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 and the operation of Salon Esprit.

The Company is a limited liability company incorporated in Bermuda. The registered address is Clarendon House, Church Street, Hamilton HM 11, Bermuda. The Company has its primary listing on The Stock Exchange of Hong Kong Limited (code: 0330) and a secondary listing on the London Stock Exchange (ticker: EPT LI).

The Company's consolidated financial statements up to June 30, 2003 were prepared in accordance with accounting principles generally accepted in Hong Kong ("HKGAAP"). With effect from this financial year, the Company decided to prepare its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") and convert the comparative financial information for the year ended June 30, 2003 to be in accordance with IFRS.

All the new/revised IFRS were adopted except for IFRS 2, "Share-based Payments", which is effective for annual accounting periods beginning on or after January 1, 2005 (Note 2(a)). The adoption of IFRS has been applied retrospectively with effect from July 1, 2002, the date of transition, and comparative information has been adjusted to comply with IFRS.

The reasons the Group is adopting IFRS include:

- The Group operates internationally in four continents and has diverse international shareholders. The Group believes the adoption of internationally recognized accounting standards will allow its financial statements to be better understood by its shareholders, the capital markets and the other users globally;
- Many of the Group's peers in Europe will be adopting IFRS from 2005 onwards under European Union rules; and
- Many of the Group's subsidiaries, particularly in Europe which accounts for over 80% of the Group's turnover and profits, have historically prepared their financial statements in accordance with IFRS. Consistently using IFRS throughout the Group will lead to efficiencies and is cost effective.

These consolidated financial statements have been approved for issue by the Board of Directors on September 15, 2004.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

These consolidated financial statements of the Group have been prepared in accordance with IFRS. IFRS 1, First-time Adoption of International Financial Reporting Standards, has been applied in preparing these financial statements. These consolidated financial statements are the Group's first financial statements prepared in accordance with IFRS.

In preparing these financial statements in conformity with IFRS, the Group has adopted/early adopted all the new and revised IFRS, which are relevant to its operations except IFRS 2 "Share-based Payments", 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 at this time to state an estimated value of such options and the potential financial impact to the Group arising on the adoption of IFRS 2.

When preparing the consolidated financial statements, management has adopted certain accounting, valuation and consolidation methods to comply with IFRS. Accordingly, the consolidated financial statements prepared under HKGAAP for the year ended June 30, 2003 (included in the 2003 annual report) have been adjusted to reflect those differences between HKGAAP and IFRS. Reconciliations and explanations of the effect of the conversion from HKGAAP to IFRS on the Group's equity and its net income are set out in note 35. 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.

(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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

(iii) Group companies continued

(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)).

(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 is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the assets' carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognized.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

(h) Inventories

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

(i) Receivables and payables

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

(j) Cash and cash equivalents

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

(k) Deferred tax

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

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

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

(l) Employee benefits

(i) Pension obligations

The Group 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.

(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.

(iii) Employee leave entitlements

Employee entitlements to annual leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

(iv) Bonus plans

The Group recognizes a liability and an expense for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

(m) Provisions

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

(n) Revenue recognition

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

(i) Sales of goods – wholesale

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

(ii) Sales of goods – retail

Sales of goods are recognized when a Group entity sells 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. During the years ended June 30, 2004 and 2003, the Group's derivative instruments did not qualify for hedge accounting as the Group was not permitted to retrospectively meet the documentation requirements for hedging under IAS 39 *Financial Instruments: Recognition and Measurement*. 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.

(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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

(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, recognized assets and liabilities and net investments in foreign operations.

To manage the foreign exchange risk arising from future commercial transactions and recognized assets and liabilities, 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

On the first time adoption of IFRS, 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 has been 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. 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 reevaluates the useful life of Esprit trademarks each year to determine whether events or circumstances continue 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, 2004. The Group appointed independent professional valuers to conduct 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, 2004 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 14%. 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 and the operation of Salon Esprit.

	2004 HK$'000	2003 HK$'000
Turnover		
Sales of goods	**16,158,304**	12,183,037
Licensing and other income	**198,199**	198,421
	16,356,503	12,381,458

Primary reporting format – business segments

The Group's businesses are managed according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Inter-segment transactions are entered into under the normal commercial terms and conditions that would also be available to unrelated third parties. The Group has changed the basis of business segments reporting during this financial year and no longer presents a sourcing segment. The change is to conform with the Group's current internal financial reporting under its global management structure. The segment results previously attributable to the sourcing segment are now reflected within the wholesale and retail segments to reflect the Group's segment revenue and results earned from external customers. Accordingly, prior year comparatives have been adjusted to conform with the current year presentation.

5 TURNOVER AND SEGMENT INFORMATION *continued*

Primary reporting format – business segments *continued*

	Wholesale 2004 HK$'000	Retail 2004 HK$'000	Licensing & 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 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
Impairment of property, plant and equipment	–	4,647	–	–	4,647
Provision for retail store exit costs	–	14,256	–	–	14,256

5 TURNOVER AND SEGMENT INFORMATION *continued*

Primary reporting format – business segments *continued*

	Wholesale 2003 HK$'000	Retail 2003 HK$'000	Licensing & others 2003 HK$'000	Eliminations 2003 HK$'000	Group 2003 HK$'000
Turnover	7,075,677	5,107,360	198,421	–	12,381,458
Inter-segment sales	–	–	258,723	(258,723)	–
	7,075,677	5,107,360	457,144	(258,723)	12,381,458
Segment results	1,423,384	110,461	233,981	6,739	1,774,565
Unallocated net income					49,806
Interest income					41,584
Finance costs					(32,463)
Share of results of associates					45,463
Profit before taxation					1,878,955
Segment assets	4,567,047	1,825,701	328,158	(1,551,679)	5,169,227
Investments in associates					147,770
Intangible assets					1,960,034
Other unallocated assets					246,377
Total assets					7,523,408
Segment liabilities	1,163,798	1,737,319	15,432	(1,551,679)	1,364,870
Other unallocated liabilities					1,966,552
Total liabilities					3,331,422
Capital expenditure	80,184	236,498	15,940	–	332,622
Depreciation	71,292	190,528	10,750	–	272,570
Impairment of property, plant and equipment	–	36,140	–	–	36,140
Provision for retail store exit costs	–	63,589	–	–	63,589

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 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

	Turnover 2003 HK$'000	Capital expenditure 2003 HK$'000	Segment assets 2003 HK$'000
Europe	9,843,095	256,678	4,327,938
Asia	1,631,685	57,102	1,021,898
Australasia	605,491	13,082	201,269
North America and others	301,187	5,760	152,011
Eliminations	–	–	(533,889)
	12,381,458	332,622	5,169,227
Unallocated assets:			
Intangible assets			1,960,034
Investments in associates			147,770
Other assets			246,377
Total			7,523,408

6 OPERATING PROFIT

	2004 HK$'000	2003 HK$'000
Operating profit is arrived at after crediting and charging the following:		
Crediting:		
Fair value gain on foreign exchange forward contracts	13,585	–
Net exchange gains	26,249	151,475
Charging:		
Auditors' remuneration	6,084	4,680
Depreciation		
– Owned assets	341,493	272,042
– Assets held under finance leases	678	528
Impairment of property, plant and equipment	4,647	36,140
Loss on disposal of property, plant and equipment	13,808	44,960
Operating lease rental expenses		
– Land and buildings	1,353,825	1,131,434
Provision for obsolete stocks and stock write-offs	42,934	88,918
Provision for doubtful debts	17,849	29,086
Provision for retail store exit costs	14,256	63,589
Fair value loss on foreign exchange forward contracts	–	2,401

7 FINANCE COSTS

	2004 HK$'000	2003 HK$'000
Interest on bank loans and overdrafts wholly repayable within five years	21,704	32,408
Interest element of finance leases payments	82	55
	21,786	32,463

8 TAXATION

	2004 HK$'000	2003 HK$'000
Current tax		
Hong Kong profits tax	**12,874**	37,889
Overseas taxation	**937,010**	602,559
	949,884	640,448
Deferred tax credit (Note 26)		
Current year	**(1,223)**	(50,024)
Change in tax rate	**–**	(298)
	(1,223)	(50,322)
Taxation	**948,661**	590,126

Hong Kong profits tax is calculated at 17.5% *(2003: 17.5%)* of the estimated assessable profit for the year.

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.

The tax on the Group's profit before tax (EBT) 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 32% (2003: 35%). The decrease is caused by a change in the profitability of the Group's subsidiaries in the respective countries and the implementation of worldwide tax strategies.

	2004 HK$'000	2003 HK$'000
Profit before taxation	**2,952,101**	1,878,955
Tax calculated at applicable tax rate	**944,672**	657,634
Expenses not deductible for tax purpose	**19,900**	19,815
Non-recurring tax refund	**–**	(136,296)
Utilization of carried forward tax losses	**(42,691)**	(14,942)
Tax effect of tax losses not recognized	**40,316**	56,751
Tax effect of share of results of associates	**(20,099)**	(15,912)
Under provision in prior years and others	**6,563**	23,076
Taxation	**948,661**	590,126

9 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders of the Company is dealt with in the financial statements of the Company to the extent of HK$1,754,432,000 *(2003: HK$45,890,000)*.

10 DIVIDENDS

	2004 HK$'000	2003 HK$'000
Paid interim dividend of 19.0 Hong Kong cents *(2003: 7.5 Hong Kong cents)* per share	**226,746**	88,426
Proposed final dividend of 48.0 Hong Kong cents and special dividend of 50.0 Hong Kong cents *(2003 final: 32.5 Hong Kong cents, special: 30.0 Hong Kong cents)* per share	**1,169,530**	743,492
	1,396,276	831,918

The amount of 2004 proposed final and special dividends is based on 1,193,398,434 shares *(2003: 1,189,587,434 shares as at August 31, 2003)* in issue as at August 31, 2004.

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.

	2004 HK$'000	2003 HK$'000
Profit attributable to shareholders	**2,003,440**	1,288,829
Weighted average number of ordinary shares in issue (thousands)	**1,191,747**	1,179,721
Basic earnings per share (HK cents per share)	**168.1**	109.2

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 schemes.

	2004 HK$'000	2003 HK$'000
Profit attributable to shareholders	**2,003,440**	1,288,829
Weighted average number of ordinary shares in issue (thousands)	**1,191,747**	1,179,721
Adjustments for share options (thousands)	**14,199**	1,717
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**1,205,946**	1,181,438
Diluted earnings per share (HK cents per share)	**166.1**	109.1

12 STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	2004 HK$'000	2003 HK$'000
Salaries and wages	**1,560,708**	1,284,770
Social security costs and other staff costs	**513,282**	285,612
Pensions costs of defined contribution plans	**35,147**	33,248
	2,109,137	1,603,630

13 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' remuneration

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

	2004 HK$'000	2003 HK$'000
Fees to non-executive Directors[1]	1,046	932
Salaries, housing and other allowances and benefits in kind[2]	32,657	27,579
Bonuses to Executive Directors	23,550	16,086
Pensions costs of defined contribution plans	38	64
	57,291	44,661

1 The amount includes directors' fees of HK$846,504 *(2003: HK$732,000)* paid to Independent Non-executive Directors.

2 This 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 45 to 49 of the Report of the Directors.

The emoluments of the Directors fell within the following bands:

Emoluments Band			Number of Directors 2004	2003
Nil	–	HK$ 1,000,000	5	5
HK$ 1,000,001	–	HK$ 1,500,000	1	–
HK$ 1,500,001	–	HK$ 2,000,000	–	1
HK$ 2,000,001	–	HK$ 2,500,000	1	–
HK$ 2,500,001	–	HK$ 3,000,000	–	1
HK$ 3,000,001	–	HK$ 3,500,000	1	1
HK$ 6,500,001	–	HK$ 7,000,000	1	–
HK$ 7,000,001	–	HK$ 7,500,000	1	1
HK$ 8,000,001	–	HK$ 8,500,000	1	1
HK$ 20,500,001	–	HK$ 21,000,000	–	1
HK$ 28,000,001	–	HK$ 28,500,000	1	–
			12	11

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

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four *(2003: three)* Directors whose emoluments, excluding share option benefit, are reflected in the analysis presented above.

The emoluments receivable by the remaining one *(2003: two)* highest paid individual, excluding share option benefit, during the year are as follows:

	2004 HK$'000	2003 HK$'000
Salaries, housing and other allowances and benefits in kind	5,457	6,371
Bonuses	1,903	5,596
Pensions costs of defined contribution plans	5	16
	7,365	11,983

Emoluments Band	Number of Individuals 2004	2003
HK$ 5,500,001 – HK$ 6,000,000	–	1
HK$ 6,000,001 – HK$ 6,500,000	–	1
HK$ 7,000,001 – HK$ 7,500,000	1	–
	1	2

During the year ended June 30, 2004, 4,711,000 shares (2003: 11,750,000 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 Payments" 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, 2002	1,921,485	–	1,921,485
Exchange translation	38,549	–	38,549
At July 1, 2003	1,960,034	–	1,960,034
Acquisition of subsidiaries (Note 25)	–	38,552	38,552
Exchange translation	19,097	2,733	21,830
At June 30, 2004	1,979,131	41,285	2,020,416

Impairment test for trademarks

The trademarks are considered to have an indefinite useful life and were tested for impairment at June 30, 2004. 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, 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**

At June 30, 2004, the net book value of motor vehicles of HK$48,000 *(2003: HK$227,000)* and furniture and office equipment of HK$1,427,000 *(2003: Nil)* are 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, 2002	26,653	69,911	1,346,060	5,395	540,093	10,134	1,998,246
Exchange translation	431	1,930	175,922	536	74,105	993	253,917
Additions	–	–	194,158	574	132,746	5,144	332,622
Disposals	–	–	(103,920)	(427)	(49,857)	(1,804)	(156,008)
At June 30, 2003	27,084	71,841	1,612,220	6,078	697,087	14,467	2,428,777
Depreciation							
At July 1, 2002	–	20,529	649,389	4,307	349,724	8,040	1,031,989
Exchange translation	–	1,063	86,261	359	45,792	537	134,012
Charge for the year	–	2,598	161,447	446	105,822	2,257	272,570
Impairment charge	–	–	32,827	–	3,313	–	36,140
Disposals	–	–	(56,947)	(392)	(42,699)	(1,460)	(101,498)
At June 30, 2003	–	24,190	872,977	4,720	461,952	9,374	1,373,213
Net book value							
At June 30, 2003	27,084	47,651	739,243	1,358	235,135	5,093	1,055,564

16 INVESTMENTS IN ASSOCIATES

	2004 HK$'000	2003 HK$'000
Share of net assets	**154,984**	121,574

The following is a list of the principal associates, all of which are unlisted as at June 30, 2004:

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:

	2004 HK$'000	2003 HK$'000
Assets	**433,004**	319,755
Liabilities	**(116,709)**	(71,642)
Net assets	**316,295**	248,113
Revenue	**729,341**	621,447
Net Profit	**128,184**	92,782

17 PREPAID LEASE PAYMENTS

	2004 HK$'000	2003 HK$'000
Within one year	**499**	499
In the second to fifth year	**1,996**	1,996
After the fifth year	**18,947**	19,446
	21,442	21,941
Amount included under current assets	**(499)**	(499)
	20,943	21,442

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

18 INVENTORIES

	2004 HK$'000	2003 HK$'000
Finished goods	**1,074,048**	834,744
Consumables	**57,164**	74,075
Raw materials	**5,972**	9,449
	1,137,184	918,268

19 DEBTORS, DEPOSITS AND PREPAYMENTS

	2004 HK$'000	2003 HK$'000
Trade debtors	**1,196,496**	875,934
Deposits	**228,056**	180,764
Prepayments	**128,667**	55,055
Other debtors and receivables	**149,187**	95,079
	1,702,406	1,206,832

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:

	2004 HK$'000	2003 HK$'000
0-30 days	**1,094,794**	791,644
31-60 days	**39,919**	45,828
61-90 days	**14,981**	10,774
Over 90 days	**46,802**	27,688
	1,196,496	875,934

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:

	2004 HK$'000	2003 HK$'000
Bank balances and cash	**1,543,554**	1,944,793
Short-term bank deposits	**214,154**	167,443
Bank overdrafts	**–**	(15,571)
	1,757,708	2,096,665

The effective interest rate on cash and cash equivalents was 2.0% *(2003: 2.7%)*; the short-term bank deposits have an average maturity of 30 days.

21 SHARE CAPITAL

	2004 HK$'000	2003 HK$'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, 2002	1,176,937	117,694
Exercise of share options	11,750	1,175
Balance at June 30, 2003	1,188,687	118,869
Balance at July 1, 2003	1,188,687	118,869
Exercise of share options *(note (a))*	4,711	471
Balance at June 30, 2004	**1,193,398**	**119,340**

21 SHARE CAPITAL *continued*

(a) During the year, 4,711,000 (2003:11,750,000) ordinary shares of HK$0.10 were issued at a premium in the range of HK$2.54 to HK$14.50 each in relation to the share options exercised by Directors and employees under the share option schemes (defined in (b) below).

(b) 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") which govern the operation of share option schemes, the Company adopted a new share option scheme (the "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 of the Company 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 listed below:

1993 Share Option Scheme

Purpose and eligible persons

The 1993 Share Option Scheme is a share option scheme for employees of the Company or any subsidiaries (including executive directors of the Company or any subsidiary).

Total number of shares available for issue

Operation of the 1993 Share Option Scheme was terminated by the shareholders on November 26, 2001 and the provisions of the Scheme remained in full force and effect up to November 17, 2003. Therefore, no further options could be offered under the 1993 Share Option Scheme.

Maximum entitlement of each eligible persons

The maximum number of shares in respect of which options might be granted to any one person under the 1993 Share Option Scheme, together with shares already issued and issuable under options previously granted to such person, might not exceed 25% of the maximum number of shares in respect of which options might be granted under the 1993 Share Option Scheme from time to time.

Minimum Period for which an option must be held before it can be exercised

Options were divided into fractional installment(s). The first exercisable date between each installment shall occur at intervals of six calendar months. The earliest exercisable date for the first installment should occur six months after the date of grant.

Period within which the shares must be taken up under an option

An option might be exercised in accordance with the terms of the 1993 Share Option Scheme at any time during a period of five years commencing on the first exercisable date and expiring on the last day of the five-year period or November 17, 2003, whichever was the earlier.

Basis of determining the subscription price

The subscription price for shares in respect of which options were granted would not be less than the higher of the nominal value of the shares and 80% of the average of the closing price of the shares on the SEHK on the five trading days immediately preceding the date of offer of the option.

Details of share options exercised during the year under the 1993 Share Option Scheme, were as follows:

	Number of share options	
	2004	2003
Balance at July 1	**2,875,000**	14,625,000
Exercised during the year (Note (i))	**(2,875,000)**	(11,750,000)
Balance at June 30 (Note (ii))	**–**	2,875,000

21 SHARE CAPITAL *continued*

1993 Share Option Scheme *continued*

(i) Details of share options exercised during the year ended June 30, 2004 were as follows:

Exercise date	Exercise price HK$	Number of share options	Proceeds received Share capital HK$'000	Share premium HK$'000	Market value* per share at exercise date HK$
July 11, 2003	5.140	500,000	50	2,520	19.20
July 11, 2003	2.720	250,000	25	655	19.20
July 11, 2003	2.640	150,000	15	381	19.20
September 23, 2003	2.640	975,000	98	2,477	21.75
November 16, 2003	6.360	1,000,000	100	6,260	24.70
		2,875,000	288	12,293	

* "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).

Details of share options exercised during the year ended June 30, 2003 were as follows:

Exercise date	Exercise price HK$	Number of share options	Proceeds received Share capital HK$'000	Share premium HK$'000	Market value* per share at exercise date HK$
July 5, 2002	2.640	375,000	37	953	15.90
July 11, 2002	2.720	250,000	25	655	15.85
August 5, 2002	6.360	1,000,000	100	6,260	12.85
January 11, 2003	2.720	250,000	25	655	14.05
March 21, 2003	6.360	200,000	20	1,252	15.80
March 29, 2003	6.360	400,000	40	2,504	15.25
April 7, 2003	2.640	125,000	13	318	15.00
May 6, 2003	2.640	125,000	13	318	15.65
May 17, 2003	5.140	3,500,000	350	17,640	15.10
May 20, 2003	5.140	1,000,000	100	5,040	14.80
May 21, 2003	6.264	3,000,000	300	18,492	14.95
May 28, 2003	2.640	125,000	12	317	16.15
June 19, 2003	6.360	1,400,000	140	8,764	18.15
		11,750,000	1,175	63,168	

(ii) There was no outstanding share option *(2003: 2,875,000)* as at June 30, 2004 and the 1993 share option scheme was terminated.

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

21 SHARE CAPITAL *continued*

2001 Share Option Scheme

Purpose

The 2001 Share Option Scheme is a share incentive scheme established to recognize and acknowledge the contributions that selected eligible persons have made or may make to the Group.

Eligible persons

Eligible persons include:

(i) any director, employee of the Group, 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");

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

Total number of shares available for issue

The total number of shares available for issue under the 2001 Share Option Scheme is 114,383,717, representing 9.6% of the issued share capital of the Company as at the date of this report.

Maximum entitlement of each eligible person

The maximum number of shares in respect of which options may be granted under the 2001 Share Option Scheme (including the total number of the shares issued and to be issued upon exercise of options granted and to be granted to any eligible person) shall not exceed any limits that may be imposed under the Listing Rules from time to time as amended and in force.

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

There is no general requirement as to the period within which an option must be held before an option can be exercised under the terms of 2001 Share Option Scheme. However, at the time of granting any option, 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 options must be held as the Board may determine at its absolute discretion.

Period within which the shares must be exercised under an option

Subject to certain restrictions contained in the 2001 Share Option Scheme, an option which is exercisable pursuant to the 2001 Share Option Scheme and the terms on which such an option is granted may be exercised in accordance with such terms at any time during the applicable option period as may be determined by the Board (which shall not be more than 10 years from the date of grant of such an option).

Basis of determining the subscription price

The subscription price for any share under the 2001 Share Option Scheme will be a price determined by the Board and notified to each grantee. Such price will be not less than the highest of (i) the closing price of a share as stated in SEHK's daily quotation 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 a share as stated in SEHK's daily quotation sheets for the five Business Days immediately preceding the date of grant of the relevant option and (iii) the nominal value of a share.

Remaining life of the 2001 Share Option Scheme

The 2001 Share Option Scheme will remain in force until November 26, 2011.

Details of the share options granted during the year and outstanding share options as at June 30, 2004 under the 2001 Share Option Scheme were as follows:

	Number of share options	
	2004	2003
Balance at July 1	**31,360,000**	–
Granted during the year (Note (i))	**24,120,000**	31,760,000
Exercised during the year (Note (ii))	**(1,836,000)**	–
Lapsed during the year	**(3,880,000)**	(400,000)
Balance at June 30 (Note (iii))	**49,764,000**	31,360,000

21 SHARE CAPITAL *continued*

2001 Share Option Scheme *continued*

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

Exercisable 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

Details of share options granted during the year ended June 30, 2003 were as follows:

Exercisable period	Exercise price HK$	Number of options
November 26, 2003 – November 25, 2008	14.60	6,352,000
November 26, 2004 – November 25, 2008	14.60	6,352,000
November 26, 2005 – November 25, 2008	14.60	6,352,000
November 26, 2006 – November 25, 2008	14.60	6,352,000
November 26, 2007 – November 25, 2008	14.60	6,352,000
		31,760,000

(ii) Details of share options exercised during the year ended June 30, 2004 were as follows:

Exercise date	Exercise price HK$	Number of options	Proceeds received Share capital HK$'000	Share premium HK$'000	Market value* per share at exercise date HK$
November 27, 2003	14.60	160,000	16	2,320	24.50
December 05, 2003	14.60	360,000	36	5,220	25.45
December 09, 2003	14.60	120,000	12	1,740	25.35
December 13, 2003	14.60	120,000	12	1,740	25.20
December 16, 2003	14.60	60,000	6	870	23.80
December 31, 2003	14.60	120,000	12	1,740	25.85
March 01, 2004	14.60	240,000	24	3,480	31.30
March 02, 2004	14.60	56,000	6	812	31.90
March 06, 2004	14.60	40,000	4	580	30.70
March 09, 2004	14.60	240,000	24	3,480	30.80
March 10, 2004	14.60	160,000	16	2,320	30.80
March 11, 2004	14.60	160,000	16	2,320	30.50
		1,836,000	184	26,622	

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

21 SHARE CAPITAL *continued*

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

Expiry date	Exercise price HK$	Number of share options outstanding 2004	2003
Directors			
November 25, 2008	14.60	**9,600,000**	9,600,000
November 25, 2009*	24.20	**7,200,000**	–
Employees			
November 25, 2008	14.60	**16,044,000**	21,760,000
November 25, 2009*	24.20	**16,320,000**	–
December 22, 2009*	24.45	**600,000**	–
		49,764,000	31,360,000

* The share options listed above are not vested at the balance sheet date.

22 CREDITORS AND ACCRUED CHARGES

	2004 HK$'000	2003 HK$'000
Trade creditors	**745,013**	543,270
Accruals	**756,175**	677,646
Other creditors and payables	**381,869**	224,215
	1,883,057	1,445,131

The Group recognized a provision for retail store exit costs in respect of the unavoidable costs to early terminate lease contracts. As at June 30, 2004, the amount of HK$26,019,000 (2003: HK$63,589,000) was included in other creditors and payables. The ageing analysis of trade creditors is as follows:

	2004 HK$'000	2003 HK$'000
0-30 days	**659,417**	489,189
31-60 days	**41,405**	30,048
61-90 days	**13,676**	8,095
Over 90 days	**30,515**	15,938
	745,013	543,270

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

23 OBLIGATIONS UNDER FINANCE LEASES

	2004 HK$'000	2003 HK$'000
Total minimum lease payments		
– within one year	1,339	255
– in the second year	–	151
– in the third to fifth year inclusive	–	192
	1,339	598
Future finance charges on finance leases	(24)	(43)
Present value of finance lease liabilities	1,315	555
The present value of finance lease liabilities		
– within one year	1,315	219
– in the second year	–	126
– in the third to fifth year inclusive	–	210
	1,315	555
Amount due within one year included under current liabilities	(1,315)	(219)
	–	336

It is the Group's policy to lease certain of its fixtures and equipment under finance leases. The average lease term is 3 to 4 years. For the year ended June 30, 2004, the average effective borrowing rate was 1.8 per cent *(2003: 1.4 per cent)*. Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingency rental payments.

The carrying amount of the Group's lease obligations approximates their fair value.

24 BANK OVERDRAFTS AND LOANS

	2004 HK$'000	2003 HK$'000
Bank overdrafts	–	15,571
Bank loans	–	776,411
	–	791,982
The borrowings are repayable as follows:		
On demand or within one year	–	15,571
In the second year	–	776,411
	–	791,982
Less: Amount due for settlement within 12 months	–	(15,571)
Amount due for settlement after 12 months	–	776,411

The Group's unsecured bank borrowings in 2003 were mainly denominated in Euro and were fully repaid during the current financial year. The average interest rates paid for the Group's borrowings during the year were 2.7% *(2003: 4%)*.

25 BUSINESS COMBINATIONS

In December 2003, the Group completed the acquisition of the entire equity of Bollag-Guggenheim & Co. AG (the "BG & CO") in Switzerland for a cash consideration of Swiss Franc 31 million (approximately HK$181 million). The fair value of the net identifiable assets of BG & CO at the date of acquisition was approximately HK$150 million. The acquired business made no significant contribution to revenues and operating results of the Group during the year ended June 30, 2004.

Details of net assets acquired and goodwill are as follows:

	HK$'000
Purchase consideration:	
– Cash paid	180,857
– Direct costs relating to the acquisition	5,251
Total purchase consideration	186,108
Fair value of net assets acquired	(147,556)
Goodwill	38,552

The goodwill is attributable to the profitability and the synergies expected to arise from the acquired business.

The assets and liabilities arising from the acquisition are as follows:

	Fair value HK$'000	Acquiree's carrying amount HK$'000
Property, plant and equipment	63,294	47,005
Deferred tax assets	2,404	–
Inventories	12,613	12,613
Debtors, deposits and prepayments	47,670	47,670
Bank balances and cash	114,243	114,243
Creditors and accrued charges	(58,242)	(58,242)
Taxation	(29,870)	(29,870)
Deferred tax liabilities	(4,556)	–
Net assets acquired	147,556	133,419
Goodwill	38,552	
Purchase consideration settled in cash	186,108	
Cash and cash equivalents acquired	(114,243)	
Cash outflow on acquisition	71,865	

If the BG & CO were acquired as at 1 July 2003, revenue and profit of the BG & CO for the year ended 30 June 2004 of HK$550,356,000 and HK$60,545,000 respectively would be included in the consolidated income statement of the Group.

26 DEFERRED TAXATION

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

The Group:

	Accelerated accounting depreciation HK$'000	Elimination of unrealized profits HK$'000	Trademarks HK$'000	Tax losses HK$'000	Other deferred tax assets HK$'000	Other deferred tax liabilities HK$'000	Total HK$'000
At July 1, 2002	4,233	25,391	(300,022)	–	7,228	(2,135)	(265,305)
(Charged)/credited to income statement	(159)	2,290	1,262	27,004	23,479	(3,554)	50,322
Exchange difference recognized in equity	756	485	(15,297)	2,477	1,983	(318)	(9,914)
At June 30, 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 (Note 25)	–	–	–	–	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)**

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:

	2004 HK$'000	2003 HK$'000
Deferred tax liabilities	**332,200**	318,313
Deferred tax assets	**104,340**	93,416

26 DEFERRED TAXATION *continued*

At June 30, 2004, the Group had unused tax losses of approximately HK$1,229,460,000 *(2003: HK$1,329,558,000)* available for offset against future profits. A deferred tax asset has been recognized in respect of approximately HK$24,415,000 *(2003: HK$79,679,000)* of such losses. No deferred tax asset has been recognized in respect of the remaining approximately HK$1,205,045,000 *(2003: HK$1,249,879,000)*. Included in unrecognized tax losses are losses of approximately HK$431,370,000 *(2003: HK$384,351,000)* that will expire in the next five to twenty years. Other losses may be carried forward indefinitely.

27 NOTES TO CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of profit before taxation to cash generated from operations

	2004 HK$'000	2003 HK$'000
Profit before taxation	**2,952,101**	1,878,955
Adjustments for:		
Interest income	**(39,556)**	(41,584)
Interest expense	**21,704**	32,408
Interest element of finance leases payments	**82**	55
Depreciation	**342,171**	272,570
Impairment of property, plant and equipment	**4,647**	36,140
Loss on disposal of property, plant and equipment	**13,808**	44,960
Provision for retail store exit costs	**14,256**	63,589
Share of results of associates	**(62,810)**	(45,463)
Operating profit before changes in working capital	**3,246,403**	2,241,630
(Increase)/decrease in inventories	**(206,303)**	37,053
Increase in debtors, deposits and prepayments	**(447,419)**	(385,525)
Decrease/(increase) in amounts due from associates	**7,650**	(8,388)
Increase in creditors and accrued charges	**365,428**	396,734
Effect of foreign exchange rate changes	**25,516**	(172,744)
Cash generated from operations	**2,991,275**	2,108,760

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

	2004 HK$'000	2003 HK$'000
Net book amount	**31,872**	54,510
Loss on disposal of property, plant and equipment	**(13,808)**	(44,960)
Proceeds from disposal of property, plant and equipment	**18,064**	9,550

28 CONTINGENT LIABILITIES

	2004 HK$'000	2003 HK$'000
Guarantees given to banks by the Company in respect of banking facilities granted to subsidiaries	–	1,281,362

29 OPERATING LEASE COMMITMENTS

	2004 HK$'000	2003 HK$'000
The total future minimum lease payments under non-cancellable operating leases are as follows:		
Land and buildings		
– within one year	1,248,656	1,035,808
– in the second to fifth year inclusive	3,914,074	3,416,932
– after the fifth year	4,917,127	4,666,608
	10,079,857	9,119,348
Other equipment		
– within one year	12,980	9,717
– in the second to fifth year inclusive	8,603	5,947
– after the fifth year	233	47
	10,101,673	9,135,059

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.

30 CAPITAL COMMITMENTS

	2004 HK$'000	2003 HK$'000
Contracted but not provided for	529,916	316,977
Authorized but not contracted for	264,958	158,448
	794,874	475,425

31 DERIVATIVE FINANCIAL INSTRUMENTS

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

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

	2004 HK$'000	2003 HK$'000
Forward foreign exchange contracts	367,088	375,233

At June 30, 2004, the fair value of the foreign currency forward contracts is estimated to be approximately HK$1,665,000 *(2003: HK$15,250,000)*. These amounts are based on market values of equivalent instruments at the balance sheet date and are included in other creditors and payables.

32 RELATED PARTY TRANSACTIONS

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

	2004 HK$'000	2003 HK$'000
Transactions with associates		
Sales of finished goods	**286,451**	231,923
Royalty received	**15,428**	11,419
Commission received	**4,736**	3,790

33 EVENTS AFTER THE BALANCE SHEET DATE

The Group has committed approximately HK$300 million for the new head office in Hong Kong, comprising inter alia, approximately 73,000 sq.ft. of office space and a prominent signage space at the top of the building.

34 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	2004 HK$'000	2003 HK$'000
Investments in subsidiaries, at cost		**216,677**	216,677
Loans to subsidiaries	(i)	**1,633,779**	1,633,524
Amounts due from subsidiaries	(ii)	**2,899,525**	1,140,140
Current assets		**1,169**	11,893
Current liabilities		**(9,155)**	(11,352)
Amounts due to subsidiaries	(ii)	**(1,758,950)**	(830,181)
Net assets		**2,983,045**	2,160,701
Share capital	21	**119,340**	118,869
Share premium	(iii)	**1,309,157**	1,270,243
Contributed surplus	(iii)	**473,968**	473,968
Retained profits	(iii)	**1,080,580**	297,621
Shareholders' funds		**2,983,045**	2,160,701

(i) Except for a loan to a wholly-owned subsidiary of US$170 million (approximately HK$1,314.1million) which carries interest at 2% over London Interbank Offer Rate, the remaining loan balance are interest free and have no fixed terms of repayment. All balance are unsecured.

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

34 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, 2002	1,207,075	473,968	599,441	2,280,484
Profit attributable to shareholders	–	–	45,890	45,890
2001/02 final and special dividends paid	–	–	(259,284)	(259,284)
2002/03 interim dividend paid	–	–	(88,426)	(88,426)
Issues of shares (Note 21)	63,168	–	–	63,168
Balance at June 30, 2003	1,270,243	473,968	297,621	2,041,832
Representing:				
Proposed final and special dividends				743,492
Balance after proposed final and special dividends				1,298,340
Balance at June 30, 2003				2,041,832
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

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, 2004 amounted to HK$1,554,548,000 *(2003: HK$771,589,000)*.

(iv) The Company did not have any operating lease commitment at June 30, 2004 (2003: Nil).

(v) The Company did not have any significant capital commitment at June 30, 2004 (2003: Nil).

35 RECONCILIATION OF EQUITY AND PROFIT FROM HKGAAP TO IFRS

(a) Reconciliation of equity as at July 1, 2002 (Date of transition to IFRS)

	NOTES	HKGAAP HK$'000	Effect of conversion to IFRS HK$'000	IFRS HK$'000
Non-current assets				
Trademarks	(i)	1,835,315	86,170	1,921,485
Goodwill	(ii)	14,625	(14,625)	–
Property, plant and equipment	(iii)	988,697	(22,440)	966,257
Other investments		7,686	–	7,686
Investments in associates	(iv)	78,368	22,243	100,611
Prepaid lease payments	(iii)	–	21,941	21,941
Deferred tax assets	(v)	4,233	31,176	35,409
		2,928,924	124,465	3,053,389
Current assets				
Inventories		955,321	–	955,321
Debtors, deposits and prepayments	(iii)	824,248	499	824,747
Amounts due from associates		17,808	–	17,808
Short-term bank deposits		331,647	–	331,647
Bank balances and cash		650,026	–	650,026
		2,779,050	499	2,779,549
Current liabilities				
Creditors and accrued charges	(vii)	976,365	12,849	989,214
Taxation		681,556	–	681,556
Obligations under finance leases				
– due within one year		593	–	593
Bank overdrafts		47,995	–	47,995
		1,706,509	12,849	1,719,358
Net current assets		1,072,541	(12,350)	1,060,191
Total assets less current liabilities		4,001,465	112,115	4,113,580

	NOTES	HKGAAP HK$'000	Effect of conversion to IFRS HK$'000	IFRS HK$'000
Financed by:				
Share capital		117,694	–	117,694
Share premium		1,207,075	–	1,207,075
Contributed surplus		6,602	–	6,602
Translation reserve	(vi)	(100,664)	100,664	–
Retained profits		1,973,012	(271,967)	1,701,045
Shareholders' funds		3,203,719	(171,303)	3,032,416
Obligations under finance leases				
– due after one year		450	–	450
Long-term bank loan		780,000	–	780,000
Deferred tax liabilities	(v)	17,296	283,418	300,714
		797,746	283,418	1,081,164
		4,001,465	112,115	4,113,580

35 RECONCILIATION OF EQUITY AND PROFIT FROM HKGAAP TO IFRS *continued*

(a) Reconciliation of equity as at July 1, 2002 (Date of transition to IFRS) *continued*

Notes:

(i) Trademarks which have indefinite useful lives under IFRS are stated at cost less accumulated impairment losses (if any), but were carried at cost less accumulated amortization and impairment losses (if any) under HKGAAP. In addition, trademarks acquired through business combinations are recorded as assets of acquirees under IFRS, but were recorded as assets of acquirers under HKGAAP. The reversal of previously recognized accumulated amortization and the retranslation of trademarks cost based on functional currencies of acquirees at the closing rate resulted in an increase in trademarks and retained profits by HK$86,170,000 as at July 1, 2002 under IFRS.

(ii) An impairment loss of HK$14,625,000 for goodwill arising on the acquisition of Red Earth International Holdings Limited was recognized by applying the impairment test of IAS 36, *Impairment of Assets,* at July 1, 2002 and the amount was recognized in retained profits at that date.

(iii) Payments for acquisition of leasehold land of HK$22,440,000 are reclassified as prepaid lease payments under IFRS, but were included in property, plant and equipment under HKGAAP. The current portion of prepaid lease payments is included in "Debtors, deposits and prepayments".

(iv) Equity accounting for investments in associates previously was based on annual financial statements of the associates made up to December 31 each year. Adjustments have been made to realign the reporting date of the associates to that of the Group. As a result, the share of net assets of associates as at July 1, 2002 increased by HK$22,243,000 with a corresponding increase in retained profits.

(v) Under HKGAAP, deferred tax as at July 1, 2002 was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. Accounting for deferred tax under HKGAAP changed with effect from January 1, 2003 and is now consistent with IFRS. Under IFRS, 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 accounts with limited exceptions. As a result, deferred tax assets and deferred tax liabilities increased by HK$31,176,000 and HK$283,418,000 respectively with a corresponding net amount recognized in retained profits.

(vi) The Group has adopted the option available in IFRS 1 to deem the translation reserve as at July 1, 2002 to be zero. Under HKGAAP, this reserve was a debit of HK$100,664,000 as at July 1, 2002.

(vii) Foreign exchange forward contracts were recorded as financial liabilities at their fair values at HK$12,849,000 as at July 1, 2002, but were not recognized under HKGAAP.

(b) Reconciliation of equity as at June 30, 2003

	NOTES	HKGAAP HK$'000	Effect of conversion to IFRS HK$'000	IFRS HK$'000
Non-current assets				
Trademarks	(i)	1,730,250	229,784	1,960,034
Goodwill	(ii)	13,875	(13,875)	–
Property, plant and equipment	(iii)	1,077,505	(21,941)	1,055,564
Other investments		7,846	–	7,846
Investments in associates	(iv)	101,568	20,006	121,574
Prepaid lease payments	(iii)	–	21,442	21,442
Deferred tax assets	(v)	45,765	47,651	93,416
		2,976,809	283,067	3,259,876
Current assets				
Inventories		918,268	–	918,268
Debtors, deposits and prepayments	(iii)	1,206,333	499	1,206,832
Amounts due from associates		26,196	–	26,196
Short-term bank deposits		167,443	–	167,443
Bank balances and cash		1,944,793	–	1,944,793
		4,263,033	499	4,263,532
Current liabilities				
Creditors and accrued charges	(vii)	1,429,881	15,250	1,445,131
Taxation		775,441	–	775,441
Obligations under finance leases				
– due within one year		219	–	219
Bank overdrafts		15,571	–	15,571
		2,221,112	15,250	2,236,362
Net current assets		2,041,921	(14,751)	2,027,170
Total assets less current liabilities		5,018,730	268,316	5,287,046

35 RECONCILIATION OF EQUITY AND PROFIT FROM HKGAAP TO IFRS *continued*

(b) Reconciliation of equity as at June 30, 2003 *continued*

	NOTES	HKGAAP HK$'000	Effect of conversion to IFRS HK$'000	IFRS HK$'000
Financed by:				
Share capital		118,869	–	118,869
Share premium		1,270,243	–	1,270,243
Contributed surplus		6,602	–	6,602
Translation reserve	(i),(vi)	31,141	122,967	154,108
Retained profits		2,810,872	(168,708)	2,642,164
Shareholders' funds		4,237,727	(45,741)	4,191,986
Obligations under finance leases				
– due after one year		336	–	336
Long-term bank loan		776,411	–	776,411
Deferred tax liabilities	(v)	4,256	314,057	318,313
		781,003	314,057	1,095,060
		5,018,730	268,316	5,287,046

Notes:

(i) Trademarks which have indefinite useful lives under IFRS are stated at cost less accumulated impairment losses (if any), but were carried at cost less accumulated amortization and impairment losses (if any) under HKGAAP. In addition, trademarks acquired through business combinations are recorded as assets of acquirees under IFRS, but were recorded as assets of acquirers under HKGAAP. The reversal of previously recognized accumulated amortization and the retranslation of trademarks cost based on functional currencies of acquirees at the closing rate resulted in an increase in trademarks by HK$229,784,000 and an increase in profit attributable to shareholders for the year then ended of HK$105,065,000 and an increase in translation reserve of HK$38,549,000 under IFRS.

(ii) The goodwill was fully impaired on July 1, 2002 (Note 35(a)(ii)).

(iii) Payments for acquisition of leasehold land of HK$21,941,000 are reclassified as prepaid lease payments under IFRS, but were included in property, plant and equipment under HKGAAP. The current portion of prepaid lease payments is included in "Debtors, deposits and prepayments".

(iv) Equity accounting for investments in associates was based on annual financial statements of the associates made up to December 31 each year. Adjustments have been made to realign the reporting date of the associates to that of the Group. As a result, the share of net assets of associates increased by HK$20,006,000 with a corresponding increase in retained profits.

(v) Under HKGAAP, deferred tax as at June 30, 2003 was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. Accounting for deferred tax under HKGAAP changed with effect from January 1, 2003 and is now consistent with IFRS. Under IFRS, 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 accounts. As a result, deferred tax assets and deferred tax liabilities increased by HK$47,651,000 and HK$314,057,000 respectively with a corresponding net amount recognized in retained profits.

(vi) The Group has adopted the option available in IFRS 1 to deem the translation reserve as at July 1, 2002 to be zero. Under HKGAAP, this reserve was a debit of HK$100,664,000 as at June 30, 2002.

(vii) Foreign exchange forward contracts were recorded as financial liabilities at their fair values at HK$15,250,000 as at June 30, 2003 but were not recognized under HKGAAP.

35 RECONCILIATION OF EQUITY AND PROFIT FROM HKGAAP TO IFRS *continued*

(c) Reconciliation of profit for the year ended June 30, 2003

	NOTES	HKGAAP HK$'000	Effect of conversion to IFRS HK$'000	IFRS HK$'000
Turnover		12,381,458	–	12,381,458
Cost of goods sold		(6,198,869)	–	(6,198,869)
Gross profit		6,182,589	–	6,182,589
Staff costs		(1,603,630)	–	(1,603,630)
Depreciation and amortization	(i),(ii),(iii)	(378,884)	106,314	(272,570)
Other operating costs	(i),(v)	(2,479,118)	(2,900)	(2,482,018)
Operating profit		1,720,957	103,414	1,824,371
Interest income		41,584	–	41,584
Finance costs		(32,463)	–	(32,463)
Share of results of associates	(iv)	61,024	(15,561)	45,463
Profit before taxation		1,791,102	87,853	1,878,955
Taxation				
– Company and subsidiaries	(vi)	(592,208)	2,082	(590,126)
– Associates	(iv)	(13,324)	13,324	–
		(605,532)	15,406	(590,126)
Profit attributable to shareholders		1,185,570	103,259	1,288,829

Notes:

(i) Payments for acquisition of leasehold land are treated as operating leases under IFRS, but were included in property, plant and equipment and depreciated accordingly under HKGAAP. Land amortization expense of HK$499,000 was reclassified from "depreciation and amortization" to "other operating costs" under IFRS.

(ii) Trademarks with indefinite useful lives are stated at cost less accumulated impairment losses (if any) under IFRS, but were carried at cost less accumulated amortization and impairment losses (if any) under HKGAAP. Therefore, amortization of trademarks of HK$105,065,000 previously recognized under HKGAAP was reversed.

(iii) Goodwill was fully impaired on July 1, 2002. Therefore, amortization of goodwill of HK$750,000 previously recognized under HKGAAP was reversed.

(iv) An adjustment was made to realign the reporting date of the associates to that of the Group and this resulted in a decrease in share of results of associates by HK$2,237,000. In addition, the amount of share of taxation of associates is presented within "share of results of associates" under IFRS, but in "income tax expenses" under HKGAAP. Therefore, share of taxation of associates of HK$13,324,000 is reclassified from "income tax expenses" to "share of results of associates" under IFRS. As a result of the above differences, share of results of associates has decreased by HK$15,561,000 under IFRS.

(v) This represented unrealized loss of HK$2,401,000 arising on the fair value of forward contracts recognized in the income statement under IFRS.

(vi) Under HKGAAP, deferred tax as at June 30, 2003 was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. Accounting for deferred tax under HKGAAP changed with effect from January 1, 2003 and is now consistent with IFRS. Under IFRS, 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 accounts. An additional deferred tax credit of HK$2,082,000 was recognized in the income statement under IFRS.

(d) Key impact on profit attributable to shareholders for the year ended June 30, 2004 of adopting IFRS

Had the Group prepared its consolidated financial statements for the year ended June 30, 2004 under HKGAAP, the Group estimates that the profit attributable to shareholders for the year then ended would have decreased by approximately HK$130 million, mainly representing the amortization of trademarks of HK$105,065,000.

36 PRINCIPAL SUBSIDIARIES

The following are the principal subsidiaries as at June 30, 2004 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	Issued and fully paid share capital/ registered capital (note a)	Principal activities
ERA 97 S.R.L.	Italy	100%	EUR12,750	Wholesale distribution of apparel and accessories
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
Esprit de Corp (Malaysia) Sdn. Bhd.	Malaysia	100%	MYR500,000	Retail distribution of apparel and accessories

36 PRINCIPAL SUBSIDIARIES *continued*

Name of subsidiary	Place of incorporation/ operation	Attributable equity interest to the Group	Issued and fully paid share capital/ registered capital (note a)	Principal activities
Esprit Design und Product Development GmbH	Germany	100%	EUR300,000	Style and product development of merchandise, incl. service functions
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 Services GmbH	Germany	100%	EUR2,600,000	Sourcing and purchase of merchandise, distribution of merchandise and other logistic functions, incl. Customs dealing
Esprit GB Limited	United Kingdom	100%	GBP150,000	Wholesale and retail distribution of apparel and accessories
Esprit Handelsgesellschaft mbH	Austria	100%	EUR100,000	Wholesale and retail distribution of apparel and accessories
Esprit International (limited partnership)	California, U.S.A.	100%	N/A	Holding and licensing of trademarks
Esprit IP Limited	British Virgin Islands/Hong Kong	100%	USD1	Holding and licensing of trademarks
Esprit Macao Commercial Offshore Limited	Macau	100%	MOP3,000,000	Wholesale distribution of apparel and accessories
Esprit Regional Services Limited (formerly known as Esprit Sales Limited)	British Virgin Islands/Hong Kong	100%	USD1	Provision of services
Esprit Retail B.V. & Co. KG	Germany	100%	EUR5,000,000	Retail distribution of apparel and accessories, operation of Esprit Café

36 PRINCIPAL SUBSIDIARIES *continued*

Name of subsidiary	Place of incorporation/ operation	Attributable equity interest to the Group	Issued and fully paid share capital/ registered capital (note a)	Principal activities
Esprit Retail (Hong Kong) Limited	Hong Kong	100%	HKD10,000	Retail distribution of apparel and accessories and operation of Salon Esprit
Esprit Retail Pte Ltd	Singapore	100%	SGD3,000,000	Retail distribution of apparel and accessories
Esprit (Retail) Pty Ltd	Australia	100%	AUD200,000	Retail distribution of apparel and accessories
Esprit Retail (Taiwan) Limited	Hong Kong/Taiwan	100%	HKD9,000	Retail distribution of apparel and accessories
Esprit Sweden AB	Sweden	100%	SEK500,000	Wholesale distribution of apparel and accessories
Esprit Swiss Treasury Limited (formerly known as Esprit Group Services Limited)	British Virgin Islands/Hong Kong	100%	USD1	Financial services
Esprit Switzerland Distribution AG (formerly known as Bollag-Guggenheim & Co. AG)	Switzerland	100%	CHF100,000	Wholesale distribution of apparel and accessories
Esprit Switzerland Retail AG (formerly known as Bollag-Guggenheim Detailhandels 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 Wholesale GmbH	Germany	100%	EUR5,000,000	Wholesale distribution of apparel and accessories

36 PRINCIPAL SUBSIDIARIES *continued*

Name of subsidiary	Place of incorporation/ operation	Attributable equity interest to the Group	Issued and fully paid share capital/ registered capital (note a)	Principal activities
Garment, Acessories and Cosmetics Esprit Retail (Macau) Limited	Macau	100%	MOP100,000	Retail distribution of apparel and accessories
Red Earth (Hong Kong) Limited	Hong Kong	100%	HKD10,000	Retail distribution of cosmetics, skin and body care products
Red Earth International Holdings Limited	British Virgin Islands/Hong Kong	100%	USD1,668,000	Investment holding
Red Earth Licensing Limited	British Virgin Islands/Hong Kong	100%	USD100	Holding and licensing of trademarks
Red Earth New Zealand Ltd.	New Zealand	100%	NZD100	Retail distribution of cosmetics, skin and body care products
Red Earth Production Limited	Hong Kong	100%	HKD10,000	Wholesale distribution of cosmetics, skin and body care products
Red Earth Pty Limited	Australia	100%	AUD100	Retail 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 b)	100%	USD1,600,000 registered capital	Sample development

Notes:

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

(b) Wholly owned foreign enterprise