reserves of the Company at June 30, 2007 amounted to **HK$3,261 million** (2006: HK$2,468 million).

iii. The Company did not have any operating lease commitment at June 30, 2007 (2006: Nil).

iv. The Company did not have any significant capital commitment at June 30, 2007 (2006: Nil).

31 PRINCIPAL SUBSIDIARIES

The following are the principal subsidiaries as at June 30, 2007 which, in the opinion of the Directors, principally affect the results and net operating assets of the Group. To give details of other subsidiaries would in the opinion of the Directors result in particulars of excessive length. None of the subsidiaries had issued any debt securities at the end of the year.

Name of subsidiary	Place of incorporation/ operation	Attributable equity interest to the Group (note a)	Issued and fully paid share capital/ registered capital (note b)	Principal activities
ESP Group Limited	British Virgin Islands/Hong Kong	100%	USD500	Investment holding
Esprit Belgie Retail N.V.	Belgium	100%	EUR1,200,000	Retail distribution of apparel and accessories
Esprit Belgie Wholesale N.V.	Belgium	100%	EUR100,000	Wholesale distribution of apparel and accessories
Esprit Canada Retail Limited	Canada	100%	CAD12	Retail distribution of apparel and accessories
Esprit Canada Wholesale Limited	Canada	100%	CAD1	Wholesale distribution of apparel and accessories
Esprit Capital Limited	British Virgin Islands/Hong Kong	100%	USD1	Investment
Esprit Card Services GmbH	Germany	100%	EUR35,000	Issuance, accounting of and service in connection with GiftCard, as provided for Esprit group and distribution partners in Europe

31 PRINCIPAL SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation/ operation	Attributable equity interest to the Group (note a)	Issued and fully paid share capital/ registered capital (note b)	Principal activities
Esprit China Distribution Limited	British Virgin Islands/Hong Kong	100%	USD100	Investment holding
Esprit Corporate Services Limited	British Virgin Islands/Hong Kong	100%	USD100	Financial services
Esprit de Corp (1980) Ltd.	Canada	100%	CAD1,000,100	Retail distribution of apparel and accessories
Esprit de Corp Danmark A/S	Denmark	100%	DKK12,000,000	Wholesale and retail distribution of apparel and accessories
Esprit de Corp (Far East) Limited	Hong Kong	100%	HKD1,200,000	Sourcing of apparel and accessories
Esprit de Corp. France S.A.	France	100%	EUR6,373,350	Wholesale and retail distribution of apparel and accessories
Esprit De Corp (Malaysia) Sdn, Bhd.	Malaysia	100%	MYR500,000	Retail distribution of apparel and accessories
Esprit de Corp. (Spain) S.L.	Spain	100%	EUR10,000	Wholesale distribution of apparel and accessories
Esprit Design & Product Development GmbH	Germany	100%	EUR100,000	Providing of services to the worldwide Esprit group in relation to the development of designs, styles and prototypes for the sales line of Esprit products
Esprit Europe B.V.	The Netherlands	100%	EUR1,500,000	Investment holding and wholesale and retail distribution of apparel and accessories, licensing of trademarks
Esprit Europe GmbH	Germany	100%	EUR5,112,919	Management and control function; render of services to the Esprit group

31 PRINCIPAL SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation/ operation	Attributable equity interest to the Group (note a)	Issued and fully paid share capital/ registered capital (note b)	Principal activities
Esprit Europe Services GmbH (formerly known as Esprit Europe Trading & Product Development GmbH)	Germany	100%	EUR2,700,000	Sourcing, purchase and sale of merchandise, distribution of merchandise and other logistic functions, including customs dealing and quality control
Esprit GB Limited	United Kingdom	100%	GBP150,000	Wholesale and retail distribution of apparel and accessories
Esprit Global Image GmbH	Germany	100%	EUR25,000	Design and image directions; conceptualization and development of global uniform image; development and conceptualization of global image direction within product development
Esprit Handelsgesellschaft M.b.H	Austria	100%	EUR100,000	Wholesale and retail distribution of apparel and accessories
Esprit International (limited partnership)	California, U.S.A.	100%	N/A	Holding and licensing of trademarks
Esprit International (GP) Inc.	United States	100%	USD1,000	General partner of Esprit International (limited partnership)
Esprit IP Limited	British Virgin Islands/Hong Kong	100%	USD1	Holding and licensing of trademarks
Esprit Italy Distribution S.R.L.	Italy	100%	EUR12,750	Wholesale distribution of apparel and accessories
Esprit Luxembourg S.á.r.L.	Luxembourg	100%	EUR250,000	Retail distribution of apparel and accessories
Esprit Macao Commercial Offshore Limited	Macau	100%	MOP3,000,000	Wholesale distribution of apparel and accessories
Esprit Property Limited	Hong Kong	100%	HKD2	Investment holding
Esprit Regional Services Limited	British Virgin Islands/Hong Kong	100%	USD1	Provision of services

31 PRINCIPAL SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation/ operation	Attributable equity interest to the Group (note a)	Issued and fully paid share capital/ registered capital (note b)	Principal activities
Esprit Retail B.V. & Co. KG (limited partnership)	Germany	100%	EUR5,000,000	Retail distribution of apparel and accessories, operation of Esprit Café
Esprit Retail (Hong Kong) Limited	Hong Kong	100%	HKD10,000	Retail distribution of apparel and accessories and operation of Salon Esprit
Esprit (Retail) Proprietary Limited	Australia	100%	AUD200,000	Wholesale and retail distribution of apparel and accessories
Esprit Retail Pte Ltd	Singapore	100%	SGD3,000,000	Retail distribution of apparel and accessories
Esprit Retail (Taiwan) Limited	Hong Kong/Taiwan	100%	HKD9,000	Retail distribution of apparel and accessories
Esprit Sweden AB	Sweden	100%	SEK500,000	Wholesale distribution of apparel and accessories
Esprit US Online Shop Limited	United States	100%	USD1,000	Online Retail distribution of apparel and accessories
Esprit US Wholesale Limited	United States	100%	USD1,000	Wholesale distribution of apparel and accessories
Esprit Swiss Treasury Limited	British Virgin Islands/Hong Kong	100%	USD1	Financial services
Esprit Switzerland Distribution AG	Switzerland	100%	CHF100,000	Wholesale distribution of apparel and accessories
Esprit Switzerland Retail AG	Switzerland	100%	CHF500,000	Retail distribution of apparel and accessories
Esprit US Distribution Limited	United States	100%	USD1,000	Wholesale distribution of apparel and accessories
Esprit US Retail Limited	United States	100%	USD0.001	Retail distribution of apparel and accessories
Esprit Wholesale GmbH	Germany	100%	EUR5,000,000	Wholesale distribution of apparel and accessories

31 PRINCIPAL SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation/ operation	Attributable equity interest to the Group (note a)	Issued and fully paid share capital/ registered capital (note b)	Principal activities
Garment, Acessories and Cosmetics Esprit Retail (Macau) Limited	Macau	100%	MOP100,000	Retail distribution of apparel and accessories
Red Earth Distribution Corporation Inc.	Canada	100%	CAD100 (note c)	Wholesale and retail distribution of cosmetics, skin and body care products
Red Earth (Hong Kong) Limited	Hong Kong	100%	HKD10,000	Retail distribution of cosmetics, skin and body care products
Red Earth International Holdings Limited	British Virgin Islands/Hong Kong	100%	USD1,668,000	Investment holding
Red Earth Licensing Limited	British Virgin Islands/Hong Kong	100%	USD100	Holding and licensing of trademarks
Red Earth Production Limited	Hong Kong	100%	HKD10,000	Wholesale distribution of cosmetics, skin and body care products
Red Earth (Taiwan) Limited	Hong Kong/Taiwan	100%	HKD2	Retail distribution of cosmetics, skin and body care products
Sijun Fashion Design (Shenzhen) Co., Ltd.	The People's Republic of China (note d)	100%	USD1,600,000 registered capital	Sample development

Notes:

(a) All subsidiaries were held indirectly by the Company, except ESP Group Limited.

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

(c) Representing 100 class A shares of CAD1.00 each.

(d) Wholly owned foreign enterprise.

CONSOLIDATED BALANCE SHEET ITEMS

	As at June 30, 2007 HK$ million	As at June 30, 2006 HK$ million	As at June 30, 2005 HK$ million	As at June 30, 2004 HK$ million	As at June 30, 2003 HK$ million
Intangible assets	**2,057**	2,027	2,009	2,021	1,960
Property, plant and equipment	**2,525**	2,429	2,053	1,474	1,056
Other investments	**7**	8	8	8	8
Investments in associates	**406**	269	182	155	122
Prepaid lease payments	**175**	180	184	21	21
Deferred tax assets	**396**	315	205	104	93
Net current assets	**6,893**	4,237	2,728	1,964	2,027
	12,459	9,465	7,369	5,747	5,287
Financed by:					
Share capital	**123**	122	120	119	119
Reserves	**11,958**	8,985	6,919	5,296	4,073
Shareholders' funds	**12,081**	9,107	7,039	5,415	4,192
Obligation under finance leases	**–**	–	–	–	1
Long-term bank loan	**–**	–	–	–	776
Deferred tax liabilities	**378**	358	330	332	318
	12,459	9,465	7,369	5,747	5,287

5-YEAR FINANCIAL SUMMARY

CONSOLIDATED INCOME STATEMENT ITEMS

	Year ended June 30, 2007 HK$ million	Year ended June 30, 2006 HK$ million	Year ended June 30, 2005 HK$ million	Year ended June 30, 2004 HK$ million	Year ended June 30, 2003 HK$ million
Turnover	**29,640**	23,349	20,632	16,357	12,381
Operating profit	**6,259**	4,765	4,075	2,837	1,811
Interest income	**149**	37	22	40	42
Finance costs	**–**	(1)	(2)	(22)	(32)
Share of results of associates	**130**	84	73	63	45
Profit before taxation	**6,538**	4,885	4,168	2,918	1,866
Taxation	**(1,358)**	(1,148)	(957)	(949)	(590)
Profit attributable to shareholders	**5,180**	3,737	3,211	1,969	1,276