# ESPRIT

esprit holdings limited annual report 04 | 05

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

## corporate profile

Esprit is an international youthful lifestyle brand offering smart, affordable, luxury and bringing newness and style to life. The Group offers 12 product lines encompassing women's wear, men's wear, kid's wear as well as shoes and accessories through over 630 directly managed retail stores and over 9,700 wholesale point-of-sales worldwide. Esprit licenses its logo to third party licensees that offer non-apparel products bearing the same Esprit quality and essence to consumers. Esprit also operates the Red Earth cosmetic brand which includes cosmetics, skin care and body care products.

Esprit is listed on the Hong Kong and London stock exchanges 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.

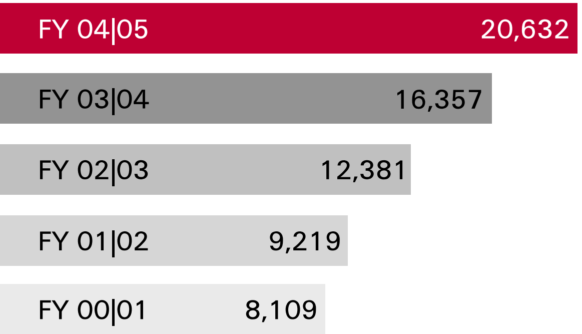
## corporate officers

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, Joint COO – Esprit brand
Jerome Squire GRIFFITH, Joint COO – Esprit brand

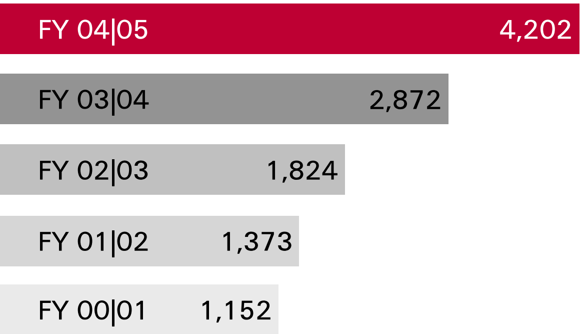
# contents

# financial highlights

turnover (HK$ MN)




operating profit (EBIT) (HK$ MN)

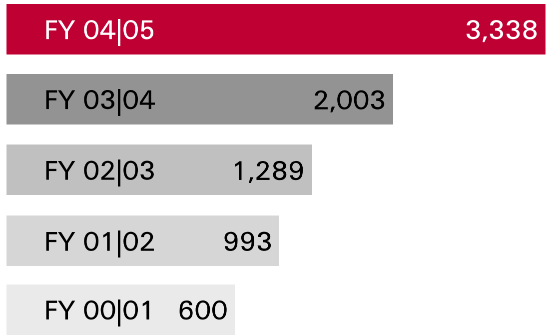



| | net change | FY 04\|05 | FY 03\|04 |
|---|---|---|---|
| **operating results (HK$ MN)** | | | |
| turnover | 26.1% | 20,632 | 16,357 |
| earnings before interest and taxation (EBIT) | 46.3% | 4,202 | 2,872 |
| profit attributable to shareholders | 66.6% | 3,338 | 2,003 |
| **financial position (HK$ MN)** | | | |
| net cash inflow from operating activities | 37.1% | 2,718 | 1,983 |
| net cash^Δ | -1.7% | 1,729 | 1,758 |
| net current assets | 38.9% | 2,728 | 1,964 |
| shareholders´ funds | 30.0% | 7,039 | 5,415 |
| **per share data (HK$)** | | | |
| earnings per share – basic | 66.1% | 2.79 | 1.68 |
| earnings per share – diluted | 64.5% | 2.73 | 1.66 |
| dividend per share* | 66.7% | 1.95 | 1.17 |
| book value per share** | 29.3% | 5.87 | 4.54 |
| **key statistics** | | | |
| earnings before interest and taxation (EBIT) margin (%) | 2.8% pts | 20.4% | 17.6% |
| net profit margin (%) | 4.0% pts | 16.2% | 12.2% |
| return on shareholders´ equity (ROE) (%) | 11.9% pts | 53.6% | 41.7% |
| net debt to equity ratio*** (%) | – | net cash | net cash |
| **share information#** | | | |
| number of share in issue (MN) | 0.5% | 1,199 | 1,193 |
| market capitalization (HK$ MN) | 62.0% | 67,468 | 41,650 |

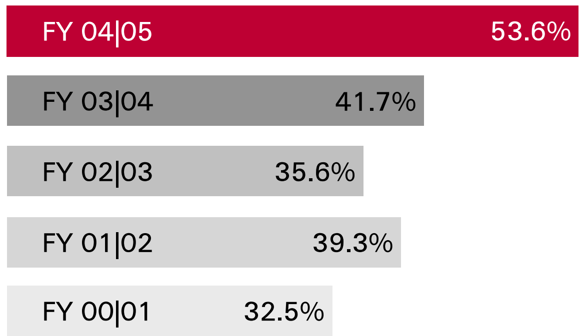
Δ cash and cash equivalents less long-term bank loan
* calculated after including HK$0.84 special dividend for FY2004/2005 and HK$0.50 special dividend for FY2003/2004
** book value refers to shareholders' funds
*** net debt refers to all interest bearing borrowings less cash and cash equivalents
\# as at financial year end

- **Group turnover increased 26% to over HK$20 billion**
- **Net profit rose 67% to HK$3.3 billion**
- **Net profit margin expanded to 16.2%**
- **Return on Shareholders' Equity over 50%**
- **Proposed final and special dividends HK$1.8 billion**
  **final: HK$0.66 per share**
  **special: HK$0.84 per share**

**net profit** (HK$ MN)

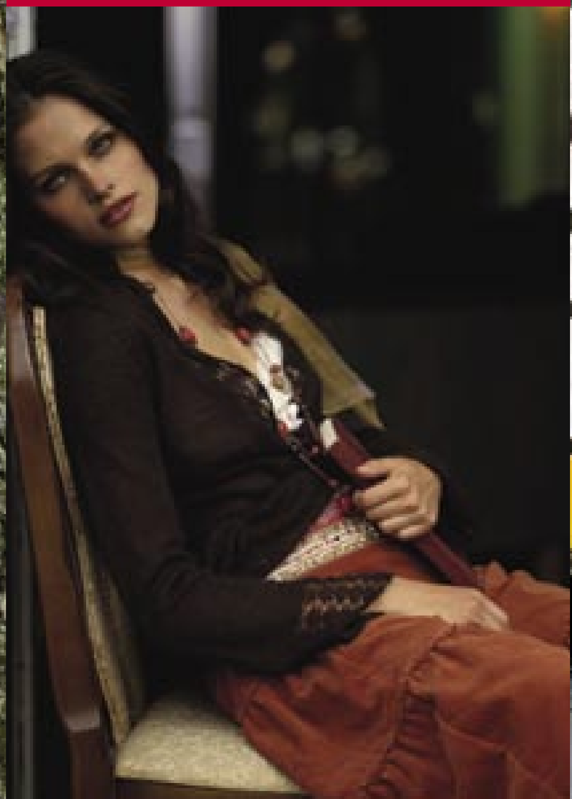



**return on equity** (%)



**women's casual**

The largest segment of Esprit's portfolio, this line 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 youthful spirit for every occasion.

**market capitalization*** (HK$ MN)

| | |
|---|---|
| FY 04\|05 | 67,468 |
| FY 03\|04 | 41,650 |
| FY 02\|03 | 22,644 |
| FY 01\|02 | 17,595 |
| FY 00\|01 | 9,768 |

**earnings per share** (basic) (HK$)

| | |
|---|---|
| FY 04\|05 | 2.79 |
| FY 03\|04 | 1.68 |
| FY 02\|03 | 1.09 |
| FY 01\|02 | 0.86 |
| FY 00\|01 | 0.53 |

* as at financial year end

ratingen

hong kong

# chairman´s letter

With remarkable performances in Group turnover and market growth, I am delighted to inform you that fiscal 2004/2005 produced yet another record breaking year for our Group.

Group turnover grew 26% to HK$20.6 billion from HK$16.4 billion and net profits reached HK$3.3 billion from HK$2 billion in the previous year. We excelled at margin fronts where operating margins were enhanced by 2.8% points to 20.4% and net profit margin by 4% points to 16.2%. Thanks to our impeccable financial performance the Board proposed to increase dividend per share by 67% to HK$1.95, returning HK$2.3 billion to our shareholders when including the interim dividend paid and the final and special dividends proposed.

Our main focus this year was to consolidate our existing markets and expand into newer ones while at the same time enhancing the operating efficiency of our company. Although our core markets remain in Germany and Benelux, strong growth was seen in France, Scandinavia and Austria. Furthermore, we have established a firm footing in new markets such as Spain, Italy and the Middle East. Successful demographic diversification was further complemented by our astute initiatives for enhancing operational efficiency. We improved consumer awareness and increased productivity by offering new and stylish products with greater emphasis on diversified pricing, while maintaining the high quality our consumers demand. Our initiatives enjoyed a high level of success, which was reflected by our higher sales and improved margins. With the right strategies in place, Esprit was truly able to outperform itself this year.

The future of our company seems brighter than ever. While counting our 12th consecutive year of financial success, Esprit has grown into a respected brand, renowned for its ability to recognize and exploit market trends while staying true to its simple and refreshing taste. Although our continuous growth has been the merit of hard work, our company now reaps the benefits of having a strong global position, making greater international success seem ever more promising. I have full confidence in our business team and partners to remain as the driving force behind our Group’s success; their ability to capitalize on years of experience and operate from an established business foundation paves the way for a bright future.

## chairman´s letter

I would like to thank our Shareholders and our Board members for their unswerving support and confidence. I also extend a high level of gratitude to our management, staff and business partners for their continuous drive and excellence. Although competition remains fierce, I have no doubt that Esprit will continue to perform beyond expectation and set the mark for its competitors, all the while continuing to enhance shareholder value.

Michael YING
Chairman of the Board
September 13, 2005






**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 looks for this luxury at affordable prices.

**men’s collection**

Our men’s collection provides smart & 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.

# letter from ceo

The 2004/2005 financial year demonstrated that we are well on our way to making Esprit the leading lifestyle brand name in the world. The Group prospered by every measure. We continued to foster business growth, while delivering solid results and setting new record turnover, earnings and margins. But performance of this kind cannot be justified simply by facts and figures. Above all, we realized we have reached an important milestone: we have the right strategic platform and a scalable business model in place to accommodate sustainable growth for years to come.

## Global brand, global organization – a competitive edge

Esprit was built with a relentless spirit of innovative and creative strategies. We operate under a simple business model that builds on complex infrastructures – three distribution channels encompassing wholesale, retail and licensing; a vertically integrated division-based structure consisting of 12 product divisions; 12 production cycles for each product line per year; an extensive operating and distribution network extending to four continents worldwide; uniquely efficient sourcing capabilities in Europe and Asia. All of these are built on the internationally recognized ESPRIT brand name. The strategic foundation has been laid for the Group to continue to grow profitably and to capitalize on future opportunities.

## A balanced growth strategy

Esprit continued to develop brand recognition across targeted regions as well as extending its global reach through both wholesale and retail channels this year. In wholesale, we capitalized on the brand's increased dominance and focused on using partnership stores to further penetrate into existing markets while working with department store business partners to enter new ones. Brand recognition was built with customers in the recently entered Spanish markets as well as other new markets including Italy and Middle East through wholesale shop-in-stores and partnership stores. By expanding our own directly managed retail network, we established stronger brand visibility in cosmopolitan cities such as New York, London and Paris to strengthen ESPRIT's brand presence and build market share. Regionally, while the core Germany and Benelux markets continued their steady growth, developing European markets, including France, Austria and Scandinavia, also contributed at an accelerated pace and we saw over 35% of turnover growth in these regions. Our balanced wholesale-retail growth strategy, our diversification initiatives outside the core markets, together with a recovering Asian market and a disciplined growth approach towards potential markets such as the U.S. and U.K., enabled us to maximize the potential of the ESPRIT brand name and deliver growth with enhanced profitability.

## Improving productivity and enhancing margins

During the year, we continued to grow profitably by intensifying our focus on productivity and efficiency. Our competitors move with the markets and our customers expect more newness from Esprit. Through our 12 product-divisions structure and 12 collections-a-year strategy, we were able to focus the attention of each product division on the unique demands of their competitive target market. We developed market-driven products that not only minimized our product risks, but also helped bring in more store traffic. New products were also launched during the year to further expand our customer base. More sophisticated products were introduced to trade consumers up in quality, and we also offered more starting price point merchandises to target the younger and more price-sensitive shoppers. Simultaneous initiatives including the setting up of more prominent visual displays as well as improving in-store customer service were also implemented to enhance the shopping experience, thereby increasing conversion rates and encouraging full-price sell-through. These measures, coupled with our commitment to democratic pricing through sourcing efficiency and diligent cost control through operating leverage, generated greater productivity and turnover as well as margin improvements.

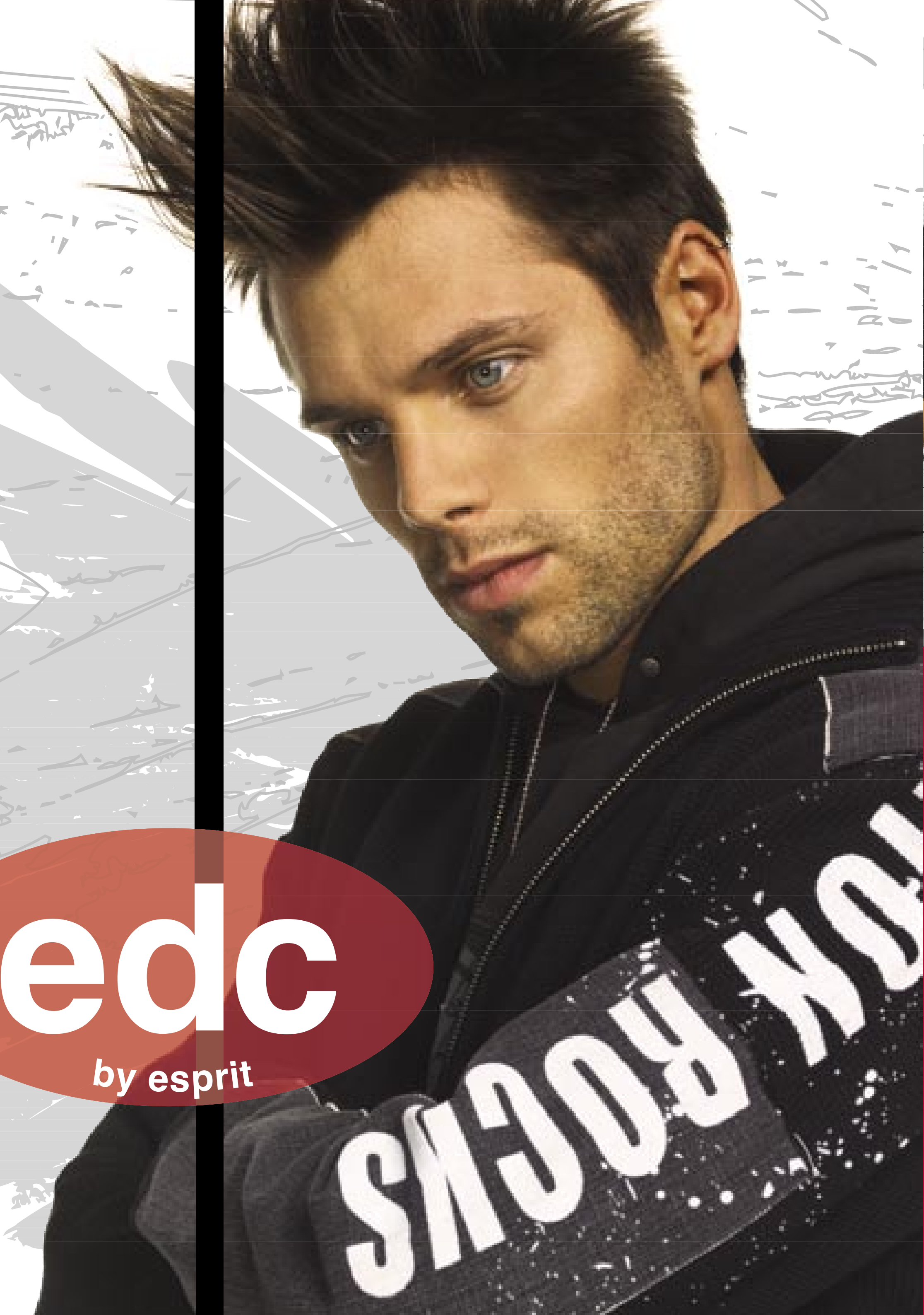
## Effective execution for sustainable long-term growth

Various factors come into play when we talk about the apparel industry. The end of the Multifibre Agreement brought an end to the quota system, but also brought about trade countermeasures. The potential further revaluation of the Renminbi and fluctuation of the Euro exchange rate may affect the industry's sourcing structure, and the continuous evolution of the consumers' tastes and spending patterns may force some companies to modify their product and pricing strategy. However, I strongly believe that a company's success and failure is not determined solely by macroeconomic factors but is also dependent on its ability to innovate, anticipate and adapt to the ever-changing global business environment. The flexibility of our international sourcing structure and the increasing scale of our business have helped us to efficiently control product costs and alleviate margin concerns. Most importantly, with stabilized costs and sustainable margins, we have been able to pass the additional cost savings back to the consumers by offering a combination of improved quality and lower priced products. We will continue to fine-tune the execution of our established business model to adapt to the changing circumstances and to ensure sustainable long-term growth while remaining focused on delivering products with the right balance of quality, value and style.

## The future still holds considerable potential for Esprit

Esprit has delivered not only excellent results, but it has also established an effective business platform from which to capitalize on additional possibilities in new as well as existing markets. I thank the Esprit team for their dedicated and successful efforts in managing our development over the past several years. However, rather than rest on our laurels, we will continue to strengthen our operations in anticipation of future challenges and to pursue new initiatives to fuel sustainable development in the long-term. I believe the ESPRIT brand has potential for further growth and look to the future with confidence. The best is yet to come.

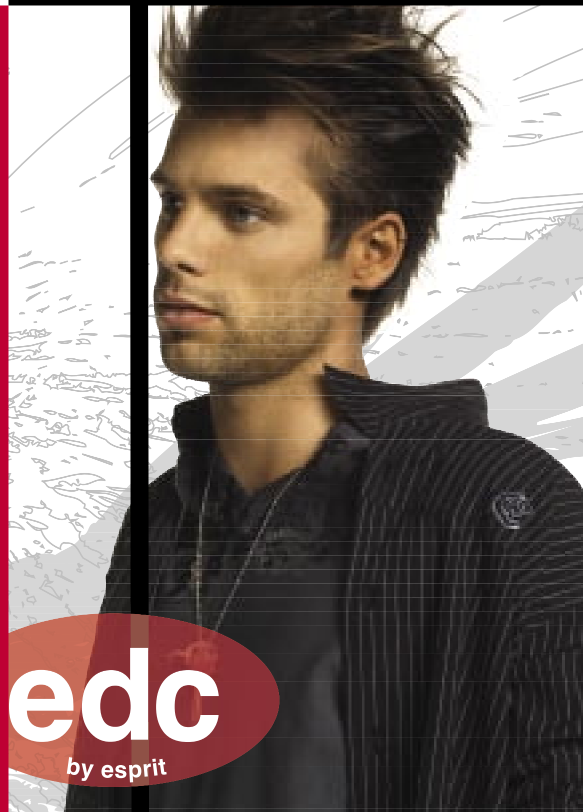
**"the right strategic platform and a scalable business model are now in place to accommodate sustainable growth for years to come"**





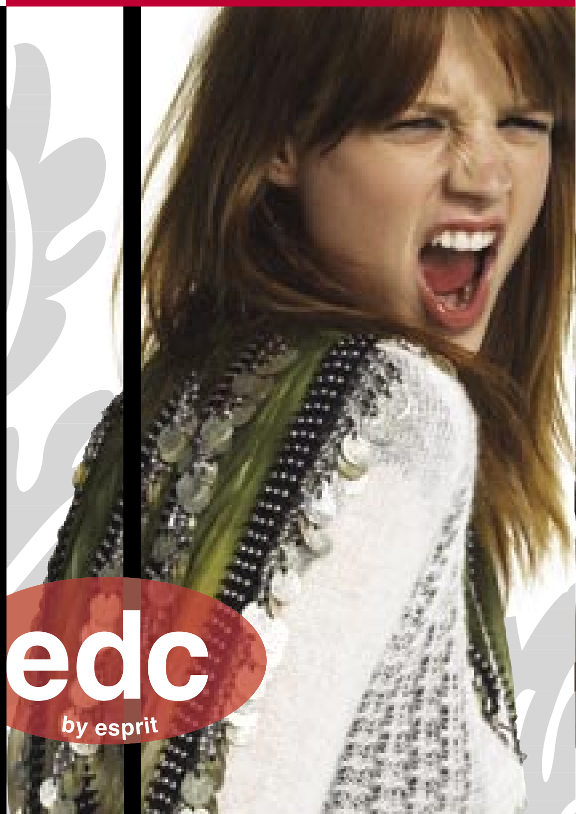
**edc men**

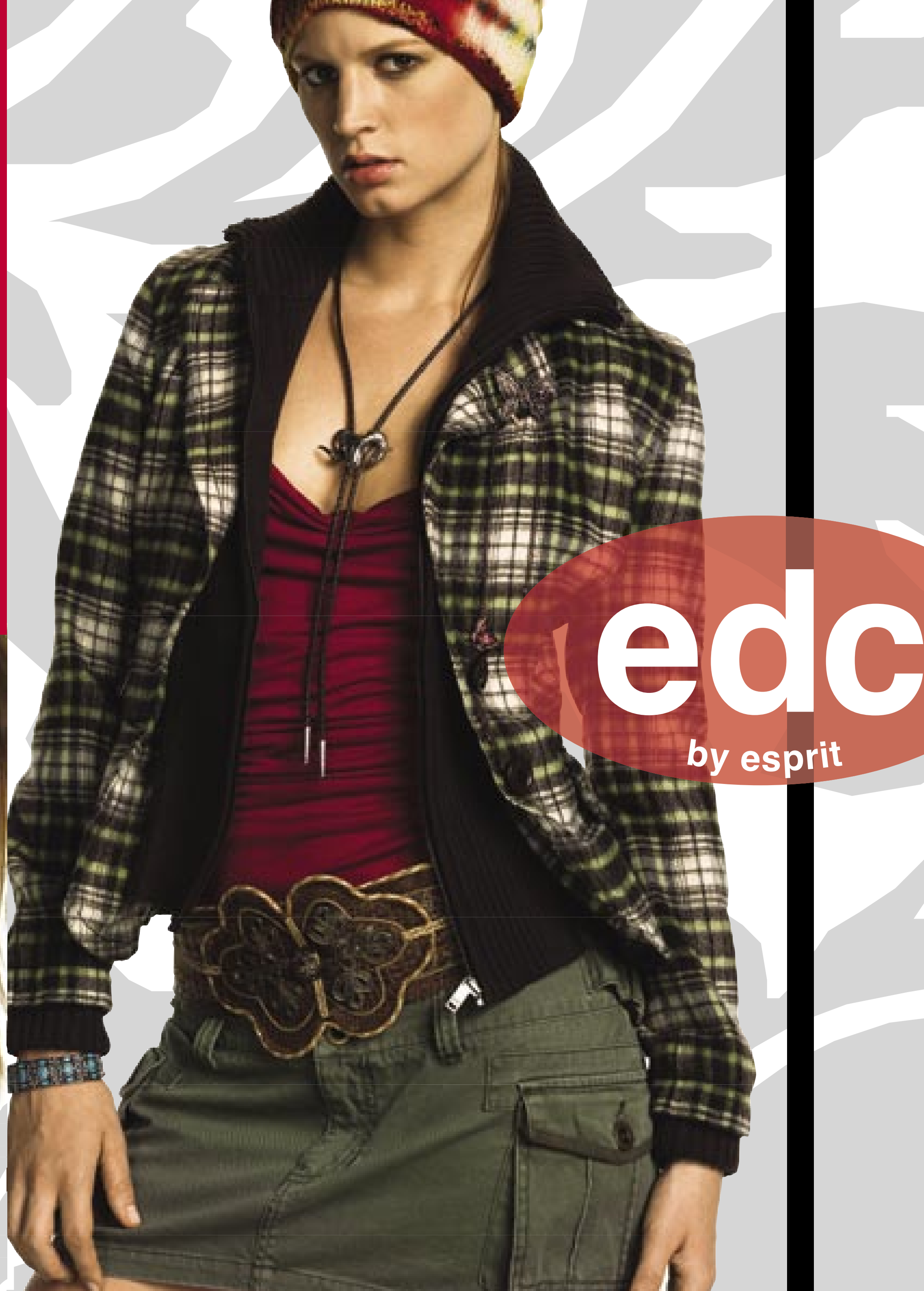
The trendy edc men creates youthful and chic looks for young and fun-loving customers. Its sporty element and exceptional details that add fashionable accents allow fashion-conscious individuals to express their own personal style.



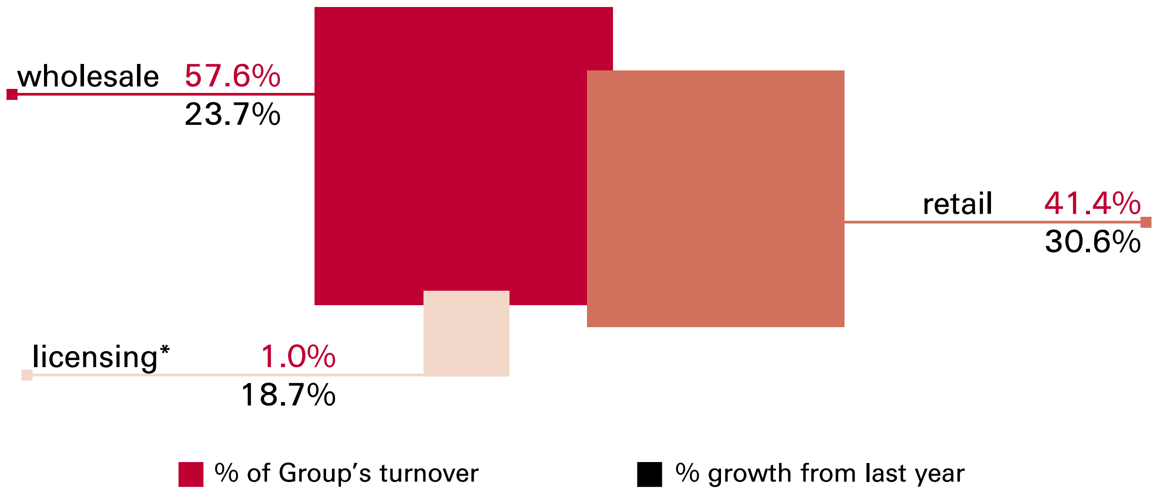

**edc women**

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 fits women's outgoing lifestyle.



# all lines of business recorded double-digit % turnover growth and achieved higher operating margin




* Last year's licensing income is adjusted to exclude Bollag-Guggenheim & Co. AG (the previous country distributor for Switzerland and Italy, which was acquired by the Group in December 2003 and was therefore no longer treated as a third party)

year ended June 30

| breakdown of group turnover* | 2005 | 2004 | 2003 | 2002 | 2001 |
|---|---|---|---|---|---|
| **operation mix (%)** | | | | | |
| wholesale | 58 | 59 | 57 | 57 | 56 |
| retail | 41 | 40 | 41 | 42 | 42 |
| licensing and others | 1 | 1 | 2 | 1 | 2 |
| **product mix (%)** | | | | | |
| women´s casual | 39 | 39 | 40 | 45 | 45 |
| women´s collection | 8 | 7 | 5 | – | – |
| women´s sports | 3 | 2 | 2 | 2 | – |
| edc women | 13 | 13 | 11 | 10 | 9 |
| men´s casual | 11 | 13 | 13 | 11 | 11 |
| men´s collection | 2 | – | – | – | – |
| edc men | 1 | – | – | – | – |
| kids & edc youth | 6 | 7 | 8 | 8 | 9 |
| bodywear | 3 | 3 | 3 | 2 | 2 |
| shoes | 5 | 6 | 7 | 8 | 9 |
| accessories | 5 | 5 | 6 | 7 | 7 |
| red earth | 1 | 1 | 2 | 3 | 4 |
| others** | 3 | 4 | 3 | 4 | 4 |
| **geographical mix (%)** | | | | | |
| europe | 85 | 84 | 80 | 74 | 70 |
| asia | 9 | 9 | 13 | 18 | 21 |
| australasia | 4 | 4 | 5 | 6 | 7 |
| north america and others | 2 | 3 | 2 | 2 | 2 |

* excludes inter-segment revenue
** include salon, café, bed & bath & licensed products such as timewear, eyewear, jewelry, etc.

**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 & women.

## By regions

The Group continued to expand its global reach by penetrating into existing markets while entering newer ones this financial year.

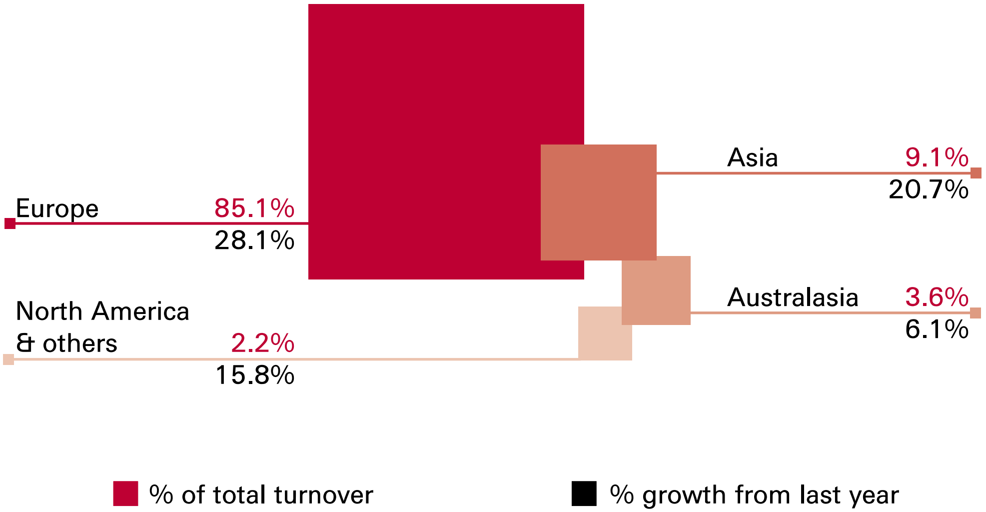
European turnover rose significantly by 28.1% to HK$17.57 billion (FY2003/2004: HK$13.72 billion) and contributed to 85.1% of total Group sales. Benefiting from our strong brand and our focus on providing quality products, positive developments were seen in all markets within the region. Fueled by productivity gains and selling space expansion, Germany and Benelux continued to achieve healthy growth of 20.9%[#] and accounted for 48.3% and 16.3% of Group turnover respectively. France, Scandinavia and Austria also reported solid growth of 48.1%, 38.6% and 37.0% respectively. Following the acquisition of Bollag-Guggenheim & Co. AG (the previous country distributor for Switzerland and Italy which was acquired by the Group in December 2003), full year turnover for Switzerland and Italy has been consolidated into the Group's account thereby contributing to the growth during the financial year.

Operations in Asia continued to improve and recorded 20.7% year-on-year turnover growth to HK$1.87 billion (FY2003/2004: HK$1.55 billion). Better merchandise planning, more full-price selling and wholesale expansion initiatives improved the financial performance of the region. Regional growth was also fueled by strong demand in Malaysia, Singapore and China where higher turnover was achieved. The Australasian market grew at a steady pace following the introduction of a wider product mix and the commencement of wholesale business in this market.

In North America, we focused on building retail islands in the East Coast to gain presence and optimize brand visibility and awareness. An e*shop was launched this financial year to serve customers across the region. While we continued to work with higher-end department stores through wholesale arrangements, concentration was also placed on directly managed retail stores to re-establish the ESPRIT identity in the marketplace.

# The sales figures in Germany have been adjusted to exclude sales to Bollag-Guggenheim & Co. AG, which was acquired by the Group in December 2003.

**turnover breakdown by regions**




## "penetrating into existing markets while entering newer ones"

**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.

**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.

## By products

Turnover growth was seen across all key product divisions. Women's casual accounted for 38.6% of total turnover and continued to be the largest product division with year-on-year turnover increase of 25.8% to HK$7,958.2 million. Strong momentum was also evident in women's collection, women's sports and edc women division, each recording turnover growth of 47.0%, 41.5% and 36.7% respectively.

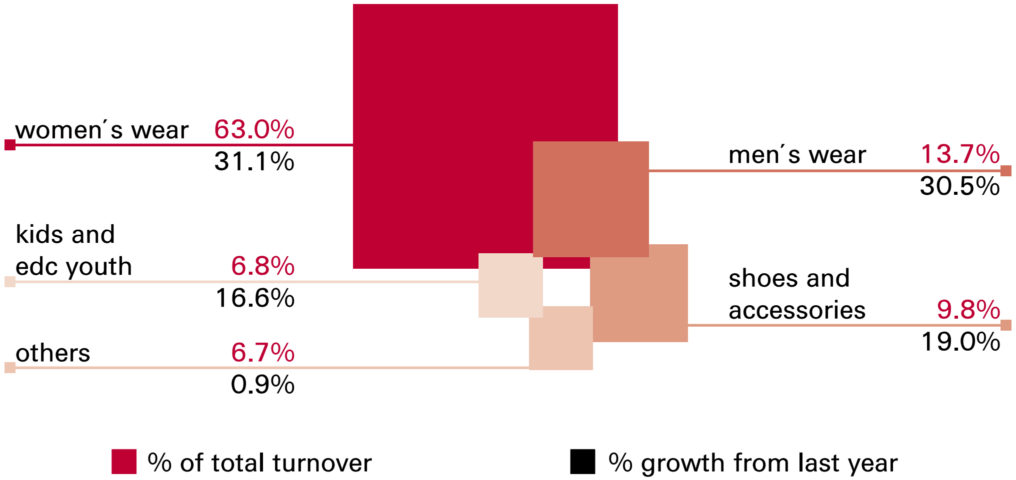
The Group continued to define the character of each of its 12 product-divisions during the last financial year with inspiring designs, while maintaining affordable value. "casual" is about simple and crisp design with a stylish touch; "edc" offers fun and fashionable design with a youthful image and "collection" delivers sophisticated designs with refined and detailed finishing. In addition to introducing new product lines to different regions, the Group also worked on refining its product mix on both regional and store levels to better capitalize on the potential of each product division. edc men was launched in Europe and edc women and women's collection were introduced in Australia during the first half of the financial year.

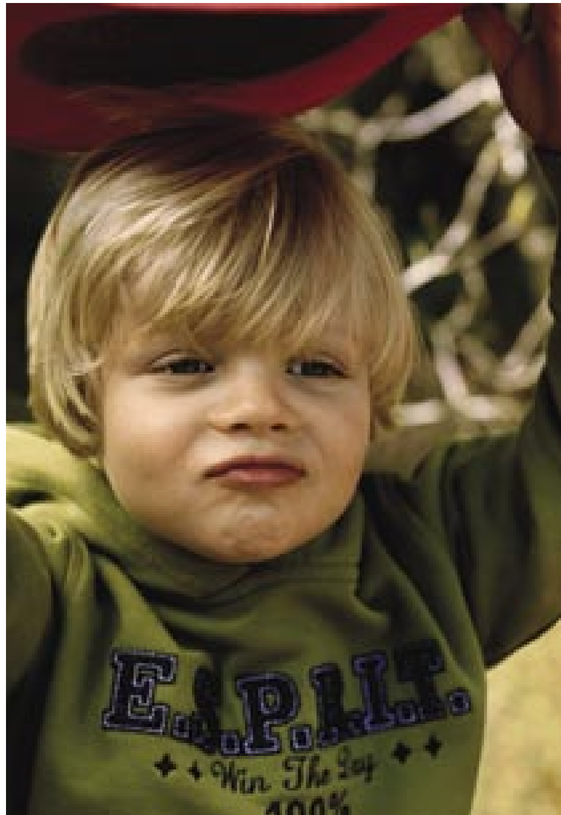
Capitalizing on the Group's strong brand name and presence in major international cities, the Group expanded its parameters in the upper market segment by trading consumers upward in quality and style. The Group also strengthened its introductory-priced product segment by passing on some of the benefits of sourcing gains from currency and quota savings to the end consumers in the form of better quality or lower pricing, thereby increasing store traffic and encouraging purchases.

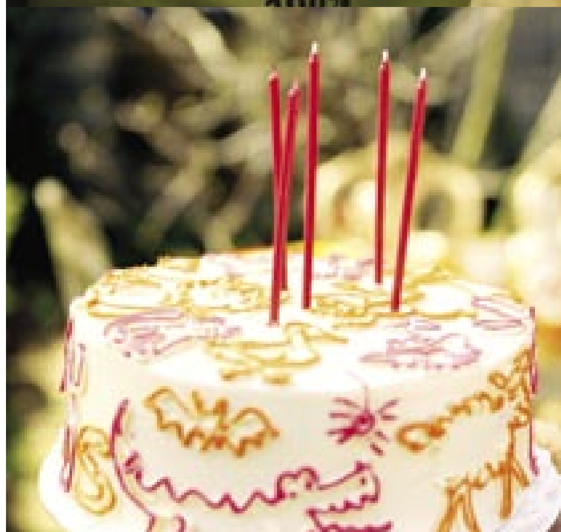
The strong sales performance during the year was driven by the continued supply of right products to the right customers at the right place and time. Our unwavering focus on quality, style and value, complemented by our 12 product-divisions and 12 collections-a-year strategy, resulted in the creation of more market-driven products in stores. This in effect helped the Group to not only minimize inventory levels but also generate healthier store traffic. The Group's strategy of not repeating "best sellers" increased newness in product offerings while simultaneously encouraging more full-price sell-through.

**edc youth**
Funky and expressive, with a contemporary yet functional style, we provide 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.

**turnover breakdown by product mix**





**"expanded our parameters in the upper market segment...**
**also strengthened our introductory priced product segment..."**

## By distribution channels

store paris

### Wholesale

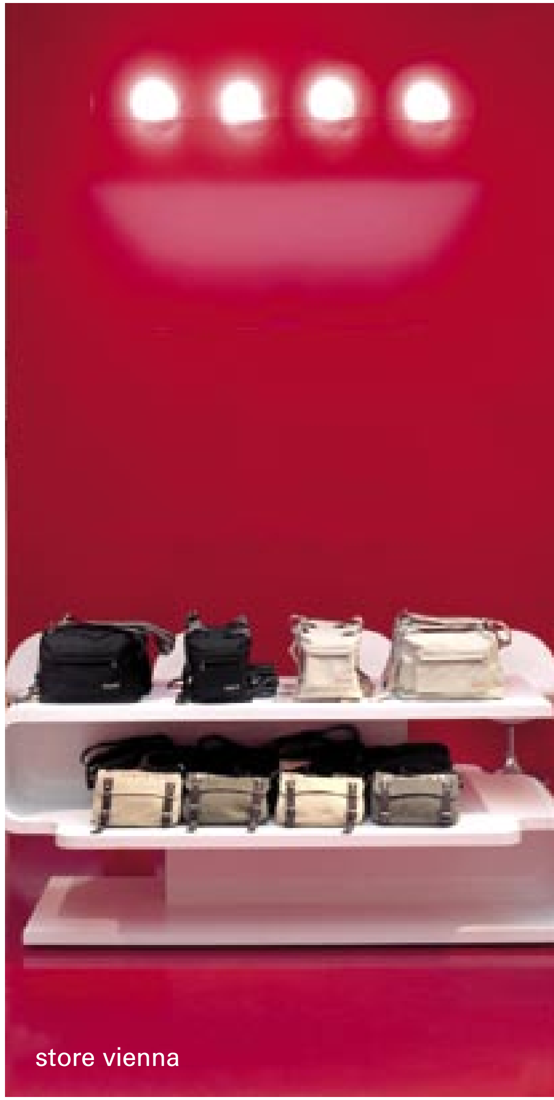
The Group's wholesale business continued to record double-digit growth during the financial year. Turnover grew by 23.7% to HK$11.89 billion (FY2003/2004: HK$9.61 billion) driven partly by the addition of over 106,000m$^2$ controlled selling space. Segment EBIT* increased by 39.6% to HK$3.26 billion (FY2003/2004: HK$2.33 billion) and segment EBIT margin* also expanded 3.1% points to 27.4% (FY2003/2004: 24.3%) through higher operational leverage.

Europe delivered 24.3% turnover growth and remained the Group's core wholesale market, accounting for 94.0% of the Group's wholesale turnover. Germany continued to be the Group's biggest wholesale country and achieved 15.8%** sales growth. The rest of Europe now accounts for 46.2% of the Group's wholesale turnover and grew 34.6% year-on-year. The Group's penetration into Europe through controlled-space wholesale formats yielded encouraging results during the financial year, as approximately 85,000m$^2$ net selling space for partnership stores, shop-in-stores and identity corners was added (+33.1% YoY) in these markets. The Group expanded the geographic foothold of its wholesale concept this financial year by reaching into Spain, Italy and Switzerland with the opening of over 55, 150 and 95 wholesale point-of-sales respectively.

Wholesale diversification outside of Europe continued as the Group recorded 23.9% growth in Asia which accounted for 4.7% of total wholesale turnover. In addition to healthy wholesale sales growth in China and Thailand, this financial year marked the opening of the first Esprit showroom in Dubai. The Group also expanded its wholesale initiative to India by opening its first flagship store in Bangalore in the second half of the financial year. The Australasia region recorded 70.1% turnover growth driven by the introduction of edc and women's collection products into the region and the conversion of concession retail to wholesale formats with Myers and David Jones in Australia.

Horizontal selling space expansion was recorded this financial year as wholesale customers converted their selling space from non-controlled format such as multi-label stores, to controlled format such as partnership stores and shop-in-stores. Controlled-selling space wholesale formats were built with defined Esprit ambience, exclusively offering Esprit products that enabled wholesale customers to enjoy higher brand visibility, leading to increased sales and productivity.

As at June 30, 2005, the number of controlled-space wholesale point-of-sales including partnership stores, shop-in-stores and identity corners increased by over 1,700 in total to over 760, 3,200 and 5,700 (FY2003/2004: 589, 2,803 and 4,578), totaling over 147,000m$^2$, 160,000m$^2$ and 135,000m$^2$ in selling space respectively and representing an aggregate of 31.5% growth from last financial year.

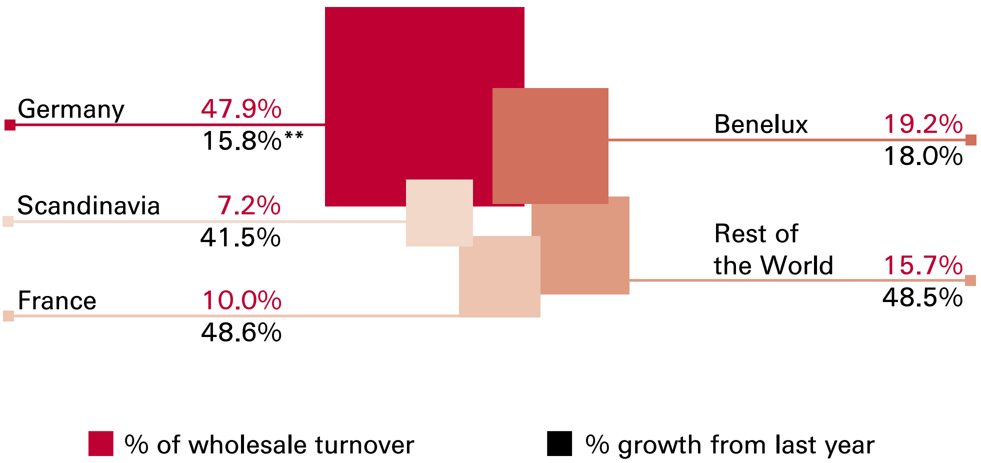

store vienna

* Segment EBIT and EBIT margin excluding inter-segment licensing expense.

** The sales figures in Germany have been adjusted to exclude sales to Bollag-Guggenheim & Co. AG, which was acquired by the Group in December 2003.


shop in store germany

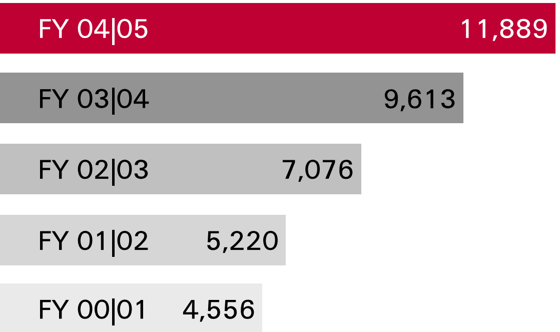
## wholesale turnover breakdown



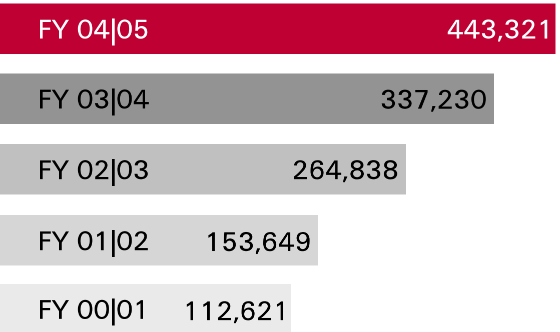

**31.5% increase in controlled-wholesale space... 27.4% wholesale ebit margin, up 3.1% points**

store linz

**wholesale turnover** (HK$ MN)




**wholesale controlled sales area** ($m^2$)




store dusseldorf

| key wholesale distribution channels (as at June 30, 2005) | partnership stores* | | | shop-in-stores* | | | identity corners \| others* | | |
|---|---|---|---|---|---|---|---|---|---|
| | no. of stores | sales area sq.m. | net change in sales area | no. of stores | sales area sq.m. | net change in sales area | no. of stores | sales area sq.m. | net change in sales area |
| **europe** | 560 | 111,783 | 53% | 2,678 | 114,542 | 20% | 5,375 | 117,966 | 31% |
| germany | 184 | 42,043 | 31% | 2,124 | 95,003 | 16% | 3,149 | 68,724 | 20% |
| the netherlands | 66 | 14,109 | 35% | 7 | 214 | no change | 416 | 9,888 | 25% |
| france | 95 | 10,428 | 55% | 265 | 7,079 | 16% | 221 | 5,758 | 37% |
| belgium | 50 | 10,864 | 38% | 72 | 3,299 | 29% | 439 | 10,491 | 4% |
| scandinavia | 34 | 11,818 | 163% | 75 | 3,144 | 8% | 633 | 10,071 | 20% |
| austria | 85 | 14,859 | 37% | 47 | 2,234 | 26% | 77 | 1,767 | 23% |
| switzerland | 5 | 1,152 | n.a. | 15 | 965 | n.a. | 55 | 1,302 | n.a. |
| italy | 8 | 1,095 | n.a. | 4 | 324 | n.a. | 204 | 5,245 | n.a. |
| great britain | 29 | 4,740 | 1217% | 19 | 1,224 | n.a. | 175 | 4,540 | 481% |
| spain | 4 | 675 | n.a. | 50 | 1,056 | n.a. | 6 | 180 | n.a. |
| **asia** | 206 | 35,291 | 14% | 536 | 46,242 | -1% | 263 | 17,497 | 2,277% |
| china** | 70 | 20,477 | 19% | 359 | 37,714 | -6% | 221 | 17,060 | n.a. |
| middle east | 50 | 5,833 | 8% | 13 | 1,406 | 24% | – | – | -100% |
| thailand | 23 | 2,659 | 24% | 75 | 3,961 | 78% | 20 | 269 | n.a. |
| philippines | 14 | 1,352 | 9% | 11 | 740 | 7% | – | – | -100% |
| korea | 2 | 126 | 26% | 19 | 423 | -64% | – | – | n.a. |
| japan | 6 | 220 | -2% | – | – | n.a. | – | – | -100% |
| others | 41 | 4,624 | 3% | 59 | 1,998 | 12% | 22 | 168 | -47% |
| **north america** | – | – | – | 21 | –*** | n.a.*** | 112 | –*** | n.a.*** |
| canada | – | – | – | 21 | –*** | n.a.*** | 112 | –*** | n.a.*** |
| **group total** | 766 | 147,074 | 42% | 3,235 | 160,784 | 13% | 5,750 | 135,463 | 49% |

* include Esprit & Red Earth stores/units
** managed by China joint venture or its franchise partners
*** sales area not available
n.a. means not applicable, stores/identity corners opened in FY 2004/2005

## By distribution channels

store zurich

### Retail

Increased turnover, improved productivity and tightly controlled overheads resulted in profitability and margin improvements in retail operations during the financial year. Turnover rose 30.6% to HK$8.55 billion (FY2003/2004: HK$6.54 billion) and was driven by 8.5% comparable store sales growth and a 13.7% net increase in selling space. Retail segment EBIT* increased 79.0% to HK$917.0 million (FY2003/2004: HK$512.2 million) and retail segment EBIT margin* also grew by 2.9% points to 10.7% (FY2003/2004: 7.8%) respectively.

The Group's focus on operational excellence delivered improved financial results. Right merchandising that met customers' needs coupled with continuous supply of high quality products generated higher store traffic during the financial year. By analyzing individual store performance, square-footage within the store was re-allocated for product divisions to maximize productivity.

Retail turnover in Europe rose 35.6% year-on-year and accounted for 74.5% of total Group retail turnover with healthy comparable store sales growth of 9.5%. Germany and Benelux continued to be the Group's core retail markets and turnover in these countries grew 28.5% and 27.4% respectively, contributing to 49.8% and 12.6% of the Group's retail turnover. On the back of enhanced productivity and an improved macroeconomic environment, the Asian operation recorded 21.3% of turnover growth and 17.6% comparable store sales growth, accounting for 13.8% of total retail turnover. North America and Australasia, which represented 3.8% and 7.9% of the Group's retail turnover, also achieved 49.8% and 2.3% turnover growth respectively.

The Group invested HK$730.5 million in capital expenditure during the financial year to open approximately 100 new retail stores, which was another record in the Group's history. Total directly managed retail space increased to over 193,000m$^2$ from 170,000m$^2$ at the end of the last financial year. The majority of the new space added was located in Europe where profitability is relatively higher. As of June 30, 2005, the Group operated over 630 directly managed stores worldwide.

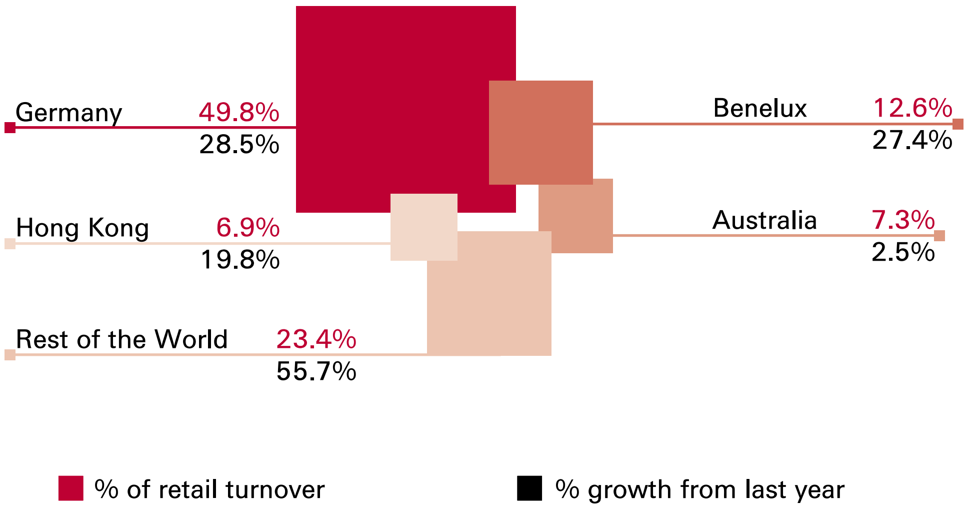
The Group's online e*shop is also an important and successful part of its retail initiative, offering a full range of Esprit apparel products to customers in Germany, Belgium, the Netherlands, Austria and the U.S. from the comfort of their own homes.


store london

* Segment EBIT and EBIT margin excluding inter-segment licensing expense

store hamburg

## retail turnover breakdown




**14% increase in net retail selling space...**

**10.7% retail ebit margin, up 2.9% points**


store antwerp

**retail turnover** (HK$ MN)

| | |
|---|---|
| FY 04\|05 | 8,547 |
| FY 03\|04 | 6,545 |
| FY 02\|03 | 5,107 |
| FY 01\|02 | 3,841 |
| FY 00\|01 | 3,421 |

**retail sales area** ($m^2$)

| | |
|---|---|
| FY 04\|05 | 193,361 |
| FY 03\|04 | 170,029 |
| FY 02\|03 | 149,389 |
| FY 01\|02 | 138,928 |
| FY 00\|01 | 123,926 |

store new york

| retail distribution channels (as at June 30, 2005) | directly managed stores* no. of stores | sales area sq.m. | net change in sales area |
|---|---|---|---|
| **europe** | 211 | 120,514 | 15% |
| germany | 105 | 71,695 | 11% |
| the netherlands | 28 | 10,777 | no change |
| belgium | 18 | 12,333 | 28% |
| switzerland | 28 | 7,367 | 27% |
| austria | 6 | 6,631 | 23% |
| france | 17 | 5,336 | 40% |
| great britain | 6 | 4,594 | 58% |
| denmark | 2 | 1,281 | no change |
| luxembourg | 1 | 500 | no change |
| **asia** | 209 | 30,932 | 3% |
| hong kong (incl. macau) | 51 | 14,168 | -4% |
| taiwan | 101 | 7,329 | -1% |
| singapore | 39 | 6,284 | 16% |
| malaysia | 18 | 3,151 | 41% |
| **australasia (incl. new zealand)** | 160 | 22,934 | 17% |
| **north america** | 51 | 18,981 | 18% |
| canada | 43 | 15,256 | -5% |
| u.s. | 8 | 3,725 | n.a. |
| **group total** | 631 | 193,361 | 14% |

* include Esprit & Red Earth stores, but excluding Salon
n.a. means not applicable, stores opened or acquired in FY2004|2005

## By distribution channels

### Licensing

Licensing income from third parties increased to HK$117.1 million (FY2003/2004: HK$110.5 million). When last year's licensing income was adjusted to exclude Bollag-Guggenheim & Co. AG (the previous country distributor for Switzerland and Italy, which was acquired by the Group in December 2003 and was therefore no longer treated as a third party), third party licensing income grew by 18.7% year-on-year. The majority of the growth was from timewear, jewelry and eyewear. We have entered into 7 new licensing contracts and introduced 14 new product categories to the market during the financial year. As at June 30, 2005, we were working with over 35 licensees and offering around 25 categories of ESPRIT licensed products to consumers worldwide.

The Group has actively expanded the home products market during the financial year. Down, duvet and glassware were introduced in Europe and Asia and four shop-in-stores were opened by our Asian licensee to offer Esprit Home products in China. The Group also launched the first Collection fragrance by ESPRIT for both men and women in the second half of the financial year. Strong licensing partnerships were built in Australia, where bed linen, towels and footwear products were introduced.

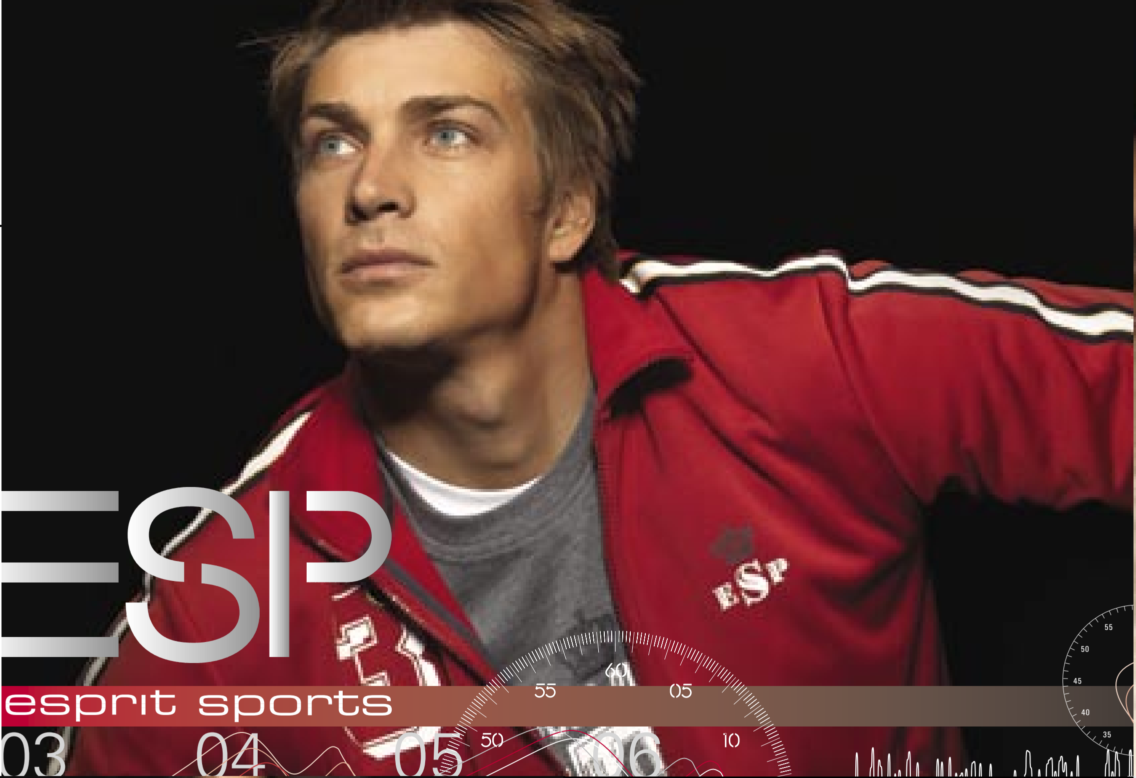
The Group's licensing business helps to extend Esprit's lifestyle offerings to different product categories in different markets worldwide. We remained focused on the creation of licensed products and on the development of their respective controlled distribution channels to ensure they conform to our high standards. We will continue to internationalize our licensing business in the future and believe this business offers great growth potential.

| key licensed product category | europe | asia | australasia | north america |
|---|---|---|---|---|
| baby carriages | ■ | ■ | ■ | |
| baby furniture | ■ | | | |
| bath | ■ | ■ | ■ | |
| bed | ■ | ■ | ■ | ■ |
| belts | | | | ■ |
| costume jewelry EDC | ■ | | | |
| down | ■ | ■ | | |
| eyewear | ■ | ■ | ■ | ■ |
| fragrance | ■ | ■ | ■ | ■ |
| glassware | ■ | ■ | | |
| home | ■ | ■ | | |
| jewelry | ■ | ■ | ■ | ■ |
| kid´s accessories | | | | ■ |
| kid´s shoes | | | ■ | ■ |
| kid´s wear | | | | ■ |
| outerwear | | | | ■ |
| school | ■ | | | |
| shoes | | | ■ | ■ |
| sleepwear/daywear | | ■ | | ■ |
| socks & tights EDC | ■ | | | |
| socks & tights Esprit | ■ | ■ | ■ | ■ |
| stationery | ■ | ■ | ■ | |
| swimwear | | | | ■ |
| timewear | ■ | ■ | ■ | ■ |
| umbrellas | ■ | ■ | ■ | |

## Sourcing

The Group outsourced all production requirements to third party suppliers primarily in Asia and Europe. Regular and long-term cooperation with suppliers allows us to maintain a flexible sourcing structure that ensures buyers will place orders with the right suppliers and that goods are produced at the right price and are of good quality.

Price, logistics, quality and import regulations are the major factors to consider when determining where the order is placed. The phasing out of the quota system at the beginning of 2005 led to the creation of anti-surge safeguard measures imposed on Chinese textiles imported into Europe and the U.S. Regardless of such short-term impediments, additional volume leverage will help offset potential negative impacts. Our global sourcing base and flexible buying structure also give us the ability to source with suppliers in other countries not affected by the safeguard measures such as Vietnam, Indonesia and India in Asia and Turkey, Portugal and Romania in Europe, thus minimizing the potential impact on sourcing costs.




**bodywear**

Esprit bodywear is designed with a commitment to comfort, quality and innovation. It has an extensive range of classic cotton & 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.


**sports**

The 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.

## Margins

Gross margins reached 54.4%, up 2.3% points from a year ago. These were mainly affected by three factors: quota and freight cost savings, the strength of the Euro and higher retail weighting in the Group's turnover mix.

Earnings before interest and taxation (EBIT) margin came in at 20.4%, up 2.8% points from a year ago helped by productivity enhancement and stringent cost control measures. Total operating expenses as a percentage of sales decreased marginally to 34% from 34.5% a year ago. Staff costs, the largest operating cost component, remained relatively flat compared to a year ago despite the addition of staff members.

Depreciation expenses were HK$452 million, 32.1% higher than last year. The higher depreciation was due mainly to the retail stores' expansion and the associated capital expenditure.

## Net profit

Net profits were up 66.6%, growing from HK$2 billion to HK$3.34 billion and net profit margins increased 4% points to 16.2%. The Group's effective tax rate was 22.3%, 9.8% points lower than the 32.1% for FY2003/2004. Effective international tax planning and reduction in the number of loss making markets continued to harmonize our overall tax efficiency globally, which in turn led to a more efficient Group effective tax rate.

## Liquidity and financial resources

Net cash inflow from operating activities for the financial year increased by 37.1% to HK$2.72 billion. During the financial year, the Group spent HK$961.8 million on capital expenditure for new store openings, store upgrading and IT projects, utilized HK$274.5 million on land and building acquisitions for the new head office in Hong Kong, and another HK$1,712.6 million on dividend payments in December 2004 and April 2005. The Group's financial position remained very strong with its net cash balance (cash and cash equivalent net of bank borrowings) similar to that of last year at HK$1.73 billion (FY2003/2004: HK$1.76 billion).

As at June 30, 2005, the Group has no long-term bank borrowings and did not pledge any assets as security for overdraft and/or short-term revolving facility. Our debt to equity ratio, expressed as a percentage of interest bearing external borrowings over shareholders' funds of HK$7.04 billion, was 0%. The current ratio (current assets divided by current liabilities) improved to 2 (FY2003/2004: 1.7).

## Foreign exchange

To minimize our foreign exchange exposure on costs for merchandise produced for Europe in Asia, suppliers in Asia were asked to quote and settle in Euro. In addition, the Group entered into foreign exchange forward contracts with large and reputable financial institutions to hedge foreign exchange risk and reduce credit risks. Forward contracts increased from HK$367.1 million to HK$700.1 million in FY2004/2005, primarily due to turnover growth of the business.

## Human resources

The Group employs both full-time and part-time employees and has approximately 8,000 positions worldwide after converting the part-time positions into full-time positions based on working hours. The most significant personnel increase was in the sales-related department.

# prospects

The Group's strong financial performance this financial year gives us confidence that FY2005/2006 will be another year with positive top and bottom line performance.

At Esprit, offering the right products that satisfy market needs is one of the keys to nurturing the brand's success and sustaining its growth. The 12 collections product offerings currently available are designed to meet the needs of different target customer groups. We will continue to strengthen our product offerings in the new financial year by focusing on the areas of newness, quality and style. We will also enhance the communication of our brand's character to consumers with the aim of long-term brand building. Better visual merchandising, window display, image and marketing plans will be introduced to complement the product offerings, thereby reinforcing the Group's position in the marketplace.

The Group will continue to penetrate into existing markets and expand newer ones through wholesale distribution channels in the new financial year. In Europe, our wholesale order booking for the six months ending December 2005 shows high teens year-on-year growth. Partnership stores will be used to gain penetration in core markets such as Germany, Benelux and France where the Esprit brand already has substantial brand presence. Shop-in-stores and identity corners concept with department stores and multi-label retailers will be used to enter new markets in order to minimize capital expenditure requirements. U.K., Italy and Spain will be the newer European markets of focus for FY2005/2006. Asia wholesale initiatives for the fiscal year include entering the India market as well as expanding our distribution channels to duty free stores in Thailand, the Philippines and Vietnam. Over 200 partnership stores, 500 shop-in-stores and 700 identity corners are also planned for FY2005/2006. We are confident that the wholesale momentum will continue this year.

Retail expansion in major cosmopolitan cities heightens the impact of the Group's brand power by showcasing the breadth and depth of the Group's complete product offerings in our own stores, which are all built with the Esprit spirit and character. Approximately HK$900 million has been budgeted for the opening of over 110 directly managed stores and the renovation of existing stores worldwide in FY2005/2006. Over 40 stores in Europe, 50 in Asia, 10 in North America and 10 in Australasia are expected to be opened, adding over 25,000m$^2$, 4,000m$^2$, 6,000m$^2$, 3,000m$^2$ of retail space respectively and increasing the total selling area of directly managed stores by approximately 17%. Selling space expansion together with comparable store sales growth through productivity improvements should continue to fuel retail turnover growth in the new financial year.

The elimination of quotas that commenced in January 2005 resulted in anti-surge measures against Chinese textiles imported into Europe and the U.S., thereby affecting sourcing structure. Euro movements and the potential further revaluation of the Renminbi will have an impact on sourcing costs. However, the Group is confident that further volume leverage will help offset the above potential negative impact. A solid sourcing infrastructure and a flexible global sourcing base allow buying to be done economically in other competitive as well as non-quota bounded countries thus minimizing the potential impact on sourcing costs. The Group will continue to monitor market dynamics, exploit alternative sourcing opportunities in low-cost countries and make adjustments to the mix of our sourcing base when necessary with the aim of upholding the price-value correlation of our products and remaining competitive in the marketplace.

With an expanding wholesale and retail distribution network, improving retail productivity and profitability, together with stringent cost control measures and the advantage of additional volume leverage from the Group's wholesale business, the Group is confident that the new financial year will produce another set of satisfactory results.

# financial summary

year ended June 30

| | 2005 | 2004 | 2003 | 2002 | 2001 |
|---|---|---|---|---|---|
| **operating results^Δ (HK$ MN)** | | | | | |
| turnover | 20,632 | 16,357 | 12,381 | 9,219 | 8,109 |
| operating profit (EBIT) | 4,202 | 2,872 | 1,824 | 1,373 | 1,152 |
| profit attributable to shareholders | 3,338 | 2,003 | 1,289 | 993 | 600 |
| **per share data^Δ (HK$)** | | | | | |
| earnings per share – basic | 2.79 | 1.68 | 1.09 | 0.86 | 0.53 |
| dividend per share* | 1.95 | 1.17 | 0.70 | 0.28 | 0.17 |
| **key statistics^Δ (HK$ MN)** | | | | | |
| shareholders´ funds | 7,039 | 5,415 | 4,192 | 3,032 | 2,017 |
| working capital | 2,728 | 1,964 | 2,027 | 1,061 | 616 |
| cash position (net of overdraft) | 1,729 | 1,758 | 2,097 | 934 | 388 |
| term loans | – | – | 776 | 780 | – |
| **other data** | | | | | |
| number of directly managed stores# | 634 | 562 | 569 | 495 | 485 |
| directly managed sales footage (sq.m.) | 195,042 | 172,343 | 152,108 | 141,059 | 126,796 |
| monthly sales per square meter (HK$) | 3,548 | 3,413 | 2,848 | 2,353 | 3,336 |
| capital expenditure (HK$ MN) | 1,236 | 662 | 333 | 344 | 512 |
| number of employees### | 7,720 | 6,796 | 5,751 | 5,936 | 5,954 |
| **key ratios^Δ** | | | | | |
| return on shareholders´ equity## (ROE) (%) | 53.6% | 41.7% | 35.6% | 39.3% | 32.5% |
| return on total assets (ROA)^ΔΔ (%) | 36.2% | 25.2% | 19.5% | 14.9% | 16.8% |
| net debt to equity** (%) | net cash | net cash | net cash | net cash | net cash |
| interest cover (times) | 2,190 | 134 | 58 | 100 | 31 |
| current ratio (times) | 2.0 | 1.7 | 1.9 | 1.6 | 1.5 |
| inventory turnover period*** (days) | 47 | 45 | 51 | 64 | 64 |
| earnings before interest, taxation, depreciation and amortization (EBITDA) margin (%) | 22.6% | 19.6% | 16.9% | 17.3% | 16.5% |
| earnings before interest and taxation (EBIT) margin (%) | 20.4% | 17.6% | 14.7% | 14.9% | 14.2% |
| earnings before taxation (EBT) margin (%) | 20.8% | 18.0% | 15.2% | 15.3% | 14.6% |

Δ The Group adopted IFRSs retrospectively with effect from July 1, 2002. The financial information in respect of FY2002/2003, FY2003/2004 and FY2004/2005 is audited and is prepared in accordance with IFRSs. For the purpose of presenting the financial information in respect of FY2000/2001 and FY2001/2002, certain estimates have been made to adjust the financial information to IFRSs, mainly representing the reversal of amortisation of trademarks.

* calculated after including the 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

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

ΔΔ 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

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

Esprit is committed to upholding good corporate governance. This year, considerable efforts were made to identify and formalize the best practices according to international standards. The Esprit Corporate Governance Code was adopted by the Board, ensuring greater transparency and quality of disclosure as well as more effective risk control. We believe our commitment to the highest standards of governance will translate into long-term value and ultimately maximize returns to shareholders and stakeholders. Management's commitment to building long term interests for shareholders and to conducting business in a socially responsible and honest manner has earned the Company widespread market recognition. During this financial year, Esprit received the "Asia's Best Retailer" award and was ranked in the top three position for the "Best Managed Company" award and "Best Commitment to Strong Dividend Payments" in Hong Kong award by FinanceAsia Magazine. Esprit was also named as one of Asia's leading companies in "The AWSJ 200" by Asian Wall Street Journal.

## 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 appropriate business conduct and effective management of the highest quality. The posts of Chairman and Group CEO are held separately to reinforce their respective independence, accountability and responsibility. This separation of posts ensures clearly defined roles between the Chairman's responsibility to monitor the Group's business strategies and the Group CEO's responsibility to manage the day-to-day business.

The Board comprises ten Directors, including the Chairman of the Board, five of them being Executive Directors, and the remaining five Non-executive Directors, of whom three are independent. The Non-executive Directors come from diverse business and professional backgrounds, providing valuable expertise and experience for promoting the best interests of the Group and its shareholders. Independent Non-executive Directors ensure the Board accounts for the interests of all shareholders and that all issues are considered in an objective manner. The Company has received confirmation from each Independent Non-executive Director about his independence under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("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 and important issues. 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 discharging their duties.

Under the Company's existing bye-laws, at least one-third of the Directors must retire at each annual general meeting. This financial year, Mr. Michael Ying, Mr. Thomas Grote and Mr. Raymond Or will retire at the forthcoming annual general meeting of the Company and are all eligible to offer themselves for re-election. None of the Directors proposed for re-election at the forthcoming annual general meeting 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. Michael YING Lee Yuen has entered into a service contract with the Company that does not provide for a fixed period of service and can be terminated by the Company by giving 6 months' notice.

Mr. Raymond OR Ching Fai does not have a service contract with the Company. Mr. Or has no fixed term of service with the Company and is subject to retirement by rotation and re-election in accordance with the Bye-laws of the Company.

Mr. Thomas Johannes GROTE has entered into a service contract with the Group on October 4, 2005 which can be terminated by the Group by giving 12 months' notice provided that such notice shall not be given before July 1, 2006. Prior to the conclusion of his existing service contract, Mr. Grote was employed under a service contract pursuant to which the Company is obliged to pay a sum equal to and which consists of the remainder of his total gross basic salary from the date of termination by notice from the Company until June 30, 2007. The contract was replaced as the provision mentioned above did not comply with the amendments to the Listing Rules effective on March 31, 2004. The amended Listing Rules provide, inter alia, that a director's service contract which expressly requires the Company to give a period of notice of more than one year or to pay compensation of more than one year's emoluments on termination requires prior shareholders' approval.

Mr. Jerome Squire GRIFFITH, another executive director of the Company, also concluded a new service contract with the Company on October 4, 2005 for the same reason.

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. Terms of reference of the Audit Committee which have been adopted by the Board 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 four times in FY2004/2005.

During the financial year, the Audit Committee reviewed 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 risks 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. 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.

### 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 which are Independent Non-executive Directors. Terms of reference of the Remuneration Committee which have been adopted by the Board are posted on the Company's website. The Committee met once during the financial year.

### General Committee

The General Committee reviews various administrative matters of the Board. The General Committee comprises four members, the majority of which are Executive Directors. The committee held 17 meetings in FY2004/2005.

### Model Code

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers under the Listing Rules (the "Model Code"). The Company has made specific enquiries of all the Directors and each of the Directors has confirmed that, for the year ended June 30, 2005, they have complied with the required standard set out in the Model Code.

### 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 relation to 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. These include:

- 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.

## Code of Best Practice

None of the Directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the year ended June 30, 2005, in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules that was in force prior to January 1, 2005 and remains applicable for the financial period commencing before January 1, 2005.

In November 2004, The Stock Exchange of Hong Kong Limited issued a new Code on Corporate Governance Practices (the "New Code") which comes into effect for the reporting financial year commencing after January 1, 2005. The Company has considered the New Code and has taken steps to comply with the New Code where appropriate.

## Pro-active Investor Relations

The Board of Esprit recognizes the importance of maintaining two-way communications 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 fair disclosure and comprehensive reporting of our performance and business activities, our management also engages in a 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 practices 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 during the year as the Company was ranked in the top three position for the "Best Investor Relations" in Hong Kong award by FinanceAsia Magazine.

# social responsibilities

As a global company, Esprit believes in developing and maintaining sustainable relationships with all stakeholders. We demonstrate this commitment by acting imaginatively and consistently in the communities where our employees, business partners and customers live and work.

## Responsibilities to Employees

Esprit recognizes the importance of human capital. 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 internal communications and we welcome ideas and feedback from our staff. During the financial year, a LIVE ESPRIT campaign was implemented with the aim of promoting team spirit and creating a global ESPRIT culture for all our employees located around the world. Through quarterly newsletters and the Group's global intranet, we aim to improve company-wide communications and to connect our employees around the world to the Esprit family.

We strive to be an attractive company for the talented and motivated. The Group places great emphasis on staff training and development in order to realize the potential of every one of our employees. Our remuneration package is performance based and takes into account business performance, market practice and competitive market conditions. Share options and discretionary bonuses are granted to staff that show outstanding performance. We have also adopted an annual performance and salary review system to ensure staff members are rewarded on a clear and fair basis.

## 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 that sustainable business partnerships are established.

We are also committed to conducting business in a responsible and suitable manner. Social audits were carried out during the year to ensure suppliers maintain and uphold these standards. We have also become a member of the Business Social Compliance Initiative (BSCI) established by the Foreign Trade Association (FTA) this year and have communicated to vendors the significance of BSCI certifications as the appropriate accreditation to signify their compliance with human rights and minimum social standards.

## Responsibilities to the Community

Through grants, donations in kind and volunteering activities, Esprit and its employees worldwide take pride in making contributions to the community. The Group made HK$21 million in charitable donations this year. During the financial year, our employees responded enthusiastically to a variety of relief initiatives organized by charitable organizations. These included the participation of Hong Kong staff in "Walks for a Million" organized by the Community Chest, ribbons selling in stores to raise funds for the National Breast Cancer Foundation and financial support to charitable organizations.

In response to the South Asian tsunami, Esprit launched a global fund raising campaign during FY2004/2005 calling for employee donations to help victims affected by the disaster. The Company also made matching donations to support and promote active participation in the campaign. Approximately HK$5 million was jointly donated to local and international relief agencies, including the Red Cross and Unicef, to help relieve suffering and to reconstruct permanent housing for tsunami victims.

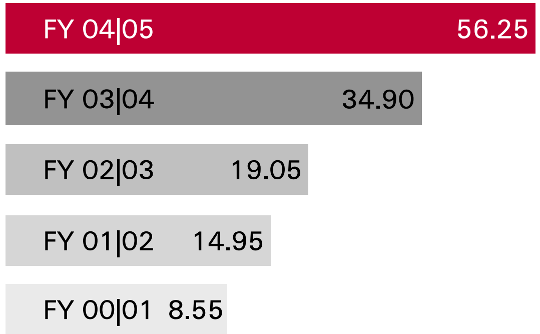

ESPRIT

## Stock Performance

Esprit share was one of the top performers in the Hang Seng Index ("HSI") during the financial year with a share price appreciation of 61.2%. With a closing share price of HK$56.25 on June 30, 2005, Esprit share outperformed the HSI by 39.4% during FY2004/2005. Esprit's market capitalization grew by 62% to HK$67 billion during the financial year.

The Group's share price also reached a ten-year high of HK$59.25 on May 9, 2005. The lowest trading price was HK$33.30 on July 8, 2004.

**share price#** (HK$)




## Dividends

The Board of Directors is pleased to recommend a final dividend of HK$0.66 per share (FY2003/2004: HK$0.48) and a special dividend of HK$0.84 per share (FY2003/2004: HK$0.50). The Company is returning approximately HK$2.3 billion to our shareholders (when including the interim dividend paid), an increase of 67% from last year. The total dividend payout ratio, including the interim dividend paid and the proposed final and special dividends for the year, was approximately 70%. It is the intention of the Group to maintain a stable regular-dividend payout ratio and distribute special dividend after considering our net cash position, operating cash flow and capital expenditure needs.

**total dividend per share*** (HK$)


# share price as at financial year end

* includes special dividend

# corporate 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, Joint COO – Esprit brand
Jerome Squire GRIFFITH, Joint COO – Esprit brand

## company secretary
John POON Cho Ming

## principal banker
The Hongkong and Shanghai Banking Corporation Limited

## auditors
PricewaterhouseCoopers,
Certified Public Accountants

## principal legal advisors
Baker & McKenzie
Deacons

## stock code
The shares of Esprit Holdings Limited are listed for trading on The Stock Exchange of Hong Kong Limited (stock code: 0330) and the London Stock Exchange (ticker: EPT LI)

## principal share register
Butterfield Fund Services (Bermuda) Limited
11 Rosebank Centre, Bermudiana Road, Pembroke, Bermuda

## hong kong share registrar
Secretaries Limited
G/F, Bank of East Asia Harbour View Centre,
56 Gloucester Road, 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

## website
www.espritholdings.com

FY 2004 | 2005 financial report

## report of the directors

The Directors have pleasure in presenting their annual report and the audited financial statements for the year ended June 30, 2005.

## principal activities

The Company is an investment holding company. The activities of the principal subsidiaries are shown in note 31 to the financial statements. The Group is principally engaged in 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 68 and in the accompanying notes to the financial statements.

The interim dividend of HK$0.45 per share, totalling HK$539,530,000, was paid on April 8, 2005.

The Directors recommend the payment of a final dividend of HK$0.66 per share and a special dividend of HK$0.84 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 71 and in note 30 to the financial statements respectively.

## share capital

During the year, 6,027,000 (2004: 4,711,000) ordinary shares of HK$0.10 were issued at a premium in the range of HK$14.50 to HK$24.35 each in relation to the share options exercised by Directors and employees under the share option scheme of the Company adopted on November 26, 2001. 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 104.

## 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, 2005 are set out in note 31 to the financial statements.

## charitable donations

During the year, the Group made charitable donations totaling HK$21,350,000.

## 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 55, 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 64, 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 51, is the 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 has 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.

**Thomas Johannes GROTE**, aged 42, is currently the joint Chief Operating Officer of the Esprit brand and the global head of wholesale operations of the Group. 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 and was later promoted to sales manager. He left the Group in 1992 and returned to the Group in June 1996.

**Jerome Squire GRIFFITH**, aged 47, is currently the joint Chief Operating Officer of the Esprit brand and the global head of retail operations of the Group. He received his Bachelor of Science Degree in Marketing from Pennsylvania State University. Before joining the Group in 2002 he held senior positions in major retail companies in the United States and Europe.

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

**non-executive directors**

**Paul CHENG Ming Fun**, aged 68, 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 has recently been appointed Chairman of The Link Management Limited. He is an Adjunct Professor of Management of Organizations of the Hong Kong University of Science and Technology and is also a member of the Council of The Chinese University of Hong Kong.

**Jürgen Alfred Rudolf FRIEDRICH**, aged 67, founded Esprit's European operations in 1976 and was appointed a Non-executive Director in 1997. He has over 31 years of experience in the apparel distribution and marketing business and is currently retired in the United States.

**Alexander Reid HAMILTON**, aged 63, 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 44, 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 Deacons and has over 20 years' experience of legal practice.

**Raymond OR Ching Fai**, aged 55, 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, executive director of The Hongkong and Shanghai Banking Corporation Limited, Chairman of Hang Seng Life Limited, and a director of Cathay Pacific Airways Limited and Hutchison Whampoa Limited.

**senior management**

(as of June 30, 2005)

**Ursula BUCK**, aged 43, 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 over 10 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 44, 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 45, is the Group Financial Controller. He is primarily responsible for the Group's statutory and management reporting as well as 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.

**Albert HESSE**, aged 49, is Global Chief Organization Officer. He holds a Master of Business Administration degree from the University of Regensburg. Prior to joining the Group in 2003, he worked in the IT and in the apparel sectors and has extensive international experience in organization, IT and logistics operation.

**Derong YANG**, aged 39, is Global Image Director. He joined the Group in September 1994 as the Creative Director. His current role is to create and ensure the smooth implementation of an integrated image system throughout the operating regions of the Group. Prior to joining the Group, he was Design Director of a renowned French designer, 'Jean Charles de Castelbajac'. He has received awards for excellence in his creative endeavors and is an activist in arts and culture.

## 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.

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 07/01/2004 | Granted | Exercised | Lapsed | As at 06/30/2005 |
|---|---|---|---|---|---|---|---|---|---|
| **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 |
| | | | | | 7,000,000 | 3,000,000 | – | – | 10,000,000 |

| | 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 07/01/2004 | Granted | Exercised | Lapsed | As at 06/30/2005 |
| John POON Cho Ming | 11/26/2002 | 14.60 | 11/26/2003 | 11/26/2003 - 11/25/2008 | 480,000 | – | 480,000 | – | – |
| | | | 11/26/2004 | 11/26/2004 - 11/25/2008 | 480,000 | – | 480,000 | – | – |
| | | | 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 | 360,000 | – | 360,000 | – | – |
| | | | 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 |
| | | | | | 4,200,000 | 1,800,000 | 1,320,000 | – | 4,680,000 |

**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 07/01/2004 | Granted | Exercised | Lapsed | As at 06/30/2005 |
|---|---|---|---|---|---|---|---|---|---|
| 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 |
| | | | | | 2,800,000 | 1,200,000 | – | – | 4,000,000 |

## 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 07/01/2004 | Granted | Exercised | Lapsed | As at 06/30/2005 |
|---|---|---|---|---|---|---|---|---|---|
| Jerome Squire GRIFFITH | 11/26/2002 | 14.60 | 11/26/2003 | 11/26/2003 - 11/25/2008 | 320,000 | – | 220,000 | – | 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 |
| | | | | | 2,800,000 | 1,200,000 | 220,000 | – | 3,780,000 |

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 07/01/2004 | Granted | Exercised | Lapsed | As at 06/30/2005 |
|---|---|---|---|---|---|---|---|---|---|
| **Employees & Consultants** | 11/26/2002 | 14.60 | 11/26/2003 | 11/26/2003 - 11/25/2008 | 2,156,000 | – | 1,056,000 | – | 1,100,000 |
| | | | 11/26/2004 | 11/26/2004 - 11/25/2008 | 3,472,000 | – | 1,692,000 | 200,000 | 1,580,000 |
| | | | 11/26/2005 | 11/26/2005 - 11/25/2008 | 3,472,000 | – | – | 256,000 | 3,216,000 |
| | | | 11/26/2006 | 11/26/2006 - 11/25/2008 | 3,472,000 | – | – | 256,000 | 3,216,000 |
| | | | 11/26/2007 | 11/26/2007 - 11/25/2008 | 3,472,000 | – | – | 256,000 | 3,216,000 |
| | 11/26/2003 | 24.20 | 11/26/2004 | 11/26/2004 - 11/25/2009 | 3,264,000 | – | 1,619,000 | 150,000 | 1,495,000 |
| | | | 11/26/2005 | 11/26/2005 - 11/25/2009 | 3,264,000 | – | – | 272,000 | 2,992,000 |
| | | | 11/26/2006 | 11/26/2006 - 11/25/2009 | 3,264,000 | – | – | 272,000 | 2,992,000 |
| | | | 11/26/2007 | 11/26/2007 - 11/25/2009 | 3,264,000 | – | – | 272,000 | 2,992,000 |
| | | | 11/26/2008 | 11/26/2008 - 11/25/2009 | 3,264,000 | – | – | 272,000 | 2,992,000 |
| | 12/23/2003 | 24.45 | 12/23/2004 | 12/23/2004 - 12/22/2009 | 120,000 | – | 120,000 | – | – |
| | | | 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 | – | – | 4,187,000 |
| | | | 11/27/2006 | 11/27/2006 - 11/26/2010 | – | 4,187,000 | – | – | 4,187,000 |
| | | | 11/27/2007 | 11/27/2007 - 11/26/2010 | – | 4,187,000 | – | – | 4,187,000 |
| | | | 11/27/2008 | 11/27/2008 - 11/26/2010 | – | 4,187,000 | – | – | 4,187,000 |
| | | | 11/27/2009 | 11/27/2009 - 11/26/2010 | – | 4,187,000 | – | – | 4,187,000 |
| | 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 |
| In aggregate | | | | | 32,964,000 | 21,785,000 | 4,487,000 | 2,206,000 | 48,056,000 |
| **TOTAL** | | | | | **49,764,000** | **28,985,000** | **6,027,000** | **2,206,000** | **70,516,000** |

## share options *continued*

*Notes:*

1. The closing prices of the shares of the Company immediately before the options granted on November 27, 2004, December 23, 2004 and January 21, 2005 were HK$42.20, HK$46.10 and HK$44.50 respectively.
2. The weighted average closing price of the shares immediately before the date of exercise by Mr. John C. POON was HK$42.90.
3. The weighted average closing price of the shares immediately before the date of exercise by Mr. Jerome Squire GRIFFITH was HK$42.90.
4. The weighted average closing price of the shares immediately before the dates of exercise by the employees and consultants was HK$47.82.
5. No share options were cancelled under the 2001 Share Option Scheme during the year.
6. There was an error in the total number of outstanding share options as of June 30, 2004 as stated in the 2003/2004 Annual Report. The correct total number of outstanding share options as of June 30, 2004 should have been 49,764,000 share options as opposed to 49,144,000 share options as stated.

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, 2005, the interests or short positions of the Directors 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 Issuers (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 controlled corporation (Note 1) | 191,208,352 | – | 191,208,352 | 15.94% |
| Heinz Jürgen KROGNER-KORNALIK | Beneficial owner | – | 10,000,000 | 10,000,000 | 0.83% |
| John POON Cho Ming | Beneficial owner | 70,000 | 4,680,000 | 4,750,000 | 0.40% |
| Thomas Johannes GROTE | Beneficial owner | – | 4,000,000 | 4,000,000 | 0.33% |
| Jerome Squire GRIFFITH | Beneficial owner | – | 3,780,000 | 3,780,000 | 0.32% |
| Jürgen Alfred Rudolf FRIEDRICH | Beneficial owner | 79,251,176 | – | 81,302,077 | 6.78% |
| | Interest of a controlled corporation (Note 2) | 2,000,000 | – | – | – |
| | Interest of spouse (Note 3) | 50,901 | – | – | – |

*Notes:*

1. The shares were held by Great View International Limited, the entire issued share capital of which is owned by Mr. Michael YING Lee Yuen.
2. The shares were held by JAF Foundation of which Mr. Jürgen Alfred Rudolf FRIEDRICH controls 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 share option scheme adopted by the Company are detailed in "share options" above.
5. All interests disclosed above represent long position in the shares and underlying shares of the Company.

### (2) Shares Options of the Company

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

As at June 30, 2005, save as disclosed above, none of the Directors, chief executives or their associates had any interests or short positions, whether beneficial or non-beneficial, in the shares, underlying shares or debentures of the Company or any of its associated corporations 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, 2005, the following shareholder(s) (other than the Directors or chief executives of the Company whose interests and short positions in the shares and underlying shares of the Company as disclosed above) had interests and 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 |
|---|---|---|---|
| Great View International Limited | Beneficial owner | 191,208,352 (Note 1) | 15.94% |
| JPMorgan Chase & Co. | Interest of controlled corporations (Note 2) | 155,790,548 (Notes 3 and 4) | 12.99% |
| State Street Corporation | Interest of controlled corporation | 96,280,161 (Notes 5 and 6) | 8.03% |
| The Capital Group Companies, Inc. | Investment manager | 72,019,200 (Notes 7 and 8) | 6.00% |

*Notes:*

1. Such interests have also been included as corporate interests of Mr. Michael Ying Lee Yuen as disclosed under "directors' interests and short positions in shares, underlying shares and debentures" above.
2. The Shares held by JPMorgan Chase & Co. were held in the following capacities:

| No. of Shares | Capacity |
|---|---|
| 3,036,500 | Beneficial owner |
| 79,753,981 | Investment manager |
| 73,000,067 | Custodian corporation/approved lending agent |

3. Details of the interest in the 155,790,548 Shares held by JPMorgan Chase & Co. were as follows:

| Name | Direct (D)/ Indirect (I) Interests in the Shares | Aggregate Long Position in Shares | Approximate Percentage of Aggregate Interests to Total Issued Share Capital |
|---|---|---|---|
| JPMorgan Chase Bank, N.A. | D | 75,745,197 | 6.315% |
| JPMorgan Chase Bank, N.A. | I | 3,204,643 | 0.267% |
| J.P. Morgan International Inc. | I | 3,204,643 | 0.267% |
| Bank One International Holdings Corporation | I | 3,204,643 | 0.267% |
| J.P. Morgan International Finance Limited | I | 3,204,643 | 0.267% |
| J.P. Morgan Capital Holdings Limited | I | 2,526,500 | 0.211% |
| J.P. Morgan Chase (UK) Holdings Limited | I | 2,526,500 | 0.211% |
| J.P. Morgan Chase International Holdings Limited | I | 2,526,500 | 0.211% |
| J.P. Morgan Securities Ltd. | D | 2,526,500 | 0.211% |
| J.P. Morgan Overseas Capital Corporation | I | 678,143 | 0.057% |
| J.P. Morgan Whitefriars Inc. | D | 510,000 | 0.043% |
| J.P. Morgan International Bank Limited | D | 168,143 | 0.014% |
| JPMorgan Asset Management Holdings Inc. | I | 76,785,208 | 6.402% |
| JPMorgan Asset Management (Canada) Inc. | D | 1,932,000 | 0.161% |
| J.P. Morgan Investment Management Inc. | D | 9,163,383 | 0.764% |
| JPMorgan Asset Management International Limited | I | 9,844,119 | 0.821% |
| JPMorgan Asset Management Holdings (UK) Limited | I | 9,844,119 | 0.821% |
| JPMorgan Asset Management (UK) Limited | D | 6,525,000 | 0.544% |
| J.P. Morgan Investment Management Limited | D | 551,619 | 0.046% |
| J.P. Morgan Investment Management Limited | I | 2,767,500 | 0.231% |
| JPMorgan Asset Management (London) Limited | D | 2,767,500 | 0.231% |
| JPMorgan Asset Management (Asia) Inc. | I | 55,845,706 | 4.656% |
| JF International Management Inc. | D | 145,000 | 0.012% |
| JF Asset Management (Singapore) Limited – Co Reg #:197601586K | D | 1,090,000 | 0.091% |
| JF Asset Management Limited | D | 52,391,206 | 4.368% |
| JF Asset Management Limited | I | 512,500 | 0.043% |
| JF Funds Limited | I | 512,500 | 0.043% |
| JF Asset Management (Taiwan) Limited | D | 512,500 | 0.043% |
| J.P. Morgan Fleming Asset Management (Japan) Limited | D | 1,707,000 | 0.142% |
| J.P. Morgan Capital Financing Limited | I | 55,500 | 0.005% |
| Robert Fleming Holdings Limited | I | 55,500 | 0.005% |
| Robert Fleming (Luxembourg) (Joint Ventures) Sarl | I | 55,500 | 0.005% |
| JPMorgan Asset Management (Europe) S.a.r.l. | D | 55,500 | 0.005% |

*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 155,790,548 Shares held or deemed to be held by: (I) JPMorgan Chase Bank, N.A. (78,949,840 Shares), (II) J.P. Morgan Asset Management Holdings Inc. (76,785,208 Shares) and (III) J.P. Morgan Capital Financing Limited (55,500 Shares), all wholly-owned by JPMorgan Chase & Co.

(I) JPMorgan Chase Bank, N.A. directly held 75,745,197 Shares and was also deemed to be interested in an aggregate of 3,204,643 Shares held by the following indirect subsidiaries held through J.P. Morgan International Finance Limited ("JPIF"), directly wholly-owned by Bank One International Holdings Corporation, directly wholly-owned by J.P. Morgan International Inc., directly wholly-owned by JPMorgan Chase Bank, N.A.:

(a) 510,000 Shares were held by J.P. Morgan Whitefriars Inc., wholly-owned by J.P. Morgan Overseas Capital Corporation, wholly-owned subsidiary of JPIF;

(b) 2,526,500 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) 168,143 Shares were held by J.P. Morgan International Bank Limited, wholly-owned by J.P. Morgan Overseas Capital Corporation, wholly-owned subsidiary of JPIF.

## substantial shareholders' interests *continued*

*Explanatory Notes: **continued***

(II) JPMorgan Asset Management Holdings Inc. ("JPAMH") was deemed to be interested in an aggregate of 76,785,208 Shares held by the following subsidiaries:
- (a) 1,932,000 Shares were held by JPMorgan Asset Management (Canada) Inc., directly wholly-owned by JPAMH;
- (b) 9,163,383 Shares were held by J.P. Morgan Investment Management Inc., directly wholly-owned by JPAMH;
- (c) 55,845,706 Shares were deemed to be held by JPMorgan Asset Management (Asia) Inc. ("JPAsia"), directly wholly-owned by JPAMH, through the following subsidiaries:
  - (i) 145,000 Shares were held by JF International Management Inc., wholly-owned by JPAsia;
  - (ii) 1,090,000 Shares were held by JF Asset Management (Singapore) Limited – Co Reg #:19701586K, wholly-owned by JPAsia;
  - (iii) 1,707,000 Shares were held by J.P. Morgan Fleming Asset Management (Japan) Limited, wholly-owned by JPAsia;
  - (iv) 52,391,206 Shares were held by JF Asset Management Limited, wholly-owned by JPAsia; and
  - (v) 512,500 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) 9,844,119 Shares were deemed to be held by JPMorgan Asset Management International Limited ("JPAM"), directly wholly-owned by JPAMH, through the following subsidiaries:
  - (i) 6,525,000 Shares were held by JP Morgan Asset Management (UK) Limited, wholly-owned by JPMorgan Asset Management Holdings (UK) Limited, wholly-owned by JPAM;
  - (ii) 551,619 Shares were held by J.P. Morgan Investment Management Limited, wholly-owned by JPMorgan Asset Management Holdings (UK) Limited, wholly-owned by JPAM; and
  - (iii) 2,767,500 Shares were held by JPMorgan Asset Management (London) Limited, wholly-owned by J.P. Morgan Investment Management Limited, wholly-owned by JPMorgan Asset Management Holdings (UK) Limited, wholly-owned by JPAM.

(III) J.P. Morgan Capital Financing Limited ("JPCF") was also deemed to be interested in 55,500 Shares held by the following subsidiary:

55,500 Shares were held by JPMorgan Asset Management (Europe) S.a.r.l., 99.99% subsidiary of Robert Fleming (Luxembourg) (Joint Ventures) Sarl, wholly-owned by Robert Fleming Holdings Limited, wholly-owned subsidiary of JPCF.

4. All interests disclosed in Note 3 above represent long positions in the Shares of the Company of which 73,000,067 Shares represent lending pool.
5. State Street Corporation was deemed to be interested in 96,280,161 Shares through its 100% interest in State Street Bank & Trust Company.
6. All interests disclosed in Note 5 above represent long positions in the Shares of the Company and all 96,280,161 Shares represent lending pool.
7. Details of the interest in the 72,019,200 Shares held by The Capital Group Companies, Inc. were as follows:

| Name | Direct (D)/ Indirect (I) Interests in the Shares | Aggregate Long Position in Shares | Approximate Percentage of Aggregate Interests to Total Issued Share Capital |
|---|---|---|---|
| Capital Research and Management Company | D | 47,949,500 | 3.998% |
| Capital Guardian Trust Company | D | 20,732,200 | 1.729% |
| Capital International, Inc. | D | 1,824,500 | 0.152% |
| Capital International Limited | D | 1,144,000 | 0.095% |
| Capital International S.A. | D | 369,000 | 0.031% |

*Explanatory Notes:*

All the following interests were deemed to be held by the relevant company under the SFO. The Capital Group Companies, Inc. was deemed to be interested in an aggregate of 72,019,200 Shares held or deemed to be held by the following subsidiaries:
- (I) 47,949,500 Shares were held by Capital Research and Management Company, wholly-owned by The Capital Group Companies, Inc.;
- (II) 20,732,200 Shares were held by Capital Guardian Trust Company, wholly-owned by Capital Group International, Inc., wholly-owned by The Capital Group Companies, Inc.;
- (III) 1,824,500 Shares were held by Capital International, Inc., wholly-owned by Capital Group International, Inc., wholly-owned by The Capital Group Companies, Inc.;
- (IV) 1,144,000 Shares were held by Capital International Limited, wholly-owned by Capital Group International, Inc., wholly-owned by The Capital Group Companies, Inc.; and
- (V) 369,000 Shares were held by Capital International S.A., wholly-owned by Capital Group International, Inc., wholly-owned by The Capital Group Companies, Inc.

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

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, 2005 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.

## 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 financial year.

## pre-emptive rights

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

## major customers and suppliers

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

## public float

As at the date of this report and insofar as the Directors are aware, the Company maintained sufficient public float as required under the Listing Rules.

## management contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

## related party transactions and connected transactions

Details of the significant related party transactions undertaken in the normal course of business are provided under note 29 to the financial statements. None of these related party transactions constitutes a connected transaction as defined in the Listing Rules.

## audit committee

As required under the Listing Rules, the Company has an Audit Committee comprising of four Non-executive Directors of the Company, three of whom are Independent Non-executive Directors of the Company. The Audit Committee has reviewed the accounting principles and practices adopted by the Group and has also discussed auditing, internal controls and financial reporting matters including the review of the audited consolidated financial statements for the year ended June 30, 2005 of the Group.

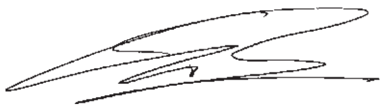
## corporate governance

Particulars of the Company's corporate governance practices are set out on pages 43 to 46 of this report.

## auditors

The financial statements have been audited by PricewaterhouseCoopers who are due to retire and, being eligible, offer themselves for re-appointment at the 2005 Annual General Meeting.

On behalf of the Board



**John POON Cho Ming**
Deputy Chairman

Hong Kong, September 13, 2005

# report of the auditors

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, 2005, 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 68 to 103 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, 2005, and of the Group's results of its operations 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

**PricewaterhouseCoopers**
Certified Public Accountants
Hong Kong, September 13, 2005

# consolidated income statement

for the year ended June 30, 2005

| | Notes | 2005 HK$'000 | 2004 HK$'000 |
|---|---|---|---|
| **Turnover** | 5 | 20,631,815 | 16,356,503 |
| Cost of goods sold | | (9,412,770) | (7,839,226) |
| **Gross profit** | | 11,219,045 | 8,517,277 |
| Staff costs | 12 | (2,644,145) | (2,109,137) |
| Depreciation | | (451,958) | (342,171) |
| Other operating costs | | (3,921,417) | (3,194,448) |
| **Operating profit** | 6 | 4,201,525 | 2,871,521 |
| Interest income | | 21,576 | 39,556 |
| Finance costs | 7 | (1,928) | (21,786) |
| Share of results of associates | | 72,920 | 62,810 |
| **Profit before taxation** | | 4,294,093 | 2,952,101 |
| Taxation | 8 | (956,516) | (948,661) |
| **Profit attributable to shareholders** | 9 | 3,337,577 | 2,003,440 |
| **Dividends** | 10 | 2,338,743 | 1,396,276 |
| **Earnings per share** | 11 | | |
| – Basic | | HK$2.79 | HK$1.68 |
| – Diluted | | HK$2.73 | HK$1.66 |

# consolidated balance sheet

as at June 30, 2005

| | Notes | 2005 HK$'000 | 2004 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Intangible assets | 14 | 2,009,028 | 2,020,416 |
| Property, plant and equipment | 15 | 2,052,993 | 1,474,286 |
| Other investments | | 7,846 | 7,846 |
| Investments in associates | 16 | 181,781 | 154,984 |
| Prepaid lease payments | 17 | 184,419 | 20,943 |
| Deferred tax assets | 24 | 204,982 | 104,340 |
| | | 4,641,049 | 3,782,815 |
| **Current assets** | | | |
| Inventories | 18 | 1,386,788 | 1,137,184 |
| Debtors, deposits and prepayments | 19 | 2,238,316 | 1,702,406 |
| Amounts due from associates | 16 | 39,033 | 18,546 |
| Short-term bank deposits | 20 | 124,688 | 214,154 |
| Bank balances and cash | 20 | 1,603,963 | 1,543,554 |
| | | 5,392,788 | 4,615,844 |
| **Current liabilities** | | | |
| Creditors and accrued charges | 22 | 2,162,682 | 1,883,057 |
| Taxation | | 501,714 | 767,130 |
| Obligations under finance leases | | | |
| – due within one year | 23 | – | 1,315 |
| | | 2,664,396 | 2,651,502 |
| **Net current assets** | | 2,728,392 | 1,964,342 |
| **Total assets less current liabilities** | | 7,369,441 | 5,747,157 |

| | Notes | 2005 HK$'000 | 2004 HK$'000 |
|---|---|---|---|
| Financed by: | | | |
| **Share capital** | 21 | 119,943 | 119,340 |
| **Reserves** | | 6,919,209 | 5,295,617 |
| **Shareholders' funds** | | 7,039,152 | 5,414,957 |
| **Deferred tax liabilities** | 24 | 330,289 | 332,200 |
| | | 7,369,441 | 5,747,157 |

Approved by the Board of Directors on September 13, 2005.

**Michael Ying Lee Yuen**
Chairman

**John Poon Cho Ming**
Deputy Chairman

# consolidated cash flow statement

for the year ended June 30, 2005

| | Notes | 2005 HK$'000 | 2004 HK$'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated from operations | 25 | 4,068,571 | 2,991,275 |
| Interest paid | | (1,901) | (1,667) |
| Interest element of finance lease payments | | (27) | (82) |
| Hong Kong profits tax paid | | (5,039) | (60,704) |
| Overseas tax paid | | (1,343,653) | (1,040,231) |
| Overseas tax refund received | | – | 93,955 |
| **Net cash inflow from operating activities** | | 2,717,951 | 1,982,546 |
| **Cash flows from investing activities** | | | |
| Net cash outflow from acquisition of subsidiaries | | – | (71,865) |
| Purchase of property, plant and equipment | | (1,064,689) | (661,989) |
| Proceeds from disposal of property, plant and equipment | 25 | 10,512 | 18,064 |
| Prepaid lease payments | | (171,657) | – |
| Dividend received from an associate | | 46,123 | 29,400 |
| Interest received | | 21,576 | 39,570 |
| **Net cash used in investing activities** | | (1,158,135) | (646,820) |
| **Cash flows from financing activities** | | | |
| Net proceeds on issue of shares for cash | | 108,175 | 39,385 |
| Repayment of obligations under finance leases | | (1,342) | (1,162) |
| Repayment of long-term bank loan | | – | (806,663) |
| Interest paid on long-term bank loan | | – | (20,037) |
| Dividends paid | | (1,712,641) | (971,472) |
| **Net cash used in financing activities** | | (1,605,808) | (1,759,949) |

| | Notes | 2005 HK$'000 | 2004 HK$'000 |
|---|---|---|---|
| **Net decrease in cash and cash equivalents** | | (45,992) | (424,223) |
| **Cash and cash equivalents at beginning of year** | | 1,757,708 | 2,096,665 |
| **Effect of change in exchange rates** | | 16,935 | 85,266 |
| **Cash and cash equivalents at end of year** | 20 | 1,728,651 | 1,757,708 |

# consolidated statement of changes in equity

for the year ended June 30, 2005

| | Share capital HK$'000 | Share premium HK$'000 | Contributed surplus HK$'000 | Translation reserve HK$'000 | Capital reserve HK$'000 | Retained profits HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| Balance at July 1, 2003 | 118,869 | 1,270,243 | 6,602 | 154,108 | – | 2,642,164 | 4,191,986 |
| Exchange translation recognized directly in equity | – | – | – | 151,619 | – | – | 151,619 |
| Profit attributable to shareholders | – | – | – | – | – | 2,003,440 | 2,003,440 |
| Total recognized income | – | – | – | 151,619 | – | 2,003,440 | 2,155,059 |
| 2002/03 final and special dividends paid | – | – | – | – | – | (744,727) | (744,727) |
| 2003/04 interim dividend paid | – | – | – | – | – | (226,746) | (226,746) |
| Issues of shares (Note 21) | 471 | 38,914 | – | – | – | – | 39,385 |
| Balance at June 30, 2004 | 119,340 | 1,309,157 | 6,602 | 305,727 | – | 3,674,131 | 5,414,957 |
| Representing: | | | | | | | |
| Proposed final and special dividends | | | | | | | 1,169,530 |
| Balance after proposed final and special dividends | | | | | | | 4,245,427 |
| Balance at June 30, 2004 | | | | | | | 5,414,957 |

| | Share capital HK$'000 | Share premium HK$'000 | Contributed surplus HK$'000 | Translation reserve HK$'000 | Capital reserve HK$'000 | Retained profits HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| Balance at July 1, 2004 | 119,340 | 1,309,157 | 6,602 | 305,727 | – | 3,674,131 | 5,414,957 |
| Exchange translation recognized directly in equity | – | – | – | (108,916) | – | – | (108,916) |
| Profit attributable to shareholders | – | – | – | – | – | 3,337,577 | 3,337,577 |
| Total recognized income | – | – | – | (108,916) | – | 3,337,577 | 3,228,661 |
| Transfer from retained profits | – | – | – | – | 1,459 | (1,459) | – |
| 2003/04 final and special dividends paid (Note 10) | – | – | – | – | – | (1,173,111) | (1,173,111) |
| 2004/05 interim dividend paid | – | – | – | – | – | (539,530) | (539,530) |
| Issues of shares (Note 21) | 603 | 107,572 | – | – | – | – | 108,175 |
| Balance at June 30, 2005 | **119,943** | **1,416,729** | **6,602** | **196,811** | **1,459** | **5,297,608** | **7,039,152** |
| Representing: | | | | | | | |
| Proposed final and special dividends | | | | | | | 1,799,213 |
| Balance after proposed final and special dividends | | | | | | | 5,239,939 |
| Balance at June 30, 2005 | | | | | | | 7,039,152 |

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

The capital reserve of the Group represents 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 ("SEHK") (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 ("IFRSs"), issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements have been approved for issue by the Board of Directors on September 13, 2005.

## 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 IFRSs.

In preparing these financial statements in conformity with IFRSs, the Group has adopted all the new and revised IFRSs, which are relevant to its operations except IFRS 2 "Share-based Payment", which will be effective for annual accounting periods beginning on or after January 1, 2005.

The Group operates equity-settled, share-based compensation plans to grant share options to directors, employees and consultants of the Group in exchange for their services provided to the Group. IFRS 2 will require the Group to measure the fair value of the share options at the date of grant and recognizes 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 shall be estimated by applying an option pricing model, taking into account a number of factors, and among all 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. Management is currently evaluating the most appropriate assumptions and the valuation method that it will use in valuing the Group's share options and therefore the Board takes the view that it would be inappropriate to state an estimated value of such options and the potential financial impact to the Group until IFRS 2 becomes effective for the Group's annual accounting periods commencing July 1, 2005.

No early adoption of the following new IFRSs that have been issued but are not yet effective. The adoption of such IFRSs will not result in substantial changes to the Group's accounting policies.

| | |
|---|---|
| IFRS 6 | Exploration for and Evaluation of Mineral Resources |
| IFRS 7 | Financial Instruments: Disclosures |
| IAS 1 (Amendment) | Presentation of Financial Statements: Capital Disclosures |
| IAS 19 (Amendment) | Employee Benefits: Actuarial Gains and Losses, Group Plans and Disclosures |
| IAS 39 (Amendment) | Financial Instruments: Recognition and Measurement – Cash Flow Hedge Accounting of Forecast Intragroup Transactions |
| IAS 39 (Amendment) | Financial Instruments: Recognition and Measurement – The Fair Value Option |

When preparing the consolidated financial statements, management has adopted certain accounting, valuation and consolidation methods to comply with IFRSs. 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.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

### (b) Consolidation

*(i) Subsidiaries*

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

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

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

*(ii) Associates*

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

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

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

### (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 | $3^{1}/_{3}$ – 5% |
| Plant and machinery | 30% |
| Furniture and office equipment | 10 – $33^{1}/_{3}$% |
| Motor vehicles | 30% |

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

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

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

**(f) Intangible assets**

*(i) Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is allocated to cash-generating units for the purpose of impairment testing.

*(ii) Trademarks*

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

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

### (g) Impairment of assets

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

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

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

### (h) Inventories

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

### (i) Receivables and payables

Receivables and payables are recognized at cost which approximates to their fair values, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all the amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flow, discounted at the effective interest rate. The amount of provision is recognized in the income statement. Receivables and payables denominated in foreign currencies are stated at the year-end exchange rates. The resulting gains or losses are recorded in the consolidated income statement, with the exception of the gains or losses resulting from the translation of inter-company long-term loans, which are considered to form part of the net investment in the related subsidiaries or for which settlement is not managed or anticipated in the foreseeable future. The impact of translation of these items has been reflected in equity.

### (j) Cash and cash equivalents

Cash and cash equivalents include 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.

### (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 Company granted share options to certain directors and eligible persons. No share based payments cost is recognized. When the options are exercised, the proceeds received net of any transaction costs are credited to share capital and share premium.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

### (l) Employee benefits *continued*

*(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.

*(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 such derivative instruments that did not qualify for hedge accounting were 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.

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.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

**(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 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 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 reassessed the useful life of previously recognized intangible assets. As a result of this assessment, the acquired Esprit trademarks were classified as an indefinite-lived intangible asset in accordance with International Accounting Standard (the "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 or circumstances and continues to support the view of indefinite useful life for this asset.

## 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *continued*

### (a) Useful life and impairment of trademarks *continued*

*(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, 2005. The Group has conducted a valuation of the Esprit trademarks as one corporate asset based on value-in-use calculation. The resulting value of the Esprit trademarks as at June 30, 2005 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 12.5%. 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 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 liabilities for anticipated tax audit issues based on estimates of whether additional taxes will 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.

| | 2005<br>HK$'000 | 2004<br>HK$'000 |
|---|---|---|
| Turnover | | |
| Sales of goods | **20,435,410** | 16,158,304 |
| Licensing and other income | **196,405** | 198,199 |
| | **20,631,815** | 16,356,503 |

**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.

## 5 TURNOVER AND SEGMENT INFORMATION *continued*

**Primary reporting format – business segments *continued***

| | Wholesale 2005 HK$'000 | Retail 2005 HK$'000 | Licensing and others 2005 HK$'000 | Eliminations 2005 HK$'000 | Group 2005 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 | 2,957,733 | 818,752 | 510,453 | (105,749) | 4,181,189 |
| Unallocated net income | | | | | 20,336 |
| Interest income | | | | | 21,576 |
| Finance costs | | | | | (1,928) |
| Share of results of associates | | | | | 72,920 |
| Profit before taxation | | | | | 4,294,093 |
| Segment EBIT – ex-inter-segment licensing expense/income (note) | 3,256,541 | 917,030 | 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 |

## 5 TURNOVER AND SEGMENT INFORMATION *continued*

**Primary reporting format – business segments** ***continued***

| | Wholesale 2004 HK$'000 | Retail 2004 HK$'000 | Licensing and others 2004 HK$'000 | Eliminations 2004 HK$'000 | Group 2004 HK$'000 |
|---|---|---|---|---|---|
| Turnover | 9,613,486 | 6,544,818 | 198,199 | – | 16,356,503 |
| Inter-segment sales | – | – | 373,073 | (373,073) | – |
| | 9,613,486 | 6,544,818 | 571,272 | (373,073) | 16,356,503 |
| Segment results | 2,117,151 | 451,499 | 345,151 | (29,335) | 2,884,466 |
| Unallocated net expenses | | | | | (12,945) |
| Interest income | | | | | 39,556 |
| Finance costs | | | | | (21,786) |
| Share of results of associates | | | | | 62,810 |
| Profit before taxation | | | | | 2,952,101 |
| Segment EBIT – ex-inter-segment licensing expense/income (note) | 2,332,526 | 512,246 | 69,029 | (29,335) | 2,884,466 |
| Segment assets | 5,177,848 | 2,593,734 | 409,134 | (2,457,160) | 5,723,556 |
| Investments in associates | | | | | 173,530 |
| Intangible assets | | | | | 2,020,416 |
| Other unallocated assets | | | | | 481,157 |
| Total assets | | | | | 8,398,659 |
| Segment liabilities | 1,976,570 | 2,226,315 | 38,604 | (2,457,160) | 1,784,329 |
| Other unallocated liabilities | | | | | 1,199,373 |
| Total liabilities | | | | | 2,983,702 |
| Capital expenditure | 103,362 | 460,413 | 3,755 | – | 567,530 |
| Depreciation | 66,111 | 269,397 | 6,663 | – | 342,171 |
| Provision for retail store exit costs | – | 14,256 | – | – | 14,256 |

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$3,256,541,000 (2004: HK$2,332,526,000) and HK$917,030,000 (2004: HK$512,246,000) respectively, representing segment EBIT margin ("segment EBIT/segment turnover") of 27.4% (2004: 24.3%) and 10.7% (2004: 7.8%), respectively.

## 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 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 |

| | Turnover 2004 HK$'000 | Capital expenditure 2004 HK$'000 | Segment assets 2004 HK$'000 |
|---|---|---|---|
| Europe | 13,716,973 | 472,634 | 4,937,962 |
| Asia | 1,548,592 | 48,678 | 1,095,007 |
| Australasia | 703,865 | 17,691 | 173,706 |
| North America and others | 387,073 | 28,527 | 143,605 |
| Eliminations | – | – | (626,724) |
| | 16,356,503 | 567,530 | 5,723,556 |
| Unallocated assets: | | | |
| Intangible assets | | | 2,020,416 |
| Investments in associates | | | 173,530 |
| Other assets | | | 481,157 |
| Total | | | 8,398,659 |

## 6 OPERATING PROFIT

| | 2005 HK$'000 | 2004 HK$'000 |
|---|---|---|
| Operating profit is arrived at after crediting and charging the following: | | |
| **Crediting:** | | |
| Net exchange gains on foreign exchange forward contracts | 4,366 | 13,585 |
| Other net exchange gains | 155,133 | 26,249 |
| **Charging:** | | |
| Auditors' remuneration | 8,376 | 7,299 |
| Depreciation | 451,958 | 342,171 |
| Impairment of property, plant and equipment | 387 | 4,647 |
| Loss on disposal of property, plant and equipment | 5,468 | 13,808 |
| Amortization of prepaid lease payments | 4,238 | 499 |
| Operating lease rental expenses – land and buildings (including contingent rental of HK$75,347,000 (2004: HK$67,702,000)) | 1,698,088 | 1,353,825 |
| Provision for obsolete inventories and inventories write-offs | 56,015 | 42,934 |
| Provision for doubtful debts | 31,852 | 17,849 |
| Provision for retail store exit costs | 11,340 | 14,256 |

## 7 FINANCE COSTS

| | 2005 HK$'000 | 2004 HK$'000 |
|---|---|---|
| Interest on bank loans and overdrafts wholly repayable within five years | 1,901 | 21,704 |
| Interest element of finance leases payments | 27 | 82 |
| | 1,928 | 21,786 |

## 8 TAXATION

| | 2005 HK$'000 | 2004 HK$'000 |
|---|---|---|
| Current tax | | |
| Hong Kong profits tax | 4,050 | 12,874 |
| Overseas taxation | 1,061,443 | 937,010 |
| Overprovision in prior years | (4,000) | – |
| | 1,061,493 | 949,884 |
| Deferred tax credit (Note 24) | | |
| Current year | (104,977) | (1,223) |
| Taxation | 956,516 | 948,661 |

Hong Kong profits tax is calculated at 17.5% (2004: 17.5%) on the estimated assessable profit for the year, net of tax losses carried forward, if any.

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 any.

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 22% (2004: 32%). The decrease is due to the implementation of worldwide tax strategies in the current financial year.

| | 2005 HK$'000 | 2004 HK$'000 |
|---|---|---|
| Profit before taxation | 4,294,093 | 2,952,101 |
| Tax calculated at applicable tax rate | 945,783 | 944,672 |
| Expenses not deductible for tax purpose | 40,304 | 19,900 |
| Utilization of carried forward tax losses | (58,472) | (42,691) |
| Tax effect of tax losses not recognized | 37,212 | 40,316 |
| Tax effect of share of results of associates | (16,042) | (20,099) |
| Under provision in prior years and others | 7,731 | 6,563 |
| Taxation | 956,516 | 948,661 |

## 9 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders of the Company is dealt with in the financial statements of the Company to the extent of HK$3,343,762,000 (2004: HK$1,754,432,000).

## 10 DIVIDENDS

| | 2005 HK$'000 | 2004 HK$'000 |
|---|---|---|
| Paid interim dividend of HK$0.45 (2004: HK$0.19) per share | 539,530 | 226,746 |
| Proposed final dividend of HK$0.66 and special dividend of HK$0.84 (2004 final: HK$0.48, special: HK$0.50) per share | 1,799,213 | 1,169,530* |
| | 2,338,743 | 1,396,276 |

The amount of 2005 proposed final and special dividends is based on 1,199,475,434 shares (2004: 1,193,398,434 shares as at August 31, 2004) in issue as at August 31, 2005. The proposed final and special dividends for 2005 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, 2006.

* The actual final and special dividends paid for 2004 was HK$1,173,111,000 due to additional shares issued during the period from September 1, 2004 to December 3, 2004, the date of closure of 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.

| | 2005 HK$'000 | 2004 HK$'000 |
|---|---|---|
| Profit attributable to shareholders | 3,337,577 | 2,003,440 |
| Weighted average number of ordinary shares in issue (thousands) | 1,196,362 | 1,191,747 |
| Basic earnings per share (HK dollars per share) | 2.79 | 1.68 |

**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.

| | 2005 HK$'000 | 2004 HK$'000 |
|---|---|---|
| Profit attributable to shareholders | 3,337,577 | 2,003,440 |
| Weighted average number of ordinary shares in issue (thousands) | 1,196,362 | 1,191,747 |
| Adjustments for share options (thousands) | 26,865 | 14,199 |
| Weighted average number of ordinary shares for diluted earnings per share (thousands) | 1,223,227 | 1,205,946 |
| Diluted earnings per share (HK dollars per share) | 2.73 | 1.66 |

## 12 STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

| | 2005 HK$'000 | 2004 HK$'000 |
|---|---|---|
| Salaries and wages | 1,925,609 | 1,560,708 |
| Social security costs and other staff costs | 667,300 | 513,282 |
| Pensions costs of defined contribution plans | 51,236 | 35,147 |
| | 2,644,145 | 2,109,137 |

**Retirement contribution retirement schemes**

The Group principally participates in defined contribution plans. In Hong Kong the Group participates in the Mandatory Provident Fund Scheme operated by HSBC Provident Fund Trustee (Hong Kong) Limited. Contribution at a fixed rate of 5 per cent of the employee's relevant income, subject to a cap of monthly relevant income of HK$20,000 per employee, are made to the scheme and are vested immediately. The Group also operates several defined contribution retirement plans for its overseas subsidiaries and pays contributions to publicly or privately administered pension plans on a mandatory, contractual or voluntary basis. Contributions to the schemes by the Group and employees are calculated at fixed percentages of employees' basic salaries or at agreed fixed amounts.

Under the defined contribution scheme in some countries, where employees leave the scheme prior to the full vesting of the employer's contributions, the amount of forfeited contributions is used to reduce the contributions payable by the Group. During the year, the contribution forfeited in accordance with the schemes' rules amounted to HK$293,000 (2004: Nil) 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$'000 | Provident fund contributions/ retirement benefit costs HK$'000 | 2005 Total emoluments HK$'000 | 2004 Total emoluments HK$'000 |
|---|---|---|---|---|---|---|
| Michael YING Lee Yuen | – | 8,068 | – | 12 | 8,080 | 8,154 |
| Heinz Jürgen KROGNER-KORNALIK | – | 12,887 | 32,065 | 5 | 44,957 | 28,150 |
| | | | | | (EUR4,532,900) | (EUR3,032,862) |
| John POON Cho Ming | – | 4,739 | 7,750 | 12 | 12,501 | 6,612 |
| Thomas Johannes GROTE | – | 4,672 | 2,975 | – | 7,647 | 7,203 |
| | | | | | (EUR771,059) | (EUR776,059) |
| Jerome Squire GRIFFITH[1] | – | 4,690 | 2,975 | – | 7,665 | 1,091 |
| | | | | | (EUR772,892) | (EUR117,538) |
| CHHIBBER Surinder[2] | – | – | – | – | – | 3,010 |
| Connie WONG Chin Tzi[2] | – | – | – | – | – | 2,025 |
| Jürgen Alfred Rudolf FRIEDRICH[3,5] | 200 | – | – | – | 200 | 200 |
| Simon LAI Sau Cheong[3,6] | 220 | – | – | – | 220 | 203 |
| Alexander Reid HAMILTON[4,5] | 240 | – | – | – | 240 | 227 |
| Raymond OR Ching Fai[4,5] | 220 | – | – | – | 220 | 208 |
| Paul CHENG Ming Fun[4,5] | 220 | – | – | – | 220 | 208 |
| Total for the year 2005 | 1,100 | 35,056 | 45,765 | 29 | 81,950 | 57,291 |
| Total for the year 2004 | 1,046 | 32,657 | 23,550 | 38 | | 57,291 |

1 Mr. Griffith was appointed as executive director on March 24, 2004
2 Mr. Chhibber and Ms. Wong resigned as executive directors on March 31, 2004
3 Non-executive directors
4 Independent non-executive directors
5 Members of the Audit Committee
6 Mr. Lai was redesignated as non-executive director on September 15, 2004

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

### (a) Directors' emoluments *continued*

The aggregate amounts of emoluments received and receivable by Directors of the Company, excluding share option benefit, during the year are as follows:

| | 2005 HK$'000 | 2004 HK$'000 |
|---|---|---|
| Fees to non-executive Directors[1] | 1,100 | 1,046 |
| Salaries, housing and other allowances and benefits in kind[2] | 35,056 | 32,657 |
| Bonuses to Executive Directors | 45,765 | 23,550 |
| Pensions costs of defined contribution plans | 29 | 38 |
| | 81,950 | 57,291 |

[1] The amount includes directors' fees of HK$726,000 (2004: HK$846,504) paid to Independent non-executive Directors.

[2] The amount does not include any benefit arising as a result of the grant, or exercise, of share options, details of which are set out in the paragraphs headed "share options" on pages 58 to 63 of the Report of the Directors.

The emoluments of the Directors fell within the following bands:

| Emoluments Band | Number of Directors 2005 | 2004 |
|---|---|---|
| Nil – HK$ 1,000,000 | 5 | 5 |
| HK$ 1,000,001 – HK$ 1,500,000 | – | 1 |
| HK$ 2,000,001 – HK$ 2,500,000 | – | 1 |
| HK$ 3,000,001 – HK$ 3,500,000 | – | 1 |
| HK$ 6,500,001 – HK$ 7,000,000 | – | 1 |
| HK$ 7,000,001 – HK$ 7,500,000 | – | 1 |
| HK$ 7,500,001 – HK$ 8,000,000 | 2 | – |
| HK$ 8,000,001 – HK$ 8,500,000 | 1 | 1 |
| HK$ 12,500,001 – HK$ 13,000,000 | 1 | – |
| HK$ 28,000,001 – HK$ 28,500,000 | – | 1 |
| HK$ 44,500,001 – HK$ 45,000,000 | 1 | – |
| | 10 | 12 |

### (b) Five highest paid individuals

In 2005, the five individuals whose emoluments ranked for the highest were also Directors of the Company. In 2004, the five highest paid included four Directors and one senior staff. The emoluments for the two years are listed below:

| | 2005 HK$'000 | 2004 HK$'000 |
|---|---|---|
| Salaries, housing and other allowances and benefits in kind | – | 5,457 |
| Bonuses | – | 1,903 |
| Pensions costs of defined contribution plans | – | 5 |
| | – | 7,365 |

| Emoluments Band | Number of Individuals 2005 | 2004 |
|---|---|---|
| HK$ 7,000,001 – HK$ 7,500,000 | – | 1 |

During the year ended June 30, 2005, 6,027,000 shares (2004: 4,711,000 shares) were issued to directors, employees and consultants of the Group pursuant to the exercise of share options.

Share options granted to directors, employees and consultants of the Group will be required to be fair valued at the date of grant under IFRS 2 "Share-based Payment" which will be effective for the accounting periods beginning on or after January 1, 2005 (i.e., the financial year commencing July 1, 2005 in the case of the Group). As mentioned in note 2(a), management is currently assessing the impact of IFRS 2 and no expenses have been recognized in the financial statement for such option.

## 14 INTANGIBLE ASSETS

| | Trademarks HK$'000 | Goodwill HK$'000 | Total HK$'000 |
|---|---|---|---|
| **Cost** | | | |
| At July 1, 2003 | 1,960,034 | – | 1,960,034 |
| Acquisition of subsidiaries | – | 38,552 | 38,552 |
| Exchange translation | 19,097 | 2,733 | 21,830 |
| At July 1, 2004 | 1,979,131 | 41,285 | 2,020,416 |
| Exchange translation | (10,163) | (1,225) | (11,388) |
| **At June 30, 2005** | 1,968,968 | 40,060 | 2,009,028 |

**Impairment test for trademarks**

The trademarks are considered to have an indefinite useful life and were tested for impairment at June 30, 2005. Details are set out 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, 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** |

At June 30, 2005, no assets were held under finance leases. At June 30, 2004, the net book value of motor vehicles of HK$48,000 and furniture and office equipment of HK$1,427,000 were held under finance leases.

## 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, 2003 | 27,084 | 71,841 | 1,612,220 | 6,078 | 697,087 | 14,467 | 2,428,777 |
| Exchange translation | 718 | 2,389 | 89,076 | 295 | 43,693 | 905 | 137,076 |
| Additions | – | – | 409,241 | 1,648 | 239,614 | 13,378 | 663,881 |
| Acquisition of subsidiaries | – | 29,770 | – | – | 32,506 | 1,018 | 63,294 |
| Disposals | (4,848) | (6,105) | (124,907) | (1,509) | (88,456) | (6,507) | (232,332) |
| At June 30, 2004 | 22,954 | 97,895 | 1,985,630 | 6,512 | 924,444 | 23,261 | 3,060,696 |
| **Depreciation** | | | | | | | |
| At July 1, 2003 | – | 24,190 | 872,977 | 4,720 | 461,952 | 9,374 | 1,373,213 |
| Exchange translation | – | 1,029 | 38,548 | 206 | 26,678 | 378 | 66,839 |
| Charge for the year | – | 4,434 | 177,788 | 607 | 154,774 | 4,568 | 342,171 |
| Impairment charge | – | – | 3,866 | – | 781 | – | 4,647 |
| Disposals | – | (1,072) | (107,906) | (1,293) | (84,599) | (5,590) | (200,460) |
| At June 30, 2004 | – | 28,581 | 985,273 | 4,240 | 559,586 | 8,730 | 1,586,410 |
| **Net book value** | | | | | | | |
| At June 30, 2004 | 22,954 | 69,314 | 1,000,357 | 2,272 | 364,858 | 14,531 | 1,474,286 |

## 16 INVESTMENTS IN ASSOCIATES

| | 2005 HK$'000 | 2004 HK$'000 |
|---|---|---|
| Share of net assets | 181,781 | 154,984 |

The following is a list of the principal associates, all of which are unlisted as at June 30, 2005:

| 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:

| | 2005 HK$'000 | 2004 HK$'000 |
|---|---|---|
| Assets | 519,368 | 433,004 |
| Liabilities | (148,386) | (116,709) |
| Net assets | 370,982 | 316,295 |
| Revenue | 892,583 | 729,341 |
| Net profit | 148,817 | 128,184 |

## 17 PREPAID LEASE PAYMENTS

| | 2005 HK$'000 | 2004 HK$'000 |
|---|---|---|
| Net book value at July 1 | 21,442 | 21,941 |
| Additions | 171,657 | – |
| | 193,099 | 21,941 |
| Amortization | (4,238) | (499) |
| Net book value at June 30 | 188,861 | 21,442 |
| Current portion of non-current assets | (4,442) | (499) |
| Non-current portion | 184,419 | 20,943 |

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

## 18 INVENTORIES

| | 2005 HK$'000 | 2004 HK$'000 |
|---|---|---|
| Finished goods | 1,316,538 | 1,074,048 |
| Consumables | 64,795 | 57,164 |
| Raw materials | 5,455 | 5,972 |
| | 1,386,788 | 1,137,184 |

## 19 DEBTORS, DEPOSITS AND PREPAYMENTS

| | 2005 HK$'000 | 2004 HK$'000 |
|---|---|---|
| Trade debtors | 1,603,836 | 1,255,754 |
| Less: provision for impairment of trade debtors | (75,058) | (59,258) |
| | 1,528,778 | 1,196,496 |
| Deposits | 300,808 | 228,056 |
| Prepayments | 93,579 | 128,667 |
| Other debtors and receivables | 315,151 | 149,187 |
| | 2,238,316 | 1,702,406 |

The Group's retail sales to customers are mainly on 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:

| | 2005 HK$'000 | 2004 HK$'000 |
|---|---|---|
| 0-30 days | 1,341,249 | 1,094,794 |
| 31-60 days | 69,204 | 39,919 |
| 61-90 days | 61,304 | 14,981 |
| Over 90 days | 57,021 | 46,802 |
| | 1,528,778 | 1,196,496 |

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:

| | 2005 HK$'000 | 2004 HK$'000 |
|---|---|---|
| Bank balances and cash | 1,603,963 | 1,543,554 |
| Short-term bank deposits | 124,688 | 214,154 |
| | 1,728,651 | 1,757,708 |

For financial reporting purposes, the effective interest rate on cash and cash equivalents for 2005 was determined to be 1.3% (2004: 2.0%); the short-term bank deposits have an average maturity of less than 30 days.

## 21 SHARE CAPITAL

| | 2005 HK$'000 | 2004 HK$'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, 2003 | 1,188,687 | 118,869 |
| Exercise of share options | 4,711 | 471 |
| Balance at June 30, 2004 | 1,193,398 | 119,340 |
| Balance at July 1, 2004 | 1,193,398 | 119,340 |
| Exercise of share options *(note (a))* | 6,027 | 603 |
| **Balance at June 30, 2005** | **1,199,425** | **119,943** |

(a) During the year, 6,027,000 (2004: 4,711,000) ordinary shares of HK$0.10 were issued at a premium in the range of HK$14.50 to HK$24.35 each in relation to the share options exercised by Directors and employees under the share option scheme (defined in (b) below).

(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 SEHK (the "Listing Rules").

**Purpose of the Scheme**

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

The Scheme provides eligible persons with an opportunity to have a personal stake in the Company with a view to:

(i) motivating eligible persons to optimize their performance and efficiency for the benefit of the Group; and

(ii) attracting and retaining or otherwise maintaining ongoing business relationships with eligible persons whose contributions are or will be beneficial to the Group.

**Participants of the Scheme**

The board may at its discretion grant options to:

(i) any director, employee, consultant, customer, supplier, agent, partner or adviser of or contractor to the Group or a company in which the Group holds an interest or a subsidiary of such company ("Affiliate"); or

(ii) the trustee of any trust the beneficiary of which or any discretionary trust the discretionary objects of which include any director, employee, consultant, customer, supplier, agent, partner or adviser of or contractor to the Group or an Affiliate; or

(iii) a company beneficially owned by any director, employee, consultant, customer, supplier, agent, partner, adviser of or contractor to the Group or an Affiliate.

## 21 SHARE CAPITAL *continued*

**Total number of shares available for issue under the Scheme and percentage of issued share capital at June 30, 2005**

The total number of shares available for issue under the Scheme is 114,383,717 shares, representing 9.5% of the issued share capital of the Company at June 30, 2005.

**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.

**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 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.

## 21 SHARE CAPITAL *continued*

Details of the share options granted during the year and outstanding share options as at June 30, 2005 under the Scheme were as follows:

| | Number of share options 2005 | 2004 |
|---|---|---|
| Opening balance | **49,764,000** | 31,360,000 |
| Granted during the year *(Note (i))* | **28,985,000** | 24,120,000 |
| Exercised during the year *(Note (ii))* | **(6,027,000)** | (1,836,000) |
| Lapsed during the year | **(2,206,000)** | (3,880,000) |
| Closing balance *(Note (iii))* | **70,516,000** | 49,764,000 |

(i) 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** |

Details of share options granted during the year ended June 30, 2004 were as follows:

| Exercise period | Exercise price HK$ | Number of options |
|---|---|---|
| November 26, 2004 – November 25, 2009 | 24.20 | 4,704,000 |
| November 26, 2005 – November 25, 2009 | 24.20 | 4,704,000 |
| November 26, 2006 – November 25, 2009 | 24.20 | 4,704,000 |
| November 26, 2007 – November 25, 2009 | 24.20 | 4,704,000 |
| November 26, 2008 – November 25, 2009 | 24.20 | 4,704,000 |
| December 23, 2004 – December 22, 2009 | 24.45 | 120,000 |
| December 23, 2005 – December 22, 2009 | 24.45 | 120,000 |
| December 23, 2006 – December 22, 2009 | 24.45 | 120,000 |
| December 23, 2007 – December 22, 2009 | 24.45 | 120,000 |
| December 23, 2008 – December 22, 2009 | 24.45 | 120,000 |
| | | 24,120,000 |

## 21 SHARE CAPITAL *continued*

(ii) Details of share options exercised during the year ended June 30, 2005 were as follows:

| Exercise date | Exercise price HK$ | Number of options | Proceeds received Share capital HK$'000 | Proceeds received Share premium HK$'000 | Market value* per share at exercise date HK$ |
|---|---|---|---|---|---|
| September 17, 2004 | 14.60 | 160,000 | 16 | 2,320 | 39.50 |
| November 22, 2004 | 14.60 | 260,000 | 26 | 3,770 | 42.30 |
| November 26, 2004 | 14.60 | 2,052,000 | 205 | 29,754 | 42.20 |
| November 26, 2004 | 24.20 | 1,182,000 | 118 | 28,486 | 42.20 |
| December 8, 2004 | 14.60 | 40,000 | 4 | 580 | 44.10 |
| December 8, 2004 | 24.20 | 30,000 | 3 | 723 | 44.10 |
| December 15, 2004 | 14.60 | 56,000 | 6 | 812 | 45.70 |
| December 15, 2004 | 24.20 | 42,000 | 4 | 1,012 | 45.70 |
| December 20, 2004 | 24.20 | 80,000 | 8 | 1,928 | 48.00 |
| December 23, 2004 | 14.60 | 240,000 | 24 | 3,480 | 47.10 |
| December 23, 2004 | 24.45 | 120,000 | 12 | 2,922 | 47.10 |
| February 21, 2005 | 14.60 | 60,000 | 6 | 870 | 47.00 |
| February 21, 2005 | 24.20 | 25,000 | 3 | 603 | 47.00 |
| March 9, 2005 | 14.60 | 580,000 | 58 | 8,410 | 56.50 |
| March 9, 2005 | 24.20 | 180,000 | 18 | 4,338 | 56.50 |
| March 16, 2005 | 14.60 | 120,000 | 12 | 1,740 | 54.75 |
| March 16, 2005 | 24.20 | 90,000 | 9 | 2,169 | 54.75 |
| March 21, 2005 | 14.60 | 160,000 | 16 | 2,320 | 56.25 |
| March 21, 2005 | 24.20 | 80,000 | 8 | 1,928 | 56.25 |
| April 26, 2005 | 24.20 | 120,000 | 12 | 2,892 | 58.75 |
| June 13, 2005 | 14.60 | 200,000 | 20 | 2,900 | 53.75 |
| June 13, 2005 | 24.20 | 150,000 | 15 | 3,615 | 53.75 |
| | | 6,027,000 | 603 | 107,572 | |

* "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).

(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, 2005 | 2004 |
|---|---|---|---|
| **Directors** | | | |
| November 26, 2008* | 14.60 | 2,660,000 | 1,920,000 |
| November 26, 2008** | 14.60 | 5,760,000 | 7,680,000 |
| November 26, 2009* | 24.20 | 1,080,000 | – |
| November 26, 2009** | 24.20 | 5,760,000 | 7,200,000 |
| November 27, 2010** | 42.58 | 7,200,000 | – |
| **Employees** | | | |
| November 26, 2008* | 14.60 | 2,680,000 | 2,156,000 |
| November 26, 2008** | 14.60 | 9,648,000 | 13,888,000 |
| November 26, 2009* | 24.20 | 1,495,000 | – |
| November 26, 2009** | 24.20 | 11,968,000 | 16,320,000 |
| December 23, 2009** | 24.45 | 480,000 | 600,000 |
| November 27, 2010** | 42.58 | 20,935,000 | – |
| December 23, 2010** | 47.10 | 450,000 | – |
| January 21, 2011** | 45.60 | 400,000 | – |
| | | 70,516,000 | 49,764,000 |

* 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.

## 22 CREDITORS AND ACCRUED CHARGES

| | 2005 HK$'000 | 2004 HK$'000 |
|---|---|---|
| Trade creditors | 918,184 | 745,013 |
| Accruals | 867,559 | 756,175 |
| Other creditors and payables | 376,939 | 381,869 |
| | 2,162,682 | 1,883,057 |

The ageing analysis of trade creditors is as follows:

| | 2005 HK$'000 | 2004 HK$'000 |
|---|---|---|
| 0-30 days | 863,871 | 659,417 |
| 31-60 days | 25,265 | 41,405 |
| 61-90 days | 18,107 | 13,676 |
| Over 90 days | 10,941 | 30,515 |
| | 918,184 | 745,013 |

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

## 23 OBLIGATIONS UNDER FINANCE LEASES

| | 2005 HK$'000 | 2004 HK$'000 |
|---|---|---|
| **Total minimum lease payments** | | |
| – within one year | – | 1,339 |
| Future finance charges on finance leases | – | (24) |
| Present value of finance lease liabilities | | |
| – within one year included under current liabilities | – | 1,315 |

The Group leased certain of its fixtures and equipment under finance leases. During the year ended June 30, 2005, the leases expired and the average effective borrowing rate was 1.8% (2004: 1.8%). Interest rates were fixed at the contract date. All leases were on a fixed repayment basis and no arrangements were entered into for contingency rental payments. The carrying amount of the Group's lease obligations approximates their fair value.

## 24 DEFERRED TAXATION

The following is the major deferred tax assets/(liabilities) recognized and movements thereon during the 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, 2003 | 4,830 | 28,166 | (314,057) | 29,481 | 32,690 | (6,007) | (224,897) |
| Credited/(charged) to income statement | 25,794 | 14,536 | 1,199 | (23,914) | (11,648) | (4,744) | 1,223 |
| Acquisition of subsidiaries | - | - | - | - | 2,404 | (4,556) | (2,152) |
| Exchange difference recognized in equity | 891 | 1,340 | (7,451) | 1,318 | (1,548) | 3,416 | (2,034) |
| At June 30, 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) |

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:

| | 2005 HK$'000 | 2004 HK$'000 |
|---|---|---|
| Deferred tax liabilities | 330,289 | 332,200 |
| Deferred tax assets | 204,982 | 104,340 |

At June 30, 2005, the Group had unused tax losses of approximately HK$1,337,190,000 (2004: HK$1,229,460,000) available for offset against future taxable profits. A deferred tax asset has been recognized in respect of approximately HK$149,657,000 (2004: HK$24,415,000) of such losses. No deferred tax asset has been recognized in respect of the remaining losses of approximately HK$1,187,533,000 (2004: HK$1,205,045,000). Included in unrecognized tax losses are losses of approximately HK$521,318,000 (2004: HK$431,370,000) that will expire in the next five to twenty years. Other losses may be carried forward indefinitely.

## 25 NOTES TO CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of profit before taxation to cash generated from operations

| | 2005 HK$'000 | 2004 HK$'000 |
|---|---|---|
| Profit before taxation | 4,294,093 | 2,952,101 |
| Adjustments for: | | |
| Interest income | (21,576) | (39,556) |
| Interest expense | 1,901 | 21,704 |
| Interest element of finance leases payments | 27 | 82 |
| Amortization of prepaid lease payments | 4,238 | 499 |
| Depreciation | 451,958 | 342,171 |
| Impairment of property, plant and equipment | 387 | 4,647 |
| Loss on disposal of property, plant and equipment | 5,468 | 13,808 |
| Provision for retail store exit costs | 11,340 | 14,256 |
| Share of results of associates | (72,920) | (62,810) |
| Operating profit before changes in working capital | 4,674,916 | 3,246,902 |
| Increase in inventories | (249,604) | (206,303) |
| Increase in debtors, deposits and prepayments | (531,964) | (447,918) |
| (Increase)/decrease in amounts due from associates | (20,487) | 7,650 |
| Increase in creditors and accrued charges | 273,714 | 365,428 |
| Effect of foreign exchange rate changes | (78,004) | 25,516 |
| Cash generated from operations | 4,068,571 | 2,991,275 |

## 25 NOTES TO CONSOLIDATED CASH FLOW STATEMENT *continued*

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

| | 2005 HK$'000 | 2004 HK$'000 |
|---|---|---|
| Net book amount | 15,980 | 31,872 |
| Loss on disposal of property, plant and equipment | (5,468) | (13,808) |
| Proceeds from disposal of property, plant and equipment | 10,512 | 18,064 |

## 26 OPERATING LEASE COMMITMENTS

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

| | 2005 HK$'000 | 2004 HK$'000 |
|---|---|---|
| Land and buildings | | |
| – within one year | 1,817,179 | 1,248,656 |
| – in the second to fifth year inclusive | 7,152,024 | 3,914,074 |
| – after the fifth year | 6,824,065 | 4,917,127 |
| | 15,793,268 | 10,079,857 |
| Other equipment | | |
| – within one year | 22,251 | 12,980 |
| – in the second to fifth year inclusive | 15,692 | 8,603 |
| – after the fifth year | 178 | 233 |
| | 15,831,389 | 10,101,673 |

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.

## 27 CAPITAL COMMITMENTS

| | 2005 HK$'000 | 2004 HK$'000 |
|---|---|---|
| Contracted but not provided for | 89,822 | 529,916 |
| Authorized but not contracted for | 468,010 | 264,958 |
| | 557,832 | 794,874 |

## 28 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 is as below:

| | 2005 HK$'000 | 2004 HK$'000 |
|---|---|---|
| Forward foreign exchange contracts | 700,079 | 367,088 |

At June 30, 2005, the fair value of the foreign currency forward contracts is estimated to be approximately HK$34,251,000 (2004: HK$1,665,000). These amounts are based on market values of equivalent instruments at the balance sheet date and are included in other debtors and receivables (2004: other creditors and payables).

## 29 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:

| | 2005 HK$'000 | 2004 HK$'000 |
|---|---|---|
| **Transactions with associates** | | |
| Sales of finished goods | 355,070 | 286,451 |
| Royalty received | 18,204 | 15,428 |
| Commission received | 4,130 | 4,736 |

## 30 SUMMARIZED BALANCE SHEET OF THE COMPANY

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

| | Notes | 2005 HK$'000 | 2004 HK$'000 |
|---|---|---|---|
| Investments in subsidiaries, at cost | | 216,677 | 216,677 |
| Loans to subsidiaries | (i) | 1,629,002 | 1,633,779 |
| Amounts due from subsidiaries | (ii) | 6,245,808 | 2,899,525 |
| Current assets | | 25,882 | 1,169 |
| Current liabilities | | (14,129) | (9,155) |
| Amounts due to subsidiaries | (ii) | (3,380,899) | (1,758,950) |
| Net assets | | 4,722,341 | 2,983,045 |
| Share capital | 21 | 119,943 | 119,340 |
| Share premium | (iii) | 1,416,729 | 1,309,157 |
| Contributed surplus | (iii) | 473,968 | 473,968 |
| Retained profits | (iii) | 2,711,701 | 1,080,580 |
| Shareholders' funds | | 4,722,341 | 2,983,045 |

i. Except for a loan to a wholly-owned subsidiary of US$170 million (approximately HK$1,321.2 million) which carries interest at 2% over London Interbank Offer Rate, the remaining loan balances are interest free and have no fixed terms of repayment. All balances are unsecured.

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

## 30 SUMMARIZED BALANCE SHEET OF THE COMPANY *continued*

iii. Movements of reserves are as follows:-

| | Share premium HK$'000 | Contributed surplus HK$'000 | Retained profits HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| Balance at July 1, 2003 | 1,270,243 | 473,968 | 297,621 | 2,041,832 |
| Profit attributable to shareholders | – | – | 1,754,432 | 1,754,432 |
| 2002/03 final and special dividends paid | – | – | (744,727) | (744,727) |
| 2003/04 interim dividend paid | – | – | (226,746) | (226,746) |
| Issues of shares (Note 21) | 38,914 | – | – | 38,914 |
| Balance at June 30, 2004 | 1,309,157 | 473,968 | 1,080,580 | 2,863,705 |
| Representing: | | | | |
| Proposed final and special dividends | | | | 1,169,530 |
| Balance after proposed final and special dividends | | | | 1,694,175 |
| Balance at June 30, 2004 | | | | 2,863,705 |
| Balance at July 1, 2004 | 1,309,157 | 473,968 | 1,080,580 | 2,863,705 |
| Profit attributable to shareholders | – | – | 3,343,762 | 3,343,762 |
| 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 |
| Balance at June 30, 2005 | 1,416,729 | 473,968 | 2,711,701 | 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 |

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, 2005 amounted to HK$3,185,669,000 (2004: HK$1,554,548,000).

iv. The Company did not have any operating lease commitment at June 30, 2005 (2004: Nil).

v. The Company did not have any significant capital commitment at June 30, 2005 (2004: Nil).

## 31 PRINCIPAL SUBSIDIARIES

The following are the principal subsidiaries as at June 30, 2005 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 |
| 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 |

## 31 PRINCIPAL SUBSIDIARIES *continued*

| Name of subsidiary | Place of incorporation/ operation | Attributable equity interest to the Group (note a) | Issued and fully paid share capital/ registered capital (note b) | Principal activities |
|---|---|---|---|---|
| Esprit 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 |
| Esprit Europe Trading & Product Development GmbH (formerly known as Esprit Europe Services GmbH, merged with Esprit Design und 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 |

## 31 PRINCIPAL SUBSIDIARIES *continued*

| Name of subsidiary | Place of incorporation/ operation | Attributable equity interest to the Group (note a) | Issued and fully paid share capital/ registered capital (note b) | Principal activities |
|---|---|---|---|---|
| Esprit 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. (formerly known as ERA 97 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 |
| 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 Proprietary Limited | 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 |

## 31 PRINCIPAL SUBSIDIARIES *continued*

| Name of subsidiary | Place of incorporation/ operation | Attributable equity interest to the Group (note a) | Issued and fully paid share capital/ registered capital (note b) | Principal activities |
|---|---|---|---|---|
| Esprit Swiss Treasury Limited | British Virgin Islands/Hong Kong | 100% | USD1 | Financial services |
| Esprit Switzerland Distribution AG | Switzerland | 100% | CHF100,000 | Wholesale distribution of apparel and accessories |
| Esprit Switzerland Retail AG | Switzerland | 100% | CHF500,000 | Retail distribution of apparel and accessories |
| Esprit US Distribution Limited | United States | 100% | USD1,000 | Wholesale distribution of apparel and accessories |
| Esprit US Retail Limited | United States | 100% | USD0.001 | Retail distribution of apparel and accessories |
| Esprit Wholesale GmbH | Germany | 100% | EUR5,000,000 | Wholesale distribution of apparel and accessories |
| 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 |

## 31 PRINCIPAL SUBSIDIARIES *continued*

| Name of subsidiary | Place of incorporation/ operation | Attributable equity interest to the Group (note a) | Issued and fully paid share capital/ registered capital (note b) | Principal activities |
|---|---|---|---|---|
| Red Earth Production Limited | Hong Kong | 100% | HKD10,000 | Wholesale distribution of cosmetics, skin and body care products |
| Red Earth (Taiwan) Limited | Hong Kong/Taiwan | 100% | HKD2 | Retail distribution of cosmetics, skin and body care products |
| Sijun Fashion Design (Shenzhen) Co., Ltd. | The People's Republic of China (note d) | 100% | USD1,600,000 registered capital | Sample development |

*Notes:*

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

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

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

(d) Wholly owned foreign enterprise.

# 5-year financial summary

## Consolidated balance sheet items

| | 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 | As at June 30, 2001 HK$'000 |
|---|---|---|---|---|---|
| **Intangible assets** | 2,009,028 | 2,020,416 | 1,960,034 | 1,921,485 | 715,804 |
| **Property, plant and equipment** | 2,052,993 | 1,474,286 | 1,055,564 | 966,257 | 756,181 |
| **Other investments** | 7,846 | 7,846 | 7,846 | 7,686 | 7,366 |
| **Interests in associates** | 181,781 | 154,984 | 121,574 | 100,611 | 92,021 |
| **Prepaid lease payments** | 184,419 | 20,943 | 21,442 | 21,941 | 22,440 |
| **Deferred tax assets** | 204,982 | 104,340 | 93,416 | 35,409 | 5,805 |
| **Net current assets** | 2,728,392 | 1,964,342 | 2,027,170 | 1,060,191 | 615,920 |
| | 7,369,441 | 5,747,157 | 5,287,046 | 4,113,580 | 2,215,537 |
| Financed by: | | | | | |
| **Share capital** | 119,943 | 119,340 | 118,869 | 117,694 | 114,251 |
| **Reserves** | 6,919,209 | 5,295,617 | 4,073,117 | 2,914,722 | 1,884,969 |
| **Minority interests** | – | – | – | – | 18,204 |
| **Shareholders' funds** | 7,039,152 | 5,414,957 | 4,191,986 | 3,032,416 | 2,017,424 |
| **Obligation under finance leases – due after one year** | – | – | 336 | 450 | 941 |
| **Long-term bank loan** | – | – | 776,411 | 780,000 | – |
| **Deferred tax liabilities** | 330,289 | 332,200 | 318,313 | 300,714 | 197,172 |
| | 7,369,441 | 5,747,157 | 5,287,046 | 4,113,580 | 2,215,537 |

## Consolidated income statement items

| | Year ended June 30, 2005 HK$'000 | Year ended June 30, 2004 HK$'000 | Year ended June 30, 2003 HK$'000 | Year ended June 30, 2002 HK$'000 | Year ended June 30, 2001 HK$'000 |
|---|---|---|---|---|---|
| **Turnover** | 20,631,815 | 16,356,503 | 12,381,458 | 9,219,114 | 8,109,062 |
| **Operating profit (EBIT)** | 4,201,525 | 2,871,521 | 1,824,371 | 1,372,786 | 1,152,151 |
| **Interest income** | 21,576 | 39,556 | 41,584 | 22,635 | 45,730 |
| **Finance costs** | (1,928) | (21,786) | (32,463) | (13,923) | (38,290) |
| **Share of results of associates** | 72,920 | 62,810 | 45,463 | 33,090 | 24,508 |
| **Profit before taxation** | 4,294,093 | 2,952,101 | 1,878,955 | 1,414,588 | 1,184,099 |
| **Taxation** | (956,516) | (948,661) | (590,126) | (363,316) | (512,398) |
| **Profit after taxation** | 3,337,577 | 2,003,440 | 1,288,829 | 1,051,272 | 671,701 |
| **Profit attributable to shareholders** | 3,337,577 | 2,003,440 | 1,288,829 | 992,746 | 599,761 |
| **Profit attributable to minority interests** | – | – | – | 58,526 | 71,940 |

*Note:* The Group adopted IFRSs retrospectively with effect from July 1, 2002. The financial information in respect of FY2002/2003, FY2003/2004 and FY2004/2005 is audited and is prepared in accordance with IFRSs. For the purpose of presenting the financial information in respect of FY2000/2001 and FY2001/2002, certain estimates have been made to adjust the financial information to IFRSs, mainly representing the reversal of amortization of trademarks.

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