

## Notes to the financial statements

For the year ended June 30, 2006

### 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 (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 (“IFRS”), issued by International Accounting Standards Board (“IASB”).

These consolidated financial statements have been approved for issue by the Board of Directors on September 13, 2006.

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

#### (a) Basis of preparation

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

In the current financial year, the Group has adopted IFRS 2 “Share-based Payment”, which is effective for the Group’s annual accounting period commencing July 1, 2005. In prior years, no employee benefit cost or obligation was recognized when employees (which term includes directors) were granted share options by the Group over shares in the Company. When the share options were exercised, equity was increased by the amount of the proceeds received. IFRS 2 requires the Group to measure the fair value of the share options at the date of grant and recognize 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 is estimated by applying an option pricing model, taking into account a number of 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. Following the adoption of IFRS 2, the Group recognizes the fair value of share options granted to employees as an expense in the consolidated income statement and a corresponding increase in an employee share-based payment reserve within equity. Pursuant to the transitional provisions of IFRS 2, expenses relating to share options granted after November 7, 2002 which were not vested on July 1, 2005 were charged retrospectively to the income statements of the respective financial years. If an employee chooses to exercise the options, the employee share-based payment reserve together with the exercise price paid by the employee are transferred to share capital and share premium. If the option lapses unexercised, the employee share-based payment reserve is transferred directly to retained profits.

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *continued***(a) Basis of preparation** *continued*

The effect of the adoption of IFRS 2 on the consolidated income statement for the year is as follows:

	<b>For the year ended June 30,</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Decrease in profit and earnings per share		
Profit attributable to shareholders	<b>132,267</b>	126,474
Earnings per share		
– Basic and diluted (HK\$ per share)	<b>0.11</b>	0.11

The effect of the adoption of IFRS 2 on equity as at June 30, 2006 and June 30, 2005 is as follows:

	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Increase/(decrease) in equity		
Employee share-based payment reserve	<b>230,117</b>	174,082
Share premium	<b>76,232</b>	–
Retained profits	<b>(306,349)</b>	(174,082)

The Group did not early adopt the amendments to the following International Accounting Standards (“IAS”)/IFRS and International Financial Reporting Interpretations Committee (“IFRIC”) interpretations, which will be effective for annual accounting periods beginning on or after January 1, 2006. The adoption of such standards and interpretations will not result in substantial changes to the Group’s accounting policies.

IAS 1 (Amendment)	Capital Disclosures
IAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
IAS 21 (Amendment)	Net investment in a Foreign Operation
IAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intra-group Transactions
IAS 39 (Amendment)	The Fair Value Option
IAS 39 and IFRS 4 (Amendment)	Financial Guarantee Contracts
IFRS 6	Exploration for and Evaluation of Mineral Resources
IFRS 7	Financial Instruments: Disclosures
IFRIC 4	Determining whether an Arrangement contains a Lease
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
IFRIC 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment
IFRIC 7	Applying the Restatement Approach under IAS 29
IFRIC 8	Scope of IFRS 2
IFRIC 9	Reassessment of Embedded Derivatives
IFRIC 10	Interim Financial Reporting and Impairment

## Notes to the financial statements

For the year ended June 30, 2006

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

#### (a) Basis of preparation *continued*

When preparing the consolidated financial statements, management has adopted certain accounting, valuation and consolidation methods to comply with IFRS. 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.

#### (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.

## **2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued***

### **(b) Consolidation *continued***

#### *(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.

## Notes to the financial statements

For the year ended June 30, 2006

### 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 $\frac{1}{3}$ - 5%
Plant and machinery	30%
Furniture and office equipment	10 - 33 $\frac{1}{3}$ %
Motor vehicles	30%

## **2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued***

### **(e) Property, plant and equipment *continued***

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

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

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

### **(f) Intangible assets**

#### *(i) Goodwill*

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

#### *(ii) Trademarks*

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

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

### **(g) Impairment of assets**

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

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

An impairment loss 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.

## Notes to the financial statements

For the year ended June 30, 2006

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

#### (h) Inventories

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

#### (i) Receivables and payables

Receivables and payables are recognized at cost which approximates to their fair values, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all the amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flow, discounted at the effective interest rate. The amount of provision is recognized in the income statement. Receivables and payables denominated in foreign currencies are stated at the year-end exchange rates. The resulting gains or losses are recorded in the consolidated income statement, with the exception of the gains or losses resulting from the translation of inter-company long-term loans, which are considered to form part of the net investment in the related subsidiaries because settlement is neither planned nor likely to occur in the foreseeable future. The impact of translation of these items have been reflected in equity.

#### (j) Cash and cash equivalents

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

#### (k) Deferred tax

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

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

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

## **2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued***

### **(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 Group operates an equity-settled, share-based compensation plan to grant share options to directors, employees and consultants of the Group in exchange for their services provided to the Group. The fair value of the options granted is recognized as an expense over the relevant period of the service (the vesting period of the options). The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. The Group recognizes the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

When the options are exercised, the proceeds received net of any directly attributable transaction costs are credited to share capital and share premium.

#### *(iii) Employee leave entitlements*

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

#### *(iv) Bonus plans*

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

### **(m) Provisions**

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

### **(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.



## Notes to the financial statements

For the year ended June 30, 2006

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

#### (n) Revenue recognition *continued*

##### (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 derivative instruments that do not qualify for hedge accounting are 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.

## **2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued***

### **(o) Accounting for derivative financial instruments *continued***

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

### **(p) Leases**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessors) are charged to the income statement on a straight-line basis over the period of the lease, 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 the potential adverse effects of these risks on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

### **(a) Foreign exchange risk**

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

To 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.

## Notes to the financial statements

For the year ended June 30, 2006

### 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's acquired Esprit trademarks are classified as an indefinite-lived intangible asset in accordance with 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 and circumstances continue to support the view of indefinite useful life for this asset.

##### *(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, 2006. The Group has conducted a valuation of the Esprit trademarks as one corporate asset based on a value-in-use calculation. The resulting value of the Esprit trademarks as at June 30, 2006 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 12.2%. 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 has 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, as current liabilities, liabilities for anticipated tax audit issues based on estimates of whether additional taxes will eventually 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.

	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Turnover		
Sales of goods	<b>23,150,786</b>	20,435,410
Licensing and other income	<b>198,102</b>	196,405
	<b>23,348,888</b>	20,631,815

**Primary reporting format – business segments**

The Group's businesses are managed according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Inter-segment transactions are entered into under the normal commercial terms and conditions that would also be available to unrelated third parties. The Group has modified its current global internal management reporting to reflect its updated global brand development cost structure. Accordingly, the Group has revised the basis of business segment reporting. Global brand development costs are now fully reflected within the licensing segment to reflect the Esprit brand owners' initiative to develop the brand globally both in existing and prospective new markets. Prior year comparatives have been adjusted to conform with the current year presentation.

## Notes to the financial statements

For the year ended June 30, 2006

### 5 TURNOVER AND SEGMENT INFORMATION *continued*

Primary reporting format – business segments *continued*

	For the year ended June 30, 2006				
	Wholesale HK\$'000	Retail HK\$'000	Licensing & others HK\$'000	Eliminations HK\$'000	Group HK\$'000
Turnover	13,450,098	9,700,688	198,102	–	23,348,888
Inter-segment sales	–	–	592,452	(592,452)	–
	<b>13,450,098</b>	<b>9,700,688</b>	<b>790,554</b>	<b>(592,452)</b>	<b>23,348,888</b>
Segment results	3,594,641	1,126,768	403,991	(178,470)	4,946,930
Unallocated net expenses					(181,919)
Interest income					37,544
Finance costs					(1,425)
Share of results of associates					84,378
Profit before taxation					<b>4,885,508</b>
Segment EBIT – ex-inter-segment licensing expense/income (note)	3,784,569	1,191,141	149,690	(178,470)	4,946,930
Segment assets	7,833,211	4,250,128	678,981	(3,719,560)	9,042,760
Investments in associates					370,827
Intangible assets					2,027,244
Other unallocated assets					1,411,058
Total assets					<b>12,851,889</b>
Segment liabilities	2,352,962	3,836,168	22,687	(3,719,560)	2,492,257
Other unallocated liabilities					1,252,373
Total liabilities					<b>3,744,630</b>
Capital expenditure	65,929	712,228	325	–	778,482
Depreciation	85,511	418,844	3,832	–	508,187
Provision for retail store exit costs	–	7,147	–	–	7,147

**5 TURNOVER AND SEGMENT INFORMATION** *continued*  
**Primary reporting format – business segments** *continued*

	For the year ended June 30, 2005, as restated				
	Wholesale HK\$'000	Retail HK\$'000	Licensing & others HK\$'000	Eliminations HK\$'000	Group 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	3,010,633	1,048,252	228,053	(105,749)	4,181,189
Unallocated net expenses					(106,138)
Interest income					21,576
Finance costs					(1,928)
Share of results of associates					72,920
Profit before taxation					4,167,619
Segment EBIT – ex-inter-segment licensing expense/income (note)	3,115,441	1,058,130	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

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\$3,784,569,000 (2005 (as restated): HK\$3,115,441,000) and HK\$1,191,141,000 (2005 (as restated): HK\$1,058,130,000) respectively, representing wholesale EBIT margin (“segment EBIT/segment turnover”) of 28.1% (2005 (as restated): 26.2%) and retail EBIT margin of 12.3% (2005 (as restated): 12.4%).

## Notes to the financial statements

For the year ended June 30, 2006

### 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 2006 HK\$'000	Capital expenditure 2006 HK\$'000	Segment assets 2006 HK\$'000
Europe	19,859,878	514,018	8,997,968
Asia	2,207,183	61,751	2,156,104
Australasia	679,822	27,414	228,543
North America and others	602,005	175,299	1,379,705
Eliminations	–	–	(3,719,560)
	<b>23,348,888</b>	<b>778,482</b>	<b>9,042,760</b>
Unallocated assets:			
Intangible assets			2,027,244
Investments in associates			370,827
Other assets			1,411,058
<b>Total</b>			<b>12,851,889</b>
	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)
	<b>20,631,815</b>	<b>843,221</b>	<b>6,880,086</b>
Unallocated assets:			
Intangible assets			2,009,028
Investments in associates			220,814
Other assets			923,909
<b>Total</b>			<b>10,033,837</b>

## Notes to the financial statements

For the year ended June 30, 2006

### 6 OPERATING PROFIT

	2006 HK\$'000	2005 HK\$'000
Operating profit is arrived at after charging and (crediting) the following:		
Auditors' remuneration		
Current year	11,250	8,376
Underprovision in prior year	802	–
Depreciation	531,715	451,958
Impairment of property, plant and equipment	–	387
Loss on disposal of property, plant and equipment	11,796	5,468
Amortization of prepaid lease payments	4,366	4,238
Operating lease rental expenses – land and buildings (including variable rental of HK\$98,378,000 (2005: HK\$75,347,000))	1,938,480	1,698,088
Net exchange losses/(gains) on foreign exchange forward contracts	15,989	(4,366)
Other net exchange (gains)	(42,179)	(155,133)
Net (write back)/charge for provision for obsolete inventories	(91,995)	56,015
Provision for doubtful debts	28,090	31,852
Provision for retail store exit costs	7,147	11,340

The Group re-assessed its inventory provisioning estimates as at June 30, 2006 based on historical sales experience of recent years. As a result of this review, the inventory provisioning basis was updated and there was a pre-tax net credit to the income statement for the year ended June 30, 2006 of HK\$ 91,995,000 as a result of movements in such provisions.

### 7 FINANCE COSTS

	2006 HK\$'000	2005 HK\$'000
Interest on bank loans and overdrafts wholly repayable within five years	1,425	1,901
Interest element of finance leases payments	–	27
	1,425	1,928



## Notes to the financial statements

For the year ended June 30, 2006

### 8 TAXATION

	2006 HK\$'000	2005 HK\$'000
Current tax		
Hong Kong profits tax	–	4,050
Overseas taxation	1,226,522	1,061,443
Overprovision in prior years	–	(4,000)
	<b>1,226,522</b>	1,061,493
Deferred tax credit (Note 23)		
Current year	<b>(78,368)</b>	(104,977)
Taxation	<b>1,148,154</b>	956,516

Hong Kong profits tax is calculated at 17.5% (2005: 17.5%) on the estimated assessable profit for the year, net of tax losses carried forward, if applicable.

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 applicable.

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 23.5% (2005 (as restated): 23.0%).

	2006 HK\$'000	2005 HK\$'000 As restated
Profit before taxation	<b>4,885,508</b>	4,167,619
Tax calculated at applicable tax rate	<b>1,115,401</b>	917,959
Expenses not deductible for tax purpose	<b>48,534</b>	77,920
Non-taxable income	<b>(9,103)</b>	(9,792)
Utilization of carried forward tax losses	<b>(27,108)</b>	(58,472)
Tax effect of tax losses not recognized	<b>21,089</b>	37,212
Tax effect of share of results of associates	<b>(19,407)</b>	(16,042)
Under provision in prior years and others	<b>18,748</b>	7,731
Taxation	<b>1,148,154</b>	956,516

**9 PROFIT ATTRIBUTABLE TO SHAREHOLDERS**

The profit attributable to shareholders of the Company is dealt with in the financial statements of the Company to the extent of HK\$1,647,689,000 (2005 (as restated): HK\$3,217,288,000).

**10 DIVIDENDS**

	<b>2006</b> <b>HK\$'000</b>	2005 HK\$'000
Paid interim dividend of HK\$0.50 (2005: HK\$0.45) per share	<b>607,770</b>	539,530
Proposed – final dividend of HK\$0.73 (2005: HK\$0.66) per share	<b>890,885</b>	791,654*
– special dividend of HK\$1.08 (2005: HK\$0.84) per share	<b>1,318,022</b>	1,007,559*
	<b>2,816,677</b>	2,338,743

The amount of 2006 proposed final and special dividends is based on 1,220,390,434 shares (2005: 1,199,475,434 shares as at August 31, 2005) in issue as at September 13, 2006. The proposed final and special dividends for 2006 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, 2007.

\* The actual final and special dividends paid for 2005 was HK\$1,813,391,000 due to additional shares issued during the period from September 1, 2005 to December 2, 2005, the date of closure of the 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.

	<b>2006</b> <b>HK\$'000</b>	2005 HK\$'000 As restated
Profit attributable to shareholders	<b>3,737,354</b>	3,211,103
Weighted average number of ordinary shares in issue (thousands)	<b>1,208,856</b>	1,196,362
Basic earnings per share (HK dollars per share)	<b>3.09</b>	2.68

## Notes to the financial statements

For the year ended June 30, 2006

### 11 EARNINGS PER SHARE *continued*

#### 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.

	2006 HK\$'000	2005 HK\$'000 As restated
Profit attributable to shareholders	3,737,354	3,211,103
Weighted average number of ordinary shares in issue (thousands)	1,208,856	1,196,362
Adjustments for share options (thousands)	18,851	26,865
Weighted average number of ordinary shares for diluted earnings per share (thousands)	1,227,707	1,223,227
Diluted earnings per share (HK dollars per share)	3.04	2.63

### 12 STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	2006 HK\$'000	2005 HK\$'000 As restated
Salaries and wages	1,924,733	1,925,609
Social security costs and other staff costs	699,720	667,300
Pensions costs of defined contribution plans	58,548	51,236
Employee share option benefits	132,267	126,474
	2,815,268	2,770,619

#### 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.

**12 STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS) continued****Retirement contribution retirement schemes continued**

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 contributions forfeited in accordance with the schemes' rules amounted to HK\$354,000 (2005: HK\$293,000) which have been applied towards the contributions payable by the Group.

**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	Share option benefits HK\$'000	Provident fund contributions/ retirement benefit costs HK\$'000	2006 Total emoluments HK\$'000	2005 Total emoluments As restated <sup>4</sup> HK\$'000
Michael YING Lee Yuen	–	8,026	–	–	12	8,038	8,080
Heinz Jürgen KROGNER-KORNALIK	–	8,654	37,797	16,470	5	62,926	60,571
		(EUR915,859)	(EUR4,000,000)	(EUR1,742,960)	(EUR510)	(EUR6,659,329)	(EUR6,107,225)
John POON Cho Ming	–	5,038	7,750	9,882	12	22,682	21,869
Thomas Johannes GROTE	–	5,098	4,252	6,588	–	15,938	13,893
		(EUR539,466)	(EUR450,000)	(EUR697,220)	–	(EUR1,686,686)	(EUR1,400,829)
Jerome Squire GRIFFITH	–	5,186	4,252	6,588	–	16,026	13,911
		(EUR548,797)	(EUR450,000)	(EUR697,202)	–	(EUR1,695,999)	(EUR1,402,662)
Jürgen Alfred Rudolf FRIEDRICH <sup>1,3</sup>	250	–	–	–	–	250	200
Simon LAI Sau Cheong <sup>1</sup>	300	–	–	–	–	300	220
Alexander Reid HAMILTON <sup>2,3</sup>	300	–	–	–	–	300	240
Raymond OR Ching Fai <sup>2,3</sup>	300	–	–	–	–	300	220
Paul CHENG Ming Fun <sup>2,3</sup>	300	–	–	–	–	300	220
<b>Total for the year 2006</b>	<b>1,450</b>	<b>32,002</b>	<b>54,051</b>	<b>39,528</b>	<b>29</b>	<b>127,060</b>	<b>119,424</b>
<b>Total for the year 2005, as restated</b>	<b>1,100</b>	<b>35,056</b>	<b>45,765</b>	<b>37,474</b>	<b>29</b>		<b>119,424</b>

<sup>1</sup> Non-executive directors

<sup>2</sup> Independent non-executive directors

<sup>3</sup> Members of the Audit Committee

<sup>4</sup> Total emoluments for 2005 were restated to include share option benefits

## Notes to the financial statements

For the year ended June 30, 2006

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

The aggregate amounts of emoluments received and receivable by Directors of the Company during the year are as follows:

	<b>2006</b> <b>HK\$'000</b>	2005 HK\$'000 As restated
Fees to non-executive Directors <sup>1</sup>	<b>1,450</b>	1,100
Salaries, housing and other allowances and benefits in kind	<b>32,002</b>	35,056
Bonuses to Executive Directors	<b>54,051</b>	45,765
Share option benefits	<b>39,528</b>	37,474
Pensions costs of defined contribution plans	<b>29</b>	29
	<b>127,060</b>	119,424

<sup>1</sup> The amount includes directors' fees of HK\$900,000 (2005: HK\$726,000) paid to Independent Non-executive Directors.

The emoluments including employee share-based payment for options issued under the Company's share option scheme of the Directors fell within the following bands:

Emoluments Band	<b>Number of Directors</b>	
	<b>2006</b>	2005 As restated
Nil – HK\$ 1,000,000	<b>5</b>	5
HK\$ 8,000,001 – HK\$ 8,500,000	<b>1</b>	1
HK\$ 13,500,001 – HK\$ 14,000,000	<b>–</b>	2
HK\$ 15,500,001 – HK\$ 16,000,000	<b>1</b>	–
HK\$ 16,000,001 – HK\$ 16,500,000	<b>1</b>	–
HK\$ 21,500,001 – HK\$ 22,000,000	<b>–</b>	1
HK\$ 22,500,001 – HK\$ 23,000,000	<b>1</b>	–
HK\$ 60,500,001 – HK\$ 61,000,000	<b>–</b>	1
HK\$ 62,500,001 – HK\$ 63,000,000	<b>1</b>	–
	<b>10</b>	10

**13 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS** *continued***(b) Five highest paid individuals**

The five individuals whose emoluments were the highest in the Group for the year included four (2005 (as restated): four) Directors whose emoluments are reflected in the analysis presented above. The emoluments receivable by the remaining one (2005 (as restated): one) during the year are listed below:

	<b>2006</b> <b>HK\$'000</b>	2005 HK\$'000 As restated
Salaries, housing and other allowances and benefits in kind	<b>6,036</b>	5,631
Bonuses	<b>1,940</b>	1,948
Share option benefits	<b>4,941</b>	4,684
	<b>12,917</b>	12,263
<b>Emoluments Band</b>	<b>Number of Individuals</b>	
	<b>2006</b>	2005 As restated
HK\$ 12,000,001 – HK\$ 12,500,000	–	1
HK\$ 12,500,001 – HK\$ 13,000,000	<b>1</b>	–

**14 INTANGIBLE ASSETS**

	<b>Trademarks</b> HK\$'000	<b>Goodwill</b> HK\$'000	<b>Total</b> HK\$'000
<b>Cost</b>			
At July 1, 2004	1,979,131	41,285	2,020,416
Exchange translation	(10,163)	(1,225)	(11,388)
At July 1, 2005	1,968,968	40,060	2,009,028
Exchange translation	16,649	1,567	18,216
<b>At June 30, 2006</b>	<b>1,985,617</b>	<b>41,627</b>	<b>2,027,244</b>

The trademarks are considered to have an indefinite useful life and were tested for impairment at June 30, 2006, as described in Note 4(a).

## Notes to the financial statements

For the year ended June 30, 2006

### 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
<b>Cost</b>							
At July 1, 2005	24,107	198,364	2,337,370	12,414	1,259,575	35,864	3,867,694
Exchange translation	(249)	2,651	109,064	309	68,304	2,095	182,174
Additions	–	–	548,440	848	280,060	9,078	838,426
Disposals	(684)	(828)	(179,692)	(3,776)	(82,005)	(6,592)	(273,577)
At June 30, 2006	23,174	200,187	2,815,182	9,795	1,525,934	40,445	4,614,717
<b>Depreciation</b>							
At July 1, 2005	–	37,327	1,039,375	5,651	720,676	11,672	1,814,701
Exchange translation	–	1,436	43,947	193	46,661	953	93,190
Charge for the year	–	8,982	269,277	1,303	242,355	9,798	531,715
Disposals	–	(20)	(170,996)	(3,339)	(74,396)	(4,858)	(253,609)
At June 30, 2006	–	47,725	1,181,603	3,808	935,296	17,565	2,185,997
<b>Net book value</b>							
At June 30, 2006	23,174	152,462	1,633,579	5,987	590,638	22,880	2,428,720

**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
<b>Cost</b>							
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
<b>Depreciation</b>							
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
<b>Net book value</b>							
At June 30, 2005	24,107	161,037	1,297,995	6,763	538,899	24,192	2,052,993



## Notes to the financial statements

For the year ended June 30, 2006

### 16 INVESTMENTS IN ASSOCIATES

	<b>2006</b> <b>HK\$'000</b>	2005 HK\$'000
Share of net assets	<b>268,547</b>	181,781

The following is a list of the principal associates, all of which are unlisted as at June 30, 2006:

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:

	<b>2006</b> <b>HK\$'000</b>	2005 HK\$'000
Assets	<b>727,573</b>	519,368
Liabilities	<b>(179,518)</b>	(148,386)
Net assets	<b>548,055</b>	370,982
Revenue	<b>1,188,496</b>	892,583
Net Profit	<b>172,201</b>	148,817

## Notes to the financial statements

For the year ended June 30, 2006

### 17 PREPAID LEASE PAYMENTS

	2006 HK\$'000	2005 HK\$'000
Net book value at July 1	188,861	21,442
Additions	–	171,657
Amortization	188,861 (4,366)	193,099 (4,238)
Net book value at June 30	184,495	188,861
Current portion of non-current assets	(4,401)	(4,442)
Non-current portion	180,094	184,419

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

### 18 INVENTORIES

	2006 HK\$'000	2005 HK\$'000
Finished goods	2,013,995	1,316,538
Consumables	82,689	64,795
Raw materials	4,592	5,455
	2,101,276	1,386,788

### 19 DEBTORS, DEPOSITS AND PREPAYMENTS

	2006 HK\$'000	2005 HK\$'000
Trade debtors	2,137,273	1,603,836
Less: provision for impairment of trade debtors	(80,906)	(75,058)
Deposits	2,056,367	1,528,778
Prepayments	401,046	300,808
Other debtors and receivables	32,906	93,579
	211,721	315,151
	2,702,040	2,238,316

## Notes to the financial statements

For the year ended June 30, 2006

### 19 DEBTORS, DEPOSITS AND PREPAYMENTS *continued*

The Group's retail sales to customers are mainly on a 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:

	2006 HK\$'000	2005 HK\$'000
0-30 days	1,866,727	1,341,249
31-60 days	53,356	69,204
61-90 days	41,159	61,304
Over 90 days	95,125	57,021
	<b>2,056,367</b>	<b>1,528,778</b>

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:

	2006 HK\$'000	2005 HK\$'000
Bank balances and cash	1,393,947	1,603,963
Short-term bank deposits	1,324,647	124,688
	<b>2,718,594</b>	<b>1,728,651</b>
Short-term bank loan	<b>(250,000)</b>	–
	<b>2,468,594</b>	<b>1,728,651</b>

For financial reporting purposes, the effective interest rate on cash and cash equivalents for 2006 was determined to be 1.3% (2005: 1.3%); the short-term bank deposits have an average maturity of less than 30 days.

The Group's short-term bank loan's effective interest rate was 4.35% (2005: nil).

## 21 SHARE CAPITAL

	2006 HK\$'000	2005 HK\$'000
<b>Authorized:</b>		
2,000,000,000 shares of HK\$0.10 each	200,000	200,000
	<b>Number of shares of HK\$0.10 each '000</b>	<b>Nominal value HK\$'000</b>
<b>Issued and fully paid:</b>		
Balance at July 1, 2004	1,193,398	119,340
Exercise of share options	6,027	603
Balance at June 30, 2005	1,199,425	119,943
Balance at July 1, 2005	1,199,425	119,943
Exercise of share options (note (a))	20,965	2,096
<b>Balance at June 30, 2006</b>	<b>1,220,390</b>	<b>122,039</b>

(a) During the year, 20,965,000 (2005:6,027,000) ordinary shares of HK\$0.10 were issued in respect of the share options exercised by Directors and employees under the share option scheme (defined in Note (b) below) 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).

(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 The Stock Exchange of Hong Kong Limited (the "Listing Rules").

### Purpose of the Scheme

The Scheme is a share incentive scheme and is established to recognize and acknowledge the contributions that eligible persons make 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.

## Notes to the financial statements

For the year ended June 30, 2006

### 21 SHARE CAPITAL *continued*

#### 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 an 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.

#### Total number of shares available for issue under the Scheme and percentage of issued share capital at June 30, 2006

The total number of shares available for issue under the Scheme is 113,711,371 shares, representing 9.3% of the issued share capital of the Company at June 30, 2006.

#### 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.

**21 SHARE CAPITAL *continued***

**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 The Stock Exchange of Hong Kong Limited ("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.

Details of the share options granted during the year and outstanding share options as at June 30, 2006 under the Scheme were as follows:

	<b>Number of share options</b>	
	<b>2006</b>	<b>2005</b>
Opening balance	<b>70,516,000</b>	49,764,000
Granted during the year (Note (i))	<b>9,450,000</b>	28,985,000
Exercised during the year (Note (ii))	<b>(20,965,000)</b>	(6,027,000)
Lapsed during the year	<b>(4,586,000)</b>	(2,206,000)
Closing balance (Note (iii))	<b>54,415,000</b>	70,516,000

## Notes to the financial statements

For the year ended June 30, 2006

### 21 SHARE CAPITAL *continued*

(i) Details of share options granted during the year ended June 30, 2006 were as follows:

Exercise period	Exercise price HK\$	Number of options
November 28, 2006 – November 27, 2011	55.11	1,140,000
November 28, 2007 – November 27, 2011	55.11	1,140,000
November 28, 2008 – November 27, 2011	55.11	1,140,000
November 28, 2009 – November 27, 2011	55.11	1,140,000
November 28, 2010 – November 27, 2011	55.11	1,140,000
December 2, 2006 – December 1, 2011	56.20	520,000
December 2, 2007 – December 1, 2011	56.20	520,000
December 2, 2008 – December 1, 2011	56.20	520,000
December 2, 2009 – December 1, 2011	56.20	520,000
December 2, 2010 – December 1, 2011	56.20	520,000
December 23, 2006 – December 22, 2011	56.50	90,000
December 23, 2007 – December 22, 2011	56.50	90,000
December 23, 2008 – December 22, 2011	56.50	90,000
December 23, 2009 – December 22, 2011	56.50	90,000
December 23, 2010 – December 22, 2011	56.50	90,000
February 23, 2007 – February 22, 2012	64.31	140,000
February 23, 2008 – February 22, 2012	64.31	140,000
February 23, 2009 – February 22, 2012	64.31	140,000
February 23, 2010 – February 22, 2012	64.31	140,000
February 23, 2011 – February 22, 2012	64.31	140,000
		<b>9,450,000</b>

**21 SHARE CAPITAL *continued***

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
		<b>28,985,000</b>



## Notes to the financial statements

For the year ended June 30, 2006

### 21 SHARE CAPITAL *continued*

(ii) Details of share options exercised during the year ended June 30, 2006 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	
July 4, 2005	24.20	50,000	5	1,205	56.05
September 21, 2005	24.20	40,000	4	964	58.80
October 13, 2005	24.20	145,000	15	3,495	54.50
October 13, 2005	14.60	240,000	24	3,480	54.50
November 28, 2005	42.58	1,972,000	197	83,771	54.45
November 28, 2005	24.20	2,591,000	259	62,443	54.45
November 28, 2005	14.60	4,464,000	446	64,728	54.45
December 12, 2005	42.58	80,000	8	3,398	54.05
December 19, 2005	42.58	180,000	18	7,646	56.60
December 19, 2005	24.20	390,000	39	9,399	56.60
December 19, 2005	14.60	520,000	52	7,540	56.60
January 6, 2006	42.58	30,000	3	1,274	59.30
January 6, 2006	14.60	400,000	40	5,800	59.30
January 11, 2006	42.58	120,000	12	5,098	63.45
January 11, 2006	24.20	240,000	24	5,784	63.45
January 17, 2006	42.58	503,000	50	21,367	61.80
January 17, 2006	24.20	1,296,000	130	31,234	61.80
January 17, 2006	14.60	1,592,000	159	23,084	61.80
February 23, 2006	42.58	180,000	18	7,646	58.80
February 23, 2006	24.20	180,000	18	4,338	58.80
February 23, 2006	14.60	240,000	24	3,480	58.80
March 2, 2006	14.60	190,000	19	2,755	58.65
March 20, 2006	14.60	220,000	22	3,190	63.15
March 28, 2006	42.58	72,000	7	3,059	60.85
March 28, 2006	14.60	180,000	18	2,610	60.85
April 7, 2006	42.58	240,000	24	10,195	63.70
April 7, 2006	24.20	480,000	48	11,568	63.70
April 7, 2006	14.60	960,000	96	13,920	63.70
April 10, 2006	45.60	80,000	8	3,640	63.50
April 10, 2006	24.20	240,000	24	5,784	63.50
April 10, 2006	14.60	440,000	44	6,380	63.50
April 28, 2006	42.58	60,000	6	2,549	61.90
April 28, 2006	24.45	120,000	12	2,922	61.90
April 28, 2006	24.20	120,000	12	2,892	61.90
April 28, 2006	14.60	240,000	24	3,480	61.90
May 17, 2006	42.58	120,000	12	5,098	66.95
May 22, 2006	42.58	400,000	40	16,992	63.60
May 22, 2006	24.20	530,000	53	12,773	63.60
May 22, 2006	14.60	320,000	32	4,640	63.60
May 24, 2006	42.58	60,000	6	2,549	62.65
June 16, 2006	42.58	30,000	3	1,274	59.35
June 16, 2006	24.20	60,000	6	1,446	59.35
June 16, 2006	14.60	120,000	12	1,740	59.35
June 30, 2006	14.60	230,000	23	3,335	63.40
		<b>20,965,000</b>	2,096	481,965	

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

**21 SHARE CAPITAL** *continued*

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

Expiry date	Exercise price HK\$	Number of share options outstanding as at June 30,	
		2006	2005
<b>Directors</b>			
November 26, 2008*	14.60	–	2,660,000
November 26, 2008**	14.60	3,840,000	5,760,000
November 26, 2009*	24.20	–	1,080,000
November 26, 2009**	24.20	4,320,000	5,760,000
November 27, 2010**	42.58	5,760,000	7,200,000
<b>Employees &amp; Consultants</b>			
November 26, 2008*	14.60	120,000	2,680,000
November 26, 2008**	14.60	5,760,000	9,648,000
November 26, 2009*	24.20	525,000	1,495,000
November 26, 2009**	24.20	7,860,000	11,968,000
December 23, 2009**	24.45	360,000	480,000
November 27, 2010*	42.58	1,370,000	–
November 27, 2010**	42.58	14,580,000	20,935,000
December 23, 2010*	47.10	90,000	–
December 23, 2010**	47.10	360,000	450,000
January 21, 2011**	45.60	320,000	400,000
November 28, 2011**	55.11	5,400,000	–
December 2, 2011**	56.20	2,600,000	–
December 23, 2011**	56.50	450,000	–
February 23, 2012**	64.31	700,000	–
		<b>54,415,000</b>	<b>70,516,000</b>

\* 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, 2006

### 21 SHARE CAPITAL *continued*

Employees share option expenses charged to the consolidated income statement are determined using the Binomial model based on the following assumptions:

Date of grant	Option value <sup>1</sup> HK\$	Share price at the date of grant HK\$	Exercisable price HK\$	Expected volatility <sup>2</sup>	Annual risk-free interest rate <sup>3</sup>	Life of option <sup>4</sup>	Dividend yield <sup>5</sup>
November 26, 2002	3.22 – 5.38	14.60	14.60	47%	2.14% – 3.73%	2 – 6 years	1.87%
November 26, 2003	4.42 – 7.70	24.20	24.20	38%	1.53% – 3.54%	2 – 6 years	1.85%
December 23, 2003	4.39 – 7.71	24.45	24.45	38%	1.18% – 3.42%	2 – 6 years	1.85%
November 27, 2004	7.64 – 13.17	42.20	42.58	39%	1.35% – 2.90%	2 – 6 years	1.77%
December 23, 2004	8.46 – 14.64	47.10	47.10	38%	1.00% – 2.88%	2 – 6 years	1.77%
January 21, 2005	8.15 – 14.00	45.60	45.60	37%	1.55% – 3.03%	2 – 6 years	1.77%
November 28, 2005	8.44 – 14.59	54.45	55.11	29%	4.10% – 4.28%	2 – 6 years	1.89%
December 2, 2005	9.01 – 15.37	56.20	56.20	29%	4.16% – 4.37%	2 – 6 years	1.89%
December 23, 2005	7.67 – 14.67	56.50	56.50	24-28%	4.03% – 4.20%	2 – 6 years	1.89%
February 23, 2006	7.67 – 16.78	58.80	64.31	31%	4.07% – 4.20%	2 – 6 years	1.89%

<sup>1</sup> Since option pricing model requires input of highly subjective assumptions, fair values calculated are therefore inherently subjective and the model may not necessarily provide a reliable measure of share option expense.

<sup>2</sup> As stated in IFRS 2, the issuer can use either i) implied volatilities obtained from market; or ii) historical volatilities as expected volatility input to the Binomial option pricing model. With the exception of those stocks granted on December 23, 2005 that used implied volatilities over Esprit shares of similar maturity to the employee options, Esprit has estimated volatility based on the historical stock prices over 1 year preceding the grant date, expressed as an annualized rate and based on daily price changes.

<sup>3</sup> The risk-free interest rate was based on the market yield of Hong Kong Exchange Fund notes with a remaining life corresponding to the expected option life.

<sup>4</sup> The expected option life was determined by reference to historical data of option holders behavior.

<sup>5</sup> Dividend yield was based on the average dividend yield for the three years preceding the year of grant.

### 22 CREDITORS AND ACCRUED CHARGES

	<b>2006</b> HK\$'000	2005 HK\$'000
Trade creditors	<b>1,056,811</b>	918,184
Accruals	<b>1,065,595</b>	867,559
Other creditors and payables	<b>500,149</b>	376,939
	<b>2,622,555</b>	2,162,682

**22 CREDITORS AND ACCRUED CHARGES** *continued*

The ageing analysis of trade creditors is as follows:

	<b>2006</b> <b>HK\$'000</b>	2005 HK\$'000
0-30 days	<b>966,549</b>	863,871
31-60 days	<b>40,007</b>	25,265
61-90 days	<b>11,830</b>	18,107
Over 90 days	<b>38,425</b>	10,941
	<b>1,056,811</b>	918,184

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

**23 DEFERRED TAXATION**

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

The Group:

	Accelerated accounting depreciation HK\$'000	Elimination of unrealized profits HK\$'000	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, 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)
(Charged)/credited to income statement	(5,288)	96,944	8,772	3,673	1,708	(27,441)	78,368
Exchange difference recognized in equity	785	12,201	(6,854)	83	160	(2,121)	4,254
At June 30, 2006	<b>24,207</b>	<b>238,323</b>	<b>(312,878)</b>	<b>32,612</b>	<b>20,106</b>	<b>(45,055)</b>	<b>(42,685)</b>

## Notes to the financial statements

For the year ended June 30, 2006

### 23 DEFERRED TAXATION *continued*

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:

	2006 HK\$'000	2005 HK\$'000
Deferred tax assets	315,248	204,982
Deferred tax liabilities	357,933	330,289

At June 30, 2006, the Group had unused tax losses of approximately HK\$1,238,339,000 (2005: HK\$1,337,190,000) available for offset against future taxable profits. A deferred tax asset has been recognized in respect of approximately HK\$178,275,000 (2005: HK\$149,657,000) of such losses. No deferred tax asset has been recognized in respect of the remaining losses of approximately HK\$1,060,064,000 (2005: HK\$1,187,533,000). Included in unrecognized tax losses are losses of approximately HK\$470,501,000 (2005: HK\$521,318,000) that will expire in the next five to twenty years. Other losses may be carried forward indefinitely.

### 24 NOTES TO CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of profit before taxation to cash generated from operations

	2006 HK\$'000	2005 HK\$'000 As restated
Profit before taxation	4,885,508	4,167,619
Adjustments for:		
Interest income	(37,544)	(21,576)
Interest expense	1,425	1,901
Interest element of finance leases payments	–	27
Amortization of prepaid lease payments	4,366	4,238
Depreciation	531,715	451,958
Impairment of property, plant and equipment	–	387
Loss on disposal of property, plant and equipment	11,796	5,468
Provision for retail store exit costs	7,147	11,340
Share of results of associates	(84,378)	(72,920)
Employee share option expense	132,267	126,474
Operating profit before changes in working capital	5,452,302	4,674,916
Increase in inventories	(714,488)	(249,604)
Increase in debtors, deposits and prepayments	(464,135)	(531,964)
Increase in amounts due from associates	(63,247)	(20,487)
Increase in creditors and accrued charges	412,062	273,714
Effect of foreign exchange rate changes	29,465	(78,004)
Cash generated from operations	4,651,959	4,068,571

**24 NOTES TO CONSOLIDATED CASH FLOW STATEMENT** *continued*

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

	<b>2006</b> <b>HK\$'000</b>	2005 HK\$'000
Net book amount	<b>19,968</b>	15,980
Loss on disposal of property, plant and equipment	<b>(11,796)</b>	(5,468)
Proceeds from disposal of property, plant and equipment	<b>8,172</b>	10,512

**25 OPERATING LEASE COMMITMENTS**

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

	<b>2006</b> <b>HK\$'000</b>	2005 HK\$'000 As restated
Land and buildings		
– within one year	<b>1,579,103</b>	1,360,813
– in the second to fifth year inclusive	<b>5,354,142</b>	4,987,767
– after the fifth year	<b>6,593,961</b>	5,032,259
	<b>13,527,206</b>	11,380,839
Other equipment		
– within one year	<b>15,781</b>	18,466
– in the second to fifth year inclusive	<b>13,816</b>	14,153
– after the fifth year	<b>167</b>	178
	<b>29,764</b>	32,797
	<b>13,556,970</b>	11,413,636

The operating lease commitments as of June 30, 2005 presented in the annual report for the year ended June 30, 2005 were overstated primarily due to duplication of certain operating lease commitments. The comparative figures presented above have been restated.

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.

The total future minimum lease receipts under non-cancelable subleases in respect of land and buildings at June 30, 2006 is HK\$109,076,000 (2005: HK\$113,233,000).

## Notes to the financial statements

For the year ended June 30, 2006

### 26 CAPITAL COMMITMENTS

	2006 HK\$'000	2005 HK\$'000
Contracted but not provided for	76,969	89,822
Authorized but not contracted for	373,771	468,010
	<b>450,740</b>	557,832

### 27 DERIVATIVE FINANCIAL INSTRUMENTS

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

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

	2006 HK\$'000	2005 HK\$'000
Forward foreign exchange contracts – cash flow hedges	1,331,700	700,079

At June 30, 2006, the fair value of the foreign currency forward contracts is estimated to be approximately HK\$51,063,000 (2005: HK\$34,251,000). These amounts are based on market values of equivalent instruments at the balance sheet date and are included in other creditors and payables (2005: other debtors and receivables (Note 19 and 22)).

Losses in equity on forward foreign exchange contracts as of June 30, 2006 will be released to the income statement at various dates between one month to one year from the balance sheet date, to match the recognition of the hedged items in the income statements.

### 28 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:

	2006 HK\$'000	2005 HK\$'000
<b>Transactions with associates</b>		
Sales of finished goods	478,248	355,070
Royalty received	21,427	18,204
Commission received	2,012	4,130

## Notes to the financial statements

For the year ended June 30, 2006

### 29 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	2006 HK\$'000	2005 HK\$'000 As restated
Investments in subsidiaries, at cost		<b>216,677</b>	216,677
Loans to subsidiaries	(i)	<b>1,628,186</b>	1,629,002
Amounts due from subsidiaries	(i)	<b>6,264,946</b>	6,245,808
Current assets		<b>5,694</b>	25,882
Current liabilities		<b>(12,091)</b>	(14,129)
Amounts due to subsidiaries	(i)	<b>(3,538,215)</b>	(3,380,899)
<b>Net assets</b>		<b>4,565,197</b>	4,722,341
Share capital	21	<b>122,039</b>	119,943
Share premium	(ii)	<b>1,974,926</b>	1,416,729
Contributed surplus	(ii)	<b>473,968</b>	473,968
Employee share-based payment reserve	(ii)	<b>230,117</b>	174,082
Retained profits	(ii)	<b>1,764,147</b>	2,537,619
<b>Shareholders' funds</b>		<b>4,565,197</b>	4,722,341

i. The loans to subsidiaries and 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, 2006

### 29 SUMMARIZED BALANCE SHEET OF THE COMPANY *continued*

ii. Movements of reserves are as follows:

	Share premium HK\$'000	Contributed surplus HK\$'000	Employee share-based payment reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At July 1, 2004, as previously reported	1,309,157	473,968	–	1,080,580	2,863,705
Effect of adoption of IFRS 2	–	–	47,608	(47,608)	–
At July 1, 2004, as restated	1,309,157	473,968	47,608	1,032,972	2,863,705
Profit attributable to shareholders, as restated	–	–	–	3,217,288	3,217,288
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
Employee share option benefits (Note 2(a))	–	–	126,474	–	126,474
<b>Balance at June 30, 2005</b>	<b>1,416,729</b>	<b>473,968</b>	<b>174,082</b>	<b>2,537,619</b>	<b>4,602,398</b>
Representing:					
Proposed final and special dividends					1,799,213
Balance after proposed final and special dividends					2,803,185
<b>Balance at June 30, 2005</b>					<b>4,602,398</b>
At July 1, 2005, as restated	1,416,729	473,968	174,082	2,537,619	4,602,398
Profit attributable to shareholders	–	–	–	1,647,689	1,647,689
2004/05 final and special dividends paid (Note 10)	–	–	–	(1,813,391)	(1,813,391)
2005/06 interim dividend paid (Note 10)	–	–	–	(607,770)	(607,770)
Issues of shares (Note 21)	481,965	–	–	–	481,965
Employee share option benefits (Note 2(a))	–	–	132,267	–	132,267
Transfer of reserve (Note 2(a))	76,232	–	(76,232)	–	–
<b>Balance at June 30, 2006</b>	<b>1,974,926</b>	<b>473,968</b>	<b>230,117</b>	<b>1,764,147</b>	<b>4,443,158</b>
Representing:					
Proposed final and special dividends					2,208,907
Balance after proposed final and special dividends					2,234,251
<b>Balance at June 30, 2006</b>					<b>4,443,158</b>

## 29 SUMMARIZED BALANCE SHEET OF THE COMPANY *continued*

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, 2006 amounted to HK\$2,468,232,000 (2005: HK\$3,185,669,000).

iii. The Company did not have any operating lease commitment at June 30, 2006 (2005: Nil).

iv. The Company did not have any significant capital commitment at June 30, 2006 (2005: Nil).

## 30 PRINCIPAL SUBSIDIARIES

The following are the principal subsidiaries as at June 30, 2006 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

## Notes to the financial statements

For the year ended June 30, 2006

### 30 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 Corporate Services Limited	British Virgin Islands/ Hong Kong	100%	USD100	Financial services
Esprit de Corp (1980) Ltd.	Canada	100%	CAD1,000,100	Retail distribution of apparel and accessories
Esprit de Corp Danmark A/S	Denmark	100%	DKK12,000,000	Wholesale and retail distribution of apparel and accessories
Esprit de Corp (Far East) Limited	Hong Kong	100%	HKD1,200,000	Sourcing of apparel and accessories
Esprit de Corp France S.A.	France	100%	EUR6,373,350	Wholesale and retail distribution of apparel and accessories
Esprit de Corp (Malaysia) Sdn Bhd.	Malaysia	100%	MYR500,000	Retail distribution of apparel and accessories
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

**30 PRINCIPAL SUBSIDIARIES** *continued*

<b>Name of subsidiary</b>	<b>Place of incorporation/ operation</b>	<b>Attributable equity interest to the Group (note a)</b>	<b>Issued and fully paid share capital/ registered capital (note b)</b>	<b>Principal activities</b>
Esprit Europe Trading & 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
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.	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

## Notes to the financial statements

For the year ended June 30, 2006

### 30 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 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 Pte Ltd	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
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

30 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 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
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 to the financial statements

For the year ended June 30, 2006

### 30 PRINCIPAL SUBSIDIARIES *continued*

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 share of CAD1.00 each.
- (d) Wholly owned foreign enterprise.