

1 GENERAL INFORMATION

Esprit Holdings Limited (the "Company") and its subsidiaries (together the "Group") are principally engaged in wholesale and retail distribution and licensing of quality fashion and life-style products designed under its own internationally-known **ESPRIT** brand name, together with Red Earth cosmetics, skin and body care products.

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

The Company's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), issued by the International Accounting Standards Board ("IASB").

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

These consolidated financial statements of the Group have been prepared in accordance with IFRSs.

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

The Group operates equity-settled, share-based compensation plans to grant share options to directors, employees and consultants of the Group in exchange for their services provided to the Group. IFRS 2 will require the Group to measure the fair value of the share options at the date of grant and recognizes the amount as an expense over the relevant period of service (normally the vesting period of the options). The fair value of the options granted shall be estimated by applying an option pricing model, taking into

account a number of factors, and among all factors, including the exercise price of the option, the life of the option, the market price of the underlying shares, the expected volatility of the share price and the risk-free interest rate for the life of the option. Management is currently evaluating the most appropriate assumptions and the valuation method that it will use in valuing the Group's share options and therefore the Board takes the view that it would be inappropriate to state an estimated value of such options and the potential financial impact to the Group until IFRS 2 becomes effective for the Group's annual accounting periods commencing July 1, 2005.

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

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

When preparing the consolidated financial statements, management has adopted certain accounting, valuation and consolidation methods to comply with IFRSs. The preparation of these financial statements also requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies. The areas involving a higher degree of judgement and complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 4 "Critical accounting estimates and judgements".

These consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain financial instruments to fair value. The policies set out below have been consistently applied to all the years presented.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

(b) Consolidation

(i) Subsidiaries

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

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

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

(ii) Associates

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

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

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

(c) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in the currency of Hong Kong dollars, which is the Company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

(d) Foreign currency translation *continued*

(iii) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (b) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (c) all resulting exchange differences are recognized as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognized in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(e) Property, plant and equipment

Property, plant and equipment, other than freehold land, are stated at historical cost less accumulated depreciation and accumulated impairment losses (if any). Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Freehold land is not depreciated. Leasehold improvements and fixtures are depreciated over a period of the shorter of five years and their estimated useful lives on a straight-line basis. Depreciation on other assets is calculated using the straight-line method to write down their cost to their residual values over their estimated useful lives. The principal annual rates are as follows:

Buildings	3 ¹ / ₃ – 5%
Plant and machinery	30%
Furniture and office equipment	10 – 33 ¹ / ₃ %
Motor vehicles	30%

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

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

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

(f) Intangible assets

(i) Goodwill

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

(ii) Trademarks

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

(g) Impairment of assets

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

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

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

(h) Inventories

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

(i) Receivables and payables

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

(j) Cash and cash equivalents

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

(k) Deferred tax

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

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

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

(l) Employee benefits

(i) Pension obligations

The Group principally participates in defined contribution plans and pays contributions to publicly or privately administered pension plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due and if applicable, are reduced by contributions forfeited by those employees who leave the scheme or the plan prior to vesting fully in the contributions.

(ii) Share options

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

(l) Employee benefits *continued*

(iii) Employee leave entitlements

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

(iv) Bonus plans

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

(m) Provisions

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

(n) Revenue recognition

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

(i) Sales of goods – wholesale

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

(ii) Sales of goods – retail

Sales of goods are recognized on sale of a product to the customer. Retail sales are usually in cash or by credit card.

(iii) Licensing income

Licensing income is recognized on an accruals basis in accordance with the substance of the relevant agreements.

(iv) Interest income

Interest income is recognized on a time proportion basis using the effective interest method.

(o) Accounting for derivative financial instruments

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Changes in the fair value of such derivative instruments that did not qualify for hedge accounting were recognized immediately in the income statement.

The method of recognizing the resulting gain or loss where the derivative is designated as a hedging instrument depends on the nature of the item being hedged. The Group can designate certain derivatives as either: (i) hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedge); or (ii) hedges of highly probable forecast transactions (cash flow hedges).

The Group is required to document at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group is also required to document its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

(i) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

(ii) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized in equity. The gain or loss relating to the ineffective portion is recognized immediately in the income statement.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit or loss (for instance when the forecast sale that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) or a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

(p) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessors) are charged to the income statement on a straight-line basis over the period of the lease, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

(q) Dividend distributions

Dividend distributions to the Company's shareholders are recognized as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

3 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to foreign exchange risk and credit risk. The Group's overall risk management programme focuses on minimizing potential adverse effects of these risks on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

(a) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Euro. Foreign exchange risk arises from future commercial transactions and net investments in foreign operations.

To minimize the Group's foreign exchange exposure on costs for merchandise produced for Europe in Asia, suppliers in Asia are asked to quote and settle in Euro. In addition, to manage the foreign exchange risk arising from future commercial transactions, the Group enters into foreign exchange forward contracts to reduce foreign exchange risk.

(b) Credit risk

The Group has no significant concentrations of credit risk. It has policies in place to ensure that wholesale sales of products are made to customers with an appropriate credit history. Sales to retail customers are made in cash or via major credit cards.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Useful life and impairment of trademarks

(i) Indefinite useful life

The Group reassessed the useful life of previously recognized intangible assets. As a result of this assessment, the acquired Esprit trademarks were classified as an indefinite-lived intangible asset in accordance with International Accounting Standard (the "IAS") 38 Intangible Assets. This conclusion is supported by the fact that Esprit trademark legal rights are capable of being renewed indefinitely at insignificant cost and therefore are perpetual in duration, relate to a well known and long established fashion brand since 1968, and based on future financial performance of the Group, they are expected to generate positive cash flows indefinitely. This view is supported by an independent professional appraiser, who was appointed by the Group to perform an assessment of the useful life of Esprit trademarks in accordance with the requirements set out in IAS 38 as at June 30, 2004. Having considered the factors specific to the Group, the appraiser opined that Esprit trademarks should be regarded as an intangible asset with an indefinite useful life. Under IAS 38, the Group re-evaluates the useful life of Esprit trademarks each year to determine whether events or circumstances and continues to support the view of indefinite useful life for this asset.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *continued*

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

(ii) Impairment

In accordance with IAS 36 Impairment of Assets, the Group completed its annual impairment test for Esprit trademarks by comparing their recoverable amount to their carrying amount as at June 30, 2005. The Group has conducted a valuation of the Esprit trademarks as one corporate asset based on value-in-use calculation. The resulting value of the Esprit trademarks as at June 30, 2005 was significantly higher than their carrying amount. This valuation uses cash flow projections based on financial estimates covering a three-year period, expected royalty rates deriving from the Esprit trademarks in the range of 3% to 8% and a discount rate of 12.5%. The cash flows beyond the three-year period are extrapolated using a steady 3% growth rate. This growth rate does not exceed the long-term average growth rate for apparel markets in which the Group operates. Management has considered the above assumptions and valuation and also taken into account the business expansion plan going forward, the current wholesale order books and the strategic retail expansion worldwide and believes that there is no impairment in the Esprit trademarks. Management believes that any reasonably foreseeable change in any of the above key assumptions would not cause the aggregate carrying amount of trademarks to exceed the aggregate recoverable amount.

(b) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

5 TURNOVER AND SEGMENT INFORMATION

The Group is principally engaged in the wholesale and retail distribution, licensing of quality fashion and life-style products under its own internationally-known **ESPRIT** brand name, together with Red Earth cosmetics, skin and body care products.

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

Primary reporting format – business segments

The Group's businesses are managed according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Inter-segment transactions are entered into under the normal commercial terms and conditions that would also be available to unrelated third parties.

5 TURNOVER AND SEGMENT INFORMATION *continued*

Primary reporting format – business segments *continued*

	Wholesale 2005 HK\$'000	Retail 2005 HK\$'000	Licensing and others 2005 HK\$'000	Eliminations 2005 HK\$'000	Group 2005 HK\$'000
Turnover	11,888,810	8,546,600	196,405	–	20,631,815
Inter-segment sales	–	–	513,078	(513,078)	–
	11,888,810	8,546,600	709,483	(513,078)	20,631,815
Segment results	2,957,733	818,752	510,453	(105,749)	4,181,189
Unallocated net income					20,336
Interest income					21,576
Finance costs					(1,928)
Share of results of associates					72,920
Profit before taxation					4,294,093
Segment EBIT – ex-inter-segment licensing expense/income (note)	3,256,541	917,030	113,367	(105,749)	4,181,189
Segment assets	5,872,103	3,437,670	531,955	(2,961,642)	6,880,086
Investments in associates					220,814
Intangible assets					2,009,028
Other unallocated assets					923,909
Total assets					10,033,837
Segment liabilities	2,031,774	2,976,975	25,358	(2,961,642)	2,072,465
Other unallocated liabilities					922,220
Total liabilities					2,994,685
Capital expenditure	64,740	778,384	97	–	843,221
Depreciation	73,470	359,742	4,265	–	437,477
Provision for retail store exit costs	–	11,340	–	–	11,340

notes to the financial statements

for the year ended June 30, 2005

5 TURNOVER AND SEGMENT INFORMATION *continued*

Primary reporting format – business segments *continued*

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

note: Wholesale and retail segments pay intra-group licensing fees to the licensing segment. Should the wholesale and retail segments not be required to pay the intra-group licensing fees to the licensing segment, the segment EBIT ("earnings before interest and taxation, finance costs, share of results of associates and unallocated net income/expenses") of the wholesale and retail segments would have been HK\$3,256,541,000 (2004: HK\$2,332,526,000) and HK\$917,030,000 (2004: HK\$512,246,000) respectively, representing segment EBIT margin ("segment EBIT/segment turnover") of 27.4% (2004: 24.3%) and 10.7% (2004: 7.8%), respectively.

5 TURNOVER AND SEGMENT INFORMATION *continued*

Secondary reporting format – geographical segments

In determining the Group's geographical segments, turnover is attributed to the segments based on the location of customers.

	Turnover 2005 HK\$'000	Capital expenditure 2005 HK\$'000	Segment assets 2005 HK\$'000
Europe	17,567,941	445,118	6,122,240
Asia	1,868,786	66,095	1,885,180
Australasia	746,700	48,666	267,832
North America and others	448,388	283,342	624,101
Eliminations	–	–	(2,019,267)
	20,631,815	843,221	6,880,086
Unallocated assets:			
Intangible assets			2,009,028
Investments in associates			220,814
Other assets			923,909
Total			10,033,837
	Turnover 2004 HK\$'000	Capital expenditure 2004 HK\$'000	Segment assets 2004 HK\$'000
Europe	13,716,973	472,634	4,937,962
Asia	1,548,592	48,678	1,095,007
Australasia	703,865	17,691	173,706
North America and others	387,073	28,527	143,605
Eliminations	–	–	(626,724)
	16,356,503	567,530	5,723,556
Unallocated assets:			
Intangible assets			2,020,416
Investments in associates			173,530
Other assets			481,157
Total			8,398,659

6 OPERATING PROFIT

	2005 HK\$'000	2004 HK\$'000
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Operating profit is arrived at after crediting and charging the following:

Crediting:

Net exchange gains on foreign exchange forward contracts	4,366	13,585
Other net exchange gains	155,133	26,249

Charging:

Auditors' remuneration	8,376	7,299
Depreciation	451,958	342,171
Impairment of property, plant and equipment	387	4,647
Loss on disposal of property, plant and equipment	5,468	13,808
Amortization of prepaid lease payments	4,238	499
Operating lease rental expenses – land and buildings (including contingent rental of HK\$75,347,000 (2004: HK\$67,702,000))	1,698,088	1,353,825
Provision for obsolete inventories and inventories write-offs	56,015	42,934
Provision for doubtful debts	31,852	17,849
Provision for retail store exit costs	11,340	14,256

7 FINANCE COSTS

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

notes to the financial statements

for the year ended June 30, 2005

8 TAXATION

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

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

Overseas (outside of Hong Kong) taxation has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group companies operate, net of tax losses carried forward, if any.

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the Group's subsidiaries.

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

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

9 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

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

10 DIVIDENDS

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

The amount of 2005 proposed final and special dividends is based on 1,199,475,434 shares (2004: 1,193,398,434 shares as at August 31, 2004) in issue as at August 31, 2005. The proposed final and special dividends for 2005 will not be reflected as dividends payable in the balance sheet until they are approved at the forthcoming annual general meeting by the shareholders of the Company, and they will be recorded as an appropriation of retained profits for the year ending June 30, 2006.

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

11 EARNINGS PER SHARE

Basic

Basic earnings per share is calculated by dividing the profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year.

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

Diluted

Diluted earnings per share is calculated based on the profit attributable to shareholders, and the weighted average number of shares in issue during the year after adjusting for the number of dilutive potential ordinary shares granted under the Company's share option scheme.

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

12 STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

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

Retirement contribution retirement schemes

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

Under the defined contribution scheme in some countries, where employees leave the scheme prior to the full vesting of the employer's contributions, the amount of forfeited contributions is used to reduce the contributions payable by the Group. During the year, the contribution forfeited in accordance with the schemes' rules amounted to HK\$293,000 (2004: Nil) which have been applied towards the contributions payable by the Group.

notes to the financial statements

for the year ended June 30, 2005

13 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

Name of Director	Fees HK\$'000	Basic salaries, allowances and benefits-in-kind HK\$'000	Bonuses HK\$'000	Provident fund contributions/ retirement benefit costs HK\$'000	2005 Total emoluments HK\$'000	2004 Total emoluments HK\$'000
Michael YING Lee Yuen	–	8,068	–	12	8,080	8,154
Heinz Jürgen KROGNER-KORNALIK	–	12,887	32,065	5	44,957	28,150
					(EUR4,532,900)	(EUR3,032,862)
John POON Cho Ming	–	4,739	7,750	12	12,501	6,612
Thomas Johannes GROTE	–	4,672	2,975	–	7,647	7,203
					(EUR771,059)	(EUR776,059)
Jerome Squire GRIFFITH ¹	–	4,690	2,975	–	7,665	1,091
					(EUR772,892)	(EUR117,538)
CHHIBBER Surinder ²	–	–	–	–	–	3,010
Connie WONG Chin Tzi ²	–	–	–	–	–	2,025
Jürgen Alfred Rudolf FRIEDRICH ^{3,5}	200	–	–	–	200	200
Simon LAI Sau Cheong ^{3,6}	220	–	–	–	220	203
Alexander Reid HAMILTON ^{4,5}	240	–	–	–	240	227
Raymond OR Ching Fai ^{4,5}	220	–	–	–	220	208
Paul CHENG Ming Fun ^{4,5}	220	–	–	–	220	208
Total for the year 2005	1,100	35,056	45,765	29	81,950	57,291
Total for the year 2004	1,046	32,657	23,550	38		57,291

¹ Mr. Griffith was appointed as executive director on March 24, 2004

² Mr. Chhibber and Ms. Wong resigned as executive directors on March 31, 2004

³ Non-executive directors

⁴ Independent non-executive directors

⁵ Members of the Audit Committee

⁶ Mr. Lai was redesignated as non-executive director on September 15, 2004

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

(a) Directors' emoluments *continued*

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

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

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

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

The emoluments of the Directors fell within the following bands:

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

(b) Five highest paid individuals

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

	2005 HK\$'000	2004 HK\$'000
Salaries, housing and other allowances and benefits in kind	–	5,457
Bonuses	–	1,903
Pensions costs of defined contribution plans	–	5
	–	7,365
Emoluments Band	Number of Individuals	
	2005	2004
HK\$ 7,000,001 – HK\$ 7,500,000	–	1

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

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

14 INTANGIBLE ASSETS

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

Impairment test for trademarks

The trademarks are considered to have an indefinite useful life and were tested for impairment at June 30, 2005. Details are set out in Note 4(a).

notes to the financial statements

for the year ended June 30, 2005

15 PROPERTY, PLANT AND EQUIPMENT

	Freehold land outside Hong Kong HK\$'000	Buildings HK\$'000	Leasehold improvements and fixtures HK\$'000	Plant and machinery HK\$'000	Furniture and office equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost							
At July 1, 2004	22,954	97,895	1,985,630	6,512	924,444	23,261	3,060,696
Exchange translation	1,153	(2,381)	(4,391)	(378)	(16,406)	(963)	(23,366)
Additions	–	102,850	537,563	6,280	397,398	20,598	1,064,689
Disposals	–	–	(181,432)	–	(45,861)	(7,032)	(234,325)
At June 30, 2005	24,107	198,364	2,337,370	12,414	1,259,575	35,864	3,867,694
Depreciation							
At July 1, 2004	–	28,581	985,273	4,240	559,586	8,730	1,586,410
Exchange translation	–	(414)	5,986	70	(11,038)	(313)	(5,709)
Charge for the year	–	9,160	218,432	1,341	214,713	8,312	451,958
Impairment charge	–	–	361	–	26	–	387
Disposals	–	–	(170,677)	–	(42,611)	(5,057)	(218,345)
At June 30, 2005	–	37,327	1,039,375	5,651	720,676	11,672	1,814,701
Net book value							
At June 30, 2005	24,107	161,037	1,297,995	6,763	538,899	24,192	2,052,993

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

15 PROPERTY, PLANT AND EQUIPMENT *continued*

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

notes to the financial statements

for the year ended June 30, 2005

16 INVESTMENTS IN ASSOCIATES

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

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

Name of associates	Place of incorporation/ operation	Attributable equity interest to the Group	Issued and fully paid share capital/ registered capital	Principal activities
Tactical Solutions Incorporated ("TSI")	British Virgin Islands/ The People's Republic of China	49%	US\$100	Investment holding
CRE Esprit Inc. ("CRE")	The People's Republic of China	49%	RMB5,000,000	Retail and wholesale distribution of apparel, accessories and cosmetics products

The amounts due from associates are unsecured, interest free and have no fixed terms of repayment.

Summary of consolidated financial information of TSI as at June 30 is set as follows:

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

17 PREPAID LEASE PAYMENTS

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

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

18 INVENTORIES

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

19 DEBTORS, DEPOSITS AND PREPAYMENTS

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

The Group's retail sales to customers are mainly on cash basis. The Group also grants credit for a period which is usually 30 days to certain wholesale and franchise customers. The ageing analysis of trade debtors is as follows:

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

The carrying amount of debtors, deposits and prepayments approximates their fair values.

There is no concentration of credit risk with respect to trade receivables, as the Group has a large number of internationally dispersed customers.

20 CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following for the purposes of the cash flow statement:

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

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

notes to the financial statements

for the year ended June 30, 2005

21 SHARE CAPITAL

	2005 HK\$'000	2004 HK\$'000
Authorized:		
2,000,000,000 shares of HK\$0.10 each	200,000	200,000
	Number of shares of HK\$0.10 each '000	Nominal value HK\$'000
Issued and fully paid:		
Balance at July 1, 2003	1,188,687	118,869
Exercise of share options	4,711	471
Balance at June 30, 2004	1,193,398	119,340
Balance at July 1, 2004	1,193,398	119,340
Exercise of share options (note (a))	6,027	603
Balance at June 30, 2005	1,199,425	119,943

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

- (b) Share options

The Company adopted a share option scheme on November 26, 2001 (the "Scheme").

Information on Share Option Scheme

The following is a summary of the Scheme disclosed in accordance with the Rules governing the Listing of Securities on SEHK (the "Listing Rules").

Purpose of the Scheme

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

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

- (i) motivating eligible persons to optimize their performance and efficiency for the benefit of the Group; and
- (ii) attracting and retaining or otherwise maintaining ongoing business relationships with eligible persons whose contributions are or will be beneficial to the Group.

Participants of the Scheme

The board may at its discretion grant options to:

- (i) any director, employee, consultant, customer, supplier, agent, partner or adviser of or contractor to the Group or a company in which the Group holds an interest or a subsidiary of such company ("Affiliate"); or
- (ii) the trustee of any trust the beneficiary of which or any discretionary trust the discretionary objects of which include any director, employee, consultant, customer, supplier, agent, partner or adviser of or contractor to the Group or an Affiliate; or
- (iii) a company beneficially owned by any director, employee, consultant, customer, supplier, agent, partner, adviser of or contractor to the Group or an Affiliate.

21 SHARE CAPITAL *continued*

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

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

Maximum entitlement of each participant under the Scheme

The maximum entitlement of each participant under the Scheme shall not exceed any limits that may be imposed under the Listing Rules from time to time.

In accordance with the current Listing Rules no options may be granted to any eligible persons which if exercised in full would result in the total number of shares issued and to be issued upon exercise of the share options already granted or to be granted to such eligible person under the Scheme or any other schemes of the Company (including exercised, cancelled and outstanding share options) in the 12-month period up to and including the date of such new grant exceeding 1% of the issued share capital of the Company at the date of such new grant. Any grant of further options above this limit is subject to certain requirements as stipulated in the Listing Rules.

The period within which the shares must be taken up under an option

An option is exercisable, subject to certain restrictions contained in the Scheme and the terms on which the option is granted at any time during the applicable option period which period may be determined by the board but which shall in no event be more than 10 years from the date of grant of the option.

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

There is no general requirement on the minimum period for which an option must be held or the performance targets which must be achieved before an option can be exercised under the Scheme. At the time of granting an option, however, the board may, on a case by case basis, make such grant subject to such conditions, restrictions or limitations in relation to the minimum period for which the option must be held and/or the performance targets to be achieved as the board may in its absolute discretion determine.

The amount payable on application or acceptance of the option and the period within which payments or calls must or may be made or loans for such purposes must be repaid.

No amount payable on application or acceptance of the option and the period within which payments or calls must or may be made or loans for such purposes must be repaid.

The basis of determining the subscription price

The price per share at which a grantee may subscribe for shares upon the exercise of an option is determined by the board and shall not be less than the highest of:

- (i) the closing price of the Company's shares as stated in SEHK's daily quotations sheet on the date of grant of the relevant option, which must be a Business Day (as defined in the Listing Rules);
- (ii) an amount equivalent to the average closing price of the Company's shares as stated in SEHK's daily quotations sheets for the five Business Days immediately preceding the date of grant of the relevant option; and
- (iii) the nominal value of the Company's shares.

The remaining life of the Scheme

Options may be granted to eligible persons under the Scheme for the period until November 26, 2011.

notes to the financial statements

for the year ended June 30, 2005

21 SHARE CAPITAL *continued*

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

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

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

Exercise period	Exercise price HK\$	Number of options
November 27, 2005 – November 26, 2010	42.58	5,627,000
November 27, 2006 – November 26, 2010	42.58	5,627,000
November 27, 2007 – November 26, 2010	42.58	5,627,000
November 27, 2008 – November 26, 2010	42.58	5,627,000
November 27, 2009 – November 26, 2010	42.58	5,627,000
December 23, 2005 – December 22, 2010	47.10	90,000
December 23, 2006 – December 22, 2010	47.10	90,000
December 23, 2007 – December 22, 2010	47.10	90,000
December 23, 2008 – December 22, 2010	47.10	90,000
December 23, 2009 – December 22, 2010	47.10	90,000
January 21, 2006 – January 20, 2011	45.60	80,000
January 21, 2007 – January 20, 2011	45.60	80,000
January 21, 2008 – January 20, 2011	45.60	80,000
January 21, 2009 – January 20, 2011	45.60	80,000
January 21, 2010 – January 20, 2011	45.60	80,000
		28,985,000

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

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

21 SHARE CAPITAL *continued*

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

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

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

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

Expiry date	Exercise price HK\$	Number of share options outstanding as at June 30,	
		2005	2004
Directors			
November 26, 2008*	14.60	2,660,000	1,920,000
November 26, 2008**	14.60	5,760,000	7,680,000
November 26, 2009*	24.20	1,080,000	–
November 26, 2009**	24.20	5,760,000	7,200,000
November 27, 2010**	42.58	7,200,000	–
Employees			
November 26, 2008*	14.60	2,680,000	2,156,000
November 26, 2008**	14.60	9,648,000	13,888,000
November 26, 2009*	24.20	1,495,000	–
November 26, 2009**	24.20	11,968,000	16,320,000
December 23, 2009**	24.45	480,000	600,000
November 27, 2010**	42.58	20,935,000	–
December 23, 2010**	47.10	450,000	–
January 21, 2011**	45.60	400,000	–
		70,516,000	49,764,000

* The share options listed above are vested as of the respective balance sheet dates.

** The share options listed above are not vested as of the respective balance sheet dates.

notes to the financial statements

for the year ended June 30, 2005

22 CREDITORS AND ACCRUED CHARGES

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

The ageing analysis of trade creditors is as follows:

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

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

23 OBLIGATIONS UNDER FINANCE LEASES

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

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

24 DEFERRED TAXATION

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

The Group:

	Accelerated accounting depreciation HK\$'000	Elimination of unrealized profits HK\$'000	Trade- marks HK\$'000	Tax losses HK\$'000	Other deferred tax assets HK\$'000	Other deferred tax liabilities HK\$'000	Total HK\$'000
At July 1, 2003	4,830	28,166	(314,057)	29,481	32,690	(6,007)	(224,897)
Credited/(charged) to							
income statement	25,794	14,536	1,199	(23,914)	(11,648)	(4,744)	1,223
Acquisition of subsidiaries	-	-	-	-	2,404	(4,556)	(2,152)
Exchange difference recognized in equity	891	1,340	(7,451)	1,318	(1,548)	3,416	(2,034)
At June 30, 2004	31,515	44,042	(320,309)	6,885	21,898	(11,891)	(227,860)
(Charged)/credited to							
income statement	(3,063)	91,571	3,170	21,908	(4,709)	(3,900)	104,977
Exchange difference recognized in equity	258	(6,435)	2,343	63	1,049	298	(2,424)
At June 30, 2005	28,710	129,178	(314,796)	28,856	18,238	(15,493)	(125,307)

For the purpose of balance sheet presentation, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

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

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

25 NOTES TO CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of profit before taxation to cash generated from operations

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

notes to the financial statements

for the year ended June 30, 2005

25 NOTES TO CONSOLIDATED CASH FLOW STATEMENT *continued*

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

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

26 OPERATING LEASE COMMITMENTS

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

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

The operating lease rentals of certain retail outlets are based on the higher of a minimum guaranteed rental or a sales level based rental. The minimum guaranteed rental has been used to arrive at the above commitments.

27 CAPITAL COMMITMENTS

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

28 DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

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

29 RELATED PARTY TRANSACTIONS

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

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

30 SUMMARIZED BALANCE SHEET OF THE COMPANY

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

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

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

notes to the financial statements

for the year ended June 30, 2005

30 SUMMARIZED BALANCE SHEET OF THE COMPANY *continued*

iii. Movements of reserves are as follows:-

	Share premium HK\$'000	Contributed surplus HK\$'000	Retained profits HK\$'000	Total HK\$'000
Balance at July 1, 2003	1,270,243	473,968	297,621	2,041,832
Profit attributable to shareholders	-	-	1,754,432	1,754,432
2002/03 final and special dividends paid	-	-	(744,727)	(744,727)
2003/04 interim dividend paid	-	-	(226,746)	(226,746)
Issues of shares (Note 21)	38,914	-	-	38,914
Balance at June 30, 2004	1,309,157	473,968	1,080,580	2,863,705
Representing:				
Proposed final and special dividends				1,169,530
Balance after proposed final and special dividends				1,694,175
Balance at June 30, 2004				2,863,705
Balance at July 1, 2004	1,309,157	473,968	1,080,580	2,863,705
Profit attributable to shareholders	-	-	3,343,762	3,343,762
2003/04 final and special dividends paid	-	-	(1,173,111)	(1,173,111)
2004/05 interim dividend paid	-	-	(539,530)	(539,530)
Issues of shares (Note 21)	107,572	-	-	107,572
Balance at June 30, 2005	1,416,729	473,968	2,711,701	4,602,398
Representing:				
Proposed final and special dividends				1,799,213
Balance after proposed final and special dividends				2,803,185
Balance at June 30, 2005				4,602,398

The contributed surplus of the Company represents the difference between the underlying net tangible assets of the subsidiaries acquired by the Company and the nominal amount of the share capital issued by the Company arising from the Group reorganization which became effective on November 17, 1993 and the excess of the value of the shares acquired over the nominal value of the shares issued for the acquisition of Esprit Far East Limited and its subsidiaries on January 10, 1997.

Contributed surplus is available for distribution to shareholders under the laws of Bermuda. Distributable reserves of the Company at June 30, 2005 amounted to HK\$3,185,669,000 (2004: HK\$1,554,548,000).

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

31 PRINCIPAL SUBSIDIARIES

The following are the principal subsidiaries as at June 30, 2005 which, in the opinion of the Directors, principally affect the results and net operating assets of the Group. To give details of other subsidiaries would in the opinion of the Directors result in particulars of excessive length. None of the subsidiaries had issued any debt securities at the end of the year.

Name of subsidiary	Place of incorporation/ operation	Attributable equity interest to the Group (note a)	Issued and fully paid share capital/ registered capital (note b)	Principal activities
ESP Group Limited	British Virgin Islands/Hong Kong	100%	USD500	Investment holding
Esprit Belgie Retail N.V.	Belgium	100%	EUR1,200,000	Retail distribution of apparel and accessories
Esprit Belgie Wholesale N.V.	Belgium	100%	EUR100,000	Wholesale distribution of apparel and accessories
Esprit Canada Retail Limited	Canada	100%	CAD12	Retail distribution of apparel and accessories
Esprit Canada Wholesale Limited	Canada	100%	CAD1	Wholesale distribution of apparel and accessories
Esprit Capital Limited	British Virgin Islands/Hong Kong	100%	USD1	Investment
Esprit China Distribution Limited	British Virgin Islands/Hong Kong	100%	USD100	Investment holding
Esprit Corporate Services Limited	British Virgin Islands/Hong Kong	100%	USD100	Financial services
Esprit de Corp (1980) Ltd.	Canada	100%	CAD1,000,100	Retail distribution of apparel and accessories
Esprit de Corp Danmark A/S	Denmark	100%	DKK12,000,000	Wholesale and retail distribution of apparel and accessories
Esprit de Corp (Far East) Limited	Hong Kong	100%	HKD1,200,000	Sourcing of apparel and accessories
Esprit de Corp France S.A.	France	100%	EUR6,373,350	Wholesale and retail distribution of apparel and accessories

notes to the financial statements

for the year ended June 30, 2005

31 PRINCIPAL SUBSIDIARIES *continued*

Name of subsidiary	Place of incorporation/ operation	Attributable equity interest to the Group (note a)	Issued and fully paid share capital/ registered capital (note b)	Principal activities
Esprit de Corp (Malaysia) Sdn Bhd.	Malaysia	100%	MYR500,000	Retail distribution of apparel and accessories
Esprit de Corp (Spain), S.L.	Spain	100%	EUR10,000	Wholesale distribution of apparel and accessories
Esprit Europe B.V.	The Netherlands	100%	EUR1,500,000	Investment holding and wholesale and retail distribution of apparel and accessories, licensing of trademarks
Esprit Europe GmbH	Germany	100%	EUR5,112,919	Management and control function; render of services to the Esprit group
Esprit Europe Trading & Product Development GmbH (formerly known as Esprit Europe Services GmbH, merged with Esprit Design und Product Development GmbH)	Germany	100%	EUR2,700,000	Sourcing, purchase and sale of merchandise, distribution of merchandise and other logistic functions, including customs dealing, quality control, style and product development of merchandise
Esprit GB Limited	United Kingdom	100%	GBP150,000	Wholesale and retail distribution of apparel and accessories
Esprit Global Image GmbH	Germany	100%	EUR25,000	Design and image directions; conceptualization and development of global uniform image; development and conceptualization of global image direction within product development
Esprit Handelsgesellschaft m.b.H	Austria	100%	EUR100,000	Wholesale and retail distribution of apparel and accessories

31 PRINCIPAL SUBSIDIARIES *continued*

Name of subsidiary	Place of incorporation/ operation	Attributable equity interest to the Group (note a)	Issued and fully paid share capital/ registered capital (note b)	Principal activities
Esprit International (limited partnership)	California, U.S.A.	100%	N/A	Holding and licensing of trademarks
Esprit IP Limited	British Virgin Islands/Hong Kong	100%	USD1	Holding and licensing of trademarks
Esprit Italy Distribution S.R.L. (formerly known as ERA 97 S.R.L.)	Italy	100%	EUR12,750	Wholesale distribution of apparel and accessories
Esprit Luxembourg S.A.R.L.	Luxembourg	100%	EUR250,000	Retail distribution of apparel and accessories
Esprit Macao Commercial Offshore Limited	Macau	100%	MOP3,000,000	Wholesale distribution of apparel and accessories
Esprit Property Limited	Hong Kong	100%	HKD2	Investment holding
Esprit Regional Services Limited	British Virgin Islands/Hong Kong	100%	USD1	Provision of services
Esprit Retail B.V. & Co. KG (limited partnership)	Germany	100%	EUR5,000,000	Retail distribution of apparel and accessories, operation of Esprit Café
Esprit Retail (Hong Kong) Limited	Hong Kong	100%	HKD10,000	Retail distribution of apparel and accessories and operation of Salon Esprit
Esprit Retail Proprietary Limited	Singapore	100%	SGD3,000,000	Retail distribution of apparel and accessories
Esprit (Retail) Pty Ltd.	Australia	100%	AUD200,000	Wholesale and retail distribution of apparel and accessories
Esprit Retail (Taiwan) Limited	Hong Kong/Taiwan	100%	HKD9,000	Retail distribution of apparel and accessories
Esprit Sweden AB	Sweden	100%	SEK500,000	Wholesale distribution of apparel and accessories

notes to the financial statements

for the year ended June 30, 2005

31 PRINCIPAL SUBSIDIARIES *continued*

Name of subsidiary	Place of incorporation/ operation	Attributable equity interest to the Group (note a)	Issued and fully paid share capital/ registered capital (note b)	Principal activities
Esprit Swiss Treasury Limited	British Virgin Islands/Hong Kong	100%	USD1	Financial services
Esprit Switzerland Distribution AG	Switzerland	100%	CHF100,000	Wholesale distribution of apparel and accessories
Esprit Switzerland Retail AG	Switzerland	100%	CHF500,000	Retail distribution of apparel and accessories
Esprit US Distribution Limited	United States	100%	USD1,000	Wholesale distribution of apparel and accessories
Esprit US Retail Limited	United States	100%	USD0.001	Retail distribution of apparel and accessories
Esprit Wholesale GmbH	Germany	100%	EUR5,000,000	Wholesale distribution of apparel and accessories
Garment, Aecessories and Cosmetics Esprit Retail (Macau) Limited	Macau	100%	MOP100,000	Retail distribution of apparel and accessories
Red Earth Distribution Corporation Inc.	Canada	100%	CAD100 (note c)	Wholesale and retail distribution of cosmetics, skin and body care products
Red Earth (Hong Kong) Limited	Hong Kong	100%	HKD10,000	Retail distribution of cosmetics, skin and body care products
Red Earth International Holdings Limited	British Virgin Islands/Hong Kong	100%	USD1,668,000	Investment holding
Red Earth Licensing Limited	British Virgin Islands/Hong Kong	100%	USD100	Holding and licensing of trademarks

31 PRINCIPAL SUBSIDIARIES *continued*

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

Notes:

- (a) All subsidiaries were held indirectly by the Company, except ESP Group Limited.
- (b) All are ordinary share capital unless otherwise stated.
- (c) Representing 100 class A shares of CAD1.00 each.
- (d) Wholly owned foreign enterprise.