

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, 2006.

principal activities

The Company is an investment holding company. The activities of the principal subsidiaries are shown in note 30 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 77 and in the accompanying notes to the financial statements.

The interim dividend of HK\$0.50 per share, totaling HK\$607,770,000, was paid on April 7, 2006.

The Directors recommend the payment of a final dividend of HK\$0.73 per share and a special dividend of HK\$1.08 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 80 and in note 29 to the financial statements respectively.

share capital

During the year, 20,965,000 (2005: 6,027,000) ordinary shares of HK\$0.10 were issued in relation to the share options exercised by Directors and employees under the share option scheme of the Company adopted on November 26, 2001 at exercise prices in the range of HK\$14.60 to HK\$45.60 each (representing a premium in the range of HK\$14.50 to HK\$45.50 each). 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 129.

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, 2006 are set out in note 30 to the financial statements.

charitable donations

During the year, the Group made charitable donations totaling HK\$1,379,000.

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.

Report of the directors

directors and senior management profile

executive directors

Michael YING Lee Yuen, aged 56, 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 65, 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 52, is Deputy Chairman, Group Chief Financial Officer and Company Secretary. Mr. Poon is primarily responsible for managing the Group's financial and legal functions, including strategic planning and corporate finance, investor relations, accounting and tax, treasury management as well as company secretarial affairs. Prior to joining the Group in December 1999, he 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. He is a council member of the Hong Kong Institute of Certified Public Accountants.

Thomas Johannes GROTE, aged 43, is currently the President of the ESPRIT brand. Mr. Grote is responsible for all operational matters in relation to the ESPRIT brand, including wholesale, retail and licensing business. 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. He left the Group in 1992 and returned to the Group in June 1996.

Jerome Squire GRIFFITH, aged 48, is currently the President of Esprit North America. Mr. Griffith is bringing to this challenge four years' experience at Global Business Headquarters Ratingen, Germany where he was responsible for the global retail market. Before joining the Group in 2002, he held senior positions in major retail companies in the United States and Europe. He received his Bachelor of Science Degree in Marketing from Pennsylvania State University.

non-executive directors

Paul CHENG Ming Fun, aged 69, 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 Chairman of The Link Management Limited. He is also a member of the Council of The Chinese University of Hong Kong.

Jürgen Alfred Rudolf FRIEDRICH, aged 68, founded Esprit's European operations in 1976 and was appointed a Non-executive Director in 1997. He has over 32 years of experience in the apparel distribution and marketing business and is currently retired in the United States.

directors and senior management profile *continued*

non-executive directors *continued*

Alexander Reid HAMILTON, aged 64, 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 45, 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 of Deacons and has over 20 years' experience of legal practice.

Raymond OR Ching Fai, aged 56, 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, director of The Hongkong and Shanghai Banking Corporation Limited, Chairman of Hang Seng Life Limited, and a director of Cathay Pacific Airways Limited, Hutchison Whampoa Limited and 2009 East Asian Games (Hong Kong) Limited.

senior management

(as of June 30, 2006)

Ursula BUCK, aged 44, 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 14 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 45, 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 46, is the Group Financial Controller. He is primarily responsible for the Group's statutory and management reporting. He is involved in 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.

Report of the directors

directors' emoluments

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

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

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

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

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

share options

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

share options *continued*

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 07.01.2005	Granted	Exercised	Lapsed	As at 06.30.2006	
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	
						10,000,000	–	4,200,000	–	5,800,000
	John POON Cho Ming	11/26/2002	14.60	11/26/2003	11/26/2003 – 11/25/2008	–	–	–	–	–
				11/26/2004	11/26/2004 – 11/25/2008	–	–	–	–	–
				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	–	–	–	–	–	
			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	
					4,680,000	–	1,200,000	–	3,480,000	

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 07.01.2005	Granted	Exercised	Lapsed	As at 06.30.2006	
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	
						4,000,000	-	1,680,000	-	2,320,000
	Jerome Squire GRIFFITH	11/26/2002	14.60	11/26/2003	11/26/2003 – 11/25/2008	100,000	-	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	
					3,780,000	-	1,460,000	-	2,320,000	

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 07.01.2005	Granted	Exercised	Lapsed	As at 06.30.2006
Employees & Consultants								
11/26/2002	14.60	11/26/2003	11/26/2003 – 11/25/2008	1,100,000	-	1,100,000	-	-
		11/26/2004	11/26/2004 – 11/25/2008	1,580,000	-	1,580,000	-	-
		11/26/2005	11/26/2005 – 11/25/2008	3,216,000	-	3,096,000	-	120,000
		11/26/2006	11/26/2006 – 11/25/2008	3,216,000	-	-	336,000	2,880,000
		11/26/2007	11/26/2007 – 11/25/2008	3,216,000	-	-	336,000	2,880,000
11/26/2003	24.20	11/26/2004	11/26/2004 – 11/25/2009	1,495,000	-	1,330,000	-	165,000
		11/26/2005	11/26/2005 – 11/25/2009	2,992,000	-	2,512,000	120,000	360,000
		11/26/2006	11/26/2006 – 11/25/2009	2,992,000	-	-	372,000	2,620,000
		11/26/2007	11/26/2007 – 11/25/2009	2,992,000	-	-	372,000	2,620,000
		11/26/2008	11/26/2008 – 11/25/2009	2,992,000	-	-	372,000	2,620,000
12/23/2003	24.45	12/23/2004	12/23/2004 – 12/22/2009	-	-	-	-	-
		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	-	2,607,000	210,000	1,370,000
		11/27/2006	11/27/2006 – 11/26/2010	4,187,000	-	-	542,000	3,645,000
		11/27/2007	11/27/2007 – 11/26/2010	4,187,000	-	-	542,000	3,645,000
		11/27/2008	11/27/2008 – 11/26/2010	4,187,000	-	-	542,000	3,645,000
		11/27/2009	11/27/2009 – 11/26/2010	4,187,000	-	-	542,000	3,645,000
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

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 06.30.2006
				As at 07.01.2005	Granted	Exercised	Lapsed	
11/28/2005	55.11	11/28/2006	11/28/2006 – 11/27/2011	–	1,140,000	–	60,000	1,080,000
		11/28/2007	11/28/2007 – 11/27/2011	–	1,140,000	–	60,000	1,080,000
		11/28/2008	11/28/2008 – 11/27/2011	–	1,140,000	–	60,000	1,080,000
		11/28/2009	11/28/2009 – 11/27/2011	–	1,140,000	–	60,000	1,080,000
		11/28/2010	11/28/2010 – 11/27/2011	–	1,140,000	–	60,000	1,080,000
12/02/2005	56.20	12/02/2006	12/02/2006 – 12/01/2011	–	520,000	–	–	520,000
		12/02/2007	12/02/2007 – 12/01/2011	–	520,000	–	–	520,000
		12/02/2008	12/02/2008 – 12/01/2011	–	520,000	–	–	520,000
		12/02/2009	12/02/2009 – 12/01/2011	–	520,000	–	–	520,000
		12/02/2010	12/02/2010 – 12/01/2011	–	520,000	–	–	520,000
12/23/2005	56.50	12/23/2006	12/23/2006 – 12/22/2011	–	90,000	–	–	90,000
		12/23/2007	12/23/2007 – 12/22/2011	–	90,000	–	–	90,000
		12/23/2008	12/23/2008 – 12/22/2011	–	90,000	–	–	90,000
		12/23/2009	12/23/2009 – 12/22/2011	–	90,000	–	–	90,000
		12/23/2010	12/23/2010 – 12/22/2011	–	90,000	–	–	90,000
02/23/2006	64.31	02/23/2007	02/23/2007 – 02/22/2012	–	140,000	–	–	140,000
		02/23/2008	02/23/2008 – 02/22/2012	–	140,000	–	–	140,000
		02/23/2009	02/23/2009 – 02/22/2012	–	140,000	–	–	140,000
		02/23/2010	02/23/2010 – 02/22/2012	–	140,000	–	–	140,000
		02/23/2011	02/23/2011 – 02/22/2012	–	140,000	–	–	140,000
In aggregate				48,056,000	9,450,000	12,425,000	4,586,000	40,495,000
TOTAL				70,516,000	9,450,000	20,965,000	4,586,000	54,415,000

Notes:

1. The closing prices of the shares of the Company immediately before the options granted on November 28, 2005, December 2, 2005, December 23, 2005 and February 23, 2006 were HK\$56.95, HK\$54.95, HK\$56.45 and HK\$64.60 respectively.
2. The weighted average closing price of the shares immediately before the date of exercise by Mr. Heinz Jürgen Krogner-Kornalik was HK\$56.95.
3. The weighted average closing price of the shares immediately before the date of exercise by Mr. John C. Poon was HK\$56.95.
4. The weighted average closing price of the shares immediately before the date of exercise by Mr. Thomas Johannes Grote was HK\$63.95.
5. The weighted average closing price of the shares immediately before the date of exercise by Mr. Jerome Squire Griffith was HK\$63.87.
6. The weighted average closing price of the shares immediately before the dates of exercise by the employees and consultants was HK\$59.90.
7. No share options were cancelled under the 2001 Share Option Scheme during the year.

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

accounting treatment for share options

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

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

As at June 30, 2006, the interests or short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (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 Companies (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 trust (Note 1)	191,208,352	—	191,208,352	15.67%
Heinz Jürgen KROGNER-KORNALIK	Beneficial owner	—	5,800,000	5,800,000	0.48%
John POON Cho Ming	Beneficial owner	70,000	3,480,000	3,550,000	0.29%
Thomas Johannes GROTE	Beneficial owner	—	2,320,000	2,320,000	0.19%
Jerome Squire GRIFFITH	Beneficial owner	230,000	2,320,000	2,550,000	0.21%
Jürgen Alfred Rudolf FRIEDRICH	Beneficial owner	79,251,176	—	81,302,077	6.66%
	Interest of a controlled corporation (Note 2)	2,000,000	—		
	Interest of spouse (Note 3)	50,901	—		

Notes:

- The shares were held by HSBC International Trustee Limited, the trustee of a discretionary trust set up by Mr. Michael Ying Lee Yuen on January 9, 2006. Mr. Michael Ying Lee Yuen was deemed to be interested in these shares as founder of the discretionary trust.
- The shares were held by JAF Foundation of which Mr. Jürgen Alfred Rudolf Friedrich controlled 100% share interest.
- The shares were held by Mrs. Anke Beck Friedrich, the spouse of Mr. Jürgen Alfred Rudolf Friedrich.
- 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 2001 Share Option Scheme are detailed in "share options" above.
- All interests disclosed above represent long position in the shares and underlying shares of the Company.

Report of the directors

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

(2) Shares Options of the Company

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

As at June 30, 2006, save as disclosed above, none of the Directors, chief executive of the Company or their associates had any interests or short positions (within the meaning of Part XV of the SFO), whether beneficial or non-beneficial, in the shares, underlying shares or debentures of the Company or any of its associated corporations as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and SEHK pursuant to the Model Code.

directors' interests in contracts

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

substantial shareholders' interests

As at June 30, 2006, the following shareholders (other than the Directors and chief executive of the Company whose interests or short positions in the shares and underlying shares of the Company as disclosed above) had interests or 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
HSBC International Trustee Limited	Interest of controlled corporations (Notes 1 and 2)	193,342,917	15.84%
JPMorgan Chase & Co.	Interest of controlled corporations (Notes 3 to 5)	160,043,927	13.11%
The Capital Group Companies, Inc.	Interest of controlled corporations (Notes 6 and 7)	111,722,900	9.15%
State Street Corporation	Interest of a controlled corporation (Notes 8 and 9)	107,579,289	8.82%

substantial shareholders' interests *continued*

Notes:

1. Details of the interest in the 193,342,917 Shares held by HSBC International Trustee Limited were as follows:

Name	Direct (D)/Indirect (I) Interests in the Shares of the Company	Aggregate Long Position in Shares	Percentage of Aggregate Interests to Total Issued Share Capital (round to the nearest hundredth)
Yet Holdings Limited	I	191,208,352	15.67%
Great View International Limited	D	191,208,352	15.67%
HSBC Trustee (Hong Kong) Limited	D	723,000	0.06%
HSBC Trustee (Cook Islands) Limited	I	1,500	0.00%
South Rex Limited	D	1,500	0.00%
HSBC Private Trustee (Hong Kong) Limited	D	24,000	0.00%
HSBC International Trustee Limited	D	1,386,065	0.11%

Explanatory Notes:

All the following interests were deemed to be held by the relevant company under SFO. HSBC International Trustee Limited ("HITL"), being the trustee of the discretionary trust set up by Mr. Michael Ying Lee Yuen on January 9, 2006 and other discretionary trusts, was directly interested or deemed to be interested in an aggregate of 193,342,917 Shares. HITL was directly interested in 1,386,065 Shares. HITL was deemed to be interested in 191,956,852 Shares held or deemed to be held by (i) Yet Holdings Limited ("YETHL") (191,208,352 Shares), 100% controlled by HITL, and (ii) HSBC Trustee (Hong Kong) Limited (723,000 Shares), a wholly-owned subsidiary of HITL, and (iii) HSBC Trustee (Cook Islands) Limited (1,500 Shares) and (iv) HSBC Private Trustee (Hong Kong) Limited (24,000 Shares). Both HSBC Trustee (Cook Islands) Limited and HSBC Private Trustee (Hong Kong) Limited are customised/obliged to act in accordance with the directions or instructions of HITL.

- (i) YETHL was deemed to be interested in the 191,208,352 Shares held by Great View International Limited, a wholly-owned subsidiary of YETHL; these interests have also been included as trust interest of Mr. Michael Ying Lee Yuen as disclosed under the "directors' interests and short positions in shares, underlying shares and debentures" section above;
- (ii) HSBC Trustee (Hong Kong) Limited directly held 723,000 Shares;
- (iii) HSBC Trustee (Cook Islands) Limited ("CIL") was deemed to be interested in 1,500 Shares held by South Rex Limited, 100% controlled by CIL; and
- (iv) HSBC Private Trustee (Hong Kong) Limited directly held 24,000 Shares.

2. All interests disclosed in Note 1 above represent long positions in the Shares of the Company.
3. The Shares held by JPMorgan Chase & Co. were held in the following capacities:

No. of Shares	Capacity
3,184,000	Beneficial owner
96,846,793	Investment manager
60,013,134	Custodian corporation/approved lending agent

Report of the directors

substantial shareholders' interests *continued*

Notes: *continued*

4. Details of the interest in the 160,043,927 Shares held by JPMorgan Chase & Co. were as follows:

Name	Direct (D)/Indirect (I) Interests in the Shares of the Company	Aggregate Long Position in Shares	Percentage of Aggregate Interests to Total Issued Share Capital
JPMorgan Chase Bank, N.A.	D	65,424,764	5.361%
JPMorgan Chase Bank, N.A.	I	3,469,643	0.284%
J.P. Morgan International Inc.	I	3,469,643	0.284%
Bank One International Holdings Corporation	I	3,469,643	0.284%
J.P. Morgan International Finance Limited	I	3,469,643	0.284%
J.P. Morgan Overseas Capital Corporation	I	1,556,643	0.128%
J.P. Morgan Whitefriars Inc.	D	1,271,000	0.104%
J.P. Morgan International Bank Limited	D	285,643	0.023%
JPMorgan Asset Management Holdings Inc.	I	91,149,520	7.469%
JPMorgan Asset Management (Canada) Inc.	D	4,283,500	0.351%
J.P. Morgan Investment Management Inc.	D	17,056,383	1.398%
JPMorgan Asset Management International Limited	I	15,470,500	1.268%
JPMorgan Asset Management Holdings (UK) Limited	I	15,470,500	1.268%
JPMorgan Asset Management (UK) Limited	D	13,685,500	1.121%
JPMorgan Asset Management Holdings (Luxembourg) S.à r.l.	I	80,500	0.007%
JPMorgan Asset Management Societa di Gestione del Risparmio SpA	D	80,500	0.007%
J.P. Morgan Investment Management Limited	I	1,640,000	0.134%
JPMorgan Asset Management (London) Limited	D	1,640,000	0.134%
JPMorgan Asset Management (Asia) Inc.	I	54,339,137	4.453%
JF International Management Inc.	D	568,500	0.047%
JF Asset Management (Singapore) Limited – Co Reg #: 197601586K	D	977,000	0.080%
J.P. Morgan Fleming Asset Management (Japan) Limited *	D	3,942,000	0.323%
JF Asset Management Limited	D	47,290,137	3.875%
JF Asset Management Limited	I	1,561,500	0.128%
JF Funds Limited	I	1,561,500	0.128%
JF Asset Management (Taiwan) Limited	D	1,561,500	0.128%
JPMorgan Asset Management Holdings (Luxembourg) S.à r.l.	I	64,500	0.005%
JPMorgan Asset Management (Europe) S.a.r.l.	D	64,500	0.005%
J.P. Morgan Securities Ltd.	D	1,913,000	0.157%
J.P. Morgan Chase International Holdings Limited	I	1,913,000	0.157%
J.P. Morgan Chase (UK) Holdings Limited	I	1,913,000	0.157%
J.P. Morgan Capital Holdings Limited	I	1,913,000	0.157%

* Name changed to JPMorgan Asset Management (Japan) Limited with effect from March 20, 2006.

substantial shareholders' interests *continued*

Notes: *continued*

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 160,043,927 Shares held or deemed to be held by: (I) JPMorgan Chase Bank, N.A. (68,894,407 Shares) and (II) JPMorgan Asset Management Holdings Inc. (91,149,520 Shares), all were wholly-owned subsidiaries of JPMorgan Chase & Co.

- (I) JPMorgan Chase Bank, N.A. directly held 65,424,764 Shares and was also deemed to be interested in an aggregate of 3,469,643 Shares held by the following indirect subsidiaries held through J.P. Morgan International Finance Limited ("JPIF"), a direct wholly-owned subsidiary of Bank One International Holdings Corporation, directly wholly-owned by J.P. Morgan International Inc., directly wholly-owned by JPMorgan Chase Bank, N.A.:
- (a) 1,271,000 Shares were held by J.P. Morgan Whitefriars Inc., wholly-owned by J.P. Morgan Overseas Capital Corporation, a wholly-owned subsidiary of JPIF;
 - (b) 1,913,000 Shares were held by J.P. Morgan Securities Ltd., 90% ** subsidiary of J.P. Morgan Chase International Holdings Limited, wholly-owned by J.P. Morgan Chase (UK) Holdings Limited, wholly-owned by J.P. Morgan Capital Holdings Limited, 72.72% subsidiary of JPIF; and
 - (c) 285,643 Shares were held by J.P. Morgan International Bank Limited, wholly-owned by J.P. Morgan Overseas Capital Corporation, a wholly-owned subsidiary of JPIF.

** Changed to 98.95% with effect from April 15, 2006.

- (II) JPMorgan Asset Management Holdings Inc. ("JPAMH") was deemed to be interested in an aggregate of 91,149,520 Shares held by the following subsidiaries:
- (a) 4,283,500 Shares were held by JPMorgan Asset Management (Canada) Inc., directly wholly-owned by JPAMH;
 - (b) 17,056,383 Shares were held by J.P. Morgan Investment Management Inc., directly wholly-owned by JPAMH;
 - (c) 54,339,137 Shares were deemed to be held by JPMorgan Asset Management (Asia) Inc. ("JPAsia"), directly wholly-owned by JPAMH, through the following subsidiaries:
 - (i) 568,500 Shares were held by JF International Management Inc., wholly-owned by JPAsia;
 - (ii) 977,000 Shares were held by JF Asset Management (Singapore) Limited - Co Reg #:197601586K, wholly-owned by JPAsia;
 - (iii) 3,942,000 Shares were held by J.P. Morgan Fleming Asset Management (Japan) Limited*, wholly-owned by JPAsia;
 - (iv) 47,290,137 Shares were held by JF Asset Management Limited, wholly-owned by JPAsia; and
 - (v) 1,561,500 Shares were held by JF Asset Management (Taiwan) Limited, 99.90% subsidiary of JF Funds Limited, wholly-owned by JF Asset Management Limited, wholly-owned by JPAsia.
 - (d) 15,470,500 Shares were deemed to be held by JPMorgan Asset Management International Limited ("JPAM"), directly wholly-owned by JPAMH, through the following subsidiaries:
 - (i) 13,685,500 Shares were held by JP Morgan Asset Management (UK) Limited, wholly-owned by JPMorgan Asset Management Holdings (UK) Limited, a wholly-owned subsidiary of JPAM;
 - (ii) 1,640,000 Shares were held by JPMorgan Asset Management (London) Limited, a wholly-owned subsidiary of J.P. Morgan Investment Management Limited, wholly-owned by JPMorgan Asset Management Holdings (UK) Limited, a wholly-owned subsidiary of JPAM;
 - (iii) 64,500 Shares were held by JPMorgan Asset Management (Europe) S.a.r.l., a wholly-owned subsidiary of JPMorgan Asset Management Holdings (Luxembourg) S.à r.l., wholly-owned by JPMorgan Asset Management Holdings (UK) Limited, a wholly-owned subsidiary of JPAM; and
 - (iv) 80,500 Shares were held by JPMorgan Asset Management Societa di Gestione del Risparmio SpA, 99.90% subsidiary of JPMorgan Asset Management Holdings (Luxembourg) S.à r.l., wholly-owned by JPMorgan Asset Management Holdings (UK) Limited, a wholly-owned subsidiary of JPAM.

5. All interests disclosed in Note 4 above represent long positions in the Shares of the Company of which 60,013,134 Shares represent lending pool.

Report of the directors

substantial shareholders' interests *continued*

Notes: *continued*

6. Details of the interest in the 111,722,900 Shares held by The Capital Group Companies, Inc. were as follows:

Name	Direct (D)/Indirect (I) Interests in the Shares of the Company	Aggregate Long Position in Shares	Percentage of Aggregate Interests to Total Issued Share Capital
Capital Research and Management Company	D	109,193,000	8.947%
Capital Guardian Trust Company	D	1,642,900	0.135%
Capital International, Inc.	D	782,000	0.064%
Capital International S.A.	D	105,000	0.008%

Explanatory Notes:

All of the following interests were deemed to be held by the relevant company under SFO. The Capital Group Companies, Inc. was deemed to be interested in an aggregate of 111,722,900 Shares held or deemed to be held by the following subsidiaries:

- (i) 109,193,000 Shares were held by Capital Research and Management Company, wholly-owned by The Capital Group Companies, Inc.;
- (ii) 1,642,900 Shares were held by Capital Guardian Trust Company, wholly-owned by Capital Group International, Inc., a wholly-owned subsidiary of The Capital Group Companies, Inc.;
- (iii) 782,000 Shares were held by Capital International, Inc., wholly owned by Capital Group International, Inc., a wholly-owned subsidiary of The Capital Group Companies, Inc.; and
- (iv) 105,000 Shares were held by Capital International S.A., wholly-owned by Capital Group International, Inc., a wholly-owned subsidiary of The Capital Group Companies, Inc.

- 7. All interests disclosed in Note 6 above represent long positions in the Shares of the Company.
- 8. State Street Corporation was deemed to be interested in 107,579,289 Shares through its 100% interest in State Street Bank & Trust Company.
- 9. All interests disclosed in Note 8 above represent long positions in the Shares of the Company and all 107,579,289 Shares represent lending pool.

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, 2006 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.

All of the abovementioned outstanding options are unlisted and represent physically settled equity derivatives.

purchase, sale or redemption of the company's shares

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

pre-emptive rights

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

major customers and suppliers

During the year, less than 10% of the Group's sales were attributable to the five largest customers and less than 18% of the Group's purchases were attributable to the five largest suppliers.

public float

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

management contracts

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

related party transactions and connected transactions

Details of the significant related party transactions undertaken in the normal course of business are provided under note 28 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 principals 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, 2006 of the Group.

corporate governance

Particulars of the Company's corporate governance practices are set out on pages 46 to 54 of this report.

auditors

The financial statements for the year ended June 30, 2006 have been audited by PricewaterhouseCoopers.

On behalf of the board

John POON Cho Ming

Deputy Chairman

Hong Kong, September 13, 2006