ESPRIT

ANNUAL REPORT 05|06

Stock Code: 0330

ESPRIT

live the purity

your invitation into a brand new world. a world filled with clarity, simplicity, understatement and personality. enjoy latest fashion items and go for a new look.

join a culture as inspiring as your individuality.

annual report 2005|2006

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 Group operates with 12 established product lines offering women's wear, men's wear, kid's wear, edc youth as well as shoes and accessories in over 660 directly managed retail stores and over 11,450 controlled-space wholesale point-of-sales internationally. In addition, Esprit's Red Earth cosmetic brand offers cosmetic, skin care and body care products. Esprit licenses its trademark to third party licensees that offer non-apparel products abiding to Esprit's quality standards and brand essence. Esprit also provides services in form of the Esprit Salon.

Esprit is listed on the Hong Kong and London stock exchanges in 1993 and 1998 respectively and is a constituent stock in the Hang Seng Index, MSCI Hong Kong Index, FTSE All-World Index for Hong Kong and S&P/HKEx LargeCap Index and S&P Asia 50 Index.

Corporate officers

Michael YING Lee Yuen, Chairman of the Board

Heinz Jürgen KROGNER-KORNALIK, Deputy Chairman & Group CEO

John POON Cho Ming, Deputy Chairman & Group CFO

Thomas Johannes GROTE, President - ESPRIT brand

Jerome Squire GRIFFITH, President - ESPRIT North America

- **Group turnover increased 13.2% to HK$23.35 billion**
- **Net earnings rose 16.4% to HK$3.74 billion, i.e. HK$3.09 per share**
- **Net profit margin expanded 0.4% point to 16.0%**
- **Net cash rose to HK$2.47 billion**
- **Proposed final and special dividend: HK$1.81 per share**

	net change	FY 05|06	FY 04|05
operating results (HK$ MN)			
turnover	13.2%	23,349	20,632
earnings before interest and taxation (EBIT)	16.9%	4,765	4,075 ^
profit attributable to shareholders	16.4%	3,737	3,211 ^
financial position (HK$ MN)			
net cash inflow from operating activities	26.1%	3,428	2,718
net cash$^{\Delta}$	42.8%	2,469	1,729
net current assets	55.3%	4,237	2,728
shareholders' funds	29.4%	9,107	7,039
per share data (HK$)			
earnings per share - basic	15.3%	3.09	2.68 ^
earnings per share - diluted	15.6%	3.04	2.63 ^
dividend per share*	18.5%	2.31	1.95
book value per share**	27.1%	7.46	5.87
key statistics			
earnings before interest and taxation (EBIT) margin (%)	0.6% pt	20.4%	19.8% ^
net profit margin (%)	0.4% pt	16.0%	15.6% ^
return on shareholders' equity (ROE) (%)	-5.3% pts	46.3%	51.6% ^
net debt to equity ratio*** (%)	n.a.	net cash	net cash
share information#			
number of share in issue (MN)	1.7%	1,220	1,199
market capitalization (HK$ MN)	14.7%	77,373	67,468

Δ cash and cash equivalents less short-term bank loan

* calculated after including HK$1.08 special dividend for FY2005/2006 and HK$0.84 special dividend for FY2004/2005

** book value refers to shareholders' funds

*** net debt refers to all interest bearing borrowings less cash and cash equivalents

as at financial year end

^ restated as a result of first time adoption of IFRS 2 "Share-based Payment"

n.a. not applicable

Chairman's Letter

Dear fellow shareholders,

Esprit, the team, has again for the 13th consecutive year achieved growth both in record sales and earnings. The growth comes from all Esprit product lines with healthy margins, each again demonstrates that the Company still holds a very strong and solid foundation for future growth.

This is also my 13th statement and the last time that I will be writing to you as the Chairman of Esprit since listed in 1993. I personally feel that the momentum we have in Esprit today is quite ideal for the initiation and implementation of a chain of succession so that young hot shots can be put in place to deal with the challenges ahead. The change in my view is, the sooner the better. To make my determination absolutely clear, I will be stepping down as Chairman of the Board effective as of December 5, 2006 at the end of the 2006 Annual General Meeting.

The Board has fully supported Heinz Krogner to be the new Chairman of the Board as he is definitely the man for the job for Esprit at this point. I want to extend my appreciation to Heinz for all his achievements at Esprit for the last 10 years and wish him a much bigger success for the future.

I also want to take this opportunity to thank our Board for its guidance and support, all the employees for their important roles and contribution and hard work. I also want to thank all of our suppliers, business associates and the investment community for their support and trust over the years.

Even though I will not be fighting fires with Heinz and his team on a regular basis, but my heart and a big chunk of my asset is still very much tied up with Esprit.

Michael Ying
Chairman of the Board
September 13, 2006

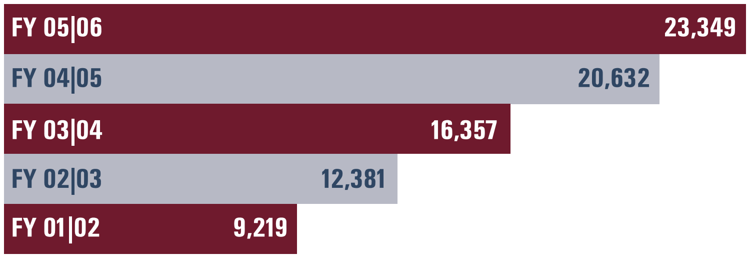
pure

confidence

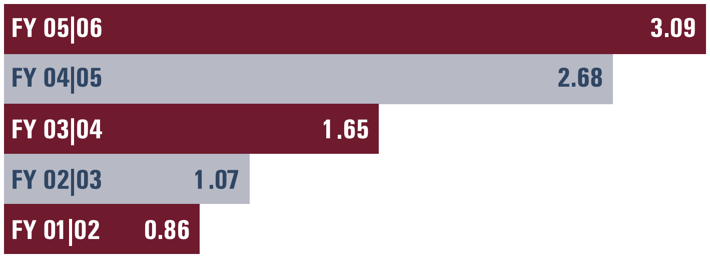
pure

simplicity

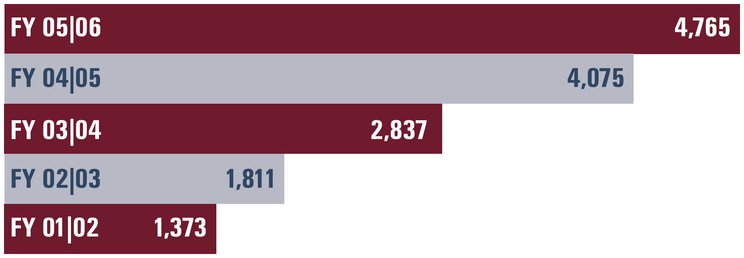
turnover (HK$ MN)



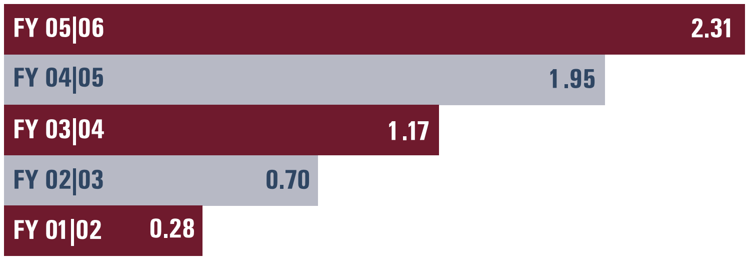
earnings per share (basic) (HK$)



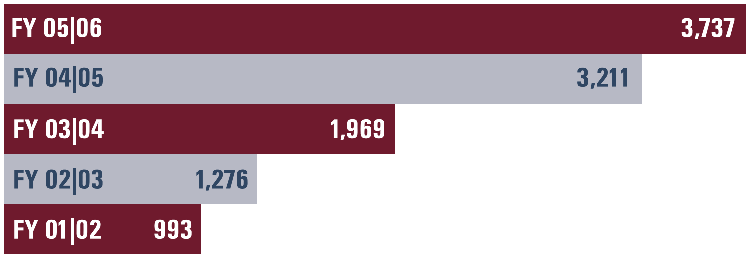
operating profit (EBIT) (HK$ MN)



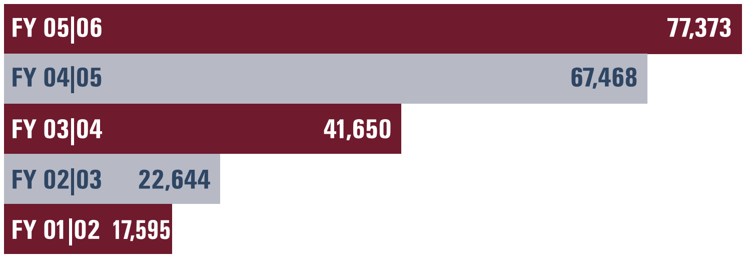
dividend per shareΔ (HK$)



net profit (HK$ MN)



market capitalization* (HK$ MN)



Δ include special dividend

* as at financial year end

** the financial information in respect of FY2002|2003, FY2003|2004, FY2004|2005 has been restated as the Group adopted IFRS retrospectively with effect from July 1, 2002.

The 2006 FIFA World Cup reminded me of a simple law of nature. In any competitive environment there exists one universal law - the fit, the strong and the committed always prevail. Esprit's performance in the past financial year makes a fine example of this.

The financial year FY2005/2006 has proven to be yet another successful year for our company. Esprit delivered record results with strong earnings growth, margin expansion and improvement in our overall financial strength despite the effects of a weak Euro. We continue to merit from our emphasis on achieving product excellence for our mid-priced positioning and are convinced of Esprit's vast potential for growth. Our unwavering dedication to operational efficiency allows us to continue delivering strong results for our brand and enhance shareholder value.

Yet these results would not have been achieved without having encountered many challenges. We experienced a product issue in a major product division during the financial year, which provided us with a valuable opportunity for illustrating our new management team's swift and effective responsiveness. In overall terms, it was gratifying that our team quickly analyzed the cause of the problem and implemented a comprehensive solution to avoid further similar incidents. We have since bolstered our management line-up and installed a new control system to ensure right product offering and excellent quality commitment. The improvement in organizational structure places us at a new found position of strength and affords us considerable leverage to meet new challenges.

Capitalizing on our diversified product portfolio and strong distribution network, the Group continued its international expansion during the financial year. Europe remained as our core region with turnover accounting for 85% of the Group's total turnover. Notwithstanding Esprit's strong performance in this region, we continued to strengthen our presence in newer markets such as Spain, Italy and the Middle East, establishing a solid foundation for these longer-term growth drivers. Our recent organizational restructuring in North America and Australasia provide us with strong strategic platforms from where we aim to capitalize on our untapped potential in these respective regions. Overall, the Group will continue to expand into profitable markets, while improving productivity in less profitable ones.

Guiding this development has been an outstanding group of talented management throughout the organization. Their enthusiasm and unwavering desire to excel remains our number-one asset. In January 2006, the group appointed Thomas Grote as the new President of ESPRIT Brand. I have great confidence in Thomas's abilities and trust his leadership and dedication to herald a new phase of success for ESPRIT Brand. But while we fortify our management structure, we work just as diligently to prepare the ESPRIT brand for the years to come. Our industry is ever changing. Consumers' tastes and preferences demand the apparel industry to be in a constant state of flux. It is imperative to offer new and stylish products at reasonable prices and we believe here lay our strengths. Retail distributors of large department stores and small retailers struggle to cope with this pressure. Esprit, being a major supplier in the apparel industry, has achieved a considerable competitive edge by supplying high quality, reasonably priced merchandise that meet customer needs at a speedy product cycle. As a strong established brand, we continue to perfect our proven "12-collection a year model", providing our consumers, both retail and wholesale, with a constant flow of new products, thereby always recognizing and implementing new trends.

Esprit's future is becoming ever brighter. Naturally I thank my colleagues at Esprit for their commitment and accomplishment in making this another very successful year for our company. Motivated by our success we will continue to put the greatest effort in to our work. Esprit will strive to become an established "international youthful lifestyle company" renowned for its product quality and modernity. Equipped with strong financial credentials, a robust business model and a brand culture with a growing international presence, I have every reason to look forward to another very fruitful year for Esprit.

Heinz KROGNER
Deputy Chairman & Group CEO
September 13, 2006

"I have every reason to look forward to another very fruitful year for Esprit."

pure
class

Introducing Thomas Grote as New President of ESPRIT Brand

At Esprit we believe that strong management makes for strong results. As well as attracting new talent, we encourage our existing staff-members to take on new responsibilities and to develop and internalize their potential within our company. It is precisely this spirit that we appointed former COO, Thomas Grote, as new President of ESPRIT Brand. We are very pleased with our decision and have asked Thomas to provide you with an insight into some of his points of view and future prospects.

Interview with Thomas Grote

Thomas Grote on being appointed as President of ESPRIT Brand:

What a great honor! Again I would like to thank management for their decision and for their trust. Having grown long accustomed to Esprit's distinguished way of doing business, I have confidence in my ability to bring new ideas and fresh concepts to the table. But more rewarding than being given this great opportunity is that, I have a strong and very talented management team standing behind me. With our operations expanding at a rapid rate there is no better strategy for success than the discourse between focused minds all working towards a common goal.

Thomas Grote on product development:

There are several established truths in this business and one of the less comfortable truths is that ultimately only your product will determine your success! Therefore I cannot stress enough how important product improvement is. We will continue to work meticulously to enhance our product assortments and to accommodate new trends into our product lines. Our 12-collection a year strategy enables us to respond to new market trend in a speedy manner. Our responsiveness to new fashion development is almost instant. Complemented by our high quality products at reasonable price, I am certain that our products will continue to prevail over those of our competitors'.

Thomas Grote on future growth prospects:

Esprit has only begun to make use of its global potential. I believe that we have an almost unlimited scope for organic growth. We will advance further into North America and work hard to recapture the market of Esprit's country of birth. The regions of existing market share will be strengthened and those regions with an emerging Esprit market will not withstand the full emersion into our brand's growing demographics. Our goal is simple: a strong and truly global presence supported by all those elements that make our international lifestyle brand so immensely popular and successful.

Breakdown of group turnover*

	2006	2005	2004	2003	2002
geographical mix (%)					
europe	85	85	84	80	74
asia pacific	12	13	13	18	24
north america and others	3	2	3	2	2
product mix (%)					
women's casual	37	39	39	40	45
women's collection	7	8	7	5	–
women's sports	3	3	2	2	2
edc women	16	13	13	11	10
men's casual	10	11	13	13	11
men's collection	2	2	–	–	–
edc men	2	1	–	–	–
kids & edc youth	7	6	7	8	8
bodywear	3	3	3	3	2
shoes	5	5	6	7	8
accessories	5	5	5	6	7
red earth	1	1	1	2	3
others**	2	3	4	3	4
operation mix (%)					
wholesale	58	58	59	57	57
retail	41	41	40	41	42
licensing and others	1	1	1	2	1

* excludes inter-segment revenue

** include salon, bed & bath & licensed products such as timewear, eyewear, jewelry, etc.

"International Presence"

ESPRIT is a true international brand as our products reach out to over 40 countries and different demographics. But we do not rest on this success.

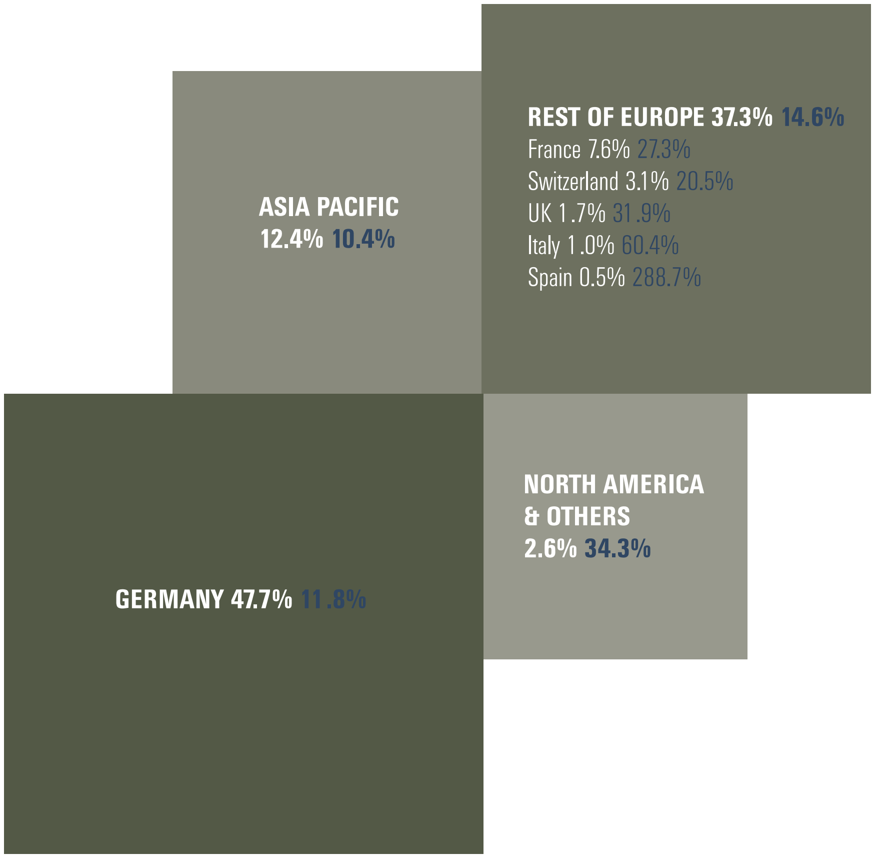
During the financial year, the Group continued to foster Esprit's penetration in core markets while extending its global presence by entering newer ones.

European turnover grew by 13.0% to HK$19.86 billion, accounting for 85.1% of the Group's total turnover. Germany and Benelux remained our core markets, represented 47.7% and 15.0% of the Group's turnover, and delivered turnover growth of 11.8% and 4.1% respectively. Expansion in Europe was further driven by fast growing markets including France and Switzerland, along with rapid development in new markets including the UK, Italy and Spain.

Asia, represented 9.5% of the Group's total turnover, continued to post solid turnover growth of 18.1% to HK$2.21 billion as a result of our continuous effort to explore the untapped potential in the region. During the financial year, the Group successfully entered into India and our product is well received by the local consumers.

North America, represented 2.6% of the Group's turnover, has laid down a strong turnover growth of 34.3%, with wholesale turnover increased by 24.4% and retail turnover increased by 45.4%. The region also delivered a narrowing operating loss, as a result of the increase in turnover and the continuous improvement in operational efficiency. During the financial year, we opened nine more stores (six in the US and three in Canada), and fostered our brand's popularity by offering the right assortment of products for this market.

The Group has placed Australasia under the Asia Pacific umbrella, allowing our experienced Asian team to emulate their success in turning around Asia for this particular market. We are diligently preparing a new strategy for our Australasia market, placing emphasis on the distribution channels by converting some of the retail concessions into wholesale formats. With a new team of local management in place, we expect the product offering will also be enhanced to improve the profitability of our Australasia market.



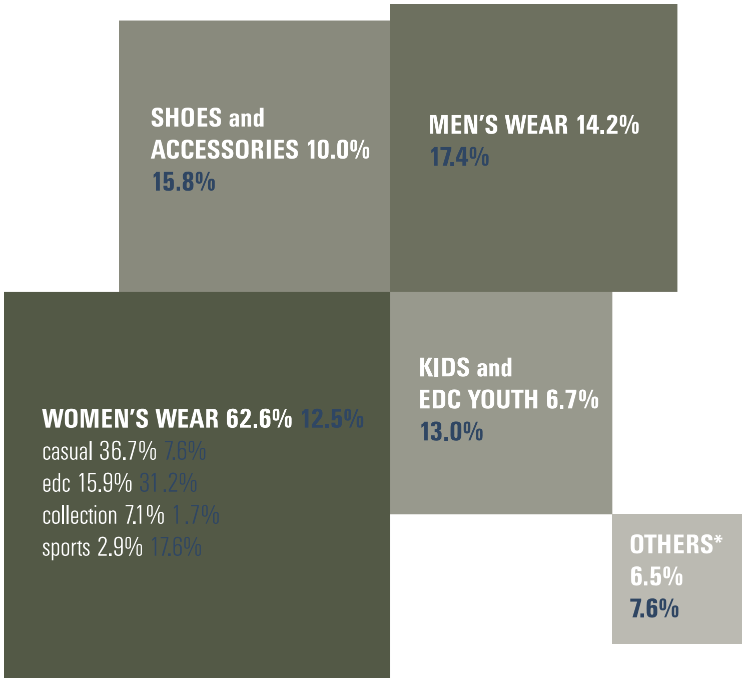
% of Group's turnover
% growth from last financial year

Operations review
Products

Esprit's design team gathers inspiration from the world around us, with a focus on offering newness and modernity to our customers.

Each product line has its own team of designers, buyers, sourcing specialists and project managers. Our market-driven product team is committed to develop fresh quality products at the right product mix and price, creating smart and affordable luxury for our customers. Local country merchandisers and sales teams provide constant feedback to each product team regarding local tastes, trends and customer needs.

Each product team is supported by our global sourcing specialists, working closely with independent suppliers from around the world, including from countries like China, Indonesia, Turkey and Portugal. Our extensive sourcing network allows Esprit to maintain quality products while having the flexibility to place orders with the right fabric suppliers and manufacturers at the right price and location.



* Others include bodywear, Red Earth, salon, bed & bath & licensed products such as timewear, eyewear, jewelry, etc.
% of Group's turnover
% growth from last financial year

Offering newness and modernity to our customers remain Esprit's priority. Our dedicated design team creates 12 new and refreshing collections a year for our key product lines, always keeping in mind the importance of offering high price-quality correlation products to our customers. Our diversified and ever-growing product offering serves the fast-changing taste of Esprit's customers, as well as taking into account potential consumers' needs from all over the world.

Women's wear, the core product division which made up 62.6% of the Group's total turnover, recorded 12.5% turnover growth. Among the women's division, turnover from women casual, edc women, women collection and women sports constituted 36.7%, 15.9%, 7.1% and 2.9% of the Group's total turnover with growth rates of 7.6%, 31.2%, 1.7% and 17.6% respectively.

Leveraging on the success in Women's wear, the Group continued to cultivate other product divisions with high growth potentials. Turnover from Men's wear grew by 17.4% and represented 14.2% of the Group's total turnover. Other smaller product divisions, such as shoes, accessories, and kids & edc youth, which formed 5.1%, 4.9% and 6.7% of the Group's total turnover, also reported encouraging turnover growth of 12.2%, 19.8% and 13.0% respectively during the year. The Group achieved approximately 7 times inventory turnover despite the difficult operating environment.

Operations review

Products | the divisions

Women´s casual

This line is the largest segment of Esprit's portfolio and has the broadest appeal to most consumers. Casual concentrates on sportswear for everyday life stressing comfortable styles with high quality and affordability.

Men´s casual

A range of comfortable, yet authentic and energetic designs offering clothing for men that emphasizes a youthful spirit for every occasion.

Women´s collection

This is the most luxurious segment of the Esprit portfolio. Collection targets the customer who prefers the style, quality and taste level of the high-end market and look for this luxury at affordable prices.

Men´s collection

Our men's collection provides smart and urban wear for men. The designs combine quality cutting with new fashion highlights and provide the required relaxation fit for the socially conscious after work.

EDC women

One of the fastest growing segments in the company, this division appeals to trend conscious women. edc women maintains an up-to-date mix of items that match women's outgoing lifestyle.

EDC men

The trendy edc men creates youthful looks for young and fun-loving customers. Its sporty element and exceptional details that add fashionable accents allow fashion-conscious individuals to express their own personal style.

EDC youth

Funky and expressive, with a contemporary yet functional style, provides comfortable and casual everyday fashion in a fun and lively environment. edc youth customers are self-confident teenagers who are open to new experiences and seeking a sense of freedom.

Kids

Esprit kids markets a full range of colorful and vibrant children's wear and accessories. These designs combine practicality with fashion and enable mix and match, meaning there is ample room for kids to express their personality through their clothes.

Sports

This line offers coordinated outfits for athletic, sporty customers during sports activities and afterwards. The fabrics, cuts and styles meet the high functional demands of a variety of outdoor and leisure sports activities. All our items are designed to be durable, easy-to-wear, yet maintaining their shape and color through many washings.

Bodywear

Esprit bodywear is designed with a commitment to comfort, quality and innovation. It has an extensive range of classic cotton and fashion underwear and intimate apparel in a variety of styles and fabrics. The products have all the good functional values aiming to provide physical and emotional comfort through good fit and a relaxed wearing experience.

Shoes
Esprit shoes are multi-faceted with options from dress to sporty to casual aiming to offer the right look at the right time for cosmopolitan and trendy men and women.

Accessories
This line offers a broad range of matching chic and stylish accessories including bags, belts and wallets that complement our fashion line. It aims to integrate and reflect the contemporary and easy living lifestyles of our customers.

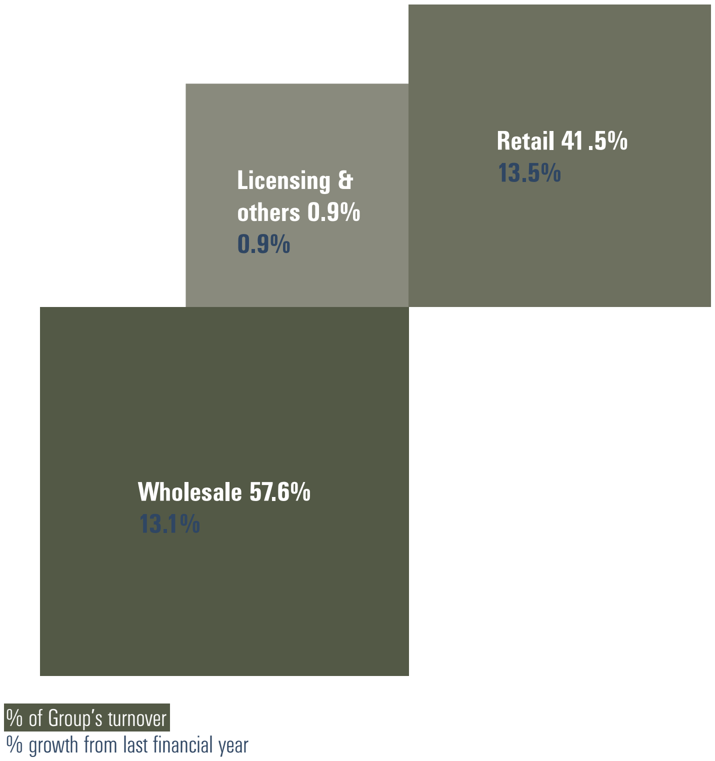
ESPRIT
is an international
youthful
lifestyle brand
offering
smart, affordable,
luxury
and bringing
newness + style
to Life.

"Multi-Distribution Network"

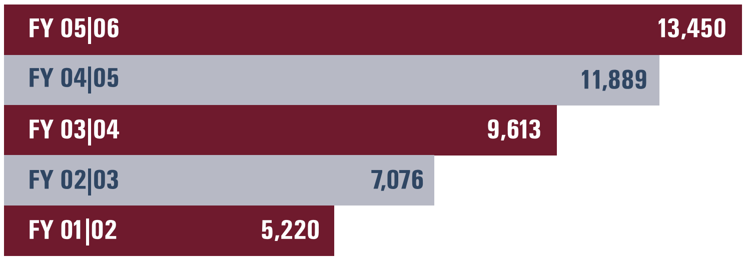
Esprit's multi-distribution channels encompass retail, wholesale and licensing, offering optimal distribution points for different markets and customer groups to facilitate our global expansion.

Wholesale and retail contributed to 57.6% and 41.5% of the Group's turnover and increased by 13.1% and 13.5% respectively. With operational efficiency and effective cost control, wholesale EBIT[1] margin expanded by 1.9% points to 28.1% while retail EBIT[1] margin remained stable at 12.3%. Our multi-distribution system allows us flexibility in preparing the best combination of distribution channels to suit local market dynamics of different countries. We continue to utilize these channels to illustrate our brand's market position, brand culture, as well as business philosophy, providing our customers with a memorable shopping experience at Esprit.

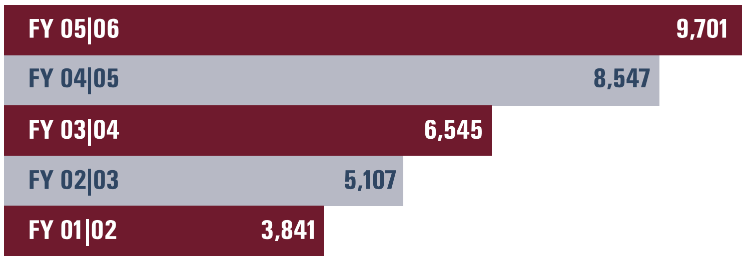
[1] Segment EBIT and EBIT margin excluding inter-segment licensing expense.



wholesale turnover (HK$ MN)



retail turnover (HK$ MN)



Operations review

Distribution channels | wholesale

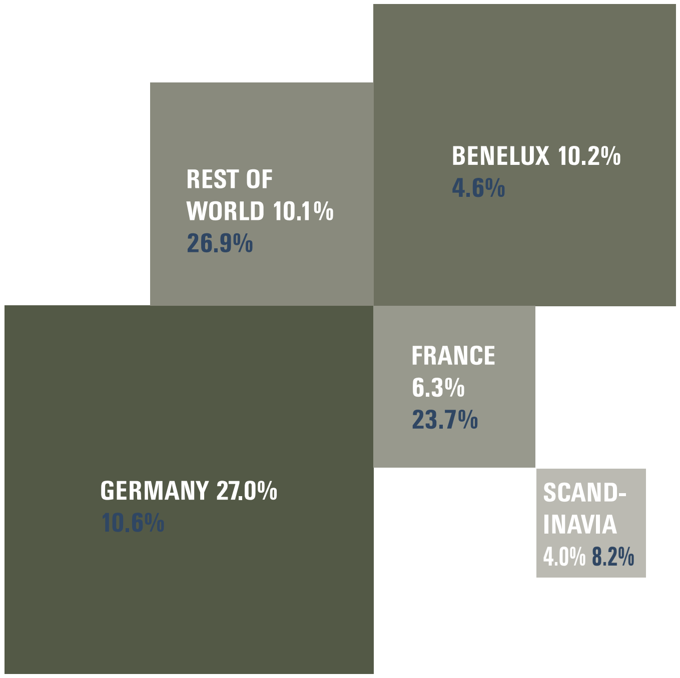
Controlled-space wholesale channels share the look-and-feel of Esprit's directly managed stores. The various controlled-space wholesale formats including shop-in-stores, partnership stores and identity corners are built with Esprit ambience, enabling all customers to enjoy similar shopping experiences.

Wholesale business, which underpinned 57.6% of the Group's total turnover, continued to record double-digit percentage turnover growth of 13.1% to HK$13.45 billion during the financial year. The turnover growth was mainly driven by the 21.8% net increase in controlled wholesale space (including shop-in-store, partnership store and identity corner), bringing the Group's total to over 540,000m^2. As at June 30, 2006, the Group had over 11,450 controlled-space wholesale point-of-sales, an increase of over 1,700 from last financial year.

Europe, the Group's core wholesale market which represented 93.3% of the Group's wholesale turnover, delivered 12.3% turnover growth, driven by the net addition of over 1,500 controlled-space wholesale point-of-sales or over 81,800m^2 controlled wholesale space. Germany remained to be the Group's biggest wholesale country and delivered 10.6% turnover growth. Our new wholesale markets, Spain and Italy registered extraordinary turnover growth of 288.7% and 60.4% respectively. These markets expanded the Group's foothold of our wholesale concept with over 120 and 260 controlled-space wholesale point-of-sales respectively.

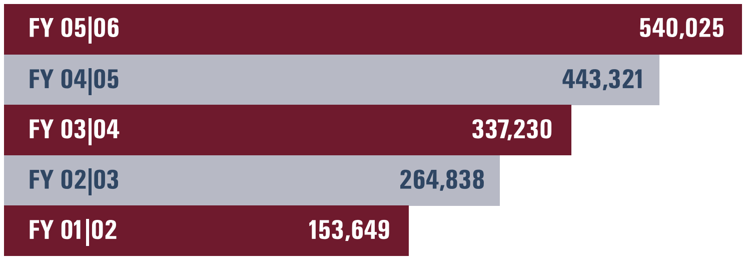
Outside of Europe, the Group continued to seek opportunities for further international expansion. Wholesale turnover in Asia grew 30.7% and accounted for 5.5% of the Group's wholesale turnover. The strong wholesale sales growth in Asia was mainly driven by healthy sales growth to our wholesale customers in markets such as China, the Middle East and the Philippines, together with sales contributions from newer wholesale market, India. During the financial year, four franchised stores were opened in India, adding over 900m^2 controlled wholesale space.

Group wholesale turnover breakdown



% of wholesale turnover
% growth from last financial year

wholesale controlled-space sales area (m^2)



(as at June 30, 2006)	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 | others* no. of stores	identity corners | others* sales area sq.m.	identity corners | others* net change in sales area
europe	**724**	**148,675**	**33.0%**	**3,337**	**140,405**	**22.6%**	**6,146**	**137,081**	**16.2%**
germany	247	56,774	35.0%	2,626	115,667	21.8%	3,618	81,487	18.6%
the netherlands	68	15,551	10.2%	13	397	85.5%	449	10,731	8.5%
france	146	18,189	74.4%	301	8,341	17.8%	319	8,400	45.9%
belgium	58	13,587	25.1%	81	3,767	14.2%	428	10,227	(2.5%)
scandinavia	46	15,169	28.4%	99	4,252	35.2%	704	10,566	4.9%
austria	87	16,501	11.1%	41	2,003	(10.3%)	131	2,997	69.6%
switzerland	37	7,133	50.5% #	20	1,040	(15.0%)#	190	4,870	7.3% #
italy	24	3,348	205.8%	7	457	41.0%	231	6,000	14.4%
great britain	8	1,836	59.4% #	38	1,962	103.3% #	61	1,437	10.4% #
spain	3	587	(13.0%)	111	2,519	138.5%	15	366	103.3%
asia pacific	**221**	**44,220**	**25.3%**	**138**	**6,437**	**(27.6%)##**	**695**	**63,207**	**15.2% ##**
china**	63	24,177	18.1%	13	321	(10.8%)##	612	62,494	14.8% ##
middle east	54	7,707	32.1%	5	994	(29.3%)	7	48	n.a.
thailand	29	3,580	34.6%	88	3,461	(12.6%)	21	289	7.4%
philippines	17	2,523	86.6%	–	–	–	–	–	–
korea	–	–	–	–	–	–	22	154	n.a.
japan	2	117	(46.8%)	–	–	–	–	–	–
others	56	6,116	32.3%	32	1,661	(16.9%)	33	222	32.1%
north america	**–**	**–**	**–**	**33**	**–*****	**–*****	**165**	**–*****	**–*****
canada	–	–	–	33	–***	–***	165	–***	–***
group total	**945**	**192,895**	**31.2%**	**3,508**	**146,842**	**19.0%**	**7,006**	**200,288**	**15.9%**

* include Esprit & Red Earth stores/units
** managed by China joint venture or its franchise partners
*** sales area not available
n.a. means not applicable or stores/identity corners opened in FY2005/2006
the net sales areas of partnership stores, shop-in-stores and identity corners of Switzerland and Great Britain as at June 30, 2005 shown in the annual report of FY2004/2005 were erroneously swapped. As at June 30, 2005, the net sales areas of partnership stores, shop-in-stores and identity corners of Switzerland were 4,740 sq.m., 1,224 sq.m. and 4,540 sq.m., respectively, and the net sales areas of partnership stores, shop-in-stores and identity corners of Great Britain were 1,152 sq.m., 965 sq.m. and 1,302 sq.m., respectively. The above net changes in sales area of Switzerland and Great Britain were calculated based on these figures.
classification of certain shop-in-stores and identity corners in China was reviewed. Sales areas of 37,354 sq.m. as at June 30, 2005 were reclassified from shop-in-stores to identity corners. The net changes in sales area of shop-in-stores and identity corners in China were calculated based on the reviewed grouping of shop-in-stores and identity corners.

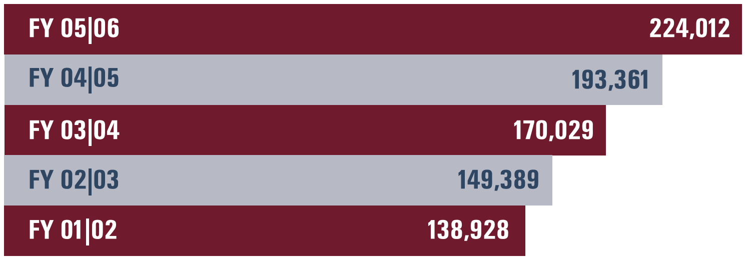
bring your style to life

women and men casual

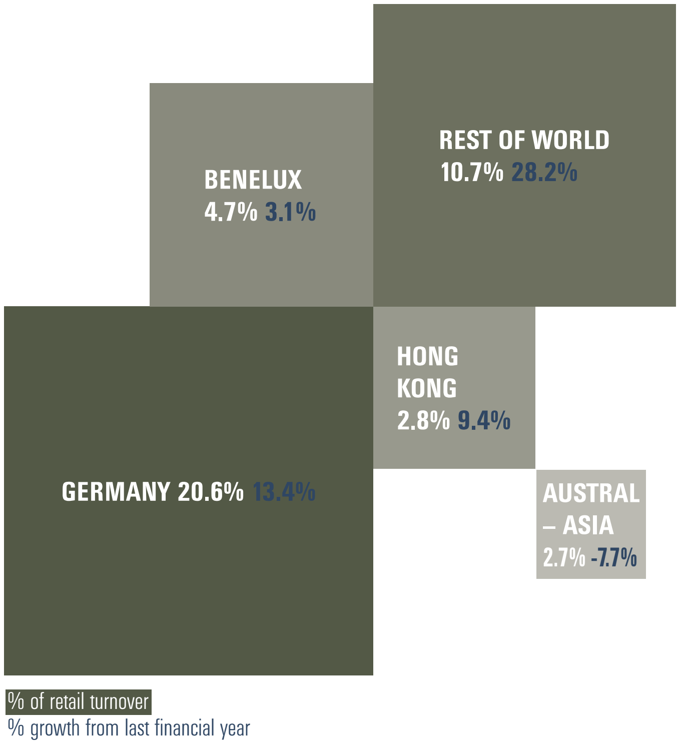
fall | holiday 2006

Retail model is essential to set the ESPRIT brand characteristics and drive awareness. It is an important tool to educate the market of our brand position and business philosophy. The Group follows rational expansion strategy by seeking locations that provide reasonable rates of return rather than mere space expansion to ensure that every penny we spent creates shareholders' value.

retail sales area (m^2)



Group retail turnover breakdown



Our retail turnover grew by 13.5% to HK$9.70 billion during the financial year, due to a combined effort to improve productivity in existing stores as well as expanding on our retail network.

The Group's comparable-store-sales growth was 9.0% for the full-year. Europe, our core market which accounted for 75.0% of Group retail turnover, posted a strong comparable-store-sales growth of 11.3%. Asia, North America and Australasia recorded a comparable-store-sales growth of 8.8%, 7.0% and -9.3% during the financial year.

Our retail model is essential for establishing the brand's character and for driving awareness to our customers. During the financial year, the Group invested HK$669.1 million to open approximately 100 new retail stores and to refurbish existing retail stores, bringing our total directly managed retail stores to 668 (FY2004/2005: 631). There was a net opening of 51 Esprit stores and a net closure of 14 Red Earth stores. The Group's total retail space was over 224,000m^2 (FY2004/2005: over 193,300m^2), a net increment of over 30,600m^2 from FY2004/2005.

Expansion emphasis was placed on both our core markets, such as Germany and Benelux, and high growth markets, such as France and the UK. Outside of Europe, the Group continued its international expansion, and added net selling space of over 1,900m^2, 2,900m^2 and 2,600m^2 in Asia, North America and Australasia respectively.

The Group's online e*shop remains an important part of its retail initiative. During the financial year, the Group extended the e-commerce business to the Netherlands, France and Belgium, bringing us closer to our existing and potential customers within these important demographics.

(as at June 30, 2006)	directly managed stores* no. of stores	sales area sq.m.	net change in sales area
europe	**243**	**143,660**	**19.2%**
germany	114	82,616	15.2%
the netherlands	37	12,523	16.2%
belgium	19	13,997	13.5%
switzerland	29	8,923	21.1%
austria	8	8,358	26.0%
france	24	9,503	78.1%
great britain	9	5,959	29.7%
denmark	2	1,281	no change
luxembourg	1	500	no change
asia	**210**	**32,834**	**6.1%**
hong kong (incl. macau)	45	14,665	3.5%
taiwan	99	7,895	7.7%
singapore	34	5,533	(12.0%)
malaysia	32	4,741	50.5%
australasia (incl. new zealand)	**155**	**25,557**	**11.4%**
north america	**60**	**21,961**	**15.7%**
canada	46	15,996	4.9%
u.s.	14	5,965	60.1%
group total	**668**	**224,012**	**15.9%**

* include Esprit & Red Earth stores, but exclude Salon

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beauty

Operations review
Distribution channels | licensing

The Group's licensing business complements brand penetration worldwide. Licensing activities extend Esprit's lifestyle offerings to different product categories in different markets worldwide. Licensing partners are carefully selected to ensure the creation of credible products that maintain our brand integrity and meet our stringent quality measures.

Esprit continues to build up the licence theme of home, kids, and lifestyle products, with third party's royalty income of HK$122.6 million, representing approximately 0.5% of the Group's total turnover.

During the financial year, we have signed seven new licensing contracts for product categories including furniture, carpets, wallpaper, cuddly toys, golf and swimwear while expanding the existing licenses into new countries and regions, amongst them Latin America, China and the US. As at June 30, 2006 we were working with around 34 licensees and offering around 30 categories of Esprit licensed products to consumers worldwide.

Key licensed product category

	europe	asia	australalasia	north america	latin america
baby carriages	■		■		
baby furniture	■				
bath	■	■	■		
bed	■	■	■	■	
belts				■	
carpets	■				
costume jewelry EDC	■			■	
down	■	■	■		
eyewear	■	■	■	■	
fragrance	■	■	■	■	■
furniture	■				
glassware	■				
golf		■			
home	■	■			■
jewelry	■	■	■		
kid’s accessories				■	
kid’s bed	■				
kid’s shoes			■	■	
kid’s wear				■	
outerwear				■	
school	■				
shoes			■		
sleepwear/daywear				■	
socks & tights EDC	■				
socks & tights Esprit	■	■	■	■	■
soft toys	■				
stationery	■				
swimwear				■	
timewear	■	■	■	■	
towels	■	■	■		
umbrellas	■	■	■		
wallpaper	■				

The Group outsourced all production requirements to third party suppliers and our diversified global sourcing base remains a strong competitive advantage for Esprit in the marketplace. When determining our sourcing mix, quality, proximity to the markets and costs are the major considerations.

During the financial year, we sourced over two-thirds of our merchandise from Asia, with the remainder primarily coming from Europe. Our cost-efficient buying, which results from economies of scale and our long-term relationship with suppliers, also plays a crucial part in maintaining our cost-of-goods at a competitive level.

Our cost-efficient buying, which results from economies of scale and our long-term relationship with suppliers, also plays a crucial part in maintaining our cost-of-goods at a competitive level.

Turnover

The Group achieved a total turnover of HK$23,348.9 million, an increase of 18.2% in local currency terms compared to last financial year, which was attributable to the strong performance in Europe, in particular the new markets outside Germany. Due to an approximately 4.7% decline of the average daily EUR/HKD translation rate as compared to the same period last year, the Group's turnover grew 13.2% when translated into Hong Kong dollar terms.

Margins and Profitability

The Group achieved earnings before interest and taxation (EBIT) margin of 20.4%, up 0.6% point from a year ago. The improvement was driven by stringent cost control, in which total operating expenses as a percentage of sales dropped by 2.4% points to 32.3%. The increase in EBIT was slightly offset by the new share option expenses following the first year adoption of "Share-based payment" under International Financial Reporting Standards ("IFRS"). Furthermore, based on historical sales experience of recent years, the Group reassessed its inventory provisioning estimates during the financial year which is in full compliance with IFRS. As a result, there was a net credit to the income statement. Depreciation expenses were HK$531.7 million, 17.6% higher than last financial year. The higher depreciation was mainly due to retail store expansion and the associated capital expenditure. Wholesale EBIT margin came in at 28.1%, 1.9% points higher than last financial year and the retail EBIT margin remained stable at 12.3% as compared to a year ago.

During the year, our China joint venture had turnover growth of 33.2%. The profitability of such strong turnover growth was partly offset by a lower gross margin and a higher effective tax rate, resulting in a net 15.8% increase in profit contribution from the China associate to HK$84.4 million.

Higher turnover and improved EBIT margin drove earnings before taxation (EBT) up by 17.2% to HK$4,885.5 million. EBT margin rose 0.7% point to 20.9%. The Group's effective tax rate marginally increased by 0.5% point to 23.5%. Total profit attributable to shareholders was HK$3,737.4 million, an increase of 16.4% from last financial year, with net profit margin increased 0.4% point to 16.0%. Return on shareholders' equity, defined as net earnings as a percentage of average shareholders' equity was 46.3%.

Earnings Per Share

Based on the 1,208,856,000 weighted average number of ordinary shares in issue during the financial year, the basic earnings per share were HK$3.09, an increase of 15.3% from last financial year.

Liquidity and Financial Resources

Net cash inflow from operating activities for the financial year increased by 26.1% to HK$3.43 billion. During the financial year, the Group invested HK$837.5 million on capital expenditure for new stores opening, refurbishment of old stores and IT projects, as compared to HK$961.8 million in the same period last year. Free cash flow, defined as net cash from operating activities less capex, increased by 74.9% to HK$2.59 billion.

As at June 30, 2006, the Group has no long-term bank borrowings and did not pledge any assets as security for overdraft and/or short-term revolving facility, while our debt to equity ratio (interest bearing external borrowings divided by shareholders' funds) was 2.7%. The current ratio (current assets divided by current liabilities) improved to 2.3 (FY2004/2005: 2.0), and the Group ended the year with HK$2.47 billion of net cash available (FY2004/2005: HK$1.73 billion). The Group is committed to maintaining sufficient cash to support the needs of our business and to withstanding unanticipated business volatility.

Foreign Exchange

To minimize our foreign exchange exposure on sourcing costs for merchandise produced for Europe in Asia, 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$1,331.7 million as at June 30, 2006, an increase of HK$631.6 million over the balance of HK$700.1 million as at June 30, 2005.

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life

Dividend Policy

The Board is pleased to recommend a final dividend of HK$0.73 per share (FY2004/2005: HK$0.66) and a special dividend of HK$1.08 per share (FY2004/2005: HK$0.84). The total dividend for the year, including the interim dividend paid and the proposed final and special dividend, represents a total full year payout ratio of 75% (FY2004/2005: around 70%). The Board will review the Group's financial position and capital needs every year to decide on its special divided recommendation.

Human Resources

The Group employs both full-time and part-time employees and has approximately 8,400 positions worldwide, after converting the part-time positions into full-time positions based on working hours (FY2004/2005: approximately 8,000). The most significant personnel increase was in the sales-related department, with a net addition of about 400 employees as a result of the expansion of retail operations.

We believe there are huge potentials in many untapped markets with vast opportunities for long-term growth. We are confident that our market-driven product development process and our diversified product offerings will continue to enable us to prevail over our competitors. With our fresh quality products, better visual merchandising and marketing efforts, our stores and product offerings radiate modernity and quality, thereby reinforcing Esprit's image in the hearts of our customers.

The Group is expected to invest over HK$1 billion to further expand our global distribution network and for upgrading IT systems to cope with our long term growth. Such capital expenditure is expected to be funded by current year's operating cashflow. On the retail front, the Group's comparable-store-sales growth was over 10% for the two months ended August 2006. The Group is expected to invest approximately HK$660 million for the opening and expansion of over 80 directly managed stores globally and the refurbishment of existing stores, increasing the Group's retail selling space by approximately 9.0% or over 31,000m^2. Over 35 stores in Europe, 30 in Asia Pacific and 10 in North America will be opened, adding more than 22,000m^2, 5,000m^2, and 3,000m^2 of retail space respectively. Within Europe, Germany, Benelux and France will remain as our focuses for retail expansion with the addition of over 14,000m^2, 3,000m^2 and 2,000m^2 retail selling space respectively. Selling space expansion together with comparable-store-sales growth through productivity improvements should continue to fuel retail turnover growth in the new financial year.

Wholesale orders booked to December 2006 showed a low teens percentage year-on-year increase in local currency. To further expand our wholesale geographical reach, around 230, 500 and 800 partnership stores, shop-in-stores and identity corners are scheduled to be opened in FY2006/2007 respectively. Over 940 and 190 controlled-space wholesale point-of-sales are planned for Germany and France respectively.

In terms of geographical reach, we expect stable growth at Germany and Benelux, and they will continue to be our core markets in FY2006/2007. Leveraging on our success in these core markets, the Group will continue to cultivate the high potential but under-penetrated markets such as France, Spain, Italy, Canada and the UK while further developing newer markets such as India and Korea. With a very successful launch of the ESPRIT brand in India in FY2005/2006, over 50 new stores are expected to be opened in the market in the next 2 years. In North America, further sales and margin improvement are expected as we continue to roll out new retail space, expand our presence in Nordstrom's national network, and restructure merchandise management in the region. To strengthen our international expansion, Mr. Jerome Griffith has been appointed as President of Esprit North America, and Australasia has been integrated into a newly created Asia Pacific region.

Against a background of the EU and the US reintroducing import quotas on textiles imported from China, together with rising value-added tax (VAT) in Germany, there remain new challenges for the Group. Nevertheless, the Group is confident of its ability to combat these adverse operating conditions through, among other things, our diversified sourcing base, further volume leverage, and if necessary, retail price adjustment.

Overall, Esprit's future is becoming ever brighter. Under the leadership of Mr. Thomas Grote, our new President of ESPRIT Brand, several new positions had been added, such as the Global Marketing Director, Global Product Director, President of Asia Pacific and the Fit Development Team, which will also enhance the Group's internal control and better risk management. The Group will continue to improve its overall profitability performance, supported by a diversified product portfolio, improving retail productivity and an expanding geographical reach.

"The world is our culture"

Year ended June 30

	2006	2005	2004	2003	2002
operating results$^{\Delta}$ (HK$ MN)					
turnover	**23,349**	20,632	16,357	12,381	9,219
operating profit (EBIT)	**4,765**	4,075	2,837	1,811	1,373
profit attributable to shareholders	**3,737**	3,211	1,969	1,276	993
per share data$^{\Delta}$ (HK$)					
earnings per share - basic	**3.09**	2.68	1.65	1.07	0.86
dividend per share$^{\Delta\Delta}$	**2.31**	1.95	1.17	0.70	0.28
key statistics$^{\Delta}$ (HK$ MN)					
shareholders' funds	**9,107**	7,039	5,415	4,192	3,032
working capital	**4,237**	2,728	1,964	2,027	1,061
cash position (net of overdraft)	**2,469**	1,729	1,758	2,097	934
term loans	**250**	–	–	776	780
other data					
number of directly managed stores#	**671**	634	562	569	495
directly managed selling space (sq.m.)#	**225,693**	195,042	172,343	152,108	141,059
monthly sales per square meter (HK$)	**3,384**	3,548	3,413	2,848	2,353
capital expenditure (HK$ MN)	**838**	1,236	662	333	344
number of employees##	**8,400**	7,720	6,796	5,751	5,936
key ratios$^{\Delta}$					
return on shareholders' equity### (ROE) (%)	**46.3%**	51.6%	41.0%	35.3%	39.3%
return on total assets (ROA)* (%)	**32.7%**	34.8%	24.7%	19.1%	14.9%
net debt to equity** (%)	**net cash**	net cash	net cash	net cash	net cash
interest cover (times)	**3,370**	2,125	132	57	100
current ratio (times)	**2.3**	2.0	1.7	1.9	1.6
inventory turnover period*** (days)	**54**	47	45	51	64
earnings before interest, taxation, depreciation and amortization (EBITDA) margin (%)	**22.7%**	21.9%	19.4%	16.8%	17.3%
earnings before interest and taxation (EBIT) margin (%)	**20.4%**	19.8%	17.3%	14.6%	14.9%
earnings before taxation (EBT) margin (%)	**20.9%**	20.2%	17.8%	15.1%	15.3%

Δ the Group adopted IFRS retrospectively with effect from July 1, 2002. The financial information in respect of FY2002/2003, FY2003/2004, FY2004/2005 and FY2005/2006 is prepared in accordance with IFRS. For the purpose of presenting the financial information in respect of FY2001/2002, certain estimates have been made to adjust the financial information to IFRS, mainly representing the reversal of amortization of trademarks. Certain comparative figures disclosed in the financial summary for prior years have been restated to reflect the adoption of IFRS 2 in the current year as described in Note 2(a) to the financial statements

ΔΔ calculated after including the HK$1.08 special dividend for FY2005/2006, HK$0.84 special dividend for FY2004/2005, HK$0.50 special dividend for FY2003/2004, HK$0.30 special dividend for FY2002/2003 and HK$0.05 special dividend for FY2001/2002

include Esprit, Red Earth stores and salon

after converting the part-time positions into full-time positions based on working hours

calculated based on net earnings as a percentage of average shareholders' equity

* calculated based on net earnings as a percentage of average total assets

** net debt refers to all interest bearing borrowings less cash and cash equivalents

*** calculated as average inventory (excluding consumables) over average daily cost of goods sold for the year

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Esprit is committed in achieving high standards of corporate governance. The Company has continued to devote considerable efforts to identify and formalize the best practices according to international standards for the financial year ended June 30, 2006. The Esprit Corporate Governance Code was adopted by the board (the "Board") of directors (the "Director(s)") of the Company which ensures greater transparency and 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 and stakeholders. Management's commitment in building long term interests for shareholders and in conducting business in a socially responsible and professional manner has earned the Company widespread market recognitions. During the financial year, Esprit received, amongst others, the "Top 50 Management Teams in Asia" award from CFO Asia and being ranked number 10 of "Top 25 CG Companies of Asia-Pacific Large Caps" by CLSA.

The Company has applied the principles and complied with the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited throughout the year ended June 30, 2006, except that Non-executive Directors of the Company do not have a specific term of appointment as detailed below.

The Board

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 conducts 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.

The Board has delegated the authority and responsibility for implementing business strategies and management of the daily 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;
* Monitoring the compliance with applicable laws and regulations, and also with corporate governance policies.

The posts of the Chairman and Group CEO are held separately to reinforce their respective independence, accountability and responsibility. Mr. Michael YING Lee Yuen is the Chairman of the Company and Mr. Heinz Jürgen KROGNER-KORNALIK is the Group CEO. This segregation ensures clearly defined roles with the Chairman having responsibility to monitor the Group's business strategies and the Group CEO having responsibility to manage the day-to-day business. The respective responsibilities of the Chairman and the Group CEO are set out in the Esprit Corporate Governance handbook.

The Board comprises ten Directors, including the Chairman of the Board. Five of them are Executive Directors. The remaining are Non-executive Directors of whom three are independent. The Non-executive Directors have no fixed term of service with the Company and are subject to the requirement of retirement by rotation and re-election by shareholders at annual general meeting ("AGM") in accordance with the Company's Bye-laws. The Non-executive Directors come from diverse business and professional backgrounds, bringing in valuable expertise and experience that promotes 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.

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 recorded in sufficient detail matters considered in the meetings, decisions reached, including any 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 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 his/her duties to the Company as and when requested or necessary.

The attendance of individual members of the Board and other Board Committees meetings during the financial year ended June 30, 2006 is set out in the table on page 48:

Directors	Board	Audit Committee	Nomination Committee	Remuneration Committee
	Meetings attended/Held			
Executive Directors				
Michael YING Lee Yuen, Chairman	4/4			3/3
Heinz Jürgen KROGNER-KORNALIK, Deputy Chairman	4/4			
John POON Cho Ming, Deputy Chairman	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		
Simon LAI Sau Cheong	3/4		1/1	
Independent Non-executive Directors				
Paul CHENG Ming Fun	4/4	4/4	1/1	
Alexander Reid HAMILTON	4/4	4/4		3/3
Raymond OR Ching Fai	3/4	4/4		3/3

The Company has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules throughout the year ended June 30, 2006, only with deviation from code provision A.4.1 of the Code.

Under the code provision A.4.1 of the Code, Non-executive Directors should be appointed for a specific term, subject to re-election. However, Non-executive Directors of the Company do not have a specific term of appointment.

To comply with the code provision A.4.2 of the Code, relevant amendment was made to Bye-law 87 of the Company's Bye-laws with the approval of the shareholders to the effect that all Directors including Non-executive Directors of the Company are subject to retirement by rotation in the annual general meeting of the Company and each Director is effectively appointed under an average term of 3 years.

Under the Company's Bye-laws, one-third of the Directors must retire, thus becoming eligible for re-election at each annual general meeting. This year, Messrs. Heinz Jürgen KROGNER-KORNALIK, Jürgen Alfred Rudolf FRIEDRICH and Paul CHENG Ming Fun will retire at the forthcoming AGM of the Company 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 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. Heinz Jürgen KROGNER-KORNALIK has entered into service contract with a member of the Group that does not provide for a fixed period of service and can be terminated by the Company by giving four months' notice.

Both Mr. Jürgen Alfred Rudolf FRIEDRICH and Mr. Paul CHENG Ming Fun do not have a service contract with the Company. They have no fixed term of service with the Company and are subject to retirement by rotation and re-election in accordance with the Bye-laws of the Company.

Auditors' Remuneration

A summary of fees for audit and non-audit services for the financial year ended June 30, 2006 is as follows:

Nature of the Services	2006 HK$'000	2005 HK$'000
Audit services		
– Current year	11,250	8,376
– Underprovision in prior year	802	–
Other services	5,958	5,561
	18,010	13,937

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.

Audit Committee

The Audit Committee was established to assist the Board in safeguarding the Company's assets by providing an independent review of the effectiveness of the financial reporting process and the internal control and risk management systems of the Company. The committee also oversees the audit process and performs other duties as assigned by the Board. The Terms of Reference of the Audit Committee that have been adopted by the Audit Committee are posted on the Company's website. All the members of our Audit Committee are Non-executive Directors, with a majority (including the chairman of the Audit Committee) being Independent Non-executive Directors. The committee met 4 times in FY2005/2006.

The Members of the Audit Committee are:
Jürgen Alfred Rudolf FRIEDRICH
Paul CHENG Ming Fun
Alexander Reid HAMILTON (Chairman)
Raymond OR Ching Fai

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, 2006 as well as the accounting principles and practices adopted by the Group, reviewed the nature, scope and findings of internal and external audits in addition to reviewing 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

The Nomination Committee was established to enhance transparency and highlight fairness in the selection and appointment of Board members. The Nomination Committee consists of three members, the majority of which are Non-executive Directors. The Terms of Reference of the Nomination Committee which have been adopted by the Board are posted on the Company's website. The committee met once during the financial year.

The Members of the Nomination Committee are:
John POON Cho Ming
Simon LAI Sau Cheong
Paul CHENG Ming Fun

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. During the year, the Nomination Committee had also reviewed and made recommendations in respect of the re-appointment of retiring Directors, which were approved by the shareholders at the last AGM.

Remuneration Committee

The responsibility of the Remuneration Committee is to formulate transparent procedures for developing remuneration policies and packages for key executives. The Remuneration Committee comprises three members, the majority of whom are Independent Non-executive Directors.

The Members of the Remuneration Committee are:
Michael YING Lee Yuen
Alexander Reid HAMILTON
Raymond OR Ching Fai

The Terms of Reference of the Remuneration Committee that have been adopted by the Remuneration Committee are posted on the Company's website. The Committee met 3 times during the financial year. A summary of the work performed by the Remuneration Committee during the year is set out on page 64.

General Committee

The General Committee is established and responsible for discussion, consideration and approval of certain routine corporate administrative matters of the Company. The General Committee comprises four members, the majority of which are Executive Directors. The committee met 26 times in FY2005/2006.

The Members of the General Committee are:
Michael YING Lee Yuen
Heinz Jürgen KROGNER-KORNALIK
John POON Cho Ming
Simon LAI Sau Cheong

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, 2006 they have complied with the required standard set out in the Model Code.

Voting by Poll

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

At the 2005 AGM, the Chairman of the Meeting demanded a poll on all resolutions. The procedures for demanding a poll by the shareholders were incorporated in the circular sent to the shareholders in the time stipulated. Secretaries Limited, the Company's branch share registrar in Hong Kong, was appointed as the scrutineer to ensure the votes were properly counted.

Directors' Responsibilities for the Financial Statements

The Directors are responsible for overseeing the preparation of financial statements for the year ended June 30, 2006, which give a true and fair view of the state of affairs of the Company and of the cash flows for that financial year. In preparing the financial statements for the year ended June 30, 2006, the Directors 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 ongoing concern basis.

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

Internal Control and Risk Management

A sound internal control system mitigates the Group's risk exposure while facilitating the effectiveness and efficiency of operations and ensuring compliance with laws and regulations. The system is independently reviewed on an ongoing basis so that practical and effective control systems are implemented to provide reasonable assurance in protecting material assets and in identifying business risks. The Group is committed to the identification, monitoring and management of risks associated with its business activities and has implemented practical and effective control systems including:

- A tailored organizational and governance structure with clearly defined lines of responsibility;
- Budgeting and forecasting systems for performance measurement and monitoring of business units;
- A quarterly review of the Group's performance by the Audit Committee and the Board;
- Protection of the Group's trademarks globally;
- Group-wide insurance programs; and
- A global cash management system deployed to enhance proper control and yield of cash assets.

The Company has established an Internal Audit function that is responsible for performing regular and systematic reviews of internal control system so as to provide reasonable assurance that they continue to operate satisfactorily and effectively within the Group and the Company. The attainment of such objectives involves the following activities being carried out by the Internal Audit function:

- 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 function, the Company has appointed KPMG 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 Code requires the Board to carry out a review on the effectiveness of the Company's system of internal control. This review is carried out by the Internal Audit function and their findings and opinion on the effectiveness of the Company's system of internal control is considered by the Audit Committee, which reports to the Board.

The Board has received a high level risk assessment from an external consultant with no material issue noted, and has reviewed the effectiveness of the internal control system of the Group.

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 annual general meeting 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 and provides them with up-to-date and comprehensive information about the Company's corporate developments. 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. Both our Group CEO and Group CFO 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 gained market recognition in the past years. The Company ranked, among others, number two for the "Best Investor Relations" award by FinanceAsia in April 2006 and received the "Best Investor Relations (Buy-side view)" in Hong Kong and in the Retail Sector awards from Asia Investor Relations Market Report in November 2005. The list of awards honored to the Company by different parties recently is tabled on page 54.

Time	Award	Awarding Party
July 2006	Gold award, Best Overall Annual Report (Retail Fashion Category)	INTERNATIONAL ARC AWARDS
April 2006	Best Investor Relations (No. 2) Best CFO (No. 2) Best Commitment to Strong Dividends (No. 3) Best Managed Company (No. 4) Best Corporate Governance (No. 7)	FINANCEASIA
November 2005	Best CFO in the Retail Sector Best Investor Relations in Hong Kong (Buy-side view) Best Investor Relations in the Retail Sector (Buy-side view)	ASIA INVESTOR RELATIONS MARKET REPORT
November 2005	2005 HKMA Best Annual Reports Awards: Honourable Mention Citation for Achievement in Design	HONG KONG MANAGEMENT ASSOCIATION ("HKMA")
October 2005	Asia's Fab 50 Companies	FORBES ASIA
October 2005	Asian BusinessWeek 50	ASIAN BUSINESSWEEK
October 2005	Top 50 Management Teams in Asia	CFO ASIA
October 2005	The Top Performers - Retail	SOUTH CHINA MORNING POST
October 2005	CG Watch 2005, Corporate Governance in Asia Top 25 CG Companies of Asia-Pacific Large Caps (rank no. 10) Top CG Quartile for Hong Kong (top 15) QARP (Quality at Reasonable Price) for Asia ex-Japan Large Caps (top 20)	CLSA

Social responsibilities

As a global company, Esprit believes in developing and maintaining sustainable relationship with all its stakeholders. We demonstrate our commitment to our employees, business partners and customers by ensuring a healthy and innovative working environment.

Responsibilities to Employees

Esprit recognizes the importance of human capital and that our continued success depends on the commitment, enthusiasm and energy of our staff around the world. We are committed to developing a positive and respectable working environment that encourages collaboration and cooperation between employees. The Group promotes inter-company communication and we welcome ideas and feedbacks from our staff. Through quarterly newsletters and the Group's global intranet, we aim to improve company-wide communication and connect our 8,400 plus employees around the world to the Esprit family.

We strive to be an attractive company for the talented and motivated. The Group places heavy emphasis on staff training and development to capitalize on the potential within every one of our employees. The Group readily provides resources for the organization of workshops and seminars. Our remuneration package is performance based and takes into account business performance, market practice and competitive market conditions. To ensure staff members are rewarded on a clear and fair basis, an annual performance and salary review system had been adopted. Share options and discretionary bonuses are also granted to staff that deliver outstanding performance.

Responsibilities to Business Partners

At Esprit, we aim to develop and maintain long-term relationships with our business partners based on openness, honesty and trust. We seek to understand their business needs and aim to provide mutual support to ensure establishing sustainable business partnerships.

We are committed to conducting business in a responsible and suitable manner. Our vendor compliance manual offers suppliers strict guidelines in regard to child labor, workplace safety, working hours and compensation based on national labor laws and international best practices. Social audits were carried out to foster the majority of suppliers in achieving and maintaining these guidelines.

We are a member of the Business Social Compliance Initiative (BSCI) established by the Foreign Trade Association (FTA). We emphasize our dedication to the BSCI principles such as compliance with human rights and minimum social standards by communicating such principles to our vendors across the world.

Responsibilities to the Community

Through grants, donations in kind and volunteering activities, Esprit and its employees worldwide take pride in making significant contributions to the community. Employees have responded enthusiastically to a variety of relief initiatives organized by charitable organizations, such as the Hong Kong "Walks for a Million" organized by the Community Chest.

Throughout FY2005/2006, Esprit supported various charity organizations across the globe by making generous donations. We donated to The Community Chest's Corporate and Employee Contribution Program to benefit the youth leadership program organized by its member agencies. We also pride ourselves on our donations to support the construction of 4 primary schools in China.

In supporting a fund raising campaign initiated by the FIFA World Cup 2006™ in association with SOS-Children's Village to build six new Villages for children across six countries, Charity wristbands were sold in Esprit stores and Esprit donated 1 Euro from every wristband sold to SOS-Children's Village. Esprit also supports human and social commitment projects such as Regenbogenland Children's Hospice in Germany, a place of peace and rest for seriously ill children and their families; and SOS Kinderdörfer, providing a home and education for orphan children as well as Jugendsport Rot-Weiss Essen, an institute for youth sports.

Investor information

Executive directors
Michael YING Lee Yuen, Chairman of the Board
Heinz Jürgen KROGNER-KORNALIK, Deputy Chairman
John POON Cho Ming, Deputy Chairman
Thomas Johannes GROTE
Jerome Squire GRIFFITH

Non-executive directors
Jürgen Alfred Rudolf FRIEDRICH
Simon LAI Sau Cheong

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

Corporate officers
Michael YING Lee Yuen, Chairman of the Board
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 Hong Kong and Shanghai Banking Corporation Limited

Auditors
PricewaterhouseCoopers
Certified Public Accountants

Principal legal advisors
Baker & Mckenzie
Deacons

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

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

Hong Kong branch share registrar
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, Hong Kong
Tel: (+852) 2765 4321
Fax: (+852) 2362 5576

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

For enquiries from investors and securities analysts, please contact:
Investor Relations Department
Esprit Holdings Limited
43/F, Enterprise Square Three
39 Wang Chiu Road
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Kowloon, Hong Kong
Tel: (+852) 2765 4232
Fax: (+852) 2362 5576
E-mail: esprit-ir@esprit.com

Website
www.espritholdings.com

report of the directors

The Directors have pleasure in presenting their annual report and the audited financial statements for the year ended June 30, 2006.

principal activities

The Company is an investment holding company. The activities of the principal subsidiaries are shown in note 30 to the financial statements. The Group is principally engaged in the 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 77 and in the accompanying notes to the financial statements.

The interim dividend of HK$0.50 per share, totaling HK$607,770,000, was paid on April 7, 2006.

The Directors recommend the payment of a final dividend of HK$0.73 per share and a special dividend of HK$1.08 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 80 and in note 29 to the financial statements respectively.

share capital

During the year, 20,965,000 (2005: 6,027,000) ordinary shares of HK$0.10 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$45.60 each (representing a premium in the range of HK$14.50 to HK$45.50 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 page 129.

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, 2006 are set out in note 30 to the financial statements.

charitable donations

During the year, the Group made charitable donations totaling HK$1,379,000.

directors

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

executive directors

Michael YING Lee Yuen
Heinz Jürgen KROGNER-KORNALIK
John POON Cho Ming
Thomas Johannes GROTE
Jerome Squire GRIFFITH

non-executive directors

Jürgen Alfred Rudolf FRIEDRICH
Simon LAI Sau Cheong

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

Michael YING Lee Yuen, aged 56, is and has been Chairman of the Board since 1993. Mr. Ying has over 30 years of experience in the apparel industry. He is primarily responsible for the overall corporate direction and strategy of the Group.

Heinz Jürgen KROGNER-KORNALIK, aged 65, is Deputy Chairman and Chief Executive Officer of the Group. He has been with the Group since January 1995. 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 52, 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 43, is currently the 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 48, is currently the President of Esprit North America. Mr. Griffith is bringing to this challenge four years' experience at Global Business Headquarters Ratingen, Germany where he was responsible for the global retail market. 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 69, 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 a Steward of the Hong Kong Jockey Club and Chairman of The Link Management Limited. He is also a member of the Council of The Chinese University of Hong Kong.

Jürgen Alfred Rudolf FRIEDRICH, aged 68, 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.

directors and senior management profile ***continued***

non-executive directors ***continued***

Alexander Reid HAMILTON, aged 64, 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 and a number of other Hong Kong companies. He was a partner of Price Waterhouse with whom he practised for 16 years.

Simon LAI Sau Cheong, aged 45, was appointed an Independent Non-executive Director of the Company in November 1999 and was re-designated as Non-executive Director of the Company in 2004. He is admitted to practise as a solicitor in Hong Kong, England and Wales and New South Wales, Australia. Mr. Lai is a partner of the law firm of Deacons and has over 20 years' experience of legal practice.

Raymond OR Ching Fai, aged 56, 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, director of The Hongkong and Shanghai Banking Corporation Limited, Chairman of Hang Seng Life Limited, and a director of Cathay Pacific Airways Limited, Hutchison Whampoa Limited and 2009 East Asian Games (Hong Kong) Limited.

senior management

(as of June 30, 2006)

Ursula BUCK, aged 44, 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.

Melody HARRIS-JENSBACH, aged 45, is International Product Director – Women of the Group. She joined the Group in August 1998 as Design Director for Women's Wear. She graduated from Parsons School of Design in New York City with a Bachelor of Fine Arts majoring in Fashion Design. She has over 20 years' experience as Designer/Chief Designer for various international and national apparel companies.

Lawrence LEE Cheung Kan, aged 46, is the Group Financial Controller. He is primarily responsible for the Group's statutory and management reporting. He is involved in internal controls and compliance. He is also involved in international tax planning and implementation of tax strategies of the Group. Prior to joining the Group in August 2000, he has worked with international apparel and sourcing companies as Financial Controller. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and a member of the Institute of Chartered Accountants of Ontario, Canada.

directors' emoluments

A Remuneration Committee comprising of two 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" 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.

share options ***continued***

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:

	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 07.01.2005	Granted	Exercised	Lapsed	As at 06.30.2006
Directors									
Heinz Jürgen KROGNER-KORNALIK	11/26/2002	14.60	11/26/2003	11/26/2003 – 11/25/2008	800,000	–	800,000	–	–
			11/26/2004	11/26/2004 – 11/25/2008	800,000	–	800,000	–	–
			11/26/2005	11/26/2005 – 11/25/2008	800,000	–	800,000	–	–
			11/26/2006	11/26/2006 – 11/25/2008	800,000	–	–	–	800,000
			11/26/2007	11/26/2007 – 11/25/2008	800,000	–	–	–	800,000
	11/26/2003	24.20	11/26/2004	11/26/2004 – 11/25/2009	600,000	–	600,000	–	–
			11/26/2005	11/26/2005 – 11/25/2009	600,000	–	600,000	–	–
			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	11/27/2005	11/27/2005 – 11/26/2010	600,000	–	600,000	–	–
			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
					10,000,000	–	4,200,000	–	5,800,000
John POON Cho Ming	11/26/2002	14.60	11/26/2003	11/26/2003 – 11/25/2008	–	–	–	–	–
			11/26/2004	11/26/2004 – 11/25/2008	–	–	–	–	–
			11/26/2005	11/26/2005 – 11/25/2008	480,000	–	480,000	–	–
			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	11/26/2004	11/26/2004 – 11/25/2009	–	–	–	–	–
			11/26/2005	11/26/2005 – 11/25/2009	360,000	–	360,000	–	–
			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	11/27/2005	11/27/2005 – 11/26/2010	360,000	–	360,000	–	–
			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
					4,680,000	–	1,200,000	–	3,480,000

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 07.01.2005	Granted	Exercised	Lapsed	As at 06.30.2006
Thomas Johannes GROTE	11/26/2002	14.60	11/26/2003	11/26/2003 – 11/25/2008	320,000	–	320,000	–	–
			11/26/2004	11/26/2004 – 11/25/2008	320,000	–	320,000	–	–
			11/26/2005	11/26/2005 – 11/25/2008	320,000	–	320,000	–	–
			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	11/26/2004	11/26/2004 – 11/25/2009	240,000	–	240,000	–	–
			11/26/2005	11/26/2005 – 11/25/2009	240,000	–	240,000	–	–
			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	11/27/2005	11/27/2005 – 11/26/2010	240,000	–	240,000	–	–
			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
					4,000,000	–	1,680,000	–	2,320,000
Jerome Squire GRIFFITH	11/26/2002	14.60	11/26/2003	11/26/2003 – 11/25/2008	100,000	–	100,000	–	–
			11/26/2004	11/26/2004 – 11/25/2008	320,000	–	320,000	–	–
			11/26/2005	11/26/2005 – 11/25/2008	320,000	–	320,000	–	–
			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	11/26/2004	11/26/2004 – 11/25/2009	240,000	–	240,000	–	–
			11/26/2005	11/26/2005 – 11/25/2009	240,000	–	240,000	–	–
			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	11/27/2005	11/27/2005 – 11/26/2010	240,000	–	240,000	–	–
			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
					3,780,000	–	1,460,000	–	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 07.01.2005	Granted	Exercised	Lapsed	As at 06.30.2006
Employees & Consultants								
11/26/2002	14.60	11/26/2003	11/26/2003 – 11/25/2008	1,100,000	–	1,100,000	–	–
		11/26/2004	11/26/2004 – 11/25/2008	1,580,000	–	1,580,000	–	–
		11/26/2005	11/26/2005 – 11/25/2008	3,216,000	–	3,096,000	–	120,000
		11/26/2006	11/26/2006 – 11/25/2008	3,216,000	–	–	336,000	2,880,000
		11/26/2007	11/26/2007 – 11/25/2008	3,216,000	–	–	336,000	2,880,000
11/26/2003	24.20	11/26/2004	11/26/2004 – 11/25/2009	1,495,000	–	1,330,000	–	165,000
		11/26/2005	11/26/2005 – 11/25/2009	2,992,000	–	2,512,000	120,000	360,000
		11/26/2006	11/26/2006 – 11/25/2009	2,992,000	–	–	372,000	2,620,000
		11/26/2007	11/26/2007 – 11/25/2009	2,992,000	–	–	372,000	2,620,000
		11/26/2008	11/26/2008 – 11/25/2009	2,992,000	–	–	372,000	2,620,000
12/23/2003	24.45	12/23/2004	12/23/2004 – 12/22/2009	–	–	–	–	–
		12/23/2005	12/23/2005 – 12/22/2009	120,000	–	120,000	–	–
		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	4,187,000	–	2,607,000	210,000	1,370,000
		11/27/2006	11/27/2006 – 11/26/2010	4,187,000	–	–	542,000	3,645,000
		11/27/2007	11/27/2007 – 11/26/2010	4,187,000	–	–	542,000	3,645,000
		11/27/2008	11/27/2008 – 11/26/2010	4,187,000	–	–	542,000	3,645,000
		11/27/2009	11/27/2009 – 11/26/2010	4,187,000	–	–	542,000	3,645,000
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	01/21/2006	01/21/2006 – 01/20/2011	80,000	–	80,000	–	–
		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 07.01.2005	Granted	Exercised	Lapsed	As at 06.30.2006
11/28/2005	55.11	11/28/2006	11/28/2006 – 11/27/2011	–	1,140,000	–	60,000	1,080,000
		11/28/2007	11/28/2007 – 11/27/2011	–	1,140,000	–	60,000	1,080,000
		11/28/2008	11/28/2008 – 11/27/2011	–	1,140,000	–	60,000	1,080,000
		11/28/2009	11/28/2009 – 11/27/2011	–	1,140,000	–	60,000	1,080,000
		11/28/2010	11/28/2010 – 11/27/2011	–	1,140,000	–	60,000	1,080,000
12/02/2005	56.20	12/02/2006	12/02/2006 – 12/01/2011	–	520,000	–	–	520,000
		12/02/2007	12/02/2007 – 12/01/2011	–	520,000	–	–	520,000
		12/02/2008	12/02/2008 – 12/01/2011	–	520,000	–	–	520,000
		12/02/2009	12/02/2009 – 12/01/2011	–	520,000	–	–	520,000
		12/02/2010	12/02/2010 – 12/01/2011	–	520,000	–	–	520,000
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	–	–	140,000
		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
In aggregate				48,056,000	9,450,000	12,425,000	4,586,000	40,495,000
TOTAL				**70,516,000**	**9,450,000**	**20,965,000**	**4,586,000**	**54,415,000**

Notes:
1. The closing prices of the shares of the Company immediately before the options granted on November 28, 2005, December 2, 2005, December 23, 2005 and February 23, 2006 were HK$56.95, HK$54.95, HK$56.45 and HK$64.60 respectively.
2. The weighted average closing price of the shares immediately before the date of exercise by Mr. Heinz Jürgen Krogner-Kornalik was HK$56.95.
3. The weighted average closing price of the shares immediately before the date of exercise by Mr. John C. Poon was HK$56.95.
4. The weighted average closing price of the shares immediately before the date of exercise by Mr. Thomas Johannes Grote was HK$63.95.
5. The weighted average closing price of the shares immediately before the date of exercise by Mr. Jerome Squire Griffith was HK$63.87.
6. The weighted average closing price of the shares immediately before the dates of exercise by the employees and consultants was HK$59.90.
7. 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 enable 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(a) to the financial statements.

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

As at June 30, 2006, the interests or short positions of the Directors and chief executive 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) (the "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 Companies (the "Model Code") contained in the Listing Rules, were as follows:

(1) Shares of the Company

Name of Director	Capacity	Beneficial interest in shares	Beneficial interest in unlisted underlying shares (Note 4)	Total	Approximate percentage of aggregate interests to total issued share capital
Michael YING Lee Yuen	Interest of a trust (Note 1)	191,208,352	–	191,208,352	15.67%
Heinz Jürgen KROGNER-KORNALIK	Beneficial owner	–	5,800,000	5,800,000	0.48%
John POON Cho Ming	Beneficial owner	70,000	3,480,000	3,550,000	0.29%
Thomas Johannes GROTE	Beneficial owner	–	2,320,000	2,320,000	0.19%
Jerome Squire GRIFFITH	Beneficial owner	230,000	2,320,000	2,550,000	0.21%
Jürgen Alfred Rudolf FRIEDRICH	Beneficial owner	79,251,176	–	81,302,077	6.66%
	Interest of a controlled corporation (Note 2)	2,000,000	–		
	Interest of spouse (Note 3)	50,901	–		

Notes:

1. The shares were held by HSBC International Trustee Limited, the trustee of a discretionary trust set up by Mr. Michael Ying Lee Yuen on January 9, 2006. Mr. Michael Ying Lee Yuen was deemed to be interested in these shares as founder of the discretionary trust.
2. The shares were held by JAF Foundation of which Mr. Jürgen Alfred Rudolf Friedrich controlled 100% share interest.
3. The shares were held by Mrs. Anke Beck Friedrich, the spouse of Mr. Jürgen Alfred Rudolf Friedrich.
4. The interests of Directors and chief executive 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" 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) Shares Options of the Company

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

As at June 30, 2006, save as disclosed above, none of the Directors, chief executive 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, 2006, the following shareholders (other than the Directors and chief executive 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 ("Shares") which were recorded in the register required to be kept by the Company under Section 336 of the SFO:

Name of shareholder	Capacity	Number of Shares	Approximate Percentage of Aggregate Interests to Total Issued Share Capital
HSBC International Trustee Limited	Interest of controlled corporations (Notes1 and 2)	193,342,917	15.84%
JPMorgan Chase & Co.	Interest of controlled corporations (Notes 3 to 5)	160,043,927	13.11%
The Capital Group Companies, Inc.	Interest of controlled corporations (Notes 6 and 7)	111,722,900	9.15%
State Street Corporation	Interest of a controlled corporation (Notes 8 and 9)	107,579,289	8.82%

substantial shareholders' interests *continued*

Notes:

1. Details of the interest in the 193,342,917 Shares held by HSBC International Trustee Limited were as follows:

Name	Direct (D)/Indirect (I) Interests in the Shares of the Company	Aggregate Long Position in Shares	Percentage of Aggregate Interests to Total Issued Share Capital (round to the nearest hundredth)
Yet Holdings Limited	I	191,208,352	15.67%
Great View International Limited	D	191,208,352	15.67%
HSBC Trustee (Hong Kong) Limited	D	723,000	0.06%
HSBC Trustee (Cook Islands) Limited	I	1,500	0.00%
South Rex Limited	D	1,500	0.00%
HSBC Private Trustee (Hong Kong) Limited	D	24,000	0.00%
HSBC International Trustee Limited	D	1,386,065	0.11%

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 193,342,917 Shares. HITL was directly interested in 1,386,065 Shares. HITL was deemed to be interested in 191,956,852 Shares held or deemed to be held by (i) Yet Holdings Limited ("YETHL") (191,208,352 Shares), 100% controlled by HITL, and (ii) HSBC Trustee (Hong Kong) Limited (723,000 Shares), a wholly-owned subsidiary of HITL, and (iii) HSBC Trustee (Cook Islands) Limited (1,500 Shares) and (iv) HSBC Private Trustee (Hong Kong) Limited (24,000 Shares). Both HSBC Trustee (Cook Islands) Limited and HSBC Private Trustee (Hong Kong) Limited are customed/obliged to act in accordance with the directions or instructions of HITL.

(i) YETHL was deemed to be interested in the 191,208,352 Shares held by Great View International Limited, a wholly-owned subsidiary of YETHL; 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;

(ii) HSBC Trustee (Hong Kong) Limited directly held 723,000 Shares;

(iii) HSBC Trustee (Cook Islands) Limited ("CIL") was deemed to be interested in 1,500 Shares held by South Rex Limited, 100% controlled by CIL; and

(iv) HSBC Private Trustee (Hong Kong) Limited directly held 24,000 Shares.

2. All interests disclosed in Note 1 above represent long positions in the Shares of the Company.

3. The Shares held by JPMorgan Chase & Co. were held in the following capacities:

No. of Shares	Capacity
3,184,000	Beneficial owner
96,846,793	Investment manager
60,013,134	Custodian corporation/approved lending agent

substantial shareholders' interests *continued*

Notes: *continued*

4. Details of the interest in the 160,043,927 Shares held by JPMorgan Chase & Co. were as follows:

Name	Direct (D)/Indirect (I) Interests in the Shares of the Company	Aggregate Long Position in Shares	Percentage of Aggregate Interests to Total Issued Share Capital
JPMorgan Chase Bank, N.A.	D	65,424,764	5.361%
JPMorgan Chase Bank, N.A.	I	3,469,643	0.284%
J.P. Morgan International Inc.	I	3,469,643	0.284%
Bank One International Holdings Corporation	I	3,469,643	0.284%
J.P. Morgan International Finance Limited	I	3,469,643	0.284%
J.P. Morgan Overseas Capital Corporation	I	1,556,643	0.128%
J.P. Morgan Whitefriars Inc.	D	1,271,000	0.104%
J.P. Morgan International Bank Limited	D	285,643	0.023%
JPMorgan Asset Management Holdings Inc.	I	91,149,520	7.469%
JPMorgan Asset Management (Canada) Inc.	D	4,283,500	0.351%
J.P. Morgan Investment Management Inc.	D	17,056,383	1.398%
JPMorgan Asset Management International Limited	I	15,470,500	1.268%
JPMorgan Asset Management Holdings (UK) Limited	I	15,470,500	1.268%
JPMorgan Asset Management (UK) Limited	D	13,685,500	1.121%
JPMorgan Asset Management Holdings (Luxembourg) S.à r.l.	I	80,500	0.007%
JPMorgan Asset Management Societa di Gestione del Risparmio SpA	D	80,500	0.007%
J.P. Morgan Investment Management Limited	I	1,640,000	0.134%
JPMorgan Asset Management (London) Limited	D	1,640,000	0.134%
JPMorgan Asset Management (Asia) Inc.	I	54,339,137	4.453%
JF International Management Inc.	D	568,500	0.047%
JF Asset Management (Singapore) Limited – Co Reg #: 197601586K	D	977,000	0.080%
J.P. Morgan Fleming Asset Management (Japan) Limited *	D	3,942,000	0.323%
JF Asset Management Limited	D	47,290,137	3.875%
JF Asset Management Limited	I	1,561,500	0.128%
JF Funds Limited	I	1,561,500	0.128%
JF Asset Management (Taiwan) Limited	D	1,561,500	0.128%
JPMorgan Asset Management Holdings (Luxembourg) S.à r.l.	I	64,500	0.005%
JPMorgan Asset Management (Europe) S.a.r.l.	D	64,500	0.005%
J.P. Morgan Securities Ltd.	D	1,913,000	0.157%
J.P. Morgan Chase International Holdings Limited	I	1,913,000	0.157%
J.P. Morgan Chase (UK) Holdings Limited	I	1,913,000	0.157%
J.P. Morgan Capital Holdings Limited	I	1,913,000	0.157%

* Name changed to JPMorgan Asset Management (Japan) Limited with effect from March 20, 2006.

substantial shareholders' interests *continued*

Notes: *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 160,043,927 Shares held or deemed to be held by: (I) JPMorgan Chase Bank, N.A. (68,894,407 Shares) and (II) JPMorgan Asset Management Holdings Inc. (91,149,520 Shares), all were wholly-owned subsidiaries of JPMorgan Chase & Co.

(I) JPMorgan Chase Bank, N.A. directly held 65,424,764 Shares and was also deemed to be interested in an aggregate of 3,469,643 Shares held by the following indirect subsidiaries held through J.P. Morgan International Finance Limited ("JPIF"), a direct wholly-owned subsidiary of Bank One International Holdings Corporation, directly wholly-owned by J.P. Morgan International Inc., directly wholly-owned by JPMorgan Chase Bank, N.A.:

- (a) 1,271,000 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) 1,913,000 Shares were held by J.P. Morgan Securities Ltd., 90% ** subsidiary of J.P. Morgan Chase International Holdings Limited, wholly-owned by J.P. Morgan Chase (UK) Holdings Limited, wholly-owned by J.P. Morgan Capital Holdings Limited, 72.72% subsidiary of JPIF; and
- (c) 285,643 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.

** Changed to 98.95% with effect from April 15, 2006.

(II) JPMorgan Asset Management Holdings Inc. ("JPAMH") was deemed to be interested in an aggregate of 91,149,520 Shares held by the following subsidiaries:

- (a) 4,283,500 Shares were held by JPMorgan Asset Management (Canada) Inc., directly wholly-owned by JPAMH;
- (b) 17,056,383 Shares were held by J.P. Morgan Investment Management Inc., directly wholly-owned by JPAMH;
- (c) 54,339,137 Shares were deemed to be held by JPMorgan Asset Management (Asia) Inc. ("JPAsia"), directly wholly-owned by JPAMH, through the following subsidiaries:
  - (i) 568,500 Shares were held by JF International Management Inc., wholly-owned by JPAsia;
  - (ii) 977,000 Shares were held by JF Asset Management (Singapore) Limited - Co Reg #:197601586K, wholly-owned by JPAsia;
  - (iii) 3,942,000 Shares were held by J.P. Morgan Fleming Asset Management (Japan) Limited*, wholly-owned by JPAsia;
  - (iv) 47,290,137 Shares were held by JF Asset Management Limited, wholly-owned by JPAsia; and
  - (v) 1,561,500 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.
- (d) 15,470,500 Shares were deemed to be held by JPMorgan Asset Management International Limited ("JPAM"), directly wholly-owned by JPAMH, through the following subsidiaries:
  - (i) 13,685,500 Shares were held by JP Morgan Asset Management (UK) Limited, wholly-owned by JPMorgan Asset Management Holdings (UK) Limited, a wholly-owned subsidiary of JPAM;
  - (ii) 1,640,000 Shares were held by JPMorgan Asset Management (London) Limited, a wholly-owned subsidiary of J.P. Morgan Investment Management Limited, wholly-owned by JPMorgan Asset Management Holdings (UK) Limited, a wholly-owned subsidiary of JPAM;
  - (iii) 64,500 Shares were held by JPMorgan Asset Management (Europe) S.a.r.l., a wholly-owned 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 JPAM; and
  - (iv) 80,500 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 JPAM.

5. All interests disclosed in Note 4 above represent long positions in the Shares of the Company of which 60,013,134 Shares represent lending pool.

substantial shareholders' interests *continued*

Notes: *continued*

6. Details of the interest in the 111,722,900 Shares held by The Capital Group Companies, Inc. were as follows:

Name	Direct (D)/Indirect (I) Interests in the Shares of the Company	Aggregate Long Position in Shares	Percentage of Aggregate Interests to Total Issued Share Capital
Capital Research and Management Company	D	109,193,000	8.947%
Capital Guardian Trust Company	D	1,642,900	0.135%
Capital International, Inc.	D	782,000	0.064%
Capital International S.A.	D	105,000	0.008%

Explanatory Notes:

All of the following interests were deemed to be held by the relevant company under SFO. The Capital Group Companies, Inc. was deemed to be interested in an aggregate of 111,722,900 Shares held or deemed to be held by the following subsidiaries:

(i) 109,193,000 Shares were held by Capital Research and Management Company, wholly-owned by The Capital Group Companies, Inc.;

(ii) 1,642,900 Shares were held by Capital Guardian Trust Company, wholly-owned by Capital Group International, Inc., a wholly-owned subsidiary of The Capital Group Companies, Inc.;

(iii) 782,000 Shares were held by Capital International, Inc., wholly owned by Capital Group International, Inc., a wholly-owned subsidiary of The Capital Group Companies, Inc.; and

(iv) 105,000 Shares were held by Capital International S.A., wholly-owned by Capital Group International, Inc., a wholly-owned subsidiary of The Capital Group Companies, Inc.

7. All interests disclosed in Note 6 above represent long positions in the Shares of the Company.

8. State Street Corporation was deemed to be interested in 107,579,289 Shares through its 100% interest in State Street Bank & Trust Company.

9. All interests disclosed in Note 8 above represent long positions in the Shares of the Company and all 107,579,289 Shares 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 any interest or short position in the shares or underlying shares of the Company as at June 30, 2006 which are 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.

All of the abovementioned outstanding options are unlisted and represent physically settled equity derivatives.

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 18% 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 principals and practices adopted by the Group and has also discussed auditing, internal controls, and financial reporting matters including the review of the audited consolidated financial statements for the year ended June 30, 2006 of the Group.

corporate governance

Particulars of the Company's corporate governance practices are set out on pages 46 to 54 of this report.

auditors

The financial statements for the year ended June 30, 2006 have been audited by PricewaterhouseCoopers.

On behalf of the board
John POON Cho Ming
Deputy Chairman

Hong Kong, September 13, 2006

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

We have audited the accompanying consolidated balance sheet of Esprit Holdings Limited (the "Company") and its subsidiaries (together the "Group") as of June 30, 2006, and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended. These financial statements set out on pages 77 to 128 are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Company and of the Group as of June 30, 2006, and of the Group's profit 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.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, September 13, 2006

Consolidated income statement

For the year ended June 30, 2006

	Notes	2006 HK$'000	2005 HK$'000 As restated
Turnover	5	23,348,888	20,631,815
Cost of goods sold		(11,050,411)	(9,412,770)
Gross profit		12,298,477	11,219,045
Staff costs	12	(2,815,268)	(2,770,619)
Operating lease charge		(1,938,480)	(1,698,088)
Depreciation		(531,715)	(451,958)
Other operating costs		(2,248,003)	(2,223,329)
Operating profit	6	4,765,011	4,075,051
Interest income		37,544	21,576
Finance costs	7	(1,425)	(1,928)
Share of results of associates		84,378	72,920
Profit before taxation		4,885,508	4,167,619
Taxation	8	(1,148,154)	(956,516)
Profit attributable to shareholders	9	3,737,354	3,211,103
Dividends	10	2,816,677	2,338,743
Earnings per share	11		
– Basic		HK$3.09	HK$2.68
– Diluted		HK$3.04	HK$2.63

Consolidated balance sheet

As at June 30, 2006

	Notes	2006 HK$'000	2005 HK$'000
Non-current assets			
Intangible assets	14	**2,027,244**	2,009,028
Property, plant and equipment	15	**2,428,720**	2,052,993
Other investments		**7,846**	7,846
Investments in associates	16	**268,547**	181,781
Prepaid lease payments	17	**180,094**	184,419
Deferred tax assets	23	**315,248**	204,982
		5,227,699	4,641,049
Current assets			
Inventories	18	**2,101,276**	1,386,788
Debtors, deposits and prepayments	19	**2,702,040**	2,238,316
Amounts due from associates	16	**102,280**	39,033
Bank balances and cash	20	**1,393,947**	1,603,963
Short-term bank deposits	20	**1,324,647**	124,688
		7,624,190	5,392,788
Current liabilities			
Creditors and accrued charges	22	**2,622,555**	2,162,682
Unsecured short term bank loan	20	**250,000**	–
Taxation		**514,142**	501,714
		3,386,697	2,664,396
Net current assets		**4,237,493**	2,728,392
Total assets less current liabilities		**9,465,192**	7,369,441
Financed by:			
Share capital	21	**122,039**	119,943
Reserves		**8,985,220**	6,919,209
Shareholders' funds		**9,107,259**	7,039,152
Deferred tax liabilities	23	**357,933**	330,289
		9,465,192	7,369,441

Approved by the Board of Directors on September 13, 2006.

Michael Ying Lee Yuen
Chairman

John Poon Cho Ming
Deputy Chairman

	Notes	2006 HK$'000	2005 HK$'000
Cash flows from operating activities			
Cash generated from operations	24	4,651,959	4,068,571
Interest paid		(1,425)	(1,901)
Interest element of finance lease payments		–	(27)
Hong Kong profits tax paid		(4,940)	(5,039)
Overseas tax paid		(1,225,915)	(1,343,653)
Overseas tax refund received		8,524	–
Net cash inflow from operating activities		3,428,203	2,717,951
Cash flows from investing activities			
Purchase of property, plant and equipment		(837,505)	(1,064,689)
Proceeds from disposal of property, plant and equipment	24	8,172	10,512
Prepaid lease payments		–	(171,657)
Dividend received from an associate		–	46,123
Interest received		37,544	21,576
Net cash used in investing activities		(791,789)	(1,158,135)
Cash flows from financing activities			
Net proceeds on issue of shares for cash		484,061	108,175
Repayment of obligations under finance leases		–	(1,342)
Dividends paid		(2,421,161)	(1,712,641)
Net cash used in financing activities		(1,937,100)	(1,605,808)
Net increase/(decrease) in cash and cash equivalents		699,314	(45,992)
Cash and cash equivalents at beginning of year		1,728,651	1,757,708
Effect of change in exchange rates		40,629	16,935
Cash and cash equivalents at end of year	20	2,468,594	1,728,651

Consolidated statement of changes in equity

For the year ended June 30, 2006

	Share capital HK$'000	Share premium HK$'000	Employee share-based payment reserve HK$'000	Hedging reserve HK$'000	Contributed surplus HK$'000	Translation reserve HK$'000	Capital reserve HK$'000	Retained profits HK$'000	Total HK$'000
At July 1, 2004, as previously reported	119,340	1,309,157	–	–	6,602	305,727	–	3,674,131	5,414,957
Effect of adoption of IFRS 2	–	–	47,608	–	–	–	–	(47,608)	–
At July 1, 2004, as restated	119,340	1,309,157	47,608	–	6,602	305,727	–	3,626,523	5,414,957
Exchange translation recognized directly in equity	–	–	–	–	–	(108,916)	–	–	(108,916)
Profit attributable to shareholders, as restated	–	–	–	–	–	–	–	3,211,103	3,211,103
Total recognized (expense)/income	–	–	–	–	–	(108,916)	–	3,211,103	3,102,187
Transfer from retained profits	–	–	–	–	–	–	1,459	(1,459)	–
2003/04 final and special dividends paid	–	–	–	–	–	–	–	(1,173,111)	(1,173,111)
2004/05 interim dividend paid (Note 10)	–	–	–	–	–	–	–	(539,530)	(539,530)
Issues of shares (Note 21)	603	107,572	–	–	–	–	–	–	108,175
Employee share option benefits (Note 2(a))	–	–	126,474	–	–	–	–	–	126,474
At June 30, 2005, as restated	119,943	1,416,729	174,082	–	6,602	196,811	1,459	5,123,526	7,039,152
Representing:									
Proposed final and special dividends									1,799,213
Balance after proposed final and special dividends									5,239,939
At June 30, 2005									7,039,152

	Share capital HK$'000	Share premium HK$'000	Employee share-based payment reserve HK$'000	Hedging reserve HK$'000	Contributed surplus HK$'000	Translation reserve HK$'000	Capital reserve HK$'000	Retained profits HK$'000	Total HK$'000
At July 1, 2005, as restated	119,943	1,416,729	174,082	–	6,602	196,811	1,459	5,123,526	7,039,152
Exchange translation recognized directly in equity	–	–	–	–	–	176,505	–	–	176,505
Fair value losses on cash flow hedges	–	–	–	(40,919)	–	–	–	–	(40,919)
Profit attributable to shareholders	–	–	–	–	–	–	–	3,737,354	3,737,354
Total recognized income	–	–	–	(40,919)	–	176,505	–	3,737,354	3,872,940
2004/05 final and special dividends paid (Note 10)	–	–	–	–	–	–	–	(1,813,391)	(1,813,391)
2005/06 interim dividend paid (Note 10)	–	–	–	–	–	–	–	(607,770)	(607,770)
Issues of shares (Note 21)	2,096	481,965	–	–	–	–	–	–	484,061
Employee share option benefits (Note 2(a))	–	–	132,267	–	–	–	–	–	132,267
Transfer of reserve (Note 2(a))	–	76,232	(76,232)	–	–	–	–	–	–
At June 30, 2006	**122,039**	**1,974,926**	**230,117**	**(40,919)**	**6,602**	**373,316**	**1,459**	**6,439,719**	**9,107,259**
Representing:									
Proposed final and special dividends									2,208,907
Balance after proposed final and special dividends									6,898,352
At June 30, 2006									9,107,259

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 represent a non-distributable reserve set aside by a subsidiary according to relevant statutory requirements.

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 a secondary listing on the London Stock Exchange (ticker: EPT LI).

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 have been approved for issue by the Board of Directors on September 13, 2006.

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.

In the current financial year, the Group has adopted IFRS 2 "Share-based Payment", which is effective for the Group's annual accounting period commencing July 1, 2005. In prior years, no employee benefit cost or obligation was recognized when employees (which term includes directors) were granted share options by the Group over shares in the Company. When the share options were exercised, equity was increased by the amount of the proceeds received. IFRS 2 requires the Group to measure the fair value of the share options at the date of grant and recognize the amount as an expense over the relevant period of service (normally the vesting period of the options). The fair value of the options granted is estimated by applying an option pricing model, taking into account a number of factors, including the exercise price of the option, the life of the option, the market price of the underlying shares, the expected volatility of the share price and the risk-free interest rate for the life of the option. Following the adoption of IFRS 2, the Group recognizes the fair value of share options granted to employees as an expense in the consolidated income statement and a corresponding increase in an employee share-based payment reserve within equity. Pursuant to the transitional provisions of IFRS 2, expenses relating to share options granted after November 7, 2002 which were not vested on July 1, 2005 were charged retrospectively to the income statements of the respective financial years. If an employee chooses to exercise the options, the employee share-based payment reserve together with the exercise price paid by the employee are transferred to share capital and share premium. If the option lapses unexercised, the employee share-based payment reserve is transferred directly to retained profits.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

(a) Basis of preparation *continued*

The effect of the adoption of IFRS 2 on the consolidated income statement for the year is as follows:

	For the year ended June 30, 2006 HK$'000	2005 HK$'000
Decrease in profit and earnings per share		
Profit attributable to shareholders	**132,267**	126,474
Earnings per share		
– Basic and diluted (HK$ per share)	**0.11**	0.11

The effect of the adoption of IFRS 2 on equity as at June 30, 2006 and June 30, 2005 is as follows:

	2006 HK$'000	2005 HK$'000
Increase/(decrease) in equity		
Employee share-based payment reserve	**230,117**	174,082
Share premium	**76,232**	–
Retained profits	**(306,349)**	(174,082)

The Group did not early adopt the amendments to the following International Accounting Standards ("IAS")/IFRS and International Financial Reporting Interpretations Committee ("IFRIC") interpretations, which will be effective for annual accounting periods beginning on or after January 1, 2006. The adoption of such standards and interpretations will not result in substantial changes to the Group's accounting policies.

IAS 1 (Amendment)	Capital Disclosures
IAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
IAS 21 (Amendment)	Net investment in a Foreign Operation
IAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intra-group Transactions
IAS 39 (Amendment)	The Fair Value Option
IAS 39 and IFRS 4 (Amendment)	Financial Guarantee Contracts
IFRS 6	Exploration for and Evaluation of Mineral Resources
IFRS 7	Financial Instruments: Disclosures
IFRIC 4	Determining whether an Arrangement contains a Lease
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
IFRIC 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment
IFRIC 7	Applying the Restatement Approach under IAS 29
IFRIC 8	Scope of IFRS 2
IFRIC 9	Reassessment of Embedded Derivatives
IFRIC 10	Interim Financial Reporting and Impairment

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

(a) Basis of preparation *continued*

When preparing the consolidated financial statements, management has adopted certain accounting, valuation and consolidation methods to comply with IFRS. The preparation of these 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".

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

(b) Consolidation *continued*

(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.

(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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

(d) Foreign currency translation ***continued***

(iii) Group companies

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

(a) assets and liabilities for each 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.

(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 and 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%

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

(e) Property, plant and equipment *continued*

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at 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)).

(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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

(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.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

(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 transaction costs 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.

(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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

(n) Revenue recognition *continued*

(ii) Sales of goods – retail

Sales of goods are recognized on sale of a product to the customer. Retail sales are usually 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.

(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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

(o) Accounting for derivative financial instruments *continued*

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 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 exchange 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 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, 2006. 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, 2006 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 8% and a discount rate of 12.2%. 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 the wholesale and retail distribution, licensing of quality fashion and life-style products under its own internationally-known ESPRIT brand name, together with Red Earth cosmetics, skin and body care products.

	2006 HK$'000	2005 HK$'000
Turnover		
Sales of goods	**23,150,786**	20,435,410
Licensing and other income	**198,102**	196,405
	23,348,888	20,631,815

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. The Group has modified its current global internal management reporting to reflect its updated global brand development cost structure. Accordingly, the Group has revised the basis of business segment reporting. Global brand development costs are now 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. Prior year comparatives have been adjusted to conform with the current year presentation.

5 TURNOVER AND SEGMENT INFORMATION *continued*

Primary reporting format – business segments *continued*

	For the year ended June 30, 2006				
	Wholesale HK$'000	Retail HK$'000	Licensing & others HK$'000	Eliminations HK$'000	Group HK$'000
Turnover	13,450,098	9,700,688	198,102	–	23,348,888
Inter-segment sales	–	–	592,452	(592,452)	–
	13,450,098	9,700,688	790,554	(592,452)	23,348,888
Segment results	3,594,641	1,126,768	403,991	(178,470)	4,946,930
Unallocated net expenses					(181,919)
Interest income					37,544
Finance costs					(1,425)
Share of results of associates					84,378
Profit before taxation					4,885,508
Segment EBIT – ex-inter-segment licensing expense/income (note)	3,784,569	1,191,141	149,690	(178,470)	4,946,930
Segment assets	7,833,211	4,250,128	678,981	(3,719,560)	9,042,760
Investments in associates					370,827
Intangible assets					2,027,244
Other unallocated assets					1,411,058
Total assets					12,851,889
Segment liabilities	2,352,962	3,836,168	22,687	(3,719,560)	2,492,257
Other unallocated liabilities					1,252,373
Total liabilities					3,744,630
Capital expenditure	65,929	712,228	325	–	778,482
Depreciation	85,511	418,844	3,832	–	508,187
Provision for retail store exit costs	–	7,147	–	–	7,147

5 TURNOVER AND SEGMENT INFORMATION *continued*
Primary reporting format – business segments *continued*

	For the year ended June 30, 2005, as restated				
	Wholesale HK$'000	Retail HK$'000	Licensing & others HK$'000	Eliminations HK$'000	Group HK$'000
Turnover	11,888,810	8,546,600	196,405	–	20,631,815
Inter-segment sales	–	–	513,078	(513,078)	–
	11,888,810	8,546,600	709,483	(513,078)	20,631,815
Segment results	3,010,633	1,048,252	228,053	(105,749)	4,181,189
Unallocated net expenses					(106,138)
Interest income					21,576
Finance costs					(1,928)
Share of results of associates					72,920
Profit before taxation					4,167,619
Segment EBIT – ex-inter-segment licensing expense/income (note)	3,115,441	1,058,130	113,367	(105,749)	4,181,189
Segment assets	5,872,103	3,437,670	531,955	(2,961,642)	6,880,086
Investments in associates					220,814
Intangible assets					2,009,028
Other unallocated assets					923,909
Total assets					10,033,837
Segment liabilities	2,031,774	2,976,975	25,358	(2,961,642)	2,072,465
Other unallocated liabilities					922,220
Total liabilities					2,994,685
Capital expenditure	64,740	778,384	97	–	843,221
Depreciation	73,470	359,742	4,265	–	437,477
Provision for retail store exit costs	–	11,340	–	–	11,340

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$3,784,569,000 (2005 (as restated): HK$3,115,441,000) and HK$1,191,141,000 (2005 (as restated): HK$1,058,130,000) respectively, representing wholesale EBIT margin ("segment EBIT/segment turnover") of 28.1% (2005 (as restated): 26.2%) and retail EBIT margin of 12.3% (2005 (as restated): 12.4%).

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 2006 HK$'000	Capital expenditure 2006 HK$'000	Segment assets 2006 HK$'000
Europe	**19,859,878**	**514,018**	**8,997,968**
Asia	**2,207,183**	**61,751**	**2,156,104**
Australasia	**679,822**	**27,414**	**228,543**
North America and others	**602,005**	**175,299**	**1,379,705**
Eliminations	**–**	**–**	**(3,719,560)**
	23,348,888	**778,482**	**9,042,760**
Unallocated assets:			
Intangible assets			**2,027,244**
Investments in associates			**370,827**
Other assets			**1,411,058**
Total			**12,851,889**

	Turnover 2005 HK$'000	Capital expenditure 2005 HK$'000	Segment assets 2005 HK$'000
Europe	17,567,941	445,118	6,122,240
Asia	1,868,786	66,095	1,885,180
Australasia	746,700	48,666	267,832
North America and others	448,388	283,342	624,101
Eliminations	–	–	(2,019,267)
	20,631,815	843,221	6,880,086
Unallocated assets:			
Intangible assets			2,009,028
Investments in associates			220,814
Other assets			923,909
Total			10,033,837

6 OPERATING PROFIT

	2006 HK$'000	2005 HK$'000
Operating profit is arrived at after charging and (crediting) the following:		
Auditors' remuneration		
Current year	11,250	8,376
Underprovision in prior year	802	–
Depreciation	531,715	451,958
Impairment of property, plant and equipment	–	387
Loss on disposal of property, plant and equipment	11,796	5,468
Amortization of prepaid lease payments	4,366	4,238
Operating lease rental expenses – land and buildings (including variable rental of HK$98,378,000 (2005: HK$75,347,000))	1,938,480	1,698,088
Net exchange losses/(gains) on foreign exchange forward contracts	15,989	(4,366)
Other net exchange (gains)	(42,179)	(155,133)
Net (write back)/charge for provision for obsolete inventories	(91,995)	56,015
Provision for doubtful debts	28,090	31,852
Provision for retail store exit costs	7,147	11,340

The Group re-assessed its inventory provisioning estimates as at June 30, 2006 based on historical sales experience of recent years. As a result of this review, the inventory provisioning basis was updated and there was a pre-tax net credit to the income statement for the year ended June 30, 2006 of HK$ 91,995,000 as a result of movements in such provisions.

7 FINANCE COSTS

	2006 HK$'000	2005 HK$'000
Interest on bank loans and overdrafts wholly repayable within five years	1,425	1,901
Interest element of finance leases payments	–	27
	1,425	1,928

8 TAXATION

	2006 HK$'000	2005 HK$'000
Current tax		
Hong Kong profits tax	–	4,050
Overseas taxation	1,226,522	1,061,443
Overprovision in prior years	–	(4,000)
	1,226,522	1,061,493
Deferred tax credit (Note 23)		
Current year	(78,368)	(104,977)
Taxation	1,148,154	956,516

Hong Kong profits tax is calculated at 17.5% (2005: 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 23.5% (2005 (as restated): 23.0%).

	2006 HK$'000	2005 HK$'000 As restated
Profit before taxation	4,885,508	4,167,619
Tax calculated at applicable tax rate	1,115,401	917,959
Expenses not deductible for tax purpose	48,534	77,920
Non-taxable income	(9,103)	(9,792)
Utilization of carried forward tax losses	(27,108)	(58,472)
Tax effect of tax losses not recognized	21,089	37,212
Tax effect of share of results of associates	(19,407)	(16,042)
Under provision in prior years and others	18,748	7,731
Taxation	1,148,154	956,516

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$1,647,689,000 (2005 (as restated): HK$3,217,288,000).

10 DIVIDENDS

	2006 HK$'000	2005 HK$'000
Paid interim dividend of HK$0.50 (2005: HK$0.45) per share	607,770	539,530
Proposed – final dividend of HK$0.73 (2005: HK$0.66) per share	890,885	791,654*
– special dividend of HK$1.08 (2005: HK$0.84) per share	1,318,022	1,007,559*
	2,816,677	2,338,743

The amount of 2006 proposed final and special dividends is based on 1,220,390,434 shares (2005: 1,199,475,434 shares as at August 31, 2005) in issue as at September 13, 2006. The proposed final and special dividends for 2006 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, 2007.

* The actual final and special dividends paid for 2005 was HK$1,813,391,000 due to additional shares issued during the period from September 1, 2005 to December 2, 2005, 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.

	2006 HK$'000	2005 HK$'000 As restated
Profit attributable to shareholders	3,737,354	3,211,103
Weighted average number of ordinary shares in issue (thousands)	1,208,856	1,196,362
Basic earnings per share (HK dollars per share)	3.09	2.68

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.

	2006 HK$'000	2005 HK$'000 As restated
Profit attributable to shareholders	3,737,354	3,211,103
Weighted average number of ordinary shares in issue (thousands)	1,208,856	1,196,362
Adjustments for share options (thousands)	18,851	26,865
Weighted average number of ordinary shares for diluted earnings per share (thousands)	1,227,707	1,223,227
Diluted earnings per share (HK dollars per share)	3.04	2.63

12 STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	2006 HK$'000	2005 HK$'000 As restated
Salaries and wages	1,924,733	1,925,609
Social security costs and other staff costs	699,720	667,300
Pensions costs of defined contribution plans	58,548	51,236
Employee share option benefits	132,267	126,474
	2,815,268	2,770,619

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.

12 STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS) *continued*

Retirement contribution retirement schemes *continued*

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$354,000 (2005: HK$293,000) 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 HK$'000	Basic salaries, allowances and benefits-in-kind HK$'000	Bonuses HK$'000	Share option benefits HK$'000	Provident fund contributions/ retirement benefit costs HK$'000	**2006 Total emoluments HK$'000**	2005 Total emoluments As restated[4] HK$'000
Michael YING Lee Yuen	–	8,026	–	–	12	**8,038**	8,080
Heinz Jürgen KROGNER-KORNALIK	–	8,654	37,797	16,470	5	**62,926**	60,571
		(EUR915,859)	(EUR4,000,000)	(EUR1,742,960)	(EUR510)	**(EUR6,659,329)**	(EUR6,107,225)
John POON Cho Ming	–	5,038	7,750	9,882	12	**22,682**	21,869
Thomas Johannes GROTE	–	5,098	4,252	6,588	–	**15,938**	13,893
		(EUR539,466)	(EUR450,000)	(EUR697,220)	–	**(EUR1,686,686)**	(EUR1,400,829)
Jerome Squire GRIFFITH	–	5,186	4,252	6,588	–	**16,026**	13,911
		(EUR548,797)	(EUR450,000)	(EUR697,202)	–	**(EUR1,695,999)**	(EUR1,402,662)
Jürgen Alfred Rudolf FRIEDRICH[1,3]	250	–	–	–	–	**250**	200
Simon LAI Sau Cheong[1]	300	–	–	–	–	**300**	220
Alexander Reid HAMILTON[2,3]	300	–	–	–	–	**300**	240
Raymond OR Ching Fai[2,3]	300	–	–	–	–	**300**	220
Paul CHENG Ming Fun[2,3]	300	–	–	–	–	**300**	220
Total for the year 2006	**1,450**	**32,002**	**54,051**	**39,528**	**29**	**127,060**	**119,424**
Total for the year 2005, as restated	1,100	35,056	45,765	37,474	29		119,424

1 Non-executive directors

2 Independent non-executive directors

3 Members of the Audit Committee

4 Total emoluments for 2005 were restated to include share option benefits

13 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *continued*

The aggregate amounts of emoluments received and receivable by Directors of the Company during the year are as follows:

	2006 HK$'000	2005 HK$'000 As restated
Fees to non-executive Directors[1]	1,450	1,100
Salaries, housing and other allowances and benefits in kind	32,002	35,056
Bonuses to Executive Directors	54,051	45,765
Share option benefits	39,528	37,474
Pensions costs of defined contribution plans	29	29
	127,060	119,424

[1] The amount includes directors' fees of HK$900,000 (2005: HK$726,000) paid to Independent Non-executive Directors.

The emoluments including employee share-based payment for options issued under the Company's share option scheme of the Directors fell within the following bands:

Emoluments Band		Number of Directors 2006	Number of Directors 2005 As restated
Nil	– HK$ 1,000,000	5	5
HK$ 8,000,001	– HK$ 8,500,000	1	1
HK$ 13,500,001	– HK$ 14,000,000	–	2
HK$ 15,500,001	– HK$ 16,000,000	1	–
HK$ 16,000,001	– HK$ 16,500,000	1	–
HK$ 21,500,001	– HK$ 22,000,000	–	1
HK$ 22,500,001	– HK$ 23,000,000	1	–
HK$ 60,500,001	– HK$ 61,000,000	–	1
HK$ 62,500,001	– HK$ 63,000,000	1	–
		10	10

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 (2005 (as restated): four) Directors whose emoluments are reflected in the analysis presented above. The emoluments receivable by the remaining one (2005 (as restated): one) during the year are listed below:

	2006 HK$'000	2005 HK$'000 As restated
Salaries, housing and other allowances and benefits in kind	**6,036**	5,631
Bonuses	**1,940**	1,948
Share option benefits	**4,941**	4,684
	12,917	12,263

Emoluments Band	Number of Individuals	
	2006	2005 As restated
HK$ 12,000,001 – HK$ 12,500,000	**–**	1
HK$ 12,500,001 – HK$ 13,000,000	**1**	–

14 INTANGIBLE ASSETS

	Trademarks HK$'000	Goodwill HK$'000	Total HK$'000
Cost			
At July 1, 2004	1,979,131	41,285	2,020,416
Exchange translation	(10,163)	(1,225)	(11,388)
At July 1, 2005	1,968,968	40,060	2,009,028
Exchange translation	16,649	1,567	18,216
At June 30, 2006	**1,985,617**	**41,627**	**2,027,244**

The trademarks are considered to have an indefinite useful life and were tested for impairment at June 30, 2006, as described in Note 4(a).

15 PROPERTY, PLANT AND EQUIPMENT

	Freehold land outside Hong Kong HK$'000	Buildings HK$'000	Leasehold improvements and fixtures HK$'000	Plant and machinery HK$'000	Furniture and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost							
At July 1, 2005	24,107	198,364	2,337,370	12,414	1,259,575	35,864	3,867,694
Exchange translation	(249)	2,651	109,064	309	68,304	2,095	182,174
Additions	–	–	548,440	848	280,060	9,078	838,426
Disposals	(684)	(828)	(179,692)	(3,776)	(82,005)	(6,592)	(273,577)
At June 30, 2006	23,174	200,187	2,815,182	9,795	1,525,934	40,445	4,614,717
Depreciation							
At July 1, 2005	–	37,327	1,039,375	5,651	720,676	11,672	1,814,701
Exchange translation	–	1,436	43,947	193	46,661	953	93,190
Charge for the year	–	8,982	269,277	1,303	242,355	9,798	531,715
Disposals	–	(20)	(170,996)	(3,339)	(74,396)	(4,858)	(253,609)
At June 30, 2006	–	47,725	1,181,603	3,808	935,296	17,565	2,185,997
Net book value							
At June 30, 2006	**23,174**	**152,462**	**1,633,579**	**5,987**	**590,638**	**22,880**	**2,428,720**

15 PROPERTY, PLANT AND EQUIPMENT *continued*

	Freehold land outside Hong Kong HK$'000	Buildings HK$'000	Leasehold improvements and fixtures HK$'000	Plant and machinery HK$'000	Furniture and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost							
At July 1, 2004	22,954	97,895	1,985,630	6,512	924,444	23,261	3,060,696
Exchange translation	1,153	(2,381)	(4,391)	(378)	(16,406)	(963)	(23,366)
Additions	–	102,850	537,563	6,280	397,398	20,598	1,064,689
Disposals	–	–	(181,432)	–	(45,861)	(7,032)	(234,325)
At June 30, 2005	24,107	198,364	2,337,370	12,414	1,259,575	35,864	3,867,694
Depreciation							
At July 1, 2004	–	28,581	985,273	4,240	559,586	8,730	1,586,410
Exchange translation	–	(414)	5,986	70	(11,038)	(313)	(5,709)
Charge for the year	–	9,160	218,432	1,341	214,713	8,312	451,958
Impairment charge	–	–	361	–	26	–	387
Disposals	–	–	(170,677)	–	(42,611)	(5,057)	(218,345)
At June 30, 2005	–	37,327	1,039,375	5,651	720,676	11,672	1,814,701
Net book value							
At June 30, 2005	24,107	161,037	1,297,995	6,763	538,899	24,192	2,052,993

16 INVESTMENTS IN ASSOCIATES

	2006 HK$'000	2005 HK$'000
Share of net assets	**268,547**	181,781

The following is a list of the principal associates, all of which are unlisted as at June 30, 2006:

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

The amounts due from associates are unsecured, interest free and have no fixed terms of repayment.

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

	2006 HK$'000	2005 HK$'000
Assets	**727,573**	519,368
Liabilities	**(179,518)**	(148,386)
Net assets	**548,055**	370,982
Revenue	**1,188,496**	892,583
Net Profit	**172,201**	148,817

17 PREPAID LEASE PAYMENTS

	2006 HK$'000	2005 HK$'000
Net book value at July 1	188,861	21,442
Additions	–	171,657
	188,861	193,099
Amortization	(4,366)	(4,238)
Net book value at June 30	184,495	188,861
Current portion of non-current assets	(4,401)	(4,442)
Non-current portion	180,094	184,419

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

	2006 HK$'000	2005 HK$'000
Finished goods	2,013,995	1,316,538
Consumables	82,689	64,795
Raw materials	4,592	5,455
	2,101,276	1,386,788

19 DEBTORS, DEPOSITS AND PREPAYMENTS

	2006 HK$'000	2005 HK$'000
Trade debtors	2,137,273	1,603,836
Less: provision for impairment of trade debtors	(80,906)	(75,058)
	2,056,367	1,528,778
Deposits	401,046	300,808
Prepayments	32,906	93,579
Other debtors and receivables	211,721	315,151
	2,702,040	2,238,316

19 DEBTORS, DEPOSITS AND PREPAYMENTS *continued*

The Group's retail sales to customers are mainly on a cash basis. 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:

	2006 HK$'000	2005 HK$'000
0-30 days	**1,866,727**	1,341,249
31-60 days	**53,356**	69,204
61-90 days	**41,159**	61,304
Over 90 days	**95,125**	57,021
	2,056,367	1,528,778

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:

	2006 HK$'000	2005 HK$'000
Bank balances and cash	**1,393,947**	1,603,963
Short-term bank deposits	**1,324,647**	124,688
	2,718,594	1,728,651
Short-term bank loan	**(250,000)**	–
	2,468,594	1,728,651

For financial reporting purposes, the effective interest rate on cash and cash equivalents for 2006 was determined to be 1.3% (2005: 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% (2005: nil).

21 SHARE CAPITAL

	2006 HK$'000	2005 HK$'000
Authorized:		
2,000,000,000 shares of HK$0.10 each	**200,000**	200,000

	Number of shares of HK$0.10 each '000	Nominal value HK$'000
Issued and fully paid:		
Balance at July 1, 2004	1,193,398	119,340
Exercise of share options	6,027	603
Balance at June 30, 2005	1,199,425	119,943
Balance at July 1, 2005	1,199,425	119,943
Exercise of share options (note (a))	20,965	2,096
Balance at June 30, 2006	**1,220,390**	**122,039**

(a) During the year, 20,965,000 (2005:6,027,000) 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$45.60 each (representing a premium in the range of HK$ 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").

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.

21 SHARE CAPITAL *continued*

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 an 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, 2006

The total number of shares available for issue under the Scheme is 113,711,371 shares, representing 9.3% of the issued share capital of the Company at June 30, 2006.

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.

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.

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.

21 SHARE CAPITAL *continued*

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, 2006 under the Scheme were as follows:

	Number of share options	
	2006	2005
Opening balance	**70,516,000**	49,764,000
Granted during the year (Note (i))	**9,450,000**	28,985,000
Exercised during the year (Note (ii))	**(20,965,000)**	(6,027,000)
Lapsed during the year	**(4,586,000)**	(2,206,000)
Closing balance (Note (iii))	**54,415,000**	70,516,000

21 SHARE CAPITAL *continued*

(i) 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*

Details of share options granted during the year ended June 30, 2005 were as follows:

Exercise period			Exercise price HK$	Number of options
November 27, 2005	–	November 26, 2010	42.58	5,627,000
November 27, 2006	–	November 26, 2010	42.58	5,627,000
November 27, 2007	–	November 26, 2010	42.58	5,627,000
November 27, 2008	–	November 26, 2010	42.58	5,627,000
November 27, 2009	–	November 26, 2010	42.58	5,627,000
December 23, 2005	–	December 22, 2010	47.10	90,000
December 23, 2006	–	December 22, 2010	47.10	90,000
December 23, 2007	–	December 22, 2010	47.10	90,000
December 23, 2008	–	December 22, 2010	47.10	90,000
December 23, 2009	–	December 22, 2010	47.10	90,000
January 21, 2006	–	January 20, 2011	45.60	80,000
January 21, 2007	–	January 20, 2011	45.60	80,000
January 21, 2008	–	January 20, 2011	45.60	80,000
January 21, 2009	–	January 20, 2011	45.60	80,000
January 21, 2010	–	January 20, 2011	45.60	80,000
				28,985,000

21 SHARE CAPITAL *continued*

(ii) Details of share options exercised during the year ended June 30, 2006 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$
July 4, 2005	24.20	50,000	5	1,205	56.05
September 21, 2005	24.20	40,000	4	964	58.80
October 13, 2005	24.20	145,000	15	3,495	54.50
October 13, 2005	14.60	240,000	24	3,480	54.50
November 28, 2005	42.58	1,972,000	197	83,771	54.45
November 28, 2005	24.20	2,591,000	259	62,443	54.45
November 28, 2005	14.60	4,464,000	446	64,728	54.45
December 12, 2005	42.58	80,000	8	3,398	54.05
December 19, 2005	42.58	180,000	18	7,646	56.60
December 19, 2005	24.20	390,000	39	9,399	56.60
December 19, 2005	14.60	520,000	52	7,540	56.60
January 6, 2006	42.58	30,000	3	1,274	59.30
January 6, 2006	14.60	400,000	40	5,800	59.30
January 11, 2006	42.58	120,000	12	5,098	63.45
January 11, 2006	24.20	240,000	24	5,784	63.45
January 17, 2006	42.58	503,000	50	21,367	61.80
January 17, 2006	24.20	1,296,000	130	31,234	61.80
January 17, 2006	14.60	1,592,000	159	23,084	61.80
February 23, 2006	42.58	180,000	18	7,646	58.80
February 23, 2006	24.20	180,000	18	4,338	58.80
February 23, 2006	14.60	240,000	24	3,480	58.80
March 2, 2006	14.60	190,000	19	2,755	58.65
March 20, 2006	14.60	220,000	22	3,190	63.15
March 28, 2006	42.58	72,000	7	3,059	60.85
March 28, 2006	14.60	180,000	18	2,610	60.85
April 7, 2006	42.58	240,000	24	10,195	63.70
April 7, 2006	24.20	480,000	48	11,568	63.70
April 7, 2006	14.60	960,000	96	13,920	63.70
April 10, 2006	45.60	80,000	8	3,640	63.50
April 10, 2006	24.20	240,000	24	5,784	63.50
April 10, 2006	14.60	440,000	44	6,380	63.50
April 28, 2006	42.58	60,000	6	2,549	61.90
April 28, 2006	24.45	120,000	12	2,922	61.90
April 28, 2006	24.20	120,000	12	2,892	61.90
April 28, 2006	14.60	240,000	24	3,480	61.90
May 17, 2006	42.58	120,000	12	5,098	66.95
May 22, 2006	42.58	400,000	40	16,992	63.60
May 22, 2006	24.20	530,000	53	12,773	63.60
May 22, 2006	14.60	320,000	32	4,640	63.60
May 24, 2006	42.58	60,000	6	2,549	62.65
June 16, 2006	42.58	30,000	3	1,274	59.35
June 16, 2006	24.20	60,000	6	1,446	59.35
June 16, 2006	14.60	120,000	12	1,740	59.35
June 30, 2006	14.60	230,000	23	3,335	63.40
		20,965,000	2,096	481,965	

* "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, 2006	2005
Directors			
November 26, 2008*	14.60	–	2,660,000
November 26, 2008**	14.60	3,840,000	5,760,000
November 26, 2009*	24.20	–	1,080,000
November 26, 2009**	24.20	4,320,000	5,760,000
November 27, 2010**	42.58	5,760,000	7,200,000
Employees & Consultants			
November 26, 2008*	14.60	120,000	2,680,000
November 26, 2008**	14.60	5,760,000	9,648,000
November 26, 2009*	24.20	525,000	1,495,000
November 26, 2009**	24.20	7,860,000	11,968,000
December 23, 2009**	24.45	360,000	480,000
November 27, 2010*	42.58	1,370,000	–
November 27, 2010**	42.58	14,580,000	20,935,000
December 23, 2010*	47.10	90,000	–
December 23, 2010**	47.10	360,000	450,000
January 21, 2011**	45.60	320,000	400,000
November 28, 2011**	55.11	5,400,000	–
December 2, 2011**	56.20	2,600,000	–
December 23, 2011**	56.50	450,000	–
February 23, 2012**	64.31	700,000	–
		54,415,000	70,516,000

* 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[1] HK$	Share price at the date of grant HK$	Exercisable price HK$	Expected volatility[2]	Annual risk-free interest rate[3]	Life of option[4]	Dividend yield[5]
November 26, 2002	3.22 – 5.38	14.60	14.60	47%	2.14% – 3.73%	2 – 6 years	1.87%
November 26, 2003	4.42 – 7.70	24.20	24.20	38%	1.53% – 3.54%	2 – 6 years	1.85%
December 23, 2003	4.39 – 7.71	24.45	24.45	38%	1.18% – 3.42%	2 – 6 years	1.85%
November 27, 2004	7.64 – 13.17	42.20	42.58	39%	1.35% – 2.90%	2 – 6 years	1.77%
December 23, 2004	8.46 – 14.64	47.10	47.10	38%	1.00% – 2.88%	2 – 6 years	1.77%
January 21, 2005	8.15 – 14.00	45.60	45.60	37%	1.55% – 3.03%	2 – 6 years	1.77%
November 28, 2005	8.44 – 14.59	54.45	55.11	29%	4.10% – 4.28%	2 – 6 years	1.89%
December 2, 2005	9.01 – 15.37	56.20	56.20	29%	4.16% – 4.37%	2 – 6 years	1.89%
December 23, 2005	7.67 – 14.67	56.50	56.50	24-28%	4.03% – 4.20%	2 – 6 years	1.89%
February 23, 2006	7.67 – 16.78	58.80	64.31	31%	4.07% – 4.20%	2 – 6 years	1.89%

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 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 stocks 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.

3 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.

4 The expected option life was determined by reference to historical data of option holders behavior.

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

22 CREDITORS AND ACCRUED CHARGES

	2006 HK$'000	2005 HK$'000
Trade creditors	**1,056,811**	918,184
Accruals	**1,065,595**	867,559
Other creditors and payables	**500,149**	376,939
	2,622,555	2,162,682

22 CREDITORS AND ACCRUED CHARGES *continued*

The ageing analysis of trade creditors is as follows:

	2006 HK$'000	2005 HK$'000
0-30 days	**966,549**	863,871
31-60 days	**40,007**	25,265
61-90 days	**11,830**	18,107
Over 90 days	**38,425**	10,941
	1,056,811	918,184

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$'000	Elimination of unrealized profits HK$'000	Trade-marks HK$'000	Tax losses HK$'000	Other deferred tax assets HK$'000	Other deferred tax liabilities HK$'000	Total HK$'000
At July 1, 2004	31,515	44,042	(320,309)	6,885	21,898	(11,891)	(227,860)
(Charged)/credited to income statement	(3,063)	91,571	3,170	21,908	(4,709)	(3,900)	104,977
Exchange difference recognized in equity	258	(6,435)	2,343	63	1,049	298	(2,424)
At June 30, 2005	28,710	129,178	(314,796)	28,856	18,238	(15,493)	(125,307)
(Charged)/credited to income statement	(5,288)	96,944	8,772	3,673	1,708	(27,441)	78,368
Exchange difference recognized in equity	785	12,201	(6,854)	83	160	(2,121)	4,254
At June 30, 2006	**24,207**	**238,323**	**(312,878)**	**32,612**	**20,106**	**(45,055)**	**(42,685)**

23 DEFERRED TAXATION *continued*

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:

	2006 HK$'000	2005 HK$'000
Deferred tax assets	315,248	204,982
Deferred tax liabilities	357,933	330,289

At June 30, 2006, the Group had unused tax losses of approximately HK$1,238,339,000 (2005: HK$1,337,190,000) available for offset against future taxable profits. A deferred tax asset has been recognized in respect of approximately HK$178,275,000 (2005: HK$149,657,000) of such losses. No deferred tax asset has been recognized in respect of the remaining losses of approximately HK$1,060,064,000 (2005: HK$1,187,533,000). Included in unrecognized tax losses are losses of approximately HK$470,501,000 (2005: HK$521,318,000) 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

	2006 HK$'000	2005 HK$'000 As restated
Profit before taxation	4,885,508	4,167,619
Adjustments for:		
Interest income	(37,544)	(21,576)
Interest expense	1,425	1,901
Interest element of finance leases payments	–	27
Amortization of prepaid lease payments	4,366	4,238
Depreciation	531,715	451,958
Impairment of property, plant and equipment	–	387
Loss on disposal of property, plant and equipment	11,796	5,468
Provision for retail store exit costs	7,147	11,340
Share of results of associates	(84,378)	(72,920)
Employee share option expense	132,267	126,474
Operating profit before changes in working capital	5,452,302	4,674,916
Increase in inventories	(714,488)	(249,604)
Increase in debtors, deposits and prepayments	(464,135)	(531,964)
Increase in amounts due from associates	(63,247)	(20,487)
Increase in creditors and accrued charges	412,062	273,714
Effect of foreign exchange rate changes	29,465	(78,004)
Cash generated from operations	4,651,959	4,068,571

24 NOTES TO CONSOLIDATED CASH FLOW STATEMENT *continued*

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

	2006 HK$'000	2005 HK$'000
Net book amount	19,968	15,980
Loss on disposal of property, plant and equipment	(11,796)	(5,468)
Proceeds from disposal of property, plant and equipment	8,172	10,512

25 OPERATING LEASE COMMITMENTS

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

	2006 HK$'000	2005 HK$'000 As restated
Land and buildings		
– within one year	1,579,103	1,360,813
– in the second to fifth year inclusive	5,354,142	4,987,767
– after the fifth year	6,593,961	5,032,259
	13,527,206	11,380,839
Other equipment		
– within one year	15,781	18,466
– in the second to fifth year inclusive	13,816	14,153
– after the fifth year	167	178
	29,764	32,797
	13,556,970	11,413,636

The operating lease commitments as of June 30, 2005 presented in the annual report for the year ended June 30, 2005 were overstated primarily due to duplication of certain operating lease commitments. The comparative figures presented above have been restated.

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, 2006 is HK$109,076,000 (2005: HK$113,233,000).

26 CAPITAL COMMITMENTS

	2006 HK$'000	2005 HK$'000
Contracted but not provided for	**76,969**	89,822
Authorized but not contracted for	**373,771**	468,010
	450,740	557,832

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 forward foreign exchange contracts to which the Group has committed are as below:

	2006 HK$'000	2005 HK$'000
Forward foreign exchange contracts – cash flow hedges	**1,331,700**	700,079

At June 30, 2006, the fair value of the foreign currency forward contracts is estimated to be approximately HK$51,063,000 (2005: HK$34,251,000). These amounts are based on market values of equivalent instruments at the balance sheet date and are included in other creditors and payables (2005: other debtors and receivables (Note 19 and 22)).

Losses in equity on forward foreign exchange contracts as of June 30, 2006 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 statements.

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:

	2006 HK$'000	2005 HK$'000
Transactions with associates		
Sales of finished goods	**478,248**	355,070
Royalty received	**21,427**	18,204
Commission received	**2,012**	4,130

29 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	2006 HK$'000	2005 HK$'000 As restated
Investments in subsidiaries, at cost		**216,677**	216,677
Loans to subsidiaries	(i)	**1,628,186**	1,629,002
Amounts due from subsidiaries	(i)	**6,264,946**	6,245,808
Current assets		**5,694**	25,882
Current liabilities		**(12,091)**	(14,129)
Amounts due to subsidiaries	(i)	**(3,538,215)**	(3,380,899)
Net assets		**4,565,197**	4,722,341
Share capital	21	**122,039**	119,943
Share premium	(ii)	**1,974,926**	1,416,729
Contributed surplus	(ii)	**473,968**	473,968
Employee share-based payment reserve	(ii)	**230,117**	174,082
Retained profits	(ii)	**1,764,147**	2,537,619
Shareholders' funds		**4,565,197**	4,722,341

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

29 SUMMARIZED BALANCE SHEET OF THE COMPANY *continued*

ii. Movements of reserves are as follows:

	Share premium HK$'000	Contributed surplus HK$'000	Employee share-based payment reserve HK$'000	Retained profits HK$'000	Total HK$'000
At July 1, 2004, as previously reported	1,309,157	473,968	–	1,080,580	2,863,705
Effect of adoption of IFRS 2	–	–	47,608	(47,608)	–
At July 1, 2004, as restated	1,309,157	473,968	47,608	1,032,972	2,863,705
Profit attributable to shareholders, as restated	–	–	–	3,217,288	3,217,288
2003/04 final and special dividends paid	–	–	–	(1,173,111)	(1,173,111)
2004/05 interim dividend paid	–	–	–	(539,530)	(539,530)
Issues of shares (Note 21)	107,572	–	–	–	107,572
Employee share option benefits (Note 2(a))	–	–	126,474	–	126,474
Balance at June 30, 2005	1,416,729	473,968	174,082	2,537,619	4,602,398
Representing:					
Proposed final and special dividends					1,799,213
Balance after proposed final and special dividends					2,803,185
Balance at June 30, 2005					4,602,398
At July 1, 2005, as restated	1,416,729	473,968	174,082	2,537,619	4,602,398
Profit attributable to shareholders	–	–	–	1,647,689	1,647,689
2004/05 final and special dividends paid (Note 10)	–	–	–	(1,813,391)	(1,813,391)
2005/06 interim dividend paid (Note 10)	–	–	–	(607,770)	(607,770)
Issues of shares (Note 21)	481,965	–	–	–	481,965
Employee share option benefits (Note 2(a))	–	–	132,267	–	132,267
Transfer of reserve (Note 2(a))	76,232	–	(76,232)	–	–
Balance at June 30, 2006	**1,974,926**	**473,968**	**230,117**	**1,764,147**	**4,443,158**
Representing:					
Proposed final and special dividends					2,208,907
Balance after proposed final and special dividends					2,234,251
Balance at June 30, 2006					4,443,158

29 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, 2006 amounted to HK$2,468,232,000 (2005: HK$3,185,669,000).

iii. The Company did not have any operating lease commitment at June 30, 2006 (2005: Nil).

iv. The Company did not have any significant capital commitment at June 30, 2006 (2005: Nil).

30 PRINCIPAL SUBSIDIARIES

The following are the principal subsidiaries as at June 30, 2006 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 China Distribution Limited	British Virgin Islands/ Hong Kong	100%	USD100	Investment holding

30 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 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 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

30 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 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, quality control, style and product development of merchandise
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 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.A.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

30 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 Property Limited	Hong Kong	100%	HKD2	Investment holding
Esprit Regional Services Limited	British Virgin Islands/ Hong Kong	100%	USD1	Provision of services
Esprit Retail B.V. & Co. KG (limited partnership)	Germany	100%	EUR5,000,000	Retail 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 Pte Ltd	Singapore	100%	SGD3,000,000	Retail distribution of apparel and accessories
Esprit (Retail) Pty Ltd.	Australia	100%	AUD200,000	Wholesale and 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 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

30 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 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
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

30 PRINCIPAL SUBSIDIARIES *continued*

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 share of CAD1.00 each.

(d) Wholly owned foreign enterprise.

Consolidated balance sheet items

	As at June 30, 2006 HK$'000	As at June 30, 2005 HK$'000	As at June 30, 2004 HK$'000	As at June 30, 2003 HK$'000	As at June 30, 2002 HK$'000
Intangible assets	**2,027,244**	2,009,028	2,020,416	1,960,034	1,921,485
Property, plant and equipment	**2,428,720**	2,052,993	1,474,286	1,055,564	966,257
Other investments	**7,846**	7,846	7,846	7,846	7,686
Interests in associates	**268,547**	181,781	154,984	121,574	100,611
Prepaid lease payments	**180,094**	184,419	20,943	21,442	21,941
Deferred tax assets	**315,248**	204,982	104,340	93,416	35,409
Net current assets	**4,237,493**	2,728,392	1,964,342	2,027,170	1,060,191
	9,465,192	7,369,441	5,747,157	5,287,046	4,113,580
Financed by:					
Share capital	**122,039**	119,943	119,340	118,869	117,694
Reserves	**8,985,220**	6,919,209	5,295,617	4,073,117	2,914,722
Shareholders' funds	**9,107,259**	7,039,152	5,414,957	4,191,986	3,032,416
Obligation under finance leases	**–**	–	–	336	450
Long-term bank loan	**–**	–	–	776,411	780,000
Deferred tax liabilities	**357,933**	330,289	332,200	318,313	300,714
	9,465,192	7,369,441	5,747,157	5,287,046	4,113,580

5-year financial summary

Consolidated income statement items

	Year ended June 30, 2006 HK$'000	Year ended June 30, 2005 HK$'000 As restated	Year ended June 30, 2004 HK$'000 As restated	Year ended June 30, 2003 HK$'000 As restated	Year ended June 30, 2002 HK$'000
Turnover	**23,348,888**	20,631,815	16,356,503	12,381,458	9,219,114
Operating profit (EBIT)	**4,765,011**	4,075,051	2,837,125	1,811,159	1,372,786
Interest income	**37,544**	21,576	39,556	41,584	22,635
Finance costs	**(1,425)**	(1,928)	(21,786)	(32,463)	(13,923)
Share of results of associates	**84,378**	72,920	62,810	45,463	33,090
Profit before taxation	**4,885,508**	4,167,619	2,917,705	1,865,743	1,414,588
Taxation	**(1,148,154)**	(956,516)	(948,661)	(590,126)	(363,316)
Profit after taxation	**3,737,354**	3,211,103	1,969,044	1,275,617	1,051,272
Profit attributable to shareholders	**3,737,354**	3,211,103	1,969,044	1,275,617	992,746
Profit attributable to minority interests	**–**	–	–	–	58,526

Note: The Group adopted IFRS retrospectively with effect from July 1, 2002. The financial information in respect of FY2002/2003, FY2003/2004, FY2004/2005 and FY2005/2006 is prepared in accordance with IFRS. For the purpose of presenting the financial information in respect of FY2001/2002, certain estimates have been made to adjust the financial information to IFRS, mainly representing the reversal of amortization of trademarks. Certain comparative figures disclosed in the financial summary for prior years have been restated to reflect the adoption of IFRS 2 in the current year as described in Note 2(a) to the financial statements.