

report of the directors

report of the directors

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

principal activities

The Company is an investment holding company. The activities of the principal subsidiaries are shown in note 31 to the financial statements. The Group is principally engaged in the wholesale and retail distribution and licensing of quality fashion and life-style products designed under its own internationally-known **ESPRIT** brand name, together with Red Earth cosmetics, skin and body care products.

results and appropriations

The results of the Group and appropriations of the Company are set out in the consolidated income statement on page 68 and in the accompanying notes to the financial statements.

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

The Directors recommend the payment of a final dividend of HK\$0.66 per share and a special dividend of HK\$0.84 per share. Details are set out in note 10 to the financial statements.

reserves

Movements in reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on page 71 and in note 30 to the financial statements respectively.

share capital

During the year, 6,027,000 (2004: 4,711,000) ordinary shares of HK\$0.10 were issued at a premium in the range of HK\$14.50 to HK\$24.35 each in relation to the share options exercised by Directors and employees under the share option scheme of the Company adopted on November 26, 2001. Further details of movements in share capital of the Company are set out in note 21 to the financial statements.

financial summary

A summary of the results and the balance sheets of the Group for the last five financial years is set out on page 104.

property, plant and equipment

Details of movements in property, plant and equipment of the Group during the year are set out in note 15 to the financial statements.

pension schemes

Particulars of pension schemes of the Group are set out in note 12 to the financial statements.

principal subsidiaries

Particulars of the Company's principal subsidiaries as at June 30, 2005 are set out in note 31 to the financial statements.

charitable donations

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

directors

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

executive directors

Michael YING Lee Yuen

Heinz Jürgen KROGNER-KORNALIK

John POON Cho Ming

Thomas Johannes GROTE

Jerome Squire GRIFFITH

non-executive directors

Jürgen Alfred Rudolf FRIEDRICH

Simon LAI Sau Cheong

independent non-executive directors

Paul CHENG Ming Fun

Alexander Reid HAMILTON

Raymond OR Ching Fai

The Company has received written confirmation from each of the Independent Non-executive Directors confirming their independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), and considers them to be independent.

directors and senior management profile

executive directors

Michael YING Lee Yuen, aged 55, is and has been Chairman of the Board since 1993. Mr. Ying has over 30 years of experience in the apparel industry. He is primarily responsible for the overall corporate direction and strategy of the Group.

Heinz Jürgen KROGNER-KORNALIK, aged 64, is Deputy Chairman and Chief Executive Officer of the Group. He has been with the Group since January 1995. He possesses a degree in business administration and industrial engineering. He was a consultant with Kurt Salmon Associates in a variety of areas, including production, organization, marketing, strategy and brand positioning, as well as with several textile firms, always in executive positions, before joining the Group.

John POON Cho Ming, aged 51, is the Deputy Chairman, Group Chief Financial Officer and Company Secretary. Mr. Poon is primarily responsible for managing the Group's financial and legal functions, including strategic planning and corporate finance, investor relations, accounting and tax, treasury management as well as company secretarial affairs. Prior to joining the Group in December 1999, he has held executive directorships in other public companies and has extensive experience in corporate management, corporate finance and legal affairs. Mr. Poon is a qualified solicitor in Hong Kong, England and Wales, and a barrister and solicitor in Alberta, Canada. He graduated from the University of Alberta, Canada with a Bachelor of Arts Degree in Economics and a Bachelor of Laws Degree.

Thomas Johannes GROTE, aged 42, is currently the joint Chief Operating Officer of the Esprit brand and the global head of wholesale operations of the Group. He completed business college in 1983 and then worked in a German textile printing company for six years. He joined the Group in 1990 as key account manager of the accessories division and was later promoted to sales manager. He left the Group in 1992 and returned to the Group in June 1996.

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

report of the directors

directors and senior management profile *continued*

non-executive directors

Paul CHENG Ming Fun, aged 68, was appointed an Independent Non-executive Director of the Company in November 2002. Mr. Cheng was a former member of the Hong Kong Legislative Council as well as Chairman of Inchcape Pacific Limited, N M Rothschild & Sons (Hong Kong) Ltd., the Hong Kong General Chamber of Commerce, and the American Chamber of Commerce in Hong Kong. He is currently a Steward of the Hong Kong Jockey Club and has recently been appointed Chairman of The Link Management Limited. He is an Adjunct Professor of Management of Organizations of the Hong Kong University of Science and Technology and is also a member of the Council of The Chinese University of Hong Kong.

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

Alexander Reid HAMILTON, aged 63, has been an Independent Non-executive Director of the Company since August 1995. He is also a director of CITIC Pacific Limited, China Cosco Holdings Company Limited, Shangri-La Asia Limited and a number of other Hong Kong companies. He was a partner of Price Waterhouse with whom he practised for 16 years.

Simon LAI Sau Cheong, aged 44, was appointed an Independent Non-executive Director of the Company in November 1999 and was re-designated as Non-executive Director of the Company in 2004. He is admitted to practise as a solicitor in Hong Kong, England and Wales and New South Wales, Australia. Mr. Lai is a partner of the law firm Deacons and has over 20 years' experience of legal practice.

Raymond OR Ching Fai, aged 55, was appointed an Independent Non-executive Director of the Company in 1996. He is the Vice Chairman and Chief Executive of Hang Seng Bank Limited, executive director of The Hongkong and Shanghai Banking Corporation Limited, Chairman of Hang Seng Life Limited, and a director of Cathay Pacific Airways Limited and Hutchison Whampoa Limited.

senior management

(as of June 30, 2005)

Ursula BUCK, aged 43, is Head of Global Licensing. She holds a Bachelor Degree in Business Management and Economics from the University of Augsburg. She joined the Group in 2002 and has over 10 years' experience in licensing fashion products. Prior to joining the Group, she worked in lifestyle companies such as Valentino and Hugo Boss and has 7 years' experience with McKinsey & Company, a management consultancy firm.

Melody HARRIS-JENSBACH, aged 44, is International Product Director Women of the Group. She joined the Group in August 1998 as Design Director for Women's Wear. She graduated from Parsons School of Design in New York City with a Bachelor of Fine Arts majoring in Fashion Design. She has over 20 years' experience as Designer/Chief Designer for various international and national apparel companies.

Lawrence LEE Cheung Kan, aged 45, is the Group Financial Controller. He is primarily responsible for the Group's statutory and management reporting as well as internal controls and compliance. He is also involved in international tax planning and implementation of tax strategies of the Group. Prior to joining the Group in August 2000, he has worked with international apparel and sourcing companies as Financial Controller. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and a member of the Institute of Chartered Accountants of Ontario, Canada.

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

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

directors' emoluments

A Remuneration Committee comprising of two Independent Non-executive Directors and one Executive Director has been established to make recommendations to the Board on the Group's policy and structure for all remuneration of Directors and senior management. The Remuneration Committee is responsible for determining the specific remuneration packages of all Executive Directors and senior management and to make recommendations of remuneration for Non-executive Directors to the Board. No individual Director or senior management would be involved in deciding his own remuneration.

The fundamental policy of the Group's remuneration and incentive scheme is to link total compensation of Executive Directors, senior management and employees with the achievement of annual and long-term corporate goals and objectives. Remuneration package is performance-based and takes into account business performance, market practice and competitive market conditions in order to attract, motivate and retain talent. The Remuneration Committee will consult with the Chairman of the Board and the Chief Executive Officer in respect of their recommendations in determining the remuneration of Executive Directors and senior management. The recommended remuneration package comprises of salaries, bonus agreements, discretionary bonuses and long-term incentive plans.

Non-executive Directors are compensated with the aim to fairly represent their efforts and time dedicated to the Board and various committee meetings. The recommended remuneration package comprises of annual directorship fee and fee for representation on Board committees.

The remuneration of all the Directors during the financial year, excluding Directors' interests in share options of the Company which are detailed in "share options" below, is set out in note 13 to the financial statements.

Particulars of the Directors' and senior management's emoluments disclosed pursuant to Section 161 of the Companies Ordinance and Appendix 16 of the Listing Rules are set out in note 13 to the financial statements.

report of the directors

share options

The Company adopted a share option scheme on November 26, 2001 (the "2001 Share Option Scheme"). Particulars of the 2001 Share Option Scheme are set out in note 21 to the financial statements.

Details of the grant of share options and a summary of the movements of the outstanding share options during the financial year under the 2001 Share Option Scheme are as follows:

	Date of Grant (mm/dd/yyyy)	Exercise Price (HK\$)	Vesting Date (mm/dd/yyyy)	Exercise Period (mm/dd/yyyy)	Number of Share Options				
					As at 07/01/2004	Granted	Exercised	Lapsed	As at 06/30/2005
Directors									
Heinz Jürgen KROGNER-KORNALIK	11/26/2002	14.60	11/26/2003	11/26/2003 - 11/25/2008	800,000	–	–	–	800,000
			11/26/2004	11/26/2004 - 11/25/2008	800,000	–	–	–	800,000
			11/26/2005	11/26/2005 - 11/25/2008	800,000	–	–	–	800,000
			11/26/2006	11/26/2006 - 11/25/2008	800,000	–	–	–	800,000
			11/26/2007	11/26/2007 - 11/25/2008	800,000	–	–	–	800,000
	11/26/2003	24.20	11/26/2004	11/26/2004 - 11/25/2009	600,000	–	–	–	600,000
			11/26/2005	11/26/2005 - 11/25/2009	600,000	–	–	–	600,000
			11/26/2006	11/26/2006 - 11/25/2009	600,000	–	–	–	600,000
			11/26/2007	11/26/2007 - 11/25/2009	600,000	–	–	–	600,000
			11/26/2008	11/26/2008 - 11/25/2009	600,000	–	–	–	600,000
	11/27/2004	42.58	11/27/2005	11/27/2005 - 11/26/2010	–	600,000	–	–	600,000
			11/27/2006	11/27/2006 - 11/26/2010	–	600,000	–	–	600,000
			11/27/2007	11/27/2007 - 11/26/2010	–	600,000	–	–	600,000
			11/27/2008	11/27/2008 - 11/26/2010	–	600,000	–	–	600,000
			11/27/2009	11/27/2009 - 11/26/2010	–	600,000	–	–	600,000
					7,000,000	3,000,000	–	–	10,000,000

share options *continued*

	Date of Grant (mm/dd/yyyy)	Exercise Price (HK\$)	Vesting Date (mm/dd/yyyy)	Exercise Period (mm/dd/yyyy)	Number of Share Options				
					As at 07/01/2004	Granted	Exercised	Lapsed	As at 06/30/2005
John POON Cho Ming	11/26/2002	14.60	11/26/2003	11/26/2003 - 11/25/2008	480,000	-	480,000	-	-
			11/26/2004	11/26/2004 - 11/25/2008	480,000	-	480,000	-	-
			11/26/2005	11/26/2005 - 11/25/2008	480,000	-	-	-	480,000
			11/26/2006	11/26/2006 - 11/25/2008	480,000	-	-	-	480,000
			11/26/2007	11/26/2007 - 11/25/2008	480,000	-	-	-	480,000
	11/26/2003	24.20	11/26/2004	11/26/2004 - 11/25/2009	360,000	-	360,000	-	-
			11/26/2005	11/26/2005 - 11/25/2009	360,000	-	-	-	360,000
			11/26/2006	11/26/2006 - 11/25/2009	360,000	-	-	-	360,000
			11/26/2007	11/26/2007 - 11/25/2009	360,000	-	-	-	360,000
			11/26/2008	11/26/2008 - 11/25/2009	360,000	-	-	-	360,000
	11/27/2004	42.58	11/27/2005	11/27/2005 - 11/26/2010	-	360,000	-	-	360,000
			11/27/2006	11/27/2006 - 11/26/2010	-	360,000	-	-	360,000
			11/27/2007	11/27/2007 - 11/26/2010	-	360,000	-	-	360,000
			11/27/2008	11/27/2008 - 11/26/2010	-	360,000	-	-	360,000
			11/27/2009	11/27/2009 - 11/26/2010	-	360,000	-	-	360,000
					4,200,000	1,800,000	1,320,000	-	4,680,000

report of the directors

share options *continued*

	Date of Grant (mm/dd/yyyy)	Exercise Price (HK\$)	Vesting Date (mm/dd/yyyy)	Exercise Period (mm/dd/yyyy)	Number of Share Options				
					As at 07/01/2004	Granted	Exercised	Lapsed	As at 06/30/2005
Thomas Johannes GROTE	11/26/2002	14.60	11/26/2003	11/26/2003 - 11/25/2008	320,000	–	–	–	320,000
			11/26/2004	11/26/2004 - 11/25/2008	320,000	–	–	–	320,000
			11/26/2005	11/26/2005 - 11/25/2008	320,000	–	–	–	320,000
			11/26/2006	11/26/2006 - 11/25/2008	320,000	–	–	–	320,000
			11/26/2007	11/26/2007 - 11/25/2008	320,000	–	–	–	320,000
	11/26/2003	24.20	11/26/2004	11/26/2004 - 11/25/2009	240,000	–	–	–	240,000
			11/26/2005	11/26/2005 - 11/25/2009	240,000	–	–	–	240,000
			11/26/2006	11/26/2006 - 11/25/2009	240,000	–	–	–	240,000
			11/26/2007	11/26/2007 - 11/25/2009	240,000	–	–	–	240,000
			11/26/2008	11/26/2008 - 11/25/2009	240,000	–	–	–	240,000
	11/27/2004	42.58	11/27/2005	11/27/2005 - 11/26/2010	–	240,000	–	–	240,000
			11/27/2006	11/27/2006 - 11/26/2010	–	240,000	–	–	240,000
			11/27/2007	11/27/2007 - 11/26/2010	–	240,000	–	–	240,000
			11/27/2008	11/27/2008 - 11/26/2010	–	240,000	–	–	240,000
			11/27/2009	11/27/2009 - 11/26/2010	–	240,000	–	–	240,000
					2,800,000	1,200,000	–	–	4,000,000

share options *continued*

	Date of Grant (mm/dd/yyyy)	Exercise Price (HK\$)	Vesting Date (mm/dd/yyyy)	Exercise Period (mm/dd/yyyy)	Number of Share Options				
					As at 07/01/2004	Granted	Exercised	Lapsed	As at 06/30/2005
Jerome Squire GRIFFITH	11/26/2002	14.60	11/26/2003	11/26/2003 - 11/25/2008	320,000	–	220,000	–	100,000
			11/26/2004	11/26/2004 - 11/25/2008	320,000	–	–	–	320,000
			11/26/2005	11/26/2005 - 11/25/2008	320,000	–	–	–	320,000
			11/26/2006	11/26/2006 - 11/25/2008	320,000	–	–	–	320,000
			11/26/2007	11/26/2007 - 11/25/2008	320,000	–	–	–	320,000
	11/26/2003	24.20	11/26/2004	11/26/2004 - 11/25/2009	240,000	–	–	–	240,000
			11/26/2005	11/26/2005 - 11/25/2009	240,000	–	–	–	240,000
			11/26/2006	11/26/2006 - 11/25/2009	240,000	–	–	–	240,000
			11/26/2007	11/26/2007 - 11/25/2009	240,000	–	–	–	240,000
			11/26/2008	11/26/2008 - 11/25/2009	240,000	–	–	–	240,000
	11/27/2004	42.58	11/27/2005	11/27/2005 - 11/26/2010	–	240,000	–	–	240,000
			11/27/2006	11/27/2006 - 11/26/2010	–	240,000	–	–	240,000
			11/27/2007	11/27/2007 - 11/26/2010	–	240,000	–	–	240,000
			11/27/2008	11/27/2008 - 11/26/2010	–	240,000	–	–	240,000
			11/27/2009	11/27/2009 - 11/26/2010	–	240,000	–	–	240,000
						2,800,000	1,200,000	220,000	–

report of the directors

share options *continued*

	Date of Grant (mm/dd/yyyy)	Exercise Price (HK\$)	Vesting Date (mm/dd/yyyy)	Exercise Period (mm/dd/yyyy)	Number of Share Options				
					As at 07/01/2004	Granted	Exercised	Lapsed	As at 06/30/2005
Employees & Consultants	11/26/2002	14.60	11/26/2003	11/26/2003 - 11/25/2008	2,156,000	–	1,056,000	–	1,100,000
			11/26/2004	11/26/2004 - 11/25/2008	3,472,000	–	1,692,000	200,000	1,580,000
			11/26/2005	11/26/2005 - 11/25/2008	3,472,000	–	–	256,000	3,216,000
			11/26/2006	11/26/2006 - 11/25/2008	3,472,000	–	–	256,000	3,216,000
			11/26/2007	11/26/2007 - 11/25/2008	3,472,000	–	–	256,000	3,216,000
	11/26/2003	24.20	11/26/2004	11/26/2004 - 11/25/2009	3,264,000	–	1,619,000	150,000	1,495,000
			11/26/2005	11/26/2005 - 11/25/2009	3,264,000	–	–	272,000	2,992,000
			11/26/2006	11/26/2006 - 11/25/2009	3,264,000	–	–	272,000	2,992,000
			11/26/2007	11/26/2007 - 11/25/2009	3,264,000	–	–	272,000	2,992,000
			11/26/2008	11/26/2008 - 11/25/2009	3,264,000	–	–	272,000	2,992,000
	12/23/2003	24.45	12/23/2004	12/23/2004 - 12/22/2009	120,000	–	120,000	–	–
			12/23/2005	12/23/2005 - 12/22/2009	120,000	–	–	–	120,000
			12/23/2006	12/23/2006 - 12/22/2009	120,000	–	–	–	120,000
			12/23/2007	12/23/2007 - 12/22/2009	120,000	–	–	–	120,000
			12/23/2008	12/23/2008 - 12/22/2009	120,000	–	–	–	120,000
	11/27/2004	42.58	11/27/2005	11/27/2005 - 11/26/2010	–	4,187,000	–	–	4,187,000
			11/27/2006	11/27/2006 - 11/26/2010	–	4,187,000	–	–	4,187,000
			11/27/2007	11/27/2007 - 11/26/2010	–	4,187,000	–	–	4,187,000
			11/27/2008	11/27/2008 - 11/26/2010	–	4,187,000	–	–	4,187,000
			11/27/2009	11/27/2009 - 11/26/2010	–	4,187,000	–	–	4,187,000
	12/23/2004	47.10	12/23/2005	12/23/2005 - 12/22/2010	–	90,000	–	–	90,000
			12/23/2006	12/23/2006 - 12/22/2010	–	90,000	–	–	90,000
			12/23/2007	12/23/2007 - 12/22/2010	–	90,000	–	–	90,000
			12/23/2008	12/23/2008 - 12/22/2010	–	90,000	–	–	90,000
			12/23/2009	12/23/2009 - 12/22/2010	–	90,000	–	–	90,000
	01/21/2005	45.60	01/21/2006	01/21/2006 - 01/20/2011	–	80,000	–	–	80,000
			01/21/2007	01/21/2007 - 01/20/2011	–	80,000	–	–	80,000
			01/21/2008	01/21/2008 - 01/20/2011	–	80,000	–	–	80,000
			01/21/2009	01/21/2009 - 01/20/2011	–	80,000	–	–	80,000
			01/21/2010	01/21/2010 - 01/20/2011	–	80,000	–	–	80,000
	In aggregate				32,964,000	21,785,000	4,487,000	2,206,000	48,056,000
	TOTAL				49,764,000	28,985,000	6,027,000	2,206,000	70,516,000

share options *continued*

Notes:

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

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

accounting treatment for share options

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

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

As at June 30, 2005, the interests or short positions of the Directors in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited ("SEHK") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Listing Rules, were as follows:

(1) Shares of the Company

Name of Director	Capacity	Beneficial interest in shares	Beneficial interest in unlisted underlying shares (Note 4)	Total	Approximate percentage of aggregate interests to total issued share capital
Michael YING Lee Yuen	Interest of a controlled corporation (Note 1)	191,208,352	-	191,208,352	15.94%
Heinz Jürgen KROGNER-KORNALIK	Beneficial owner	-	10,000,000	10,000,000	0.83%
John POON Cho Ming	Beneficial owner	70,000	4,680,000	4,750,000	0.40%
Thomas Johannes GROTE	Beneficial owner	-	4,000,000	4,000,000	0.33%
Jerome Squire GRIFFITH	Beneficial owner	-	3,780,000	3,780,000	0.32%
Jürgen Alfred Rudolf FRIEDRICH	Beneficial owner	79,251,176	-	81,302,077	6.78%
	Interest of a controlled corporation (Note 2)	2,000,000	-	-	-
	Interest of spouse (Note 3)	50,901	-	-	-

Notes:

1. The shares were held by Great View International Limited, the entire issued share capital of which is owned by Mr. Michael YING Lee Yuen.
2. The shares were held by JAF Foundation of which Mr. Jürgen Alfred Rudolf FRIEDRICH controls 100% share interest.
3. The shares were held by Mrs. Anke Beck FRIEDRICH, the spouse of Mr. Jürgen Alfred Rudolf FRIEDRICH.
4. The interests of Directors and chief executive of the Company in the underlying shares of equity derivatives in respect of options granted to them pursuant to the share option scheme adopted by the Company are detailed in "share options" above.
5. All interests disclosed above represent long position in the shares and underlying shares of the Company.

(2) Shares Options of the Company

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

As at June 30, 2005, save as disclosed above, none of the Directors, chief executives or their associates had any interests or short positions, whether beneficial or non-beneficial, in the shares, underlying shares or debentures of the Company or any of its associated corporations as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and SEHK pursuant to the Model Code.

report of the directors

directors' interests in contracts

No contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of or at any time during the year.

substantial shareholders' interests

As at June 30, 2005, the following shareholder(s) (other than the Directors or chief executives of the Company whose interests and short positions in the shares and underlying shares of the Company as disclosed above) had interests and short positions in the shares and underlying shares of the Company ("Shares") which were recorded in the register required to be kept by the Company under Section 336 of the SFO:

Name of shareholder	Capacity	Number of Shares	Approximate percentage of aggregate interests to total issued share capital
Great View International Limited	Beneficial owner	191,208,352 (Note 1)	15.94%
JPMorgan Chase & Co.	Interest of controlled corporations (Note 2)	155,790,548 (Notes 3 and 4)	12.99%
State Street Corporation	Interest of controlled corporation	96,280,161 (Notes 5 and 6)	8.03%
The Capital Group Companies, Inc.	Investment manager	72,019,200 (Notes 7 and 8)	6.00%

Notes:

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

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

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

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

Explanatory Notes:

All the following interests were deemed to be held by the relevant company under the SFO. JPMorgan Chase & Co. was deemed to be interested in an aggregate of 155,790,548 Shares held or deemed to be held by: (I) JPMorgan Chase Bank, N.A. (78,949,840 Shares), (II) J.P. Morgan Asset Management Holdings Inc. (76,785,208 Shares) and (III) J.P. Morgan Capital Financing Limited (55,500 Shares), all wholly-owned by JPMorgan Chase & Co.

- JPMorgan Chase Bank, N.A. directly held 75,745,197 Shares and was also deemed to be interested in an aggregate of 3,204,643 Shares held by the following indirect subsidiaries held through J.P. Morgan International Finance Limited ("JPIF"), directly wholly-owned by Bank One International Holdings Corporation, directly wholly-owned by J.P. Morgan International Inc., directly wholly-owned by JPMorgan Chase Bank, N.A.:
 - 510,000 Shares were held by J.P. Morgan Whitefriars Inc., wholly-owned by J.P. Morgan Overseas Capital Corporation, wholly-owned subsidiary of JPIF;
 - 2,526,500 Shares were held by J.P. Morgan Securities Ltd, 90% subsidiary of J.P. Morgan Chase International Holdings Limited, wholly-owned by J.P. Morgan Chase (UK) Holdings Limited, wholly-owned by J.P. Morgan Capital Holdings Limited, 72.72% subsidiary of JPIF; and
 - 168,143 Shares were held by J.P. Morgan International Bank Limited, wholly-owned by J.P. Morgan Overseas Capital Corporation, wholly-owned subsidiary of JPIF.

substantial shareholders' interests *continued*

Explanatory Notes: *continued*

- (II) JPMorgan Asset Management Holdings Inc. ("JPAMH") was deemed to be interested in an aggregate of 76,785,208 Shares held by the following subsidiaries:
- 1,932,000 Shares were held by JPMorgan Asset Management (Canada) Inc., directly wholly-owned by JPAMH;
 - 9,163,383 Shares were held by J.P. Morgan Investment Management Inc., directly wholly-owned by JPAMH;
 - 55,845,706 Shares were deemed to be held by JPMorgan Asset Management (Asia) Inc. ("JPAsia"), directly wholly-owned by JPAMH, through the following subsidiaries:
 - 145,000 Shares were held by JF International Management Inc., wholly-owned by JPAsia;
 - 1,090,000 Shares were held by JF Asset Management (Singapore) Limited – Co Reg #:19701586K, wholly-owned by JPAsia;
 - 1,707,000 Shares were held by J.P. Morgan Fleming Asset Management (Japan) Limited, wholly-owned by JPAsia;
 - 52,391,206 Shares were held by JF Asset Management Limited, wholly-owned by JPAsia; and
 - 512,500 Shares were held by JF Asset Management (Taiwan) Limited, 99.90% subsidiary of JF Funds Limited, wholly-owned by JF Asset Management Limited, wholly-owned by JPAsia.
 - 9,844,119 Shares were deemed to be held by JPMorgan Asset Management International Limited ("JPAM"), directly wholly-owned by JPAMH, through the following subsidiaries:
 - 6,525,000 Shares were held by JP Morgan Asset Management (UK) Limited, wholly-owned by JPMorgan Asset Management Holdings (UK) Limited, wholly-owned by JPAM;
 - 551,619 Shares were held by J.P. Morgan Investment Management Limited, wholly-owned by JPMorgan Asset Management Holdings (UK) Limited, wholly-owned by JPAM; and
 - 2,767,500 Shares were held by JPMorgan Asset Management (London) Limited, wholly-owned by J.P. Morgan Investment Management Limited, wholly-owned by JPMorgan Asset Management Holdings (UK) Limited, wholly-owned by JPAM.
- (III) J.P. Morgan Capital Financing Limited ("JPCF") was also deemed to be interested in 55,500 Shares held by the following subsidiary:
- 55,500 Shares were held by JPMorgan Asset Management (Europe) S.a.r.l., 99.99% subsidiary of Robert Fleming (Luxembourg) (Joint Ventures) Sarl, wholly-owned by Robert Fleming Holdings Limited, wholly-owned subsidiary of JPCF.
- All interests disclosed in Note 3 above represent long positions in the Shares of the Company of which 73,000,067 Shares represent lending pool.
 - State Street Corporation was deemed to be interested in 96,280,161 Shares through its 100% interest in State Street Bank & Trust Company.
 - All interests disclosed in Note 5 above represent long positions in the Shares of the Company and all 96,280,161 Shares represent lending pool.
 - Details of the interest in the 72,019,200 Shares held by The Capital Group Companies, Inc. were as follows:

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

Explanatory Notes:

All the following interests were deemed to be held by the relevant company under the SFO. The Capital Group Companies, Inc. was deemed to be interested in an aggregate of 72,019,200 Shares held or deemed to be

held by the following subsidiaries:

- 47,949,500 Shares were held by Capital Research and Management Company, wholly-owned by The Capital Group Companies, Inc.;
 - 20,732,200 Shares were held by Capital Guardian Trust Company, wholly-owned by Capital Group International, Inc., wholly-owned by The Capital Group Companies, Inc.;
 - 1,824,500 Shares were held by Capital International, Inc., wholly-owned by Capital Group International, Inc., wholly-owned by The Capital Group Companies, Inc.;
 - 1,144,000 Shares were held by Capital International Limited, wholly-owned by Capital Group International, Inc., wholly-owned by The Capital Group Companies, Inc.; and
 - 369,000 Shares were held by Capital International S.A., wholly-owned by Capital Group International, Inc., wholly-owned by The Capital Group Companies, Inc.
8. All interests disclosed in Note 7 above represent long positions in the Shares of the Company.

Save as aforesaid and as disclosed in the "directors' interests and short positions in shares, underlying shares and debentures" section of this report, the Company has not been notified by any person who had any interest or short position in the shares or underlying shares of the Company as at June 30, 2005 which are required to be notified to the Company pursuant to Part XV of the SFO or which are recorded in the register required to be kept by the Company under Section 336 of the SFO.

purchase, sale or redemption of the company's shares

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

pre-emptive rights

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

major customers and suppliers

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

public float

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

management contracts

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

report of the directors

related party transactions and connected transactions

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

audit committee

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

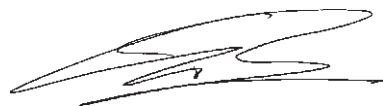
corporate governance

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

auditors

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

On behalf of the Board



John POON Cho Ming
Deputy Chairman

Hong Kong, September 13, 2005