

## Interim financial information

The Board of Directors of Esprit Holdings Limited (the "Company") is pleased to present the unaudited condensed consolidated interim financial information, along with selected explanatory notes, of the Company and its subsidiaries (the "Group") for the six months ended December 31, 2006 as follows:

### Condensed consolidated income statements (unaudited)

	Notes	For the 6 months ended	
		December 31, 2006 HK\$'000	2005 HK\$'000
<b>Turnover</b>	2	<b>14,589,994</b>	11,825,576
<b>Cost of goods sold</b>		<b>(6,985,738)</b>	(5,654,921)
<b>Gross profit</b>		<b>7,604,256</b>	6,170,655
<b>Staff costs</b>		<b>(1,680,574)</b>	(1,440,367)
<b>Operating lease charges</b>		<b>(1,101,563)</b>	(924,388)
<b>Depreciation</b>		<b>(288,167)</b>	(252,684)
<b>Other operating costs</b>		<b>(1,472,873)</b>	(1,144,573)
<b>Operating profit</b>	3	<b>3,061,079</b>	2,408,643
<b>Interest income</b>		<b>48,692</b>	17,424
<b>Finance costs</b>	4	<b>(147)</b>	(1,043)
<b>Share of results of associates</b>		<b>61,580</b>	40,716
<b>Profit before taxation</b>	2	<b>3,171,204</b>	2,465,740
<b>Taxation</b>	5	<b>(771,597)</b>	(592,775)
<b>Profit attributable to shareholders</b>		<b>2,399,607</b>	1,872,965
<b>Interim dividend</b>	6	<b>861,469</b>	607,139
<b>Earnings per share</b>			
- Basic	7	<b>HK\$1.96</b>	HK\$1.56
- Diluted	7	<b>HK\$1.94</b>	HK\$1.53

The notes on pages 30 to 35 form an integral part of this condensed consolidated interim financial information.

### Condensed consolidated balance sheets

	Notes	Unaudited December 31, 2006 HK\$'000	Audited June 30, 2006 HK\$'000
<b>Non-current assets</b>			
Intangible assets		<b>2,037,884</b>	2,027,244
Property, plant and equipment	8	<b>2,438,293</b>	2,428,720
Other investments		<b>7,846</b>	7,846
Investments in associates		<b>333,007</b>	268,547
Prepaid lease payments		<b>177,893</b>	180,094
Deferred tax assets		<b>392,616</b>	315,248
		<b>5,387,539</b>	5,227,699
<b>Current assets</b>			
Inventories		<b>1,824,837</b>	2,101,276
Debtors, deposits and prepayments	9	<b>3,268,296</b>	2,702,040
Amount due from associates		<b>117,641</b>	102,280
Bank balances and cash		<b>2,326,233</b>	1,393,947
Short-term bank deposits		<b>1,263,469</b>	1,324,647
		<b>8,800,476</b>	7,624,190
<b>Current liabilities</b>			
Creditors and accrued charges	10	<b>2,988,965</b>	2,622,555
Unsecured short-term bank loan		<b>–</b>	250,000
Taxation		<b>986,913</b>	514,142
		<b>3,975,878</b>	3,386,697
<b>Net current assets</b>		<b>4,824,598</b>	4,237,493
<b>Total assets less current liabilities</b>		<b>10,212,137</b>	9,465,192
Financed by:			
<b>Share capital</b>	11	<b>122,984</b>	122,039
<b>Reserves</b>		<b>9,717,958</b>	8,985,220
<b>Shareholders' funds</b>		<b>9,840,942</b>	9,107,259
<b>Deferred tax liabilities</b>		<b>371,195</b>	357,933
		<b>10,212,137</b>	9,465,192

The notes on pages 30 to 35 form an integral part of this condensed consolidated interim financial information.

## Interim financial information

### Condensed consolidated cash flow statements (unaudited)

	For the 6 months ended	
	December 31,	
	2006	2005
	HK\$'000	HK\$'000
<b>Cash flows from operating activities</b>		
Cash generated from operations	3,428,455	2,127,688
Interest paid	(147)	(1,043)
Hong Kong profits tax paid	(412)	(4,940)
Overseas tax paid	(186,121)	(225,890)
<b>Net cash inflow from operating activities</b>	<b>3,241,775</b>	<b>1,895,815</b>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(253,525)	(520,453)
Proceeds from disposal of property, plant and equipment	2,271	1,831
Interest received	48,692	17,424
<b>Net cash used in investing activities</b>	<b>(202,562)</b>	<b>(501,198)</b>
<b>Cash flows from financing activities</b>		
Net proceeds on issue of shares for cash	278,495	249,136
Dividends paid	(2,224,943)	(1,813,391)
<b>Net cash used in financing activities</b>	<b>(1,946,448)</b>	<b>(1,564,255)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>1,092,765</b>	<b>(169,638)</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>2,468,594</b>	<b>1,728,651</b>
<b>Effect of change in exchange rates</b>	<b>28,343</b>	<b>(11,960)</b>
<b>Cash and cash equivalents at end of period</b>	<b>3,589,702</b>	<b>1,547,053</b>
<b>Analysis of the balances of cash and cash equivalents</b>		
Bank balances and cash	2,326,233	1,004,725
Short-term bank deposits	1,263,469	542,328
	<b>3,589,702</b>	<b>1,547,053</b>

The notes on pages 30 to 35 form an integral part of this condensed consolidated interim financial information.

## Interim financial information

### Condensed consolidated statements of changes in equity (unaudited)

For the 6 months ended December 31, 2006

	Share capital HK\$'000	Share premium HK\$'000	Employee share-based payment reserve HK\$'000	Hedging reserve HK\$'000	Contributed surplus HK\$'000	Translation reserve HK\$'000	Capital reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
<b>At July 1, 2006</b>	<b>122,039</b>	<b>1,974,926</b>	<b>230,117</b>	<b>(40,919)</b>	<b>6,602</b>	<b>373,316</b>	<b>1,459</b>	<b>6,439,719</b>	<b>9,107,259</b>
Exchange translation recognized directly in equity	-	-	-	-	-	216,077	-	-	216,077
Fair value gain on cash flow hedge	-	-	-	6,921	-	-	-	-	6,921
Profit attributable to shareholders for the period	-	-	-	-	-	-	-	2,399,607	2,399,607
<b>Total recognized income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,921</b>	<b>-</b>	<b>216,077</b>	<b>-</b>	<b>2,399,607</b>	<b>2,622,605</b>
2005/06 final and special dividends paid	-	-	-	-	-	-	-	(2,224,943)	(2,224,943)
Issues of shares	945	277,550	-	-	-	-	-	-	278,495
Employee share option benefits	-	-	57,526	-	-	-	-	-	57,526
Transfer of reserve	-	65,389	(65,389)	-	-	-	-	-	-
<b>At December 31, 2006</b>	<b>122,984</b>	<b>2,317,865</b>	<b>222,254</b>	<b>(33,998)</b>	<b>6,602</b>	<b>589,393</b>	<b>1,459</b>	<b>6,614,383</b>	<b>9,840,942</b>

## Interim financial information

### Condensed consolidated statements of changes in equity (unaudited) (continued)

For the 6 months ended December 31, 2005

	Share capital HK\$'000	Share premium HK\$'000	Employee share-based payment reserve HK\$'000	Hedging reserve HK\$'000	Contributed surplus HK\$'000	Translation reserve HK\$'000	Capital reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At July 1, 2005	119,943	1,416,729	174,082	-	6,602	196,811	1,459	5,123,526	7,039,152
Exchange translation recognized directly in equity	-	-	-	-	-	(171,992)	-	-	(171,992)
Profit attributable to shareholders for the period	-	-	-	-	-	-	-	1,872,965	1,872,965
Total recognized income	-	-	-	-	-	(171,992)	-	1,872,965	1,700,973
2004/05 final and special dividends paid	-	-	-	-	-	-	-	(1,813,391)	(1,813,391)
Issues of shares	1,067	248,069	-	-	-	-	-	-	249,136
Employee share option benefits	-	-	70,400	-	-	-	-	-	70,400
Transfer of reserve	-	40,736	(40,736)	-	-	-	-	-	-
At December 31, 2005	121,010	1,705,534	203,746	-	6,602	24,819	1,459	5,183,100	7,246,270

The notes on pages 30 to 35 form an integral part of this condensed consolidated interim financial information.

## Interim financial information

### Notes to the condensed consolidated interim financial information

#### 1. Basis of preparation

This unaudited condensed consolidated interim financial information ("interim financial information") is prepared in accordance with the International Accounting Standard IAS 34 "Interim Financial Reporting" issued by the International Accounting Standards Board and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

This interim financial information should be read in conjunction with the annual financial statements for the year ended June 30, 2006. The accounting policies and methods of computation used in the preparation of this interim financial information are consistent with those used in the annual financial statements for the year ended June 30, 2006.

The Group did not early adopt the following International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations that have been issued in the period July to December 2006, which will be effective for annual accounting periods commencing on or after March 1, 2007. The adoption of such standards will not result in substantial changes to the Group's accounting policies.

IFRS 8	Operating Segments
IFRIC 11	IFRS 2 – Group and Treasury Share Transactions
IFRIC 12	Service Concession Arrangements

#### 2. 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.

	Unaudited For the 6 months ended December 31,	
	2006	2005
	HK\$'000	HK\$'000
Turnover		
Sales of goods	14,501,235	11,729,206
Licensing and other income	88,759	96,370
	<b>14,589,994</b>	<b>11,825,576</b>

### 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. Global brand development costs are 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.

	Unaudited For the 6 months ended December 31, 2006				
	Wholesale HK\$'000	Retail HK\$'000	Licensing & others HK\$'000	Eliminations HK\$'000	Group HK\$'000
Turnover	8,059,822	6,441,413	88,759	-	14,589,994
Inter-segment revenue	-	-	349,661	(349,661)	-
	<b>8,059,822</b>	<b>6,441,413</b>	<b>438,420</b>	<b>(349,661)</b>	<b>14,589,994</b>
Segment results	1,917,776	1,108,718	254,331	(87,623)	3,193,202
Unallocated net expenses					(132,123)
Interest income					48,692
Finance costs					(147)
Share of results of associates					61,580
Profit before taxation					<b>3,171,204</b>
Segment EBIT – ex-inter-segment licensing expense/income (note)	2,077,476	1,160,818	42,531	(87,623)	3,193,202

## Interim financial information

### 2. Turnover and segment information (continued)

#### Primary reporting format – business segments (continued)

	Unaudited				
	For the 6 months ended December 31, 2005				
	Wholesale	Retail	Licensing & others	Eliminations	Group
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	6,880,420	4,848,786	96,370	-	11,825,576
Inter-segment revenue	-	-	315,330	(315,330)	-
	6,880,420	4,848,786	411,700	(315,330)	11,825,576
Segment results	1,893,796	549,256	210,423	(137,918)	2,515,557
Unallocated net expenses					(106,914)
Interest income					17,424
Finance costs					(1,043)
Share of results of associates					40,716
Profit before taxation					<u>2,465,740</u>
Segment EBIT – ex-inter-segment licensing expense/income (note)	2,008,346	592,659	52,470	(137,918)	2,515,557

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\$2,077,476,000** (2005: HK\$2,008,346,000) and **HK\$1,160,818,000** (2005: HK\$592,659,000) respectively, representing wholesale EBIT margin (“segment EBIT/segment turnover”) of **25.8%** (2005: 29.2%) and retail EBIT margin of **18.0%** (2005: 12.2%).

### Secondary reporting format – geographical segments

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

	Unaudited	
	For the 6 months ended December 31,	
	2006	2005
	HK\$'000	HK\$'000
Turnover		
Europe	<b>12,523,838</b>	9,997,458
Asia Pacific*	<b>1,696,948</b>	1,491,621
North America and others	<b>369,208</b>	336,497
	<b>14,589,994</b>	11,825,576

\* Asia Pacific includes Asia, Australia and New Zealand

### 3. Operating profit

	Unaudited	
	For the 6 months ended December 31,	
	2006	2005
	HK\$'000	HK\$'000
Operating profit is arrived at after charging (crediting) the following:		
Depreciation	<b>288,167</b>	252,684
Loss on disposal of property, plant and equipment	<b>7,308</b>	2,231
Net exchange losses (gains)	<b>2,894</b>	(57,416)
Provision for obsolete stocks and stock write-offs	<b>9,706</b>	62,998
Provision for doubtful debts	<b>25,120</b>	8,227

## Interim financial information

### 4. Finance costs

	Unaudited	
	For the 6 months ended	
	December 31,	
	2006	2005
	HK\$'000	HK\$'000
Interest on bank loans and overdrafts wholly repayable within five years	147	1,043

### 5. Taxation

	Unaudited	
	For the 6 months ended	
	December 31,	
	2006	2005
	HK\$'000	HK\$'000
Current tax		
Hong Kong profits tax	461	2,300
Overseas taxation	836,040	669,112
	836,501	671,412
Deferred tax credit		
Current period	(64,904)	(78,637)
Taxation	771,597	592,775

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

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

Share of associates' taxation for the six months ended December 31, 2006 was a net tax credit of **HK\$1,570,000** (2005: a net tax credit of HK\$1,291,000) which has been included in the condensed consolidated income statements as share of results of associates.

### 6. Interim dividend

	Unaudited	
	For the 6 months ended	
	December 31,	
	2006	2005
	HK\$'000	HK\$'000
Interim dividend declared of <b>HK\$0.70</b> (2005: HK\$0.50) per share	861,469	607,139

The amount of interim dividend is based on **1,230,670,434** shares in issue on **February 7, 2007** (2005: 1,214,278,434 shares in issue on February 22, 2006).

### 7. 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 period.

	Unaudited	
	For the 6 months ended	
	December 31,	
	2006	2005
Profit attributable to shareholders (HK\$'000)	2,399,607	1,872,965
Weighted average number of ordinary shares in issue (thousands)	1,222,124	1,201,418
Basic earnings per share (HK\$ per share)	1.96	1.56

## Interim financial information

### 7. 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 period after adjusting for the number of dilutive potential ordinary shares granted under the Company's share option scheme.

	Unaudited For the 6 months ended December 31, 2006		2005
Profit attributable to shareholders (HK\$'000)	<b>2,399,607</b>		1,872,965
Weighted average number of ordinary shares in issue (thousands)	<b>1,222,124</b>		1,201,418
Adjustments for share options (thousands)	<b>16,851</b>		23,596
Weighted average number of ordinary shares for diluted earnings per share (thousands)	<b>1,238,975</b>		1,225,014
Diluted earnings per share (HK\$ per share)	<b>1.94</b>		1.53

### 8. Property, plant and equipment

	Unaudited HK\$'000
At July 1, 2006	<b>2,428,720</b>
Exchange translation	<b>53,794</b>
Additions	<b>253,525</b>
Disposals	<b>(9,579)</b>
Depreciation (note 3)	<b>(288,167)</b>
At December 31, 2006	<b>2,438,293</b>

During the period ended December 31, 2006, the Group incurred **HK\$207.9 million** in expansion and refurbishment of retail shops in various locations and **HK\$42.0 million** in office improvements and purchase of office equipment.

### 9. Debtors, deposits and prepayments

Debtors, deposits and prepayments included trade debtors and their aging analysis is as follows:

	Unaudited December 31, 2006 HK\$'000	Audited June 30, 2006 HK\$'000
0 – 30 days	<b>2,162,307</b>	1,866,727
31 – 60 days	<b>113,284</b>	53,356
61 – 90 days	<b>53,096</b>	41,159
Over 90 days	<b>136,941</b>	95,125
	<b>2,465,628</b>	2,056,367

The Group's retail sales to customers are mainly on cash basis. The Group also grants credit for a period which is usually 30 days to certain wholesale and franchise customers.

### 10. Creditors and accrued charges

Creditors and accrued charges included trade creditors and their aging analysis is as follows:

	Unaudited December 31, 2006 HK\$'000	Audited June 30, 2006 HK\$'000
0 – 30 days	<b>1,014,727</b>	966,549
31 – 60 days	<b>71,610</b>	40,007
61 – 90 days	<b>39,042</b>	11,830
Over 90 days	<b>44,625</b>	38,425
	<b>1,170,004</b>	1,056,811



## Interim financial information

### 11. Share capital

	Unaudited December 31, 2006 HK\$'000	Audited June 30, 2006 HK\$'000
Authorized 2,000,000,000 shares of HK\$0.10 each	<b>200,000</b>	200,000
	<b>Number of shares of HK\$0.10 each '000</b>	<b>Nominal value HK\$'000</b>
Issued and fully paid		
At July 1, 2006	<b>1,220,390</b>	<b>122,039</b>
Exercise of share options (note)	<b>9,450</b>	<b>945</b>
At December 31, 2006	<b>1,229,840</b>	<b>122,984</b>

note: During the period, **9,450,000** ordinary shares of **HK\$0.10** were issued in respect of the share options exercised by Directors and employees under the share option scheme at exercise prices in the range of **HK\$14.60** to **HK\$56.20** each (representing a premium in the range of **HK\$14.50** to **HK\$56.10** each).

### 12. Operating lease commitments

	Unaudited December 31, 2006 HK\$'000	Audited June 30, 2006 HK\$'000
The total future minimum lease payments under non-cancelable operating lease are as follows:		
Land and buildings		
– within one year	<b>1,620,622</b>	1,579,103
– in the second to fifth year inclusive	<b>5,501,906</b>	5,354,142
– after the fifth year	<b>6,442,076</b>	6,593,961
	<b>13,564,604</b>	13,527,206
Other equipment		
– within one year	<b>17,484</b>	15,781
– in the second to fifth year inclusive	<b>13,702</b>	13,816
– after the fifth year	<b>173</b>	167
	<b>31,359</b>	29,764
	<b>13,595,963</b>	13,556,970

The total future minimum lease receipts under non-cancelable sublease in respect of land and buildings at **December 31, 2006** are **HK\$120,124,000** (June 30, 2006: HK\$109,076,000).

### 13. Capital commitments

	Unaudited December 31, 2006 HK\$'000	Audited June 30, 2006 HK\$'000
Contracted but not provided for	<b>54,197</b>	76,969
Authorized but not contracted for	<b>451,886</b>	373,771
	<b>506,083</b>	450,740

## Interim financial information

### 14. Derivative financial instruments

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

	Unaudited December 31, 2006 HK\$'000	Audited June 30, 2006 HK\$'000
Forward foreign exchange contracts	<b>1,446,415</b>	1,331,700

At **December 31, 2006**, the fair value of the foreign currency forward contracts is estimated to be approximately **HK\$48,693,000** (June 30, 2006: HK\$51,063,000). These amounts are based on market values of equivalent instruments at the balance sheet date and are included in creditors and accrued charges.

### 15. Related party transactions

In the ordinary course of business, the Group entered into transactions with related companies. Details relating to material related party transactions are as follows:

	Unaudited For the 6 months ended December 31, 2006 HK\$'000	2005 HK\$'000
Transactions with associates		
Sales of finished goods	<b>376,468</b>	268,060
Royalty received	<b>15,201</b>	10,443
Commission received	<b>1,935</b>	733