

report of the directors

The Directors have pleasure in presenting their annual report and the audited financial statements for the year ended June 30, 2004.

principal activities

The Company is an investment holding company. The activities of the principal subsidiaries are shown in note 36 to the financial statements. The Group is principally engaged in the wholesale and retail distribution, 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 and the operation of Salon Esprit.

results and appropriations

The results of the Group and appropriations of the Company are set out in the consolidated income statement on page 53 and in the accompanying notes to the financial statements.

The interim dividend of 19.0 Hong Kong cents per share, totalling HK\$226,746,000, was paid on April 8, 2004.

The Directors recommend the payment of a final dividend of 48.0 Hong Kong cents per share and a special dividend of 50.0 Hong Kong cents 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 56 and in note 34 to the financial statements respectively.

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 95.

share capital

Details of movements in share capital of the Company are set out in note 21 to the financial statements.

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.

bank overdrafts and loans

Details of bank overdrafts and loans are set out in note 24 to the financial statements.

charitable donations

During the year, the Group made charitable donations totalling HK\$728,100.

directors and service contracts

The Directors of the Company during the 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

(appointed on March 24, 2004)

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 Independent Non-executive Directors to confirm their independence pursuant to Rules 3.13 and 3.15 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Mr. CHHIBBER Surinder and Ms. Connie WONG Chin Tzi have resigned as Directors on March 31, 2004.

In accordance with Bye-laws 86 and 87 of the Company's Bye-laws, Messrs. John POON Cho Ming, Alexander Reid HAMILTON, Simon LAI Sau Cheong and Jerome Squire GRIFFITH will retire at the forthcoming annual general meeting of the Company and all of them, being eligible, offer themselves for re-election.

directors and service contracts *continued*

Mr. Heinz Jürgen KROGNER-KORNALIK has entered into a service agreement for the period from October 1, 2002 to December 31, 2005 with a member of the Group which is not determinable by the relevant employer before the expiry date without payment of compensation under the applicable local law.

Mr. Thomas Johannes GROTE has entered into a service agreement with a member of the Group which took effect from October 1, 2002 and continues thereafter until terminated by the relevant employer by giving not less than 12 months' notice of termination, such notice, if given, may only take effect from or after June 30, 2005.

Save as disclosed above, none of the Directors 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).

directors and senior management profile

executive directors

Michael YING Lee Yuen, aged 54, is 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 63, 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 50, is Deputy Chairman, Group Chief Financial Officer and Company Secretary. Mr. Poon is primarily responsible for managing the Group's financial and legal functions, including strategic planning and corporate finance, investor relations, accounting and tax, treasury management as well as company secretarial affairs. Prior to joining the Group in December 1999, he 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 University of Alberta, Canada with a Bachelor of Arts Degree in Economics and a Bachelor of Laws Degree.

Thomas Johannes GROTE, aged 41, is currently the joint Chief Operating Officer of the Esprit brand and the global head of wholesale operation of the Group. He completed business college in 1983 and thereafter 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. In 1992, he left the Group to work for In-Wear in Germany as sales manager of the men's division and was subsequently promoted to managing director. He returned to the Group in June 1996.

Jerome Squire GRIFFITH, aged 46, is currently the joint Chief Operating Officer of the Esprit brand and the global head of retail operation 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.

non-executive directors

Paul CHENG Ming Fun, aged 67, 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 an Independent Non-executive Director of several listed companies on the Hong Kong Stock Exchange. 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 66, founded Esprit's European operations in 1976 and was appointed a Non-executive Director in 1997. He has over 30 years of experience in the apparel distribution and marketing business and is currently retired in the United States.

Alexander Reid HAMILTON, aged 62, has been an Independent Non-executive Director of the Company since August 1995. He is also a director of CITIC Pacific Limited, COSCO Pacific 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.

report of the directors

directors and senior management profile *continued*

non-executive directors *continued*

Simon LAI Sau Cheong, aged 43, was appointed an Independent Non-executive Director of the Company in November 1999 and was redesignated as Non-executive Director on September 15, 2004. He is admitted to practice as a solicitor in Hong Kong, England and Wales and New South Wales, Australia. Mr. Lai is a partner of the law firm of Deacons and has over 17 years' experience of legal practice.

Raymond OR Ching Fai, aged 54, was appointed an Independent Non-executive Director of the Company in 1996. He is a General Manager of The Hongkong and Shanghai Banking Corporation Limited, and a director of Hang Seng Bank Limited, Cathay Pacific Airways Limited and Hutchison Whampoa Limited. He was Chairman of the Hong Kong Association of Banks for 2003.

senior management

Andreas ADENAUER, aged 42, is currently the Global Business Manager Women Casual and President for North America. He joined the Group in 1997 as Division Manager (edc). He has over 15 years' business and product development experience with various brands in the apparel and lifestyle sector and has extensive experience in retail stores and sales agency business.

Ursula BUCK, aged 42, is Head of Global Licencing. She holds a Bachelor Degree in Business Management and Economics from 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 43, is International Product Director 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.

Albert HESSE, aged 48, is Executive Director Organization. He holds a Master of Business Administration degree from 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.

Lawrence LEE Cheung Kan, aged 44, 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.

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

As at June 30, 2004, the interests or short positions of the Directors or chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (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 Directors	Capacity	Beneficial interest in shares	Beneficial interest in unlisted underlying shares (Note 3)	Total number of shares	Approximate percentage of aggregate interests to total issued share capital
Michael YING Lee Yuen	Interest of a controlled corporation (Note 1)	367,926,352	-	367,926,352	30.83%
Heinz Jürgen KROGNER-KORNALIK	Beneficial owner	-	7,000,000	7,000,000	0.59%
John POON Cho Ming	Beneficial owner	1,000,000	4,200,000	5,200,000	0.44%
Thomas Johannes GROTE	Beneficial owner	550,000	2,800,000	3,350,000	0.28%
Jerome Squire GRIFFITH	Beneficial owner	-	2,800,000	2,800,000	0.24%
Jürgen Alfred Rudolf FRIEDRICH	Beneficial owner	81,251,176	-		
	Interest of spouse (Note 2)	50,901	-	81,302,077	8.49%

Notes:

- The shares were held by Great View International Limited, the entire issued share capital of which is owned by Mr. Michael YING Lee Yuen.
- The shares were held by Mrs. Anke Beck FRIEDRICH, the spouse of Mr. Jürgen Alfred Rudolf FRIEDRICH.
- The interests of Directors and chief executives of the Company in the underlying shares of equity derivatives are in respect of options granted to them pursuant to the share options schemes adopted by the Company as detailed in "share options" section below.
- All interests disclosed above represent long positions in the shares of the Company.

(2) Shares Options of the Company

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

As at June 30, 2004, save as disclosed above, none of the Directors, chief executives of the Company or their associates had any interests or short position, 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.

share options

The Company adopted a share option scheme on November 17, 1993 (the "1993 Share Option Scheme"). In view of the changes to Chapter 17 of the Listing Rules which govern the operation of share option schemes, the Company adopted a new share option scheme ("2001 Share Option Scheme") on November 26, 2001. The 1993 Share Option Scheme ceased operation on the same day such that no further options may be offered under the 1993 Share Option Scheme but the provisions of the 1993 Share Option Scheme continue to govern outstanding options under that scheme.

Summaries of the 1993 Share Option Scheme and the 2001 Share Option Scheme are set out in note 21 to the financial statements.

report of the directors

share options *continued*

1993 Share Option Scheme

Details of share options exercised during the period were as follows:

	Date of grant (mm/dd/yyyy)	Exercise price per share (HK\$)	Vesting period (mm/dd/yyyy) (Note 1)	Exercise period (mm/dd/yyyy)	Number of share options		
					As at 7.1.2003	Exercised	As at 6.30.2004
Directors							
John POON Cho Ming	12/15/1999	6.36	12/15/1999 – 11/15/2003	11/16/2003	1,000,000	1,000,000	–
Thomas Johannes GROTE	09/22/1999	5.14	09/22/1999 – 05/16/2003	05/17/2003-11/16/2003	500,000	500,000	–
Employees							
In aggregate	12/13/1995	2.64	12/13/1995 – 12/12/1998	12/13/1998 – 11/16/2003	375,000	375,000	–
	12/13/1995	2.64	12/13/1995 – 06/12/1999	06/13/1999 – 11/16/2003	375,000	375,000	–
	12/13/1995	2.64	12/13/1995 – 12/12/1999	12/13/1999 – 11/16/2003	375,000	375,000	–
	07/11/1999	2.72	07/11/1999 – 07/10/2003	07/11/2003 – 11/16/2003	250,000	250,000	–
					1,375,000	1,375,000	–
TOTAL					2,875,000	2,875,000	–

Notes:

- Vesting period under the 1993 Share Option Scheme means, in respect of any particular option, a period of not less than six months and not exceeding four years commencing on the date on which an option is granted in accordance with that scheme.
- The weighted average closing prices of the shares immediately before the dates of exercise regarding the options exercised by Mr. John POON Cho Ming, Mr. Thomas Johannes GROTE and the employees were HK\$24.70, HK\$19.60 and HK\$20.56 respectively.
- No share options were granted, cancelled or lapsed under the 1993 Share Option Scheme during the year.

share options *continued*

2001 Share Option Scheme

Details of the grant of share options and a summary of the movements of the outstanding share options during the period were as follows:

	Date of grant (mm/dd/yyyy)	Exercise price per share (HK\$)	Vesting date (mm/dd/yyyy)	Exercise period (mm/dd/yyyy)	Number of share options					
					As at 7.1.2003	Granted	Exercised	Lapsed	As at 6.30.2004	
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	
						4,000,000	3,000,000	–	–	7,000,000
	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	
					2,400,000	1,800,000	–	–	4,200,000	

report of the directors

share options *continued*

	Date of grant (mm/dd/yyyy)	Exercise price per share (HK\$)	Vesting date (mm/dd/yyyy)	Exercise period (mm/dd/yyyy)	Number of share options				As at 6.30.2004
					As at 7.1.2003	Granted	Exercised	Lapsed	
○									
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
					1,600,000	1,200,000	–	–	2,800,000
Jerome Squire GRIFFITH (Note 4)	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
					1,600,000	1,200,000	–	–	2,800,000

share options *continued*

	Date of grant (mm/dd/yyyy)	Exercise price per share (HK\$)	Vesting date (mm/dd/yyyy)	Exercise period (mm/dd/yyyy)	Number of share options				
					As at 7.1.2003	Granted	Exercised	Lapsed	As at 6.30.2004
Employees & Consultants	11/26/2002	14.60	11/26/2003	11/26/2003 – 11/25/2008	4,352,000	–	1,836,000	360,000	2,156,000
			11/26/2004	11/26/2004 – 11/25/2008	4,352,000	–	–	880,000	3,472,000
			11/26/2005	11/26/2005 – 11/25/2008	4,352,000	–	–	880,000	3,472,000
			11/26/2006	11/26/2006 – 11/25/2008	4,352,000	–	–	880,000	3,472,000
			11/26/2007	11/26/2007 – 11/25/2008	4,352,000	–	–	880,000	3,472,000
	11/26/2003	24.20	11/26/2004	11/26/2004 – 11/25/2009	–	3,264,000	–	–	3,264,000
			11/26/2005	11/26/2005 – 11/25/2009	–	3,264,000	–	–	3,264,000
			11/26/2006	11/26/2006 – 11/25/2009	–	3,264,000	–	–	3,264,000
			11/26/2007	11/26/2007 – 11/25/2009	–	3,264,000	–	–	3,264,000
			11/26/2008	11/26/2008 – 11/25/2009	–	3,264,000	–	–	3,264,000
	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
In aggregate				21,760,000	16,920,000	1,836,000	3,880,000	32,964,000	
TOTAL				31,360,000	24,120,000	1,836,000	3,880,000	49,144,000	

Notes:

1. The closing prices of the shares of the Company immediately before the options granted on November 26, 2003 and December 23, 2003 were HK\$23.85 and HK\$24.20 respectively.
2. The weighted average closing price of the shares immediately before the dates of exercise by the employees and consultant was HK\$27.86.
3. No share options were cancelled under the 2001 Share Option Scheme during the year.
4. Mr. Jerome Squire GRIFFITH was appointed Executive Director on March 24, 2004 and the share options granted to him as employee were re-classified in the category of "Directors" during the year.
5. Mr. CHHIBBER Surinder and Ms. Connie WONG Chin Tzi resigned as Executive Directors on March 31, 2004 and the share options granted to them as Directors were re-classified in the category of "Employees & Consultants" during the year.

Save as disclosed above, at no time during the year was the Company or its subsidiaries a party to any arrangement that enable the Directors of the Company or any of their spouses or children under the age of 18 to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Accounting Treatment for Share Options

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

report of the directors

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

As at June 30, 2004, 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 shareholders	Capacity	Number of shares	Percentage of aggregate interests to total issued share capital
Great View International Limited	Beneficial Owner	367,926,352	30.83%
JPMorgan Chase & Co. (formerly known as J.P. Morgan Chase & Co.)	Interest of controlled corporations (Notes 1 to 3)	121,033,813	10.14%
State Street Corporation	Interest of controlled corporation (Notes 4 & 5)	71,679,384	6.01%

Notes:

1. The Shares held by JPMorgan Chase & Co. are held in the following capacities:

No. of Shares	Capacity
1,786,000	Beneficial owner
44,754,316	Investment manager
74,493,497	Custodian corporation/approved lending agent

2. Details of the interest in the 121,033,813 Shares held by JPMorgan Chase & Co. were as follows:

Name	Direct (D)/ Indirect (I) interests in the shares of the Company	Aggregate long position in shares	Percentage of aggregate interests to total issued share capital
JPMorgan Chase Bank	D	75,020,627	6.286%
J.P. Morgan Investment Management Limited	D	1,649,175	0.138%
J.P. Morgan Investment Management Inc.	I	1,649,175	0.138%
J.P. Morgan Investment Management Inc.	D	4,404,984	0.369%
J.P. Morgan International Finance Limited	I	2,369,643	0.199%
J.P. Morgan International Inc.	I	2,369,643	0.199%
JPMorgan Chase Bank	I	2,369,643	0.199%
J.P. Morgan Fleming Asset Management (UK) Limited	D	6,269,415	0.525%
Robert Fleming Asset Management Ltd	I	6,269,415	0.525%
Robert Fleming Holdings Ltd	I	6,278,415	0.525%
J.P. Morgan Fleming Asset Management Holdings Inc.	I	37,589,384	3.150%
JF Asset Management (Singapore) Limited	D	1,000,000	0.084%
J.P. Morgan Fleming Asset Management (Asia) Inc.	I	31,310,969	2.624%
JF Asset Management Limited	D	30,192,969	2.530%
JF International Management Inc.	D	100,000	0.008%
J.P. Morgan (Suisse) SA	D	583,643	0.049%
J.P. Morgan Whitefriars Inc.	D	1,536,000	0.129%
J.P. Morgan Overseas Capital Corporation	I	1,536,000	0.129%
J.P. Morgan Securities Ltd.	D	250,000	0.021%
J.P. Morgan Holdings (UK) Limited	I	250,000	0.021%
J.P. Morgan Fleming Asset Management (Europe) S.a.r.l.	D	9,000	0.001%
Robert Fleming (Luxembourg) Sarl	I	9,000	0.001%
J.P. Morgan Fleming Asset Management (Japan) Limited	D	18,000	0.002%

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 121,033,813 Shares held or deemed to be held by: (i) JPMorgan Chase Bank (77,390,270 Shares), (ii) J.P. Morgan Investment Management Inc. (6,054,159 Shares) and (iii) J.P. Morgan Fleming Asset Management Holdings Inc. (37,589,384 Shares), all wholly-owned by JPMorgan Chase & Co.

- (i) JPMorgan Chase Bank directly held 75,020,627 Shares and was also deemed to be interested in the 2,369,643 Shares held by the following indirect subsidiaries held through J.P. Morgan International Inc. and J.P. Morgan International Finance Limited ("JPFIN"), indirectly and directly wholly-owned by JPMorgan Chase Bank:
- (a) 583,643 Shares were held by J.P. Morgan (Suisse) SA, wholly-owned by JPFIN;
 - (b) 1,536,000 Shares were held by J.P. Morgan Whitefriars Inc., wholly-owned by JPFIN through J.P. Morgan Overseas Capital Corporation; and
 - (c) 250,000 Shares were held by J.P. Morgan Securities Ltd., 90%-owned by J.P. Morgan Holdings (UK) Limited, which was in turn wholly-owned by JPFIN.
- (ii) J.P. Morgan Investment Management Inc. ("JPIM") directly held 4,404,984 Shares and was also deemed to be interested in the 1,649,175 Shares held by J.P. Morgan Investment Management Limited, wholly-owned by JPIM.
- (iii) J.P. Morgan Fleming Asset Management Holdings Inc. was deemed to be interested in an aggregate of 37,589,384 Shares deemed to be held by (a) J.P. Morgan Fleming Asset Management (Asia) Inc. ("JPAsia"), a wholly-owned subsidiary (31,310,969 Shares) and (b) Robert Fleming Holdings Ltd. ("RFH"), 96%-owned subsidiary (6,278,415 Shares).

substantial shareholders *continued*

Explanatory Notes: continued

- (a) JPAasia was deemed to be interested in an aggregate of 31,310,969 Shares held by the following subsidiaries:
- i. 1,000,000 Shares held by JF Asset Management (Singapore) Limited, wholly-owned by JPAasia;
 - ii. 30,192,969 Shares were held by JF Asset Management Limited, 99.99%-owned by JPAasia;
 - iii. 100,000 Shares were held by JF International Management Inc., wholly-owned by JPAasia; and
 - iv. 18,000 Shares were held by J.P. Morgan Fleming Asset Management (Japan) Limited, wholly-owned by JPAasia.
- (b) RFH was deemed to be interested in 6,278,415 Shares held by the following indirect subsidiaries:
- (i) 9,000 Shares were held by J.P. Morgan Fleming Asset Management (Europe) S.a.r.l., 99.99%-owned subsidiary of Robert Fleming (Luxembourg) Sarl, wholly-owned by RFH; and
 - (ii) 6,269,415 Shares were held by J.P. Morgan Fleming Asset Management (UK) Limited held through Robert Fleming Asset Management Limited, 99.96%-owned by RFH.
3. All interests disclosed above represent long positions in the Shares of the Company in which 74,493,497 Shares represent lending pool.
4. State Street Corporation was deemed to be interested in 71,679,384 Shares through its 100% interest in State Street Bank & Trust Company.
5. All interests disclosed above represent long positions in the Shares of the Company and all 71,679,384 Shares represent lending pool.

Save as aforesaid and as disclosed in the Directors' Interests section of this report, the Company has not been notified by any person who had interest or short position in the shares or underlying shares of the Company as at June 30, 2004 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 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 11% 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.

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

Details of the significant related party transactions undertaken in the normal course of business are provided under note 32 to the financial statements. None of these related party transactions constitutes a connected transaction as defined in the Listing Rules.

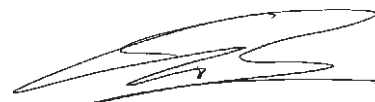
audit committee

An Audit Committee was formed in 1997, reporting to the Board of Directors. The Committee is comprised of four Non-executive Directors, three of whom are independent. The Audit Committee is dedicated to the review of matters within the purview of audit, such as financial statements and internal controls, and met four times during the year.

auditors

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

On behalf of the board



John POON Cho Ming

Deputy Chairman

Hong Kong, September 15, 2004