Esprit Reports Record Results
&
Proposes Record Dividend Payout = 75% of EPS

- **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**

ESPRIT HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)
(Stock Code: 330)

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED JUNE 30, 2006

FINAL RESULTS

The board of directors (the "Board") of Esprit Holdings Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group" or "Esprit") for the year ended June 30, 2006 together with comparative figures for the year ended June 30, 2005. The following financial information, including the comparative figures, has been prepared in accordance with International Financial Reporting Standards ("IFRS").

Consolidated Income Statement
For the year ended June 30, 2006

	Notes	**2006 HK$'000**	2005 HK$'000 As restated
Turnover	2	**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		**(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	3	**4,765,011**	4,075,051
Interest income		**37,544**	21,576
Finance costs		**(1,425)**	(1,928)
Share of results of associates		**84,378**	72,920
Profit before taxation		**4,885,508**	4,167,619
Taxation	4	**(1,148,154)**	(956,516)
Profit attributable to shareholders		**3,737,354**	3,211,103
Dividends	5	**2,816,677**	2,338,743

Earnings per share			
– Basic	*6*	**HK$3.09**	HK$2.68
– Diluted	*6*	**HK$3.04**	HK$2.63
Dividend per share		**HK$2.31**	HK$1.95

Consolidated Balance Sheet

As at June 30, 2006

		2006	2005
		HK$'000	*HK$'000*
Non-current assets			
Intangible assets		**2,027,244**	2,009,028
Property, plant and equipment		**2,428,720**	2,052,993
Other investments		**7,846**	7,846
Investments in associates		**268,547**	181,781
Prepaid lease payments		**180,094**	184,419
Deferred tax assets		**315,248**	204,982
		5,227,699	4,641,049
Current assets			
Inventories		**2,101,276**	1,386,788
Debtors, deposits and prepayments	*7*	**2,702,040**	2,238,316
Amounts due from associates		**102,280**	39,033
Bank balances and cash		**1,393,947**	1,603,963
Short-term bank deposits		**1,324,647**	124,688
		7,624,190	5,392,788
Current liabilities			
Creditors and accrued charges	*8*	**2,622,555**	2,162,682
Unsecured short term bank loan		**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		**122,039**	119,943
Reserves		**8,985,220**	6,919,209
Shareholders' funds		**9,107,259**	7,039,152
Deferred tax liabilities		**357,933**	330,289
		9,465,192	7,369,441

Notes to the Financial Statements

1. 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 consolidated 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.

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

2. 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	2005
	HK$'000	*HK$'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.

	For the year ended June 30, 2006				
	Wholesale	**Retail**	**Licensing and others**	**Eliminations**	**Group**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***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

	For the year ended June 30, 2005, as restated				
	Wholesale	Retail	Licensing and others	Eliminations	Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*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

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%).

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	2005
	HK$'000	*HK$'000*
Europe	**19,859,878**	17,567,941
Asia	**2,207,183**	1,868,786
Australasia	**679,822**	746,700
North America and others	**602,005**	448,388
	23,348,888	20,631,815

3. Operating Profit

	2006	2005
	HK$'000	*HK$'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.

4. 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		
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.

5. 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 register of members.*

6. Earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of HK$3,737,354,000 (2005 (as restated): HK$3,211,103,000) and the weighted average number of shares in issue during the year of 1,208,856,000 (2005: 1,196,362,000).

The calculation of diluted earnings per share is based on the profit attributable to shareholders of HK$3,737,354,000 (2005 (as restated): HK$3,211,103,000), and the weighted average number of shares in issue during the year of 1,227,707,000 (2005 (as restated): 1,223,227,000) after adjusting for the number of dilutive potential ordinary shares arising from the outstanding share options granted under the Company's share option scheme.

7. **Debtors, deposits and prepayments**

Debtors, deposits and prepayments included trade debtors. The ageing analysis of trade debtors is as follows:

	2006	2005
	HK$'000	*HK$'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 Group's retail sales to customers are mainly on cash basis. The Group also grants credit period, which is usually 30 days to certain wholesale and franchise customers.

8. **Creditors and accrued charges**

Creditors and accrued charges included trade creditors. The ageing analysis of trade creditors is as follows:

	2006	2005
	HK$'000	*HK$'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

PROPOSED FINAL AND SPECIAL DIVIDENDS

The Board has proposed final dividend of HK$0.73 per share (2005: HK$0.66) and a special dividend of HK$1.08 per share (2005: HK$0.84), payable on or about Friday, December 8, 2006 to the shareholders whose names appear on the register of members of the Company at the close of business on Friday, December 1, 2006 ("Shareholders"). The payment of dividends shall be subject to the approval of the Shareholders at the annual general meeting of the Company to be held on Tuesday, December 5, 2006. The relevant dividend warrants will be dispatched to the Shareholders on or about Thursday, December 7, 2006.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed on Monday, December 4, 2006 and Tuesday, December 5, 2006, during these two days no transfer of shares will be effected. In order to qualify for the final and special dividends mentioned above, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Secretaries Limited, at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Friday, December 1, 2006. In compliance with the London Stock Exchange Dividend Procedure Timetable 2006, the record date for London will be on Friday, December 1, 2006.

MANAGEMENT DISCUSSION AND ANALYSIS

FY2005/2006 was another record year for Esprit in which the Group continued to deliver double-digit percentage turnover and earnings growth. Overall, the Group achieved a total turnover of HK$23,348.9 million for the year, an increase of 18.2% in local currency term and an increase of 13.2% when translated into Hong Kong dollar term (all year-on-year growth rate percentages in this announcement were calculated based on restated FY2004/2005 figures unless otherwise stated). With the operating and net profit margins expanded by 0.6% point and 0.4% point to 20.4% and 16.0% respectively, Group net profit grew 16.4% to HK$3,737.4 million.

Regions

Breakdown of Turnover by Regions

	Europe		Asia	Australasia	North America and others
	Germany	Rest of Europe			
FY2005/2006 turnover (HK$mn)	11,142.6	8,717.3	2,207.2	679.8	602.0
% of Group's turnover	47.7%	37.3%	9.5%	2.9%	2.6%
% growth from last year	11.8%	14.6%	18.1%	(9.0%)	34.3%

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.

High Growth Markets

	France	Switzerland	UK	Italy	Spain	Canada	US
FY2005/2006 turnover (HK$mn)	1,783.8	731.1	385.7	244.7	120.5	387.4	209.5
% of Group's turnover	7.6%	3.1%	1.7%	1.0%	0.5%	1.7%	0.9%
% growth from last year	27.3%	20.5%	31.9%	60.4%	288.7%	25.9%	52.9%

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.

Products

Breakdown of Turnover by Product Mix

	Women's wear	Men's wear	Shoes and Accessories	Kids and edc youth	Others
FY2005/2006 turnover (HK$mn)	14,613.2	3,323.0	2,345.1	1,575.2	1,492.4
% of Group's turnover	62.6%	14.2%	10.0%	6.7%	6.5%
% growth from last year	12.5%	17.4%	15.8%	13.0%	7.6%

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.

Channels of Distribution

Breakdown of Point-Of-Sales by Distribution Channels

	Retail-directly managed store		Wholesale-controlled selling space	
		year-on-year change		year-on-year change
total point of sales	668	37	11,459	1,708
total sq. m.	over 224,000	over 30,600	over 540,000	over 96,700

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

Breakdown of Wholesale Turnover

	Germany	Benelux	France	Scandinavia	Rest of the World	Total
FY2005/2006 turnover (HK$ mn)	6,295.7	2,392.1	1,476.3	930.2	2,355.8	13,450.1
% of Group's turnover	27.0%	10.2%	6.3%	4.0%	10.1%	57.6%
% growth from last year	10.6%	4.6%	23.7%	8.2%	26.9%	13.1%

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.

Breakdown of Controlled-Space Wholesale Point-Of-Sales by Markets

Total point of sales	Germany	Benelux	France	Rest of Europe	Asia & others	Total
FY2005/2006	6,477	1,097	766	1,853	1,266	11,459
change from last year	1,020	47	185	328	128	1,708

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.

Retail

Breakdown of Retail Turnover

	Germany	Benelux	Hong Kong	Australasia	Rest of the World	Total
FY2005/2006 turnover (HK$mn)	4,820.4	1,106.7	649.7	626.5	2,497.4	9,700.7
% of Group's turnover	20.6%	4.7%	2.8%	2.7%	10.7%	41.5%
% growth from last year	13.4%	3.1%	9.4%	(7.7%)	28.2%	13.5%

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.

Breakdown of Retail Directly-Managed Stores by Markets

Total point of sales	Germany	Benelux	France	Rest of Europe	Asia	Australasia	North America	Total
FY2005/2006	114	57	24	48	210	155	60	668
change from last year	9	10	7	6	1	(5)	9	37

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.

Licensing

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.

Sourcing

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 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.

PROSPECTS

"The world is our culture". 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 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.

FINANCIAL REVIEW

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%. 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.

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.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries have purchased, sold or redeemed any of the Company's shares during the financial year.

AUDIT COMMITTEE

In compliance with the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (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. The audit committee has reviewed the accounting principles and practices adopted by the Group and has also discussed auditing, internal controls and financial reporting matters including the review of the audited consolidated financial statements for the year ended June 30, 2006 of the Group.

CORPORATE GOVERNANCE

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 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.

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

GENERAL INFORMATION

The consolidated financial statements of the Group for the year ended June 30, 2006 have been reviewed by the audit committee of the Company and audited by the Company's auditors, PricewaterhouseCoopers. The unqualified auditors' report will be included in the Annual Report to shareholders.

BOARD OF DIRECTORS

As at the date of this announcement, the Directors of the Company are:

Executive Directors:	Michael YING Lee Yuen *(Chairman)* 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

By Order of the Board
John POON Cho Ming
Deputy Chairman

Hong Kong, September 13, 2006

The 2005/2006 Annual Report containing financial statements and notes to the financial statements will be published on the Company's website www.esprítholdings.com and the website of The Stock Exchange of Hong Kong Limited (www.hkex.com.hk) and dispatched to shareholders on or before October 30, 2006.

"Please also refer to the published version of this announcement in The Standard"