

# ESPRIT

ANNUAL REPORT FY 07|08

STOCK CODE 0330



# ANNUAL REPORT FY 07|08

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# 01 INTRODUCTION

# ANNUAL REPORT FY 07|08

## ESPRIT CELEBRATION 68/08

### 01.1 ESPRIT CELEBRATION 68/08

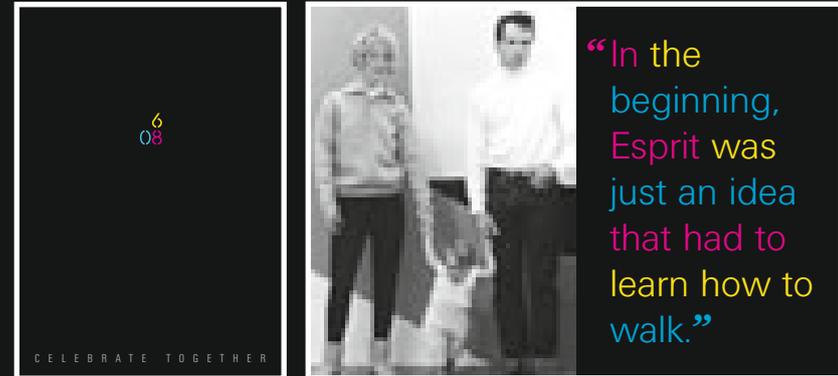
Great stories and successful business ventures can get off to a really romantic start. For example, in California in the mid-1960s, Susie Russel was on the road with her convertible. She picked up an attractive hitchhiker from the roadside: Doug Tompkins. Susie and Doug later became a couple and got married.

No wonder that Susie Tompkins – as a Californian flower child – had a strong streak of individualism and a taste for unusual styles. She was particularly taken with the style of the Europeans. And it was precisely this kind of look that wasn't yet available in the whole of the Bay Area. So why not found a label and create her own clothes? Susie and Doug were motivated by energy and fun and the desire to make a difference.

The Esprit brand was born. Esprit de Corp – literally meaning "team spirit" – is the name of the company that has focused on communal life and community "esprit" since 1968 and that attaches as much importance to humanity and a sense of responsibility as it does to economic success.

#### ESPRIT AS A LIFESTYLE

Outstanding ideas are bound to assert themselves. Thus, it is no wonder that the unconventional, committed family business evolved into a global player that is both active and attractive. This evolution deserves a celebration, because 2008 is Esprit's big anniversary year. To mark this occasion, Esprit has developed a special Celebration 68/08 look, which is based on the design style of Ettore Sottsass, whose Memphis design made Esprit so unmistakable at the beginning of the 1980s. The look conveys everything that Esprit has always represented: freshness, youth, spontaneity and sportiness. Esprit is celebrating this occasion worldwide with a multitude of events, together with employees, customers and friends.



#### THE ESPRIT CELEBRATION BOOK

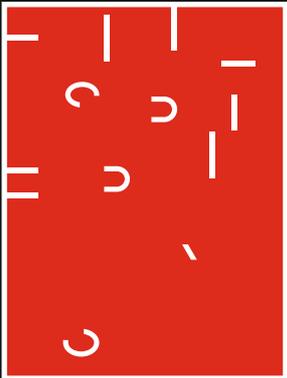
Esprit is also publishing a high-quality, limited edition Celebration Book in a special format with the motto "What does Esprit mean to you?" After all, everyone has their own personal story associated with Esprit. This book contains stories of the company founders and managers, longstanding employees and well-known creative minds throughout the world, with a focus on their connection to the Esprit brand.



# ESPRIT

## CELEBRATION 68/08





**John Casado**, CEO of stores and support

**How do you see the future of retail?** The retail landscape is changing rapidly. We are seeing a shift from traditional brick-and-mortar stores to a more integrated online and offline experience. We are investing in digital marketing, e-commerce, and omnichannel retail to meet the needs of our customers.

**What are the key challenges you face?** The key challenges we face are the rapid pace of technological change, the need for continuous innovation, and the pressure to maintain high levels of customer service and operational efficiency.

**How do you see the role of the store in the future?** The store remains a critical touchpoint for our customers. We are focusing on creating a more engaging and personalized shopping experience through store redesigns, staff training, and the use of technology like mobile devices and self-checkout.

**What are your top priorities for the next year?** Our top priorities are to drive sales growth, improve operational performance, and enhance our customer experience across all touchpoints.

**What do you think is the most important trend in retail today?** The most important trend is the increasing demand for convenience and personalization. Customers want to shop on their terms, whether that means online, in-store, or a combination of both.

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**The In-Store Revolution**

As consumers' shopping habits continue to evolve, we are redefining the retail experience. Our new store formats are designed to be more open, bright, and easy to navigate, providing a more enjoyable and efficient shopping experience for our customers.

By focusing on store layout, lighting, and product placement, we are creating a more inviting and functional environment. This 'in-store revolution' is about making shopping a pleasure and simplifying the customer's journey from entry to exit.

Our goal is to create a store environment that is not only visually appealing but also highly practical, with clear signage and easy access to products. This approach is helping us drive higher conversion rates and increase customer loyalty.

**Ettore Sottsass**

"People have told me my buildings were just like objects. I look at it the other way around: in reality the objects are architecture."

CELEBRATION

**1986**  
 Former European Headquarters,  
 Düsseldorf, Germany

A 1986 building designed by Ettore Sottsass, a member of the Italian Memphis Group. The building is a prime example of Postmodern architecture, characterized by its bold colors and geometric forms. The yellow band is a key design element.

## 01.2 LETTER TO SHAREHOLDERS

Dear Shareholders,

### LET'S CELEBRATE!

Year 2008 not only marks 40 years of success for Esprit as a brand, but it also marks the 15<sup>th</sup> year of being a listed company consistently delivering outstanding performance. We have taken this opportunity to celebrate our remarkable history and share our happiness with our stakeholders. Large scale promotional events and advertising campaigns are launched in major cities globally. We have also prepared a special gift for our shareholders – a proposed 40% special dividend, together with regular dividend, for a total dividend payout of 80% – all on top of the 25.6% turnover growth while maintaining stable profitability.

### MULTI-DIMENSIONAL GROWTH

Our story has always been about growth and we saw plenty of growth opportunities that had emerged during this difficult time. This year, we wrote new chapters in all three dimensions of our operations – product offerings, geographical reach, and distribution channels. We are still quite insignificant in many countries globally and there are even more countries where we have yet to crack. Based on our commitment to accelerate retail growth since last year, we have gathered momentum in expanding our global retail network. In addition, separating edc allows us to leverage on our well-established operational platform and experienced management, expanding the potential to grow our business. All these are possible because I have a winning team! I have spent the past few years grooming our young, but extremely passionate and devoted management team. Together, we are “an experienced mind with young wings”, the perfect combination.

Apart from being a successful company, Esprit is proud to carry on its heritage of being a responsible corporate citizen and play its integral role in the global community. We continue to take initiatives in supporting numerous charity programmes and have established notable projects such as the partnership with SOS-Kinderdörfer project to help children in India. Esprit cares for the social welfare of the world and incorporates the world's values into every corporate decision made – the world is our culture.

### GROWTH STORY CONTINUES...

I strongly believe that even under difficult economic conditions, customers do not stop all purchases; they only become more selective in spending their money. This is the time for the strong companies, like Esprit, to show its strength to outperform the competition in attracting customers. To achieve that, we stand by our motto to be the top performer in strategic product categories. It means that we have to make it to the top of our customers' shopping list by being a leader in product categories that are most important to them. It means offering the perfect products at fair prices in a pleasant shopping atmosphere by making sure we do everything right from the beginning. From proper positioning, to having a structure of product offering and content of product assortment which maximizes our ability to satisfy customers' needs; by rolling our sleeves up to making every detail our first priority, with the aim to create a unique shopping experience to connect with our customers.

Looking ahead to the next 40 years, I aim for Esprit to continue to rank amongst our top global peers. Not only for success's sake but to make the people here proud of their achievements. My wish for Esprit's 40<sup>th</sup> birthday is that it will keep its spirit and continue to excel amongst its competitors. The people here feel proud because they are winners – I wish them and the company to always belong to a winning team.



Heinz Krogner  
Chairman and Group CEO

August 27, 2008

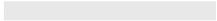




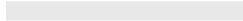
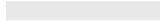
ESPRIT

## 01.3 FIVE-YEAR FINANCIAL HIGHLIGHTS

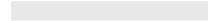
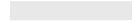
### TURNOVER (HK\$ MILLION)

<b>FY 07 08</b>		<b>37,227</b>
FY 06 07		29,640
FY 05 06		23,349
FY 04 05		20,632
FY 03 04		16,357

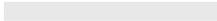
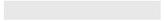
### OPERATING PROFIT (HK\$ MILLION)

<b>FY 07 08</b>		<b>7,721</b>
FY 06 07		6,259
FY 05 06		4,765
FY 04 05		4,075
FY 03 04		2,837

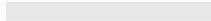
### NET PROFIT (HK\$ MILLION)

<b>FY 07 08</b>		<b>6,450</b>
FY 06 07		5,180
FY 05 06		3,737
FY 04 05		3,211
FY 03 04		1,969

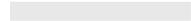
### EARNINGS PER SHARE – BASIC (HK\$)

<b>FY 07 08</b>		<b>5.21</b>
FY 06 07		4.22
FY 05 06		3.09
FY 04 05		2.68
FY 03 04		1.65

### DIVIDEND PER SHARE – REGULAR (HK\$)

<b>FY 07 08</b>		<b>2.10</b>
FY 06 07		1.70
FY 05 06		1.23
FY 04 05		1.11
FY 03 04		0.67

### DIVIDEND PER SHARE – SPECIAL (HK\$)

<b>FY 07 08</b>		<b>2.10</b>
FY 06 07		1.48
FY 05 06		1.08
FY 04 05		0.84
FY 03 04		0.50

## 01.4 CORPORATE PROFILE

Esprit is an international youthful lifestyle brand offering smart and affordable luxury and bringing newness and style to the life of our customers. The Group operates with 13 established product lines offering women's wear, men's wear, kid's wear, edc youth as well as shoes and accessories in over 690 directly managed retail stores and over 14,500 controlled-space wholesale point-of-sales internationally. In addition, Esprit's Red Earth cosmetic brand offers cosmetic, skin care and body care products. Esprit licenses its trademark to third party licensees that offer non-apparel products that abide by Esprit's quality standards and brand essence. Esprit salon offers hair styling as well as nail, make-up, and beauty services.

Esprit was listed on the Hong Kong Stock Exchange in 1993 and is a constituent stock of the Hang Seng Index, MSCI Hong Kong Index, FTSE All-World Index for Hong Kong and S&P/HKEx LargeCap Index and S&P Asia 50 Index.



## 01.5 INVESTOR INFORMATION

### EXECUTIVE DIRECTORS

HEINZ JÜRGEN **KROGNER-KORNALIK**  
Chairman  
THOMAS JOHANNES **GROTE**  
JEROME SQUIRE **GRIFFITH**

### NON-EXECUTIVE DIRECTORS

JÜRGEN ALFRED RUDOLF **FRIEDRICH**

### INDEPENDENT NON-EXECUTIVE DIRECTORS

PAUL **CHENG** MING FUN  
Deputy Chairman  
ALEXANDER REID **HAMILTON**  
DR. HANS-JOACHIM **KÖRBER**  
RAYMOND **OR** CHING FAI

### CORPORATE OFFICERS

HEINZ JÜRGEN **KROGNER-KORNALIK**  
Group CEO  
THOMAS JOHANNES **GROTE**  
President – Esprit brand  
JEROME SQUIRE **GRIFFITH**  
President – Esprit North America

### COMPANY SECRETARY

BELLA **CHHOA** PECK LIM

### PRINCIPAL BANKER

The HongKong and Shanghai  
Banking Corporation Limited

### AUDITORS

PricewaterhouseCoopers  
Certified Public Accountants

### PRINCIPAL LEGAL ADVISORS

Baker & McKenzie

### STOCK CODE

The shares of Esprit Holdings Limited are listed for trading on The Stock Exchange of Hong Kong Limited (stock code: 330)

### PRINCIPAL SHARE REGISTRAR

Butterfield Fund Services (Bermuda) Limited  
11 Rosebank Centre  
Bermudiana Road  
Pembroke  
Bermuda

### HONG KONG BRANCH SHARE REGISTRAR

Tricor Secretaries Limited  
26/F, Tesbury Centre  
28 Queen's Road East  
Wanchai  
Hong Kong

### REGISTERED OFFICE

Clarendon House  
Church Street  
Hamilton HM 11  
Bermuda

### HONG KONG HEAD OFFICE

43/F Enterprise Square Three  
39 Wang Chiu Road, Kowloon Bay  
Kowloon, Hong Kong  
**t** +852 2765 4321  
**f** +852 2362 5576

### GLOBAL BUSINESS HEADQUARTERS

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Germany  
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**f** +49 2102 12315-100

### INVESTOR RELATIONS DEPARTMENT

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43/F Enterprise Square Three  
39 Wang Chiu Road, Kowloon Bay  
Kowloon, Hong Kong  
**e** esprit-ir@esprit.com

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PATRICK **LAU** YIU PONG  
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**e** patrick.lau@esprit.com

### WEBSITE

[www.espritholdings.com](http://www.espritholdings.com)



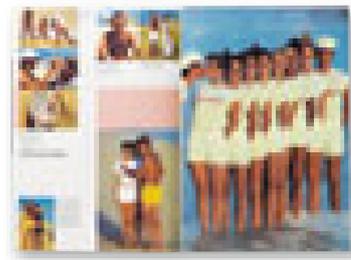
# 02 OUR BUSINESS

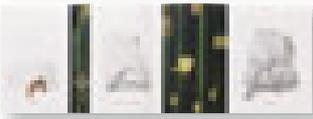
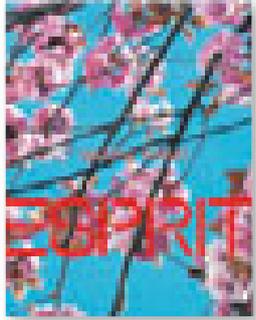
## 02.1 ESPRIT 68/08

**We have come a long way.** From selling clothes from the back of a van 40 years ago to operating over 15,100 points of sales today. From what seems like a series of random events – when Susie Russell picked up Doug Tompkins, the hitchhiker, in California – to consistently delivering value to both customers and shareholders. All along, one thing remains unchanged – youthful, international, lifestyle brand offering affordable luxury and newness – the spirit of Esprit.

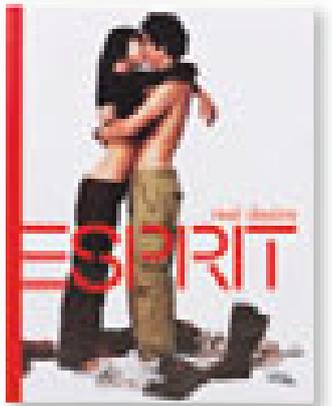


ESPRIT GRAPHICS WORK  
FROM THE EIGHTIES...





...UNTIL TODAY.



## 02.2 OUR BRAND

**The world is our culture.** Today, Esprit is one of the best known global lifestyle brands. The strong brand identity was built with a consistent philosophy and a group of extraordinary designers, including John Casado, who developed the legendary Esprit logo; Ettore Sottsass who brought Memphis design movement to stores of Esprit and many others who helped define Esprit. Right from the beginning, Esprit is a pioneer in style, brand communication and store design and has never failed to impress with its outstanding and innovative ideas.

**Esprit as a lifestyle.** Having dedicated the earlier decades to defining and building a strong brand, right now we are determined to strengthen and maintain it. We achieve that by doing what we do best – by continuously delivering the right quality products to our customers. We have set edc on an exciting journey after its separation from the Esprit family. To strengthen edc's brand awareness, we are partnering with MTV, which is well-known globally to the same target audience as edc, to host its annual Awards. We are also focusing on establishing Esprit as the leading global lifestyle brand, giving plenty of opportunities for our customers to connect with Esprit through a broad range of product selection.

In our 40<sup>th</sup> anniversary year, customers will be able to celebrate with us through the launch of a new duo fragrance concept, Esprit Celebration, and other special Esprit celebration products. Going forward, while we continue to broaden and enhance our product offerings, we will also work on bringing different product groups to new countries.



**FRIENDS  
FOREVER**  
ESPRIT  
IS AN INTERNATIONAL  
YOUTHFUL LIFESTYLE  
**BRAND**  
OFFERING SMART, AFFORDABLE  
LUXURY AND BRINGING NEWNESS  
AND STYLE TO  
**LIFE!**

**WE MAKE  
PRODUCTS  
FOR  
EVERY PART  
OF  
LIFE!**

WE STRIVE TO BE AN ATTRACTIVE COMPANY FOR THE TALENTED AND MOTIVATED.



WHAT WOULD YOU DO?

**THE WORLD  
IS OUR  
CULTURE**  
**FRIENDS  
FOREVER**



**ESPRIT IS NOT ABOUT AGE,  
IT'S ABOUT ATTITUDE.**

WE STRIVE TO BE AN ATTRACTIVE COMPANY FOR THE TALENTED AND MOTIVATED.

**FRIENDS  
FOREVER**

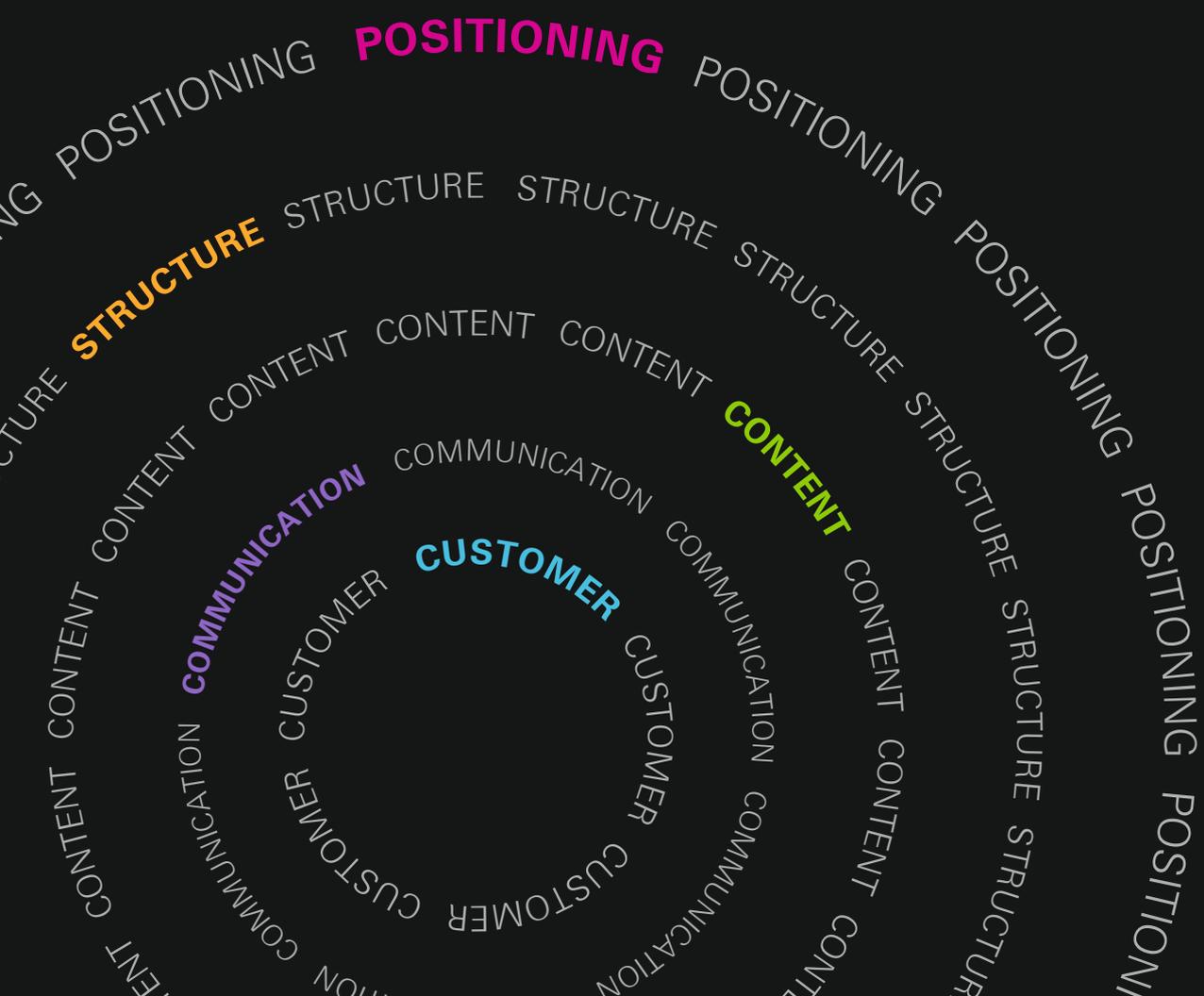
## 02.3 OUR PRODUCT

**Esprit product philosophy.** The single most important ingredient in our products is our customers. Our dedication to creating affordable luxury for our customers has earned us years of growth both in the past and for the years to come.

Affordable luxury is created through proper positioning, structure of the product development process, content of our product, and last but not least, communication of the products to our customers.

### POSITIONING

We are not alone in the global apparel market. The fierce competition, however, drives us to concentrate on perfecting our strategy, from global expansion plans to stamping the Esprit philosophy on every single product. Our experienced team and solid foundation has given us tremendous flexibility and adaptability to thrive in tough times like today's market.



“ESPRIT IS **PART OF MY LIFE**, AND SOMETIMES QUITE  
DOMINATING. **I LOVE IT!**”

HEINZ KROGNER – CHAIRMAN & GROUP CEO

“CHALLENGING BUT **FULL OF FUN.**”

BEACENT YIP – IT MANAGER ASIA PACIFIC

“ESPRIT IS **A CULTURE THAT TRANSCENDS BORDERS.**”

JEROME GRIFFITH – PRESIDENT OF ESPRIT NORTH AMERICA

“A PLAYGROUND **FULL OF ADVENTURES** FOR GROWN-UPS”.

UDO GREISER – GLOBAL PRODUCT DIRECTOR-edc

“**JUST PASSION.**”

THOMAS GROTE – PRESIDENT OF THE ESPRIT BRAND

“A COMPANY WHERE **EXCITING** THINGS OFTEN HAPPEN.”

SAM COOPER – GENERAL MANAGER WHOLESALE AUSTRALIA/NEW ZEALAND

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## OUR PRODUCT

### STRUCTURE

With over 183,000,000 pieces of Esprit clothing sold to customers worldwide in 2007 alone, we ought to have a well-defined product development structure. It is for this reason that not only do we have 13 product divisions, each with a dedicated team to cater to the respective unique customer group, but we also created up to 12 seasons for each of the divisions so that we only deliver the most desired products.



### women casual

Sporty and fashionable styles for indoor and outdoor

### men casual

Uncomplicated and extremely comfortable sportswear

### women collection

Exclusive and feminine business looks

### men collection

Elegant and trend oriented business fashion



### de.corp

## ESPRIT URBAN CASUAL

Young, urban and feminine look for female customers



## edc by Esprit

Very trendy instant programme that includes matching accessories and shoes for young women

## edc men

Cosmopolitan trends for fashion-conscious young men



## ESP Esprit sports

Fitness wear, street wear and ski wear that harmoniously unites fashion and function for women, men and kids



## kids

The latest trends interpreted in children's fashion ranging from new borns to minis

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OUR PRODUCT



shoes

Women's, men's and children's shoes in styles ranging from modern to classic, from leather to nylon

accessories

Bags, leather and textile accessories for men and women



edc shoes

Shoes that match the edc by Esprit and edc men fashions

edc accessories

Trendy bags, leather and textile accessories for men and women



edc youth by Esprit

The latest trends interpreted in children's fashion ranging for "little rebels"



bodywear

Daywear, nightwear and swimwear for women, men and kids



edc bodywear

Stylish underwear for an individual look



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## OUR PRODUCT

### CONTENT

Each Esprit product is a combination of perfect fit, excellent workmanship, premium fabric and material, tasteful details, and freshness.

**We sell quality.** Quality of products lies at the core of our success. It is our determination in providing the perfect fit at the perfect price to our customers that has kept us focused on satisfying customer needs. Every piece of Esprit clothing starts from identifying customers' needs. In order to cater for different build of our international customer base, we have developed an Asian, European and North American fit. For instance, this year, we cooperated with the Hohenstein Institutes on a project named "SizeGERMANY", which took touch-free body measurements of 12,000 women, men and children, in order to update size tables and body measurement statistics.

**...at the perfect price.** This means that we have to be cost efficient in everything we do. Over the years, we have accumulated extensive experience in sourcing and today, we source from over 200 suppliers globally. This gives us tremendous flexibility and adaptability to consistently source premium quality for the best price, even in volatile times like today. We have recently shifted some of our production to Bangladesh, Vietnam, and Indonesia to accommodate our growing production needs and cope with the increased labor costs and RMB in China. In the future, we will continue to actively monitor the sourcing portfolio to manage production costs.





PERFECT FIT

EXCELLENT WORKMANSHIP

BEST FABRIC AND MATERIAL

TASTEFUL DETAILS

INNOVATION

# ANNUAL REPORT FY 07|08

## OUR PRODUCT

### COMMUNICATION

We put the same thorough thoughts in creating our products into the delivery of the products to our customers. Our store is the main channel for Esprit to connect with our customers. All Esprit stores feature a light, spacious atmosphere that turns every visit into an unforgettable shopping experience. Our store fronts globally feature the most interactive and stimulating billboards to showcase our products, inviting our customers to participate in excitement of each season's products Esprit has to offer.



**Shenzhen, China**

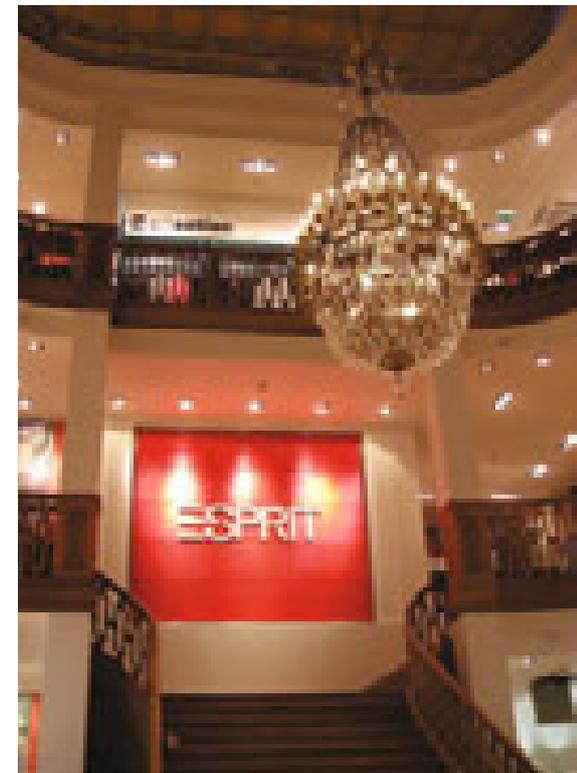


**Paris, France**



**Linz, Austria**

**Utrecht, Netherlands**



**Basel, Switzerland**



**Gent, Belgium**



**Düsseldorf, Germany**

**New York, USA**





## 02.4 GLOBAL PRESENCE

**40 years and still going strong.** For many years, our multi-distribution network has helped us establish a global presence. Our goal is to continue with the global expansion and sustain growth via smooth execution of our proven strategy.

### EUROPE

We have been experiencing phenomenal growth ever since we entered Germany in 1976. Today, we operate over 300 directly managed retail stores and over 12,400 wholesale point-of-sales in Europe. Going forward, we will continue to further our penetration in key markets including Germany, Benelux and France, but more importantly, we will use the rich experience gathered in these markets to further our reach to other high potential markets in the region. By investing in such high potential markets, not only do we nurture these markets to become future stars like Germany, but we also diversify our business to mitigate risks in a cyclical industry. For example, a few years ago, we operated wholesale business in France by partnering with local expertise. The results were overwhelming and we have subsequently started the retail business. Currently, we are pleased to see strong growth in both retail and wholesale markets in France. Spain, Scandinavia, and Russia are among others where we see tremendous potential and these will be our focus in the mid-term.

### ASIA PACIFIC

Many markets, such as China and India, in Asia Pacific region are going through rapid developments and we see remarkable potential in these markets. In the past year, our wholesale business gathered significant momentum under successful partnerships with country distributors, such as Thailand, India, Vietnam and the Middle East. Such business model combines local expertise of the country distributors together with our knowledge in wholesale. There is no doubt that Chinese market has quickly become one of the fastest growing consumer markets in the world. Our joint venture operates in China with over 900 stores and selling area of more than 110,000 m<sup>2</sup>, has rightly positioned us to participate in this exponential growth. Together with our business partners, we will continue to explore opportunities for future growth in the region.

The retail turnaround efforts in the Asia Pacific region are confirmed by recent encouraging results recorded in Taiwan and Australia. The nomination of Esprit Australia as "Retailer of the Year" in the Ragtrader 2007 Fashion Retailer of the Year Awards is a testimony of our dedication. This award recognizes and showcases the achievements of Australia's most successful retailers and covers key areas such as customers' first impressions, store layout, customer services, breadth and depth of employee training, marketing and promotions and select business aspects of the operations. Also this year, the Esprit Club Lounge, incorporating a members' lounge within a store, opened its doors in Raffles City, Singapore. In addition to dedicated brand building efforts, the robust economic conditions in the region have also helped the recovery of our retail business. We will continue to nurture the retail business in this region and to position ourselves for future growth.

### NORTH AMERICA

We strongly believe in the potential of the United States, the world's biggest consumer market, despite the adverse macro environment. Currently, we are focused on building brand relevance in the U.S. To raise brand awareness, we have launched several marketing campaigns in the past year. First, we created excitement in New York City by posting ads on top of around 1,000 cabs in the city. Then, we opened a flagship store in the hard-to-miss Rockefeller Center, followed by store openings across the U.S. In time, with the right products, we will once again claim shoppers in the U.S.





ESPRIT



# 03 MANAGEMENT DISCUSSION AND ANALYSIS

## 03.1 OPERATIONS HIGHLIGHTS

The Group once again delivered a set of record results amid a tough macro environment and an increasingly competitive market. Our success over the last 40 years has hinged on the continual smooth execution of our growth strategy and our proven business model. These drivers have not only positioned us well for multi-staged growth but have also provided us with diversification benefits through operating both wholesale and retail businesses at the same time. After all these years of effort, our distribution network continues to grow and the total sales area of our directly managed retail stores and controlled-space wholesale point-of-sales exceeded 1,000,000 m<sup>2</sup> as at June 30, 2008, a major milestone for the Group. We are confident that this proven business model can guide us through the challenges ahead.

### OPERATIONS HIGHLIGHTS\*

Year ended June 30	2008	2007	2006	2005	2004
<b>Geographical mix (%)</b>					
Europe	87	86	85	85	84
Asia Pacific	11	11	12	13	13
North America and others	2	3	3	2	3
<b>Product mix (%)</b>					
Casual	46	47	47	50	52
Collection	8	9	9	10	7
edc	24	23	20	14	13
Others**	22	21	24	26	28
<b>Operation mix (%)</b>					
Wholesale	56	56	58	58	59
Retail	43	43	41	41	40
Licensing and others	1	1	1	1	1

\* Excludes inter-segment revenue

\*\* Others for years ended June 30, 2008, 2007 and 2006 include Esprit's accessories, shoes, kids, sports, bodywear, de.corp, Red Earth, salon and licensed products  
Others for years ended June 30, 2005 and 2004 include Esprit's and edc's accessories, Esprit's and edc's shoes, Esprit's and edc's kids, Esprit's and edc's bodywear, sports, de.corp, Red Earth, salon and licensed products



ESP

ESPRIT SPORTS

## 03.2 OPERATIONS REVIEW

### REGIONS

#### Europe

The region recorded a healthy turnover growth of 26.3% during the financial year supported by stable growth in the core markets and stronger growth in the focus markets.

Germany and Benelux continued to grow steadily while focus markets of the region, such as France and Scandinavia, both grew at a much faster pace with each recording turnover growth of 33.9% driven by the acceleration of our distribution network expansion. Spain and Italy, the youngest markets in the region, also recorded healthy turnover growth of 37.6% and 19.8% respectively.

The Group continues to expand in Eastern and Southeastern Europe, in countries such as Russia, Poland, the Czech Republic and Serbia, where the growth potential is huge and our penetration is low. During the financial year, turnover growth in Eastern and Southeastern Europe stayed high at 67% and their turnover contribution to the Group increased to 2%.

#### Asia Pacific

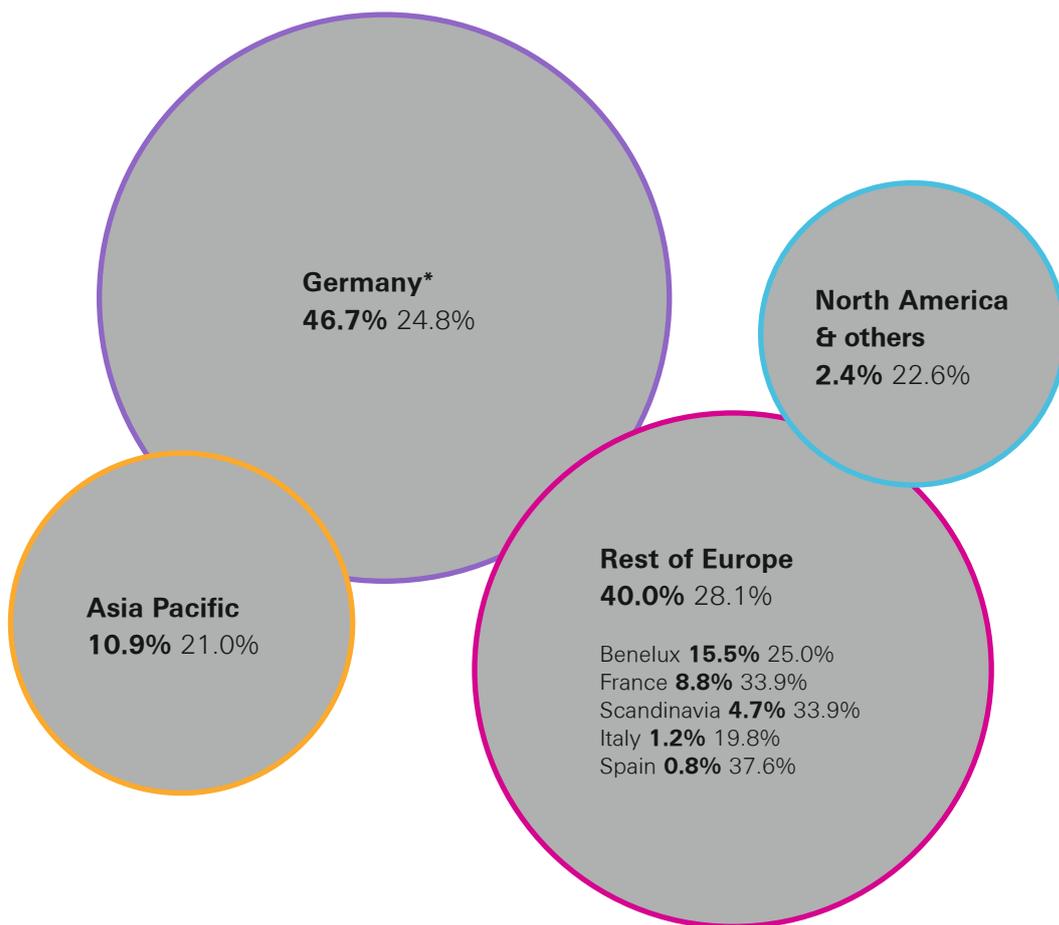
Overall, the retail segment of the region reported continuing recovery with gradual improvement in both top-line growth and profitability. On the other hand, the turnover growth of Malaysia and Singapore stayed similar to that of the last financial year at about 40% and 20% respectively.

On the wholesale front, the rapid expansion of our wholesale distribution network in China, India and Thailand provided solid support to these countries' high growth momentum.

#### North America and others

The financial year just ended was an eventful year for the region given the challenging macro environment. Our persistence and efforts enabled us to focus on growing our top-line. During the financial year, over 10 new directly managed retail stores were opened including the flagship store at Rockefeller Centre, New York and the mega store in St Catherine Street, Montreal. In addition, we advertised on around 1,000 taxi tops in New York City, which attracted much public attention and successfully enhanced brand awareness. Amid weak consumer market sentiment, the region recorded over 20% turnover growth.

Geographical split of turnover



% of group's turnover % growth from last financial year

\* Turnover of Germany includes wholesale sales orders taken up by Germany and sold to countries outside Germany, mainly Russia, Poland, Greece and Croatia



**ESPRIT**  
collection



# ANNUAL REPORT FY 07|08

## OPERATIONS REVIEW

### CHANNELS OF DISTRIBUTION

#### Wholesale

The wholesale turnover growth stayed healthy due to ongoing network expansion. Our controlled wholesale space grew to over 746,000 m<sup>2</sup> by adding over 1,200 controlled-space wholesale point-of-sales as at June 30, 2008.

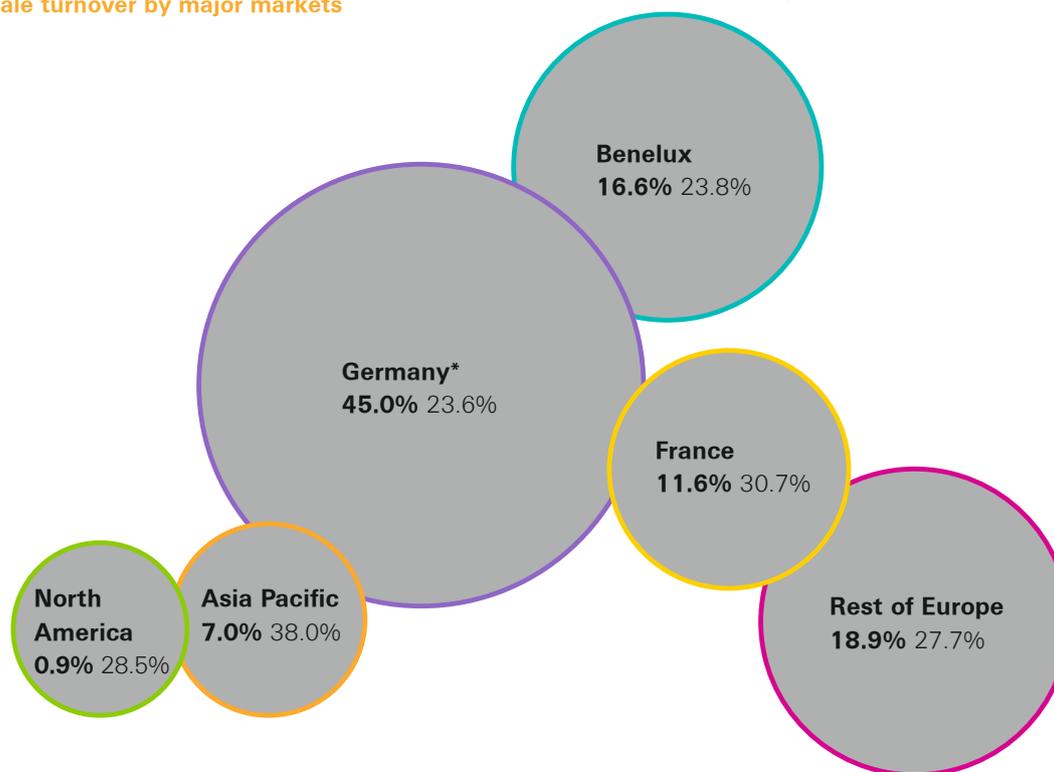
In Germany and Benelux, we focused on fine-tuning our wholesale distribution network expansion strategy by establishing more partnership stores, which are much bigger in size than other types of controlled-space wholesale point-of-sales. We believe by having more partnership stores, we can further strengthen brand image and presence in these stable markets. As at June 30, 2008, partnership stores accounted for about 30% and over 60% of the controlled wholesale space in Germany and Benelux respectively.

In addition to France, Scandinavia and Spain were the other two fastest growing wholesale markets in Europe, each with wholesale turnover growth at over 30% amid major expansion of their wholesale distribution network.

In Asia Pacific, the strong growth of Australia and the emerging markets of the region contributed to wholesale turnover growth. Substantial increase in controlled-space wholesale point-of-sales in major local department store chains, such as Myer and David Jones, drove Australia's wholesale turnover growth to over 70%. The increase in controlled-space wholesale point-of-sales with David Jones was mainly due to converting retail concession counters into controlled-space wholesale point-of-sales, without causing any disturbance to healthy retail growth.

The wholesale turnover from China grew by 44.7%, driven by a 35% increase in controlled wholesale space. Contribution from other emerging markets rose steadily, in particular, India and Russia. In terms of turnover growth, wholesale turnover from India grew by 93.6%, while wholesale turnover from Russia grew by 41.5%. Wholesale sales to India and Russia collectively accounted for about 1% of the Group's wholesale turnover. As at June 30, 2008, we had over 35 controlled-space wholesale point-of-sales in both India and Russia representing 164% and 25% increase from June 30, 2007 respectively.

#### Wholesale turnover by major markets



#### Wholesale performance scorecard

	FY 07 08	FY 06 07
YoY sales growth	<b>26.2%</b>	23.4%
Segment EBIT margin*	<b>26.5%</b>	26.4%
No. of controlled space POS	<b>14,590</b>	13,369 <sup>^</sup>
Net change in controlled wholesale space	<b>18.5%</b>	20.0%

\* Segment EBIT margin excluding inter-segment licensing expense

<sup>^</sup> The number of controlled-space point-of-sales as at June 30, 2007, as shown in the FY2006/2007 annual report, has been restated from 13,095 to 13,369 due to the restatement of the number of identity corners in North America

% of group's wholesale turnover % growth from last financial year

\* Turnover of Germany includes wholesale sales orders taken up by Germany and sold to countries outside Germany, mainly Russia, Poland, Greece and Croatia

Key wholesale distribution channels (controlled-space only)

As at June 30, 2008	Partnership stores <sup>^</sup>			Shop-in-stores <sup>^</sup>			Identity corners   Others <sup>^</sup>		
	No. of stores	Sales area m <sup>2</sup>	Net change in sales area*	No. of stores	Sales area m <sup>2</sup>	Net change in sales area*	No. of stores	Sales area m <sup>2</sup>	Net change in sales area*
<b>Europe</b>	<b>1,114</b>	<b>250,946</b>	<b>26.4%</b>	<b>4,615</b>	<b>188,430</b>	<b>16.2%</b>	<b>6,689</b>	<b>148,740</b>	<b>-1.1%</b>
Germany	380	100,321	31.1%	3,611	154,130	15.3%	3,708	82,483	-7.6%
France	243	34,198	29.7%	384	10,782	15.3%	452	11,848	9.2%
Scandinavia	95	28,333	33.1%	113	4,565	8.4%	858	14,598	15.2%
The Netherlands	91	23,874	25.9%	30	1,114	24.1%	462	11,318	4.2%
Austria	109	20,480	5.1%	114	4,189	51.9%	192	4,667	18.2%
Belgium	75	19,086	20.1%	96	4,309	7.5%	455	10,579	1.2%
Switzerland	49	11,726	21.8%	35	1,814	16.2%	92	2,267	-14.3%
Italy	50	8,161	27.2%	18	1,094	89.6%	340	8,783	14.4%
U.K. & Ireland	12	2,432	-16.5%	43	2,273	8.0%	81	1,741	13.3%
Spain	10	2,335	118.2%	171	4,160	37.2%	49	456	-3.6%
<b>Asia Pacific</b>	<b>301</b>	<b>68,960</b>	<b>48.1%</b>	<b>196</b>	<b>9,500</b>	<b>21.0%</b>	<b>1,242</b>	<b>80,079</b>	<b>24.2%</b>
China**	108	35,353	73.3%	7	140	-13.6%	861	78,942	24.5%
The Middle East	63	13,231	25.4%	4	982	-12.2%	-	-	-100.0%
Thailand	31	4,278	9.0%	75	2,887	-13.3%	21	237	0.0%
India	16	4,216	106.9%	21	1,652	174.0%	-	-	-
Philippines	17	2,279	9.8%	-	-	-	5	4	33.3%
Korea	-	-	-	-	-	-100.0%	26	182	0.0%
Japan	-	-	-100.0%	-	-	-	4	8	n.a.
Australia	-	-	-	30	1,162	560.2%	198	576	7.5%
others	66	9,603	28.4%	59	2,677	29.8%	127	130	622.2%
<b>North America</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>n.a.</b>	<b>433<sup>#</sup></b>	<b>n.a.</b>	<b>n.a.</b>
U.S.	-	-	-	-	-	-	170 <sup>#</sup>	n.a.	n.a.
Canada	-	-	-	-	-	n.a.	263 <sup>#</sup>	n.a.	n.a.
<b>GroupTotal</b>	<b>1,415</b>	<b>319,906</b>	<b>30.5%</b>	<b>4,811</b>	<b>197,930</b>	<b>16.4%</b>	<b>8,364</b>	<b>228,819</b>	<b>6.5%</b>

<sup>^</sup> Include Esprit and Red Earth stores/units

\* Net change from June 30, 2007

\*\* Managed by China joint venture or its franchise partners

n.a. Means not applicable or stores/identity corners opened in FY2007/2008

<sup>#</sup> The number of identity corners in U.S. and Canada (all under Red Earth brand) as at June 30, 2007, as shown in the FY2006/2007 annual report, has been restated to 221 and 246 respectively

# ANNUAL REPORT FY 07|08

## OPERATIONS REVIEW

### Retail

Retail turnover growth was mainly driven by 6.9% comparable-store-sales growth and a 14.3% increase in retail selling space. Our investment in the retail segment increased to HK\$1,131 million for opening new directly managed retail stores and renovating existing stores. As at June 30, 2008, we had over 271,000 m<sup>2</sup> retail selling space and over 690 directly managed stores stretching from Oslo to Melbourne and from Taipei to New York. Among the new directly managed retail stores opened, five were flagship stores situated in Berlin, Illkirch-Graffenstaden, Oslo, New York and Kuala Lumpur.

In Europe, retail turnover grew by 27.7% backed by healthy retail turnover growth in core markets, such as Germany, Benelux and France, as well as new retail markets the Group has entered during the financial year.

France is one of our key focus markets and we continue to grow our presence in cities such as Paris, Nice, Avignon and Dijon. A flagship store was also opened in Illkirch-Graffenstaden with over 1,000 m<sup>2</sup> floor space.

During the financial year, we entered the Spanish retail market and opened our first directly managed retail store in Madrid in November 2007. As at June 30, 2008, we had five directly managed retail stores in Spain.

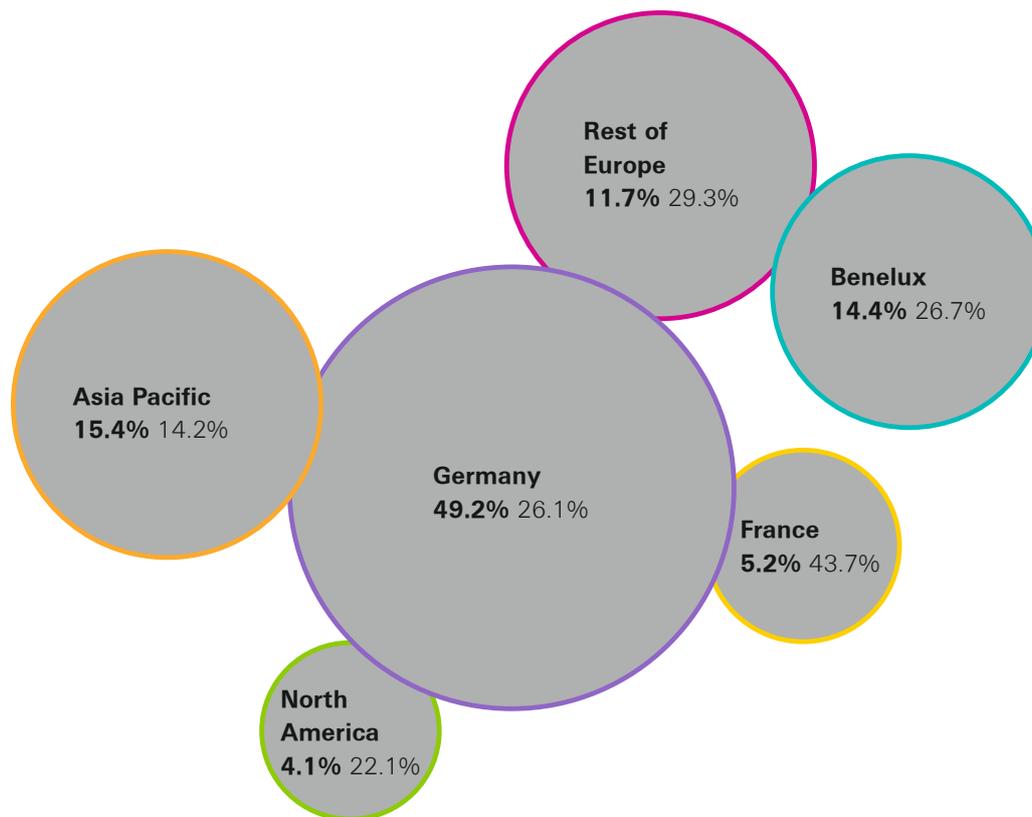
In addition, we expanded our retail operations to Finland and Norway. Three new directly managed retail stores were opened during the financial year, including two directly managed retail stores with floor space of about 1,000 m<sup>2</sup> each in Helsinki and Oslo. As a result of this retail expansion, retail turnover in Scandinavia grew by over 80% from the last financial year.

Lower retail turnover growth in Asia Pacific was mainly due to negative retail turnover growth in Hong Kong, which was partially compensated for by strong retail turnover growth in Australia. The negative retail turnover

growth in Hong Kong was caused by store portfolio restructuring. This involved closing non-performing stores and opening new directly managed retail stores in better locations. As a result, the retail selling space in Hong Kong was reduced by 7.6%. In Australia, the retail segment demonstrated healthy turnover growth of 28% backed by healthy comparable-store-sales growth of 7.9% and retail space growth of 10.1%.

Since its launch in 1999, e-shop has grown rapidly and become an important part of the retail segment. At present, e-shop is available in over 10 countries, mainly in Europe. We believe e-shop will continue to complement our retail network.

### Retail turnover by major markets



% of group's retail turnover    % growth from last financial year

Retail performance scorecard

	FY 07 08	FY 06 07
YoY sales growth	<b>25.2%</b>	32.2%
Segment EBIT margin*	<b>13.3%</b>	15.1%
No. of POS**	<b>697</b>	604
Net change in sales area	<b>14.3%</b>	6.1%
Comparable-store-sales growth	<b>6.9%</b>	19.8%

\* segment EBIT margin excluding inter-segment licensing expense  
\*\* calculation excludes salon

Key retail distribution channels

Directly managed stores <sup>^</sup>			
As at June 30, 2008	No. of stores	Sales area m <sup>2</sup>	Net change in sales area*
<b>Europe</b>	<b>314</b>	<b>185,206</b>	<b>15.5%</b>
Germany	140	100,268	9.5%
The Netherlands	51	17,428	18.2%
France	40	16,834	51.9%
Switzerland	27	10,464	5.4%
Belgium	20	14,900	4.2%
Austria	11	10,288	14.2%
Great Britain	11	7,024	8.2%
Spain	5	1,935	n.a.
Denmark	4	2,411	16.3%
Luxembourg	2	1,149	0.0%
Finland	2	1,413	n.a.
Norway	1	1,092	n.a.
<b>Asia Pacific</b>	<b>311</b>	<b>57,541</b>	<b>6.8%</b>
Australia & New Zealand	145	21,564	10.1%
Hong Kong	26	11,085	-7.6%
Taiwan	82	7,321	-5.5%
Singapore	23	7,134	-4.2%
Malaysia	31	8,572	46.5%
Macau	4	1,865	47.9%
<b>North America</b>	<b>72</b>	<b>28,993</b>	<b>23.3%</b>
Canada	48	16,637	5.5%
U.S.	24	12,356	59.7%
<b>Group total</b>	<b>697</b>	<b>271,740</b>	<b>14.3%</b>

\* Net change from June 30, 2007  
<sup>^</sup> Include Esprit & Red Earth stores, but exclude salon  
n.a. Means not applicable and stores opened in FY2007/2008



ESPRIT



# ANNUAL REPORT FY 07|08

## OPERATIONS REVIEW

### Licensing

Licensing turnover grew healthily at 21.2% mainly driven by the strong turnover growth of a few key licensed products, such as fragrance, eyewear and home products. The newly launched maternity licensed products also performed well and have already made a noticeable sales contribution to the overall licensing segment.

We currently work with over 30 licensees and offer more than 30 categories of Esprit licensed products worldwide. During the financial year, we further expanded the home textile category to include kids assortment, such as baby furniture, baby sleeping bags, kids carpets, kids watches and school products. In the second half of the financial year, we also launched Esprit home porcelain, the first complete lighting collection and edc jewelry.

Key licensed product categories														
As at June 30, 2008	Europe	Asia Pacific	North America	Latin America	As at June 30, 2008	Europe	Asia Pacific	North America	Latin America	As at June 30, 2008	Europe	Asia Pacific	North America	Latin America
<b>Accessories' World</b>					<b>Home World</b>					<b>Babies' &amp; kids' World</b>				
Costume jewelry edc	■				Bathroom	■	■			Baby carriages	■	■	■	
Eyewear	■	■	■	■	Bedding	■	■	■	■	Baby furniture	■	■		
Fragrance	■	■	■	■	Carpets	■	■			Kids' apparel			■	
Golf		■			Down	■	■			Kids' bedding	■	■		
Jewelry	■	■			Furniture	■				Kids' shoes			■	
Outerwear			■		Glassware	■	■		■	Maternity	■			
Shoes				■	Home accessories	■	■		■	School	■			
Sleepwear/daywear			■		Lighting	■	■			Soft toys	■			
Socks + tights Esprit	■	■	■	■	Towels	■	■	■	■					
Stationery	■	■			Wallpaper	■	■							
Swimwear			■											
Timewear	■	■	■	■										
Umbrellas	■	■												



ACCESSORIES WORLD



BABIES & KIDS WORLD



HOME WORLD



ESPRIT

PRODUCTS

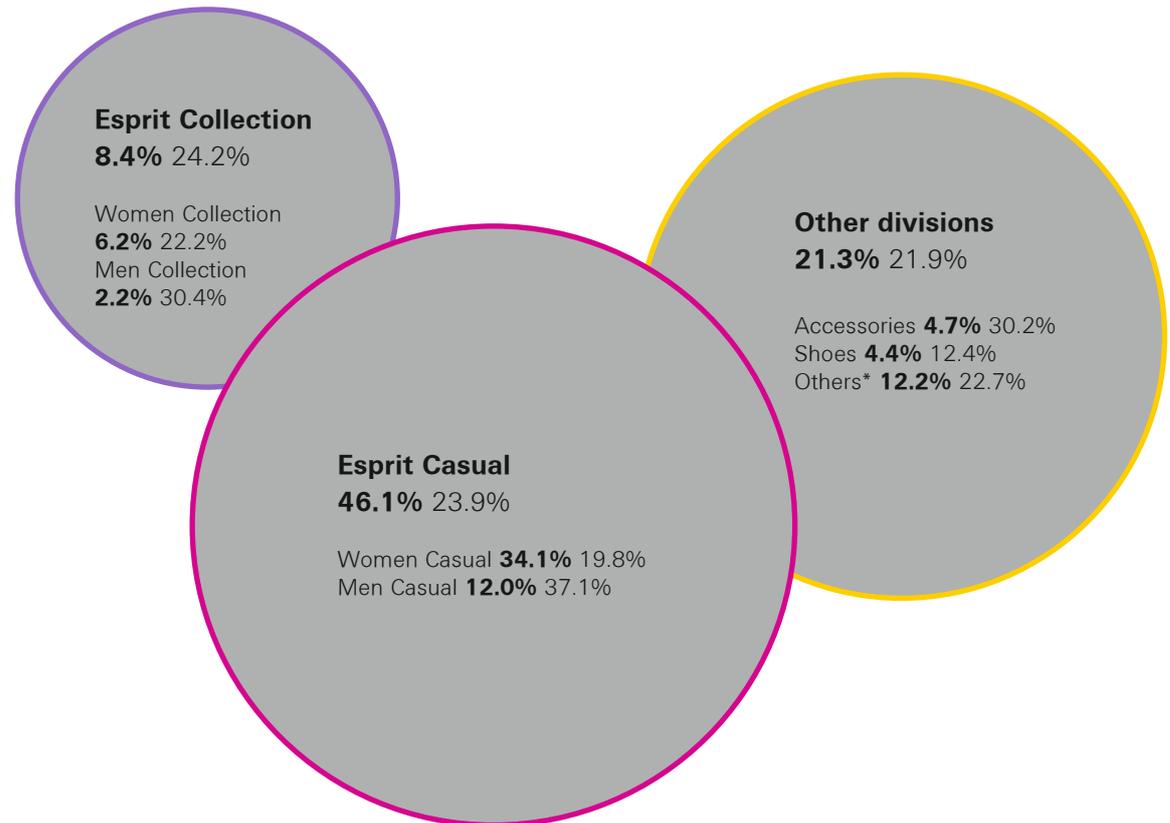
**Esprit**

Over the last forty years, we have worked hard on providing quality products at affordable prices to our customers. This involves continually refreshing the newness of the product portfolio and improving product quality. These efforts paid off as the inventory turnover days improved by 1 day to 54 days from last financial year despite the challenging market conditions in the second half of the financial year. During the financial year, we continued to devote efforts and resources to develop edc as a separate brand. In addition, we launched de.corp in March 2008.

Casual, as a whole, recorded 23.9% turnover growth while Collection recorded 24.2% turnover growth. Menswear recorded the strongest turnover growth among all the key product divisions of Esprit, mainly due to strong product acceptance.

Officially launched in March 2008, de.corp targets young women and offers collections that are edgy, authentic and made for an urban lifestyle. Currently, de.corp is distributed via Esprit's wholesale and retail distribution network in 10 European countries.

Turnover by key product divisions – Esprit brand



% of group's turnover % growth from last financial year

\*Others includes Esprit's kids, sports, bodywear, de.corp, Red Earth, salon and licensed products

# ANNUAL REPORT FY 07|08

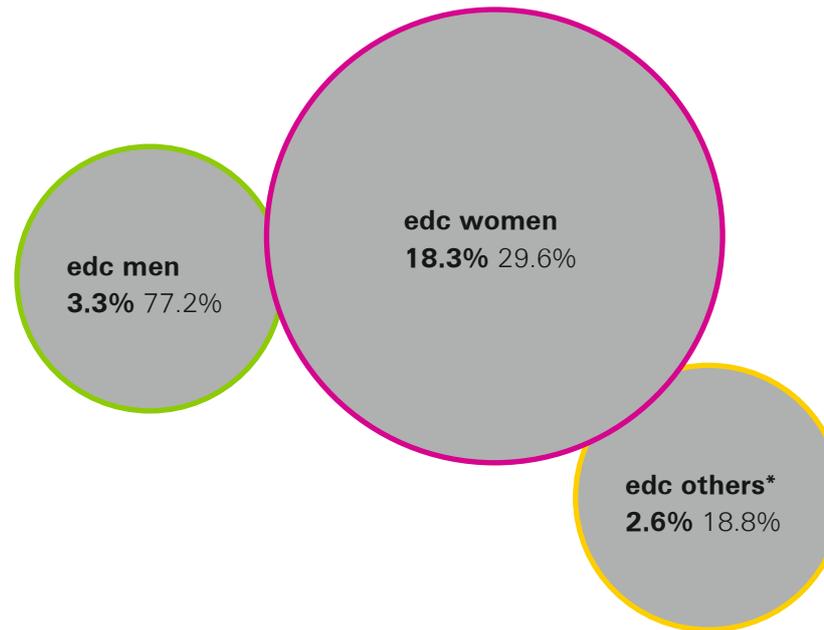
## OPERATIONS REVIEW

### PRODUCTS (continued)

#### edc

The growth momentum of key edc products remained strong. To sustain its growth momentum, various initiatives have been implemented. During the financial year, we opened over 15 new edc standalone stores in Europe and Asia, bringing the total number of edc standalone stores to 40 as at June 30, 2008. The retail selling space of these directly managed retail stores increased substantially by nearly 80%. Moreover, a number of marketing initiatives specially designed for targeting edc audiences were launched. For instance, edc was the official sponsor of the MTV Europe Music Award in November 2007. The event attracted much publicity and further improved brand awareness. We have also launched [www.edc.com](http://www.edc.com), which features edc's e-shop and its online showroom.

### Turnover by key product divisions – edc brand



% of group's turnover % growth from last financial year  
\*edc others includes edc kids, edc accessories, edc shoes and edc bodywear



## 03.3 FINANCIAL REVIEW

### TURNOVER

Turnover of the Group grew to HK\$37.2 billion (FY2006/2007: HK\$29.6 billion) supported by continual expansion of our distribution network and healthy growth momentum of our core markets.

### PROFITABILITY

The Group's operating profit increased to HK\$7,721 million (FY2006/2007: HK\$6,259 million). Operating profit margin was 20.7% (FY2006/2007: 21.1%). The wholesale EBIT margin was 26.5% (FY2006/2007: 26.4%) and the retail EBIT margin was 13.3% (FY2006/2007: 15.1%). The change of overall operating profit margin was mainly due to a slight improvement in wholesale EBIT margin offset by the decline in retail EBIT margin partially caused by accelerated retail expansion.

The profit contribution from our China associated companies increased to HK\$145 million (FY2006/2007: HK\$130 million) due to high turnover growth partially offset by higher tax expense.

The Group's earnings before tax grew to HK\$8,056 million (FY2006/2007: HK\$6,538 million). Effective tax rate of the Group declined to 19.9% (FY2006/2007: 20.8%). Net profit of the Group grew to HK\$6,450 million (FY2006/2007: HK\$5,180 million) while net profit margin of the Group was 17.3% (FY2006/2007: 17.5%). Return on equity was 46.0% (FY2006/2007: 48.9%).

### EARNINGS PER SHARE

Based on the 1,238,418,256 weighted average number of ordinary shares in issue during the financial year, the basic earnings per share grew to HK\$5.21 (FY2006/2007: HK\$4.22).

### LIQUIDITY AND FINANCIAL RESOURCES

As at June 30, 2008, the Group's net cash balance advanced to HK\$6,521 million (June 30, 2007: HK\$5,232 million). The Group increased capital expenditure to HK\$1,352 million (FY2006/2007: HK\$615 million) to support ongoing distribution network expansion and accelerating retail expansion.

As at June 30, 2008, the Group had no long-term bank borrowings and did not pledge any assets as security for overdraft or any short-term revolving facility. Our debt-to-equity ratio (interest bearing external borrowing divided by shareholders' funds) was 0%. Our current ratio improved to 2.7 times (June 30, 2007: 2.5 times).

### FOREIGN EXCHANGE RISK MANAGEMENT

To minimize our foreign exchange exposure on sourcing costs for merchandise produced for Europe in Asia, most of the suppliers in Asia were asked to quote and settle in Euros. In addition, the Group entered into foreign exchange forward contracts with reputable financial institutions to hedge foreign exchange risk.

### HUMAN RESOURCES

After converting to full-time position terms, the Group employed over 10,000 staff worldwide (June 30, 2007: 9,617) as at June 30, 2008. Remuneration packages that take into account business performance, market practices and competitive market conditions are offered to employees in compensation for their contributions. In addition, share options and discretionary bonuses are also granted based on the Group's and individual's performances. Employees are connected through the Group's quarterly newsletters and global intranet.

### DIVIDENDS

The Board is pleased to recommend the distribution of a final dividend of HK\$1.15 per share (FY2006/2007: HK\$1.00) and a special dividend of HK\$2.10 per share (FY2006/2007: HK\$1.48) for the year ended June 30, 2008. Subject to the approval of shareholders of the Company at the forthcoming annual general meeting, the dividends will be payable on or about Tuesday, December 16, 2008 to the shareholders whose names appear on the Registers of Members of the Company at close of business on Thursday, December 11, 2008. The relevant dividend warrants will be despatched to shareholders on or about Monday, December 15, 2008.

The total dividend, including the interim dividend paid and the proposed final and special dividends, represents a total full year dividend payout ratio of around 80% (FY2006/2007: 75.4%) of the earnings per share of the Group for the year ended June 30, 2008. The Board will continue to review the Group's financial position and capital needs every year in deciding its dividend recommendation going forward.

## 03.4 PROSPECTS

In view of adverse macro market conditions, which are likely to create a challenging year ahead, we will continue to position ourselves for long-term growth through careful planning and execution of our growth strategy. We target to maintain stable operating profit margins while continuing our efforts in growing across distribution channels and regions, focusing on expanding markets where there is high growth potential and low penetration. The Group expects stable growth in core markets, comparatively faster growth in the rest of Europe, and overall growth in line with that of industry leaders.

We will continue to enhance our international presence through broadening our retail and wholesale distribution network. The Group intends to invest about HK\$1 billion to open over 130 new directly managed retail stores (gross), and over HK\$300 million in revamping existing stores to optimize the selling space and improve store layout.

In the new financial year, we intend to open over 20 edc standalone stores in Europe and Asia Pacific. Various promotional activities are planned for edc. For instance, in addition to sponsoring the MTV Europe Music Awards 2008 in Liverpool, U.K., cooperation will be extended to the sponsorship of the MTV Asia Awards in Malaysia. A co-branded MTV/edc line will be showcased in our stores around October and November 2008. We plan to launch edc club in Asia Pacific to reward our loyal customers.

Geographically, we plan to open over 20, 10 and 5 new directly managed retail stores in Germany, Scandinavia and France respectively. In addition, our retail distribution network will be expanded to Portugal, where we expect to open our first directly managed retail store in winter 2008. In Asia Pacific, we target to open more flagship stores in the region. Initially, one flagship store each is planned to open in Singapore and Hong Kong in the first half of the new financial year. In North America, the Group will continue to open new directly managed retail stores within our investment budget.

The wholesale network will further expand in the new financial year and we target to increase the number of controlled-space wholesale point-of-sales by over 2,000 (gross). The majority of this new space will be located in Germany, Benelux, France and China. In Asia Pacific, we aim at accelerating wholesale sales growth in India, China and Middle East.

In regard to product offerings, the Group will further develop the new de.corp line and continue to grow the edc product family, such as accessories and shoes. Moreover, we have undertaken a major quality upgrade of Collection Women and Collection Men.

In September and October 2008, Esprit will be celebrating its 40<sup>th</sup> anniversary through various events with employees and customers. We have developed a special Celebration 68/08 look which conveys everything that Esprit has always represented: freshness, youth, spontaneity and sportiness. Throughout the rest of 2008, the shop windows of Esprit stores and wholesale partners will be decked out in an individual visual concept. Our website and shopping bags will also feature the Celebration look. On the product side, there will be numerous Esprit Celebration 68/08 edition licensed products, from perfume to eyewear, socks and tights through to Esprit home products.

Our consistent performance has enabled us to deliver an excellent track record of organic growth in both good and bad times. Although the macro environment is challenging, we maintain a positive outlook on our future and will continue to grow our business by expanding both our geographical reach and strengthening our product offerings. With careful planning, disciplined execution and our financial strength, the Group remains confident that we will continue to enhance shareholders' returns in the coming years.

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FIVE-YEAR SUMMARY

03.5 FIVE-YEAR SUMMARY

Year ended June 30	2008	2007	2006	2005	2004
<b>Operating results (HK\$ million)</b>					
Turnover	37,227	29,640	23,349	20,632	16,357
Operating profit	7,721	6,259	4,765	4,075	2,837
Profit attributable to shareholders	6,450	5,180	3,737	3,211	1,969
<b>Per share data (HK\$)</b>					
Earnings per share – basic	5.21	4.22	3.09	2.68	1.65
Dividend per share <sup>+</sup>	4.20	3.18	2.31	1.95	1.17
<b>Key statistics (HK\$ million)</b>					
Shareholders' funds	15,944	12,081	9,107	7,039	5,415
Net current assets	9,546	6,893	4,237	2,728	1,964
Cash position (net of overdraft)	6,521	5,232	2,469	1,729	1,758
Net cash inflow from operating activities	5,970	5,881	3,428	2,718	1,983
Term loans	–	–	250	–	–
<b>Retail data</b>					
Number of directly managed stores <sup>#</sup>	700	607	671	634	562
Directly managed selling space (m <sup>2</sup> ) <sup>#</sup>	273,801	239,400	225,693	195,042	172,343
Comparable store sales growth	6.9%	19.8%	9.0%	8.5%	5.3%
<b>Wholesale data</b>					
Number of controlled-space POS	14,590	13,369 <sup>^</sup>	11,459	9,751	7,970
Controlled-space sales area (m <sup>2</sup> )	746,655	629,967	525,090	443,321	337,230

+ Calculated after including the HK\$2.10 special dividend for FY2007/2008, the HK\$1.48 special dividend for FY2006/2007, HK\$1.08 special dividend for FY2005/2006, HK\$0.84 special dividend for FY2004/2005 and HK\$0.50 special dividend for FY2003/2004

# Include Esprit, Red Earth stores and salon

## After converting the part-time positions into full-time positions based on working hours

### Calculated based on net earnings as a percentage of average shareholders' equity

\* Calculated based on net earnings as a percentage of average total assets

\*\* Net debt refers to all interest bearing borrowings less cash and cash equivalents

\*\*\* Calculated as average inventory (excluding consumables) over cost of goods sold for the year

^ The number of controlled-space point-of-sales as at June 30, 2007, as shown in the FY2006/2007 annual report, has been restated from 13,095 to 13,369 due to restatement of the number of identity corners in North America.

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Year ended June 30	2008	2007	2006	2005	2004
<b>Other data</b>					
Capital expenditure (HK\$ million)	<b>1,352</b>	615	838	1,236	662
Number of employees **	<b>10,541</b>	9,617	8,400	7,720	6,796
<b>Key ratios</b>					
Return on shareholders' equity (ROE)***	<b>46.0%</b>	48.9%	46.3%	51.6%	41.0%
Return on total assets (ROA)*	<b>33.1%</b>	34.7%	32.7%	34.8%	24.7%
Net debt to equity**	<b>net cash</b>	net cash	net cash	net cash	net cash
Interest cover (times)	<b>15,823</b>	21,363	3,370	2,125	132
Current ratio (times)	<b>2.7</b>	2.5	2.3	2.0	1.7
Inventory turnover*** (days)	<b>54</b>	55	54	47	45
Operating profit before depreciation and amortization margin	<b>22.8%</b>	23.1%	22.7%	21.9%	19.4%
Operating profit margin	<b>20.7%</b>	21.1%	20.4%	19.8%	17.3%
Earnings before taxation margin	<b>21.6%</b>	22.1%	20.9%	20.2%	17.8%
Net profit margin	<b>17.3%</b>	17.5%	16.0%	15.6%	12.0%



de.corp

ESPRIT URBAN CASUAL





# 04 CORPORATE SOCIAL RESPONSIBILITIES

## 04.1 CODE OF CONDUCT

### SOCIAL RESPONSIBILITIES

As a global company, Esprit believes in developing and maintaining sustainable relationships with all stakeholders. We demonstrate this commitment by acting proactively and consistently in the communities where our employees, business partners and customers live and work.

#### RESPONSIBILITIES TO EMPLOYEES

We are committed to our big Esprit family. Our continued success depends on the enthusiasm and energy of our staff around the world. We are committed to developing a positive and congenial working environment that encourages collaboration and cooperation between colleagues. We promote internal communications and welcome ideas and feedback from our staff.

#### RESPONSIBILITIES TO BUSINESS PARTNERS

At Esprit, we aim to develop and maintain long-term relationships with our business partners based on openness, honesty and trust. We understand their business needs and we support them whenever we can to make sure sustainable business partnerships are established. We are also committed to conducting business in a responsible and transparent way.

#### RESPONSIBILITIES TO THE COMMUNITY

Through grants, donations and volunteering activities, Esprit takes pride in giving back to the community. Esprit makes substantial charitable donations each year and our employees are involved in a variety of relief initiatives organised by charitable organisations.

Esprit has been engaged in various charities over the last 40 years, some of which we initiated ourselves. We have undertaken community work, brought meals to people suffering from AIDS, and worked with homeless youngsters and tsunami victims.





**Commitment**

**Passion**

**Integrity**

## 04.2 HOPE IS GREEN

In the 1980s, we began to focus our efforts on environmental causes. In the early 1990s, we launched a programme whereby all of our employees planted a tree and cleaned up parks for Esprit Earth Day. We developed a free environmental education programme for all schoolchildren in Hong Kong. Esprit stores worldwide sold printed organic cotton T-shirts, with the proceeds going to save the rainforest.

And today? We still feel a strong obligation to put our money where our heart is. These days we put our emphasis on helping in need of love and care: children.





## 04.3 YOU CAN COUNT ON US, KIDS!

Success carries with it obligations; we've been convinced of that for a long time. And we love giving back, especially when others gain new and better perspectives on their future through our efforts. For years we've been supporting social institutions and projects that work with children and youngsters, regardless of their nationality, faith or background, which help them improve their conditions.

The most prominent example is "SOS Children's Villages". Orphans and abandoned children find a safe home in the SOS Children's Villages where they can grow up in an SOS family with a feeling of security. After many mutual initiatives in recent years, we've been so convinced of the SOS concept that we have increased our commitment.

We have entered into a long-term partnership with the SOS organisation to build and maintain a village in Alibaug. Here, on India's southwest coast, close to Mumbai, a new home for 140 children will be developed. There will be a kindergarten – also for other kids in the neighbourhood – and a social centre. It will give single mothers in the underprivileged surrounding communities the support they need to build an independent future for themselves and their children.



Our employees are very involved in this partnership. Everyone is informed about the project's progress and, in the typical Esprit way, they roll up their sleeves and help.

We support a children's hospice and we help Cleft-Children International, an organisation that operates on and cares for children who are born with a cleft palate all over the world. We also take care of those living where Esprit operates; Esprit employees dress up as Santa Claus and make wishes come true for children in need.

YOU CAN COUNT ON US, KIDS!



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**YOU CAN COUNT ON US, KIDS!**



## THE VILLAGE IN ALIBAUG

In the new SOS Children's Village of Alibaug, 140 abandoned children will find a safe new home. The village consists of 14 family homes offering space to live and grow. In this nurturing environment, a child can be a child, but also find the security and help to develop into a responsible and life-affirming human being. Over 500, mostly single mothers, will find what they need in the social centre nearby.





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WHAT WE STAND FOR



## 04.4 WHAT WE STAND FOR

The social engagement of companies and their corporate citizenship have become quite fashionable themes these days. We're thrilled to see this happen, since it has been our true belief all along that if you take from the world, you've got to give back.

In the early 1990s we started the Eco Desk, Esprit's environmental and social affairs department. A company-wide "eco-audit" programme was initiated to incorporate ecological considerations into daily business decisions. A lecture series established a regular forum to educate employees. In the same year, Esprit embraced a new mission statement: Be Informed, Be Involved, Make a Difference. Due to this new motto, designers began to look beyond the surface of fashion and discovered the social and environmental impacts of apparel manufacturing. As a result, Ecollection by Esprit was born – a line of socially and environmentally responsible clothing. And once the seed was sown, it continued to grow.

Today we believe that our long-term profitability, brand reputation and customer loyalty depend on our commitment to deliver unsurpassed value to our stakeholders – while voluntarily conducting our business in a way that advances ethical and legal expectations, lessens our impact on the environment, and provides a high quality of life for our customers and employees. When buying goods from developing countries and emerging markets, we select our suppliers carefully and monitor them on an ongoing basis – ensuring that they share our commitment to higher standards.

We are of the view that socially responsible production conditions can only be achieved by joint efforts with our business partners as well as our suppliers, and so we became a member of the Business Social Compliance

Initiative (BSCI), which was founded by the EU Foreign Trade Association in Brussels. BSCI provides a common platform and monitoring system for members with various Codes of Conduct in different countries. In 2006, we were selected as a representative member to sit on BSCI Members' Board to develop long-term planning and make strategic decisions.

Following the BSCI guidelines and our corporate compliance objectives, we have built up our comprehensive compliance programme to identify roles and responsibilities among parties in our supply chain. The programme ranges from our most substantial concerns to minimum compliance standards.

In 2007, we applied our compliance programme to all our suppliers in all production countries. According to our compliance policy, we require our suppliers to comply not only with the BSCI requirements, but also with local environmental ordinances and foreign trade regulations.

We require all our staff and suppliers, including their corresponding subcontractors, to comply with BSCI requirements, which are based on the following: ILO Core Labor Conventions, United Nations Conventions on children's rights, United Nations Conventions to eliminate all forms of discrimination, the United Nations Universal Declaration of Human Rights and other basic environmental requirements. We suspend our business relationship immediately with any suppliers who are identified as being in critical violation of any of these requirements.

We aim to create a stronger link between our suppliers' compliance performances and our purchase decisions – relying on corporate social responsibility reports that detail each supplier's performance and ensure their compliance with our standards. In order to ensure continuous improvement in the future, we map out all manufacturers – and their performance reports – in our supplier management system.

## 04.5 CHASING THE DREAM

We not only stand for the sustainability of our own company, we also support projects that have the same goals as we do. One such example is Chasing the Dream – Youth Faces of The Millennium Development Goals.

As part of the UN Millennium Campaign, this project was launched in 2005 as a United Nations Interagency Initiative, launched by the United Nations Population Fund (UNFPA) and the United Nations Millennium Campaign to encourage citizens around the world to make sure that their governments keep the promises they made at the September 2000 Millennium Summit to accomplish the eight Millennium Development Goals. Funded by the Government of Finland, the “Chasing the Dream” project is supported by many United Nations agencies and non-governmental organisations. It is also fully supported by Esprit.

“Chasing the Dream” is a photography show curated by teenagers from all over the world, whose work offers glimpses into their thoughts, dreams and the world they live in. It’s a travelling exhibition, visiting New York, London, Montreal, Helsinki, and because of Esprit’s engagement, Berlin. Eight young people were asked to photograph – in their country of origin – what they love about their life and what worries them most. Their intense pictures show, among many other snapshots of daily life, how difficult it is to try and find an education in the Jaguare Favela in Rio de Janeiro, Brazil, or what it is like growing up in poverty and with the diagnosis of HIV-positive in Kingston, Jamaica.

Millions of children and young people in the world need someone to give them a chance and we are happy to give at least some of them a platform by supporting this photography show. We are convinced that we are not only helping these highly motivated young people to survive but also to blossom.



ANNA, 22, UKRAINE

Anna looks at a bridal shop front as she walks through the streets of Odessa. Having been forced into sexual slavery in a distant country, she was able to escape. Now she receives the support she needs to rebuild her life. She dreams of marrying her boyfriend Reda one day.

JASON, 19, JAMAICA

Jason awaits an appointment at the Jamaica AIDS Support (JAS) offices, where he is given medication and the support he needs. Living with AIDS, he has decided to set himself as an example to raise awareness about HIV/AIDS and to promote practices to help all young people avoid the disease.



SILVIA, 15, UGANDA

Silvia dances during a public performance at the Life Centre, a local NGO. She studies religion, reproductive health, business English and secretarial skills, determined to overcome her poor living conditions without becoming pregnant or contracting AIDS.

KAIMA, 12, INDIA

Kaima poses with fellow students from the Doosra Dashak NGO in Phalodi, where she takes classes and excels in all her subjects. Becoming an air force pilot is her dream.







## 05.1 CORPORATE GOVERNANCE REPORT

Esprit is committed to achieving high standards of corporate governance. The Esprit Corporate Governance Code was adopted by the board of directors (the "Board" or the "Director(s)") of the Company aiming at providing greater transparency, quality of disclosure as well as more effective risk control. We believe our commitment to high standard practices will translate into long-term value and ultimately maximize returns to shareholders. Management pledges to building long-term interests for shareholders via, for example, conducting business in a socially responsible and professional manner.

Our commitment to excel in corporate governance is manifested in three major set-ups, namely, (1) the Board; (2) internal control and risk management; and (3) channels for shareholders participation.

### THE BOARD

#### Between the Board and shareholders

The Board's primary role is to protect and enhance long-term shareholder value. It focuses on the Group's overall strategic policy, monitors performance and provides proper supervision to ensure proper business conduct and effective management of the highest quality. The Board views that the collective and individual responsibilities of the Directors to all shareholders for the manner in which the affairs of the Company are managed, controlled and operated are important.

#### Between the Board and management

The Board has delegated the authority and responsibility for implementing business strategy and managing the day-to-day operations of the Group's business to the management. While allowing management substantial autonomy to run and develop the business, the Board plays a key role in structuring and monitoring the reporting systems and internal controls.

Decisions reserved for the Board are mainly related to:

- The long-term objectives and strategy of the Group;
- Monitoring the performance of management;
- Ensuring that a framework of prudent and effective internal controls is in place to enable risks to be assessed and managed;
- Monitoring the quality and timeliness of external reporting; and
- Monitoring the compliance with applicable laws and regulations, and also with corporate governance policies

#### Additional features of our Board

##### Membership

The Board comprises of nine directors, including the Chairman of the Board, four of them being Executive Directors\*, and the remaining five being Non-executive Directors, of whom four are independent. The Non-executive Directors come from diverse business and professional backgrounds, bringing with them valuable expertise and experience that promote the best interests of the Group and its shareholders. Independent Non-executive Directors ensure the Board accounts for the interests of all shareholders and subject matters are considered in an objective manner. The Company has received confirmation of independence from each Independent Non-executive Director as set out in Rule 3.13 of the Listing Rules and continues to consider each of them to be independent.

Under the code provision A.4.1 of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), non-executive directors should be appointed for a specific term, subject to re-election. Non-executive Directors of the Company have not been appointed for a specific term. However, under Bye-law 87 of the Company's Bye-laws, all Directors, including Non-executive Directors, of the Company are subject to retirement by rotation and re-election in the annual general meeting of the Company ("AGM") and each Director is effectively appointed under an average term of three years.

Under the Company's Bye-laws, one-third of the Directors must retire, thus becoming eligible for re-election at each AGM. This year, Mr. Thomas Johannes GROTE and Mr. Raymond OR Ching Fai will retire at the forthcoming AGM and both are eligible to offer themselves for re-election. The Nomination Committee has assessed the independence of Mr. Raymond OR Ching Fai, who has been Independent Non-executive Director of the Company for more than nine years and considered Mr. OR continues to be independent.

Furthermore, under the Company's Bye-law 86(2), any director appointed during the year to fill a causal vacancy should retire at the first general meeting after his appointment and Dr. Hans-Joachim KÖRBER who was appointed on May 5, 2008 shall also retire at the forthcoming AGM and is eligible for re-election. Their biographical details will be set out in the circular to shareholders to assist shareholders in making an informed decision on their re-elections. None of the Directors standing for re-election at the forthcoming AGM has a service contract with any member of the Group which is not determinable by the relevant employer within one year without payment of compensation (other than statutory compensation).

\* Including Mr. John POON Cho Ming, who resigned on July 20, 2008.

Mr. Thomas Johannes GROTE has entered into service contract with a member of the Group that does not provide for a fixed term of service. Mr. GROTE's employment can be terminated by the Company by giving a notice period of not more than one year.

Neither Dr. Hans-Joachim KÖRBER nor Mr. Raymond OR Ching Fai has entered into service contract with any member of the Group. They have no fixed term of service with the Company and are subject to retirement by rotation and re-election in accordance with the Company's Bye-laws.

#### Board Committees

To oversee particular aspects of the Company's affairs and to assist in the execution of its responsibilities, the Board has established four Board Committees, namely Audit Committee, Nomination Committee, Remuneration Committee and General Committee. Non-executive Directors play an important role in Audit Committee, Nomination Committee and Remuneration Committee to ensure independent and objective views are expressed and to promote critical review and control.

Terms of reference of the Audit Committee, the Nomination Committee and the Remuneration Committee are available on the Company's website. A summary of the membership and responsibilities of each committee is included below:

#### Audit Committee

##### Members

ALEXANDER REID HAMILTON  
(Chairman)  
PAUL CHENG MING FUN  
JÜRGEN ALFRED RUDOLF FRIEDRICH  
HANS-JOACHIM KÖRBER  
(appointed on May 5, 2008)  
RAYMOND OR CHING FAI

##### Responsibilities

- Provide an independent review of the effectiveness of the financial reporting process and the internal control and risk management systems;
- Review of financial information of the Company; and
- Oversee the audit process and perform other duties as assigned by the Board

The Audit Committee is provided with sufficient resources to discharge its duties and meets regularly with management, internal auditors and external auditors and reviews their reports. During the financial year, the Audit Committee reviewed the interim results and the annual results of the Group for the year ended June 30, 2008 as well as the accounting principles and practices adopted by the Group. It also reviewed the nature, scope and findings of internal and external audits, and the Company's treasury activities, liquidity and risk management. Our Chief Financial Officer/ Deputy Chief Financial Officer, the external auditors, internal auditors and senior management attended the meetings to answer any questions raised by the Audit Committee.

#### Nomination Committee

##### Members

PAUL CHENG MING FUN  
(Chairman)  
HEINZ JÜRGEN KROGNER-KORNALIK  
ALEXANDER REID HAMILTON  
HANS-JOACHIM KÖRBER  
(appointed on May 5, 2008)  
RAYMOND OR CHING FAI  
JOHN POON CHO MING  
(resigned on July 20, 2008)

##### Responsibilities

- Review and recommend the structure, size and composition of the Board;
- Identify and recommend individuals suitably qualified to become Board member(s);
- Assess the independence of Independent Non-executive Directors;
- Recommend to the Board on relevant matters relating to the appointment or re-appointment of Directors and succession planning for Directors;
- Keep under review the leadership needs of the organization with a view to ensuring the Company competes effectively in the market place; and
- Make recommendations concerning membership of the Audit Committee, Remuneration Committee and General Committee

In evaluating whether an appointee is suitable to act as a Director, the Board will consider the skills and expertise of the appointee; as well as personal ethics, integrity and the willingness to commit time to the affairs of the Group. Where the appointee is appointed as an Independent Non-executive Director, the Nomination Committee will also consider his/her independence.

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## CORPORATE GOVERNANCE REPORT

### Remuneration Committee

#### Members

RAYMOND OR CHING FAI  
(Chairman)  
HEINZ JÜRGEN KROGNER-KORNALIK  
PAUL CHENG MING FUN  
ALEXANDER REID HAMILTON  
HANS-JOACHIM KÖRBER  
(appointed on May 5, 2008)

#### Responsibilities

- Recommend to the Board on the Group's policy and structure for all remuneration of Directors and Senior Management and on the establishment of a formal and transparent procedure for developing policy on such remuneration;
- Determine specific remuneration packages of all Executive Directors and Senior Management;
- Review and approve the compensation payable to Executive Directors and Senior Management in connection with any loss or termination of office or appointment; and those in connection with dismissal or removal of Directors for misconduct;
- Recommend remuneration for Non-executive Directors;
- Review and approve performance-based remuneration of Executive Directors and Senior Management;
- Review the design of share incentive schemes for approval by the Board and shareholders and determine whether awards will be made; and
- Ensure that no Director or any of his associates is involved in deciding his own remuneration

### General Committee

#### Members

HEINZ JÜRGEN KROGNER-KORNALIK  
THOMAS JOHANNES GROTE  
JOHN POON CHO MING  
(resigned on July 20, 2008)

#### Responsibilities

- Discuss, consider and approve routine corporate administrative matters of the Company

#### Board meetings and minutes

The Board conducts at least four regular Board meetings a year and additional meetings are held as and when required to discuss significant events or important issues. Sufficient notice is given for regular Board meetings to all Directors enabling them to attend and reasonable notice will be given in case of special Board meetings. The Group ensures that appropriate and sufficient information is provided to Board members in a timely manner to keep them abreast of the Group's latest developments thereby assisting them in the discharge of their duties. Minutes of the Board, the Audit Committee, the Remuneration Committee, the Nomination Committee and the General Committee are kept by the Company Secretary, which are open for inspection following reasonable notice by any Director.

Minutes of the Board meetings and Board Committee meetings have been recorded in sufficient detail including any matters considered in the meetings, decisions reached and concerns or queries raised by the Directors or dissenting views expressed. Draft and final versions of minutes of the Board and other Board Committees are sent to all Directors or committee members for comments and records respectively within a reasonable time after the meeting.

The attendance of individual members of the Board and other Board Committees meetings during the financial year ended June 30, 2008 is set out in the table below:

### Meetings attended/held

Directors	Board	Audit Committee	Nomination Committee	Remuneration Committee
<b>Executive Directors</b>				
HEINZ JÜRGEN KROGNER-KORNALIK	4/4		2/2	2/2
THOMAS JOHANNES GROTE	4/4			
JEROME SQUIRE GRIFFITH	4/4			
JOHN POON CHO MING (resigned on July 20, 2008)	4/4		2/2	
<b>Non-executive Directors</b>				
JÜRGEN ALFRED RUDOLF FRIEDRICH	2/4	2/4		
MICHAEL YING LEE YUEN (resigned on January 30, 2008)	2/3			
<b>Independent Non-executive Directors</b>				
PAUL CHENG MING FUN	4/4	3/4	2/2	2/2
ALEXANDER REID HAMILTON	4/4	4/4	1/2	1/2
HANS-JOACHIM KÖRBER (appointed on May 5, 2008)	1/1			
RAYMOND OR CHING FAI	3/4	4/4	2/2	2/2

#### Professional advice

The Company has established a policy enabling all Directors to seek independent professional advice in appropriate circumstances, at the Company's expense. The Board provides separate independent professional advice to Directors to assist the relevant Director or Directors to discharge their duties to the Company as and when requested or necessary.

#### Internal control and risk management

A sound internal control system minimizes the Group's risk exposure while facilitating the effectiveness and efficiency of its operations. The system is independently reviewed on an on-going basis so that practical and effective control systems are implemented. Such controls aim to provide reasonable assurance in protecting material assets and in identifying, monitoring and managing risks associated with its business activities. The Group has implemented practical and effective control systems including:

- A tailored organizational and governance structure with clearly defined lines of responsibility;
- Effective budgeting and forecasting systems for performance measurement and monitoring of business units;
- A quarterly review of performance by the Audit Committee and the Board;
- Global protection of the Group's intellectual property rights;
- Group wide insurance programs as a measure to minimize risks; and
- A global cash management system for the enhancement of control and yield of cash assets.

In addition, the on-going risk assessment also serves as a mechanism that enables us to maintain the strength in our internal control system.

#### Internal audit function

The Company's Internal Audit function ("Internal Audit") is responsible for performing regular and systematic reviews of internal control system. The reviews provide reasonable assurance that the internal control system continues to operate satisfactorily and effectively within the Group and the Company. The attainment of such objectives involves the following activities being carried out by Internal Audit:

- Reviewing and appraising the soundness, adequacy and application of accounting, financial and other controls and promoting effective control in the Group and the Company;
- Ascertaining the extent of compliance with established policies, procedures and statutory requirements;
- Ascertaining the extent to which the Group's and the Company's assets are accounted for and safeguarded from losses of all kinds;
- Appraising the reliability and usefulness of information for reporting to management;
- Recommending improvements to the existing system of internal control; and
- Carrying out investigations and special reviews requested by management and/or the Audit Committee of the Company

To complement the in-house Internal Audit, the Company has appointed an outside internal auditor to perform periodic internal audits. Internal auditors present the audit reports to the Audit Committee and would follow up on any action plans agreed by management.

The Code requires the Board to carry out a review on the effectiveness of the Company's system of internal control. During the year, the Board, through the Audit Committee and the assistance of Internal Audit, has reviewed the effectiveness of the Group's system of internal control. Testing was also performed on high level controls in the current year.

#### Channels for shareholders participation

##### Meeting procedures

Shareholders holding not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company can submit a signed written requisition, specifying the objectives, to the Board or the Secretary of the Company to require the convening of a special general meeting ("SGM") and deposit the requisition at the Company's Hong Kong head office at 43/F, Enterprise Square Three, 39 Wang Chiu Road, Kowloon Bay, Kowloon, Hong Kong.

##### Voting by poll

The Company's shareholders are adequately informed of their rights and the procedures to demand voting by poll in general meetings at which their approvals are sought through disclosure in the Company's circulars to shareholders.

At the 2007 AGM, the Chairman of the Meeting demanded voting by poll on all resolutions put forth at the meeting. The procedures for demanding a poll by the shareholders were set out in the circular sent to the shareholders in the time stipulated and were explained

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## CORPORATE GOVERNANCE REPORT

to the shareholders on commencement of the 2007 AGM. Tricor Secretaries Limited (previously known as “Secretaries Limited”), the Company’s branch share registrar in Hong Kong, was appointed as the scrutineer for voting by poll at the 2007 AGM to ensure the votes were properly counted.

### Pro-active investor relations

The Board of Esprit recognizes the importance of maintaining two-way communication with its shareholders. Annual and interim reports offer comprehensive operational and financial performance information to shareholders and the AGM provides a forum for shareholders to exchange views directly with the Board. Our Investor Relations Department communicates with research analysts and institutional investors in an on-going manner. To ensure that our investors have a better understanding of the Company, including, among others, its performance, business activities and strategy, our management engages in pro-active investor relations program. Our Group CEO, President Esprit brand and our Chief Financial Officer/ Deputy Chief Financial Officer meet with research analysts and the press after our results announcements, attend major investors’ conferences and participate in international non-deal roadshows to communicate the Company’s financial performance and global business strategy. The Company also practices timely and non-selective dissemination of material information. Current information on the Company including interim and annual reports, announcements and press releases, presentations and webcasts can be retrieved through our investor relations website [www.espritholdings.com](http://www.espritholdings.com). Information on the website is updated in a timely manner to ensure that speed, fairness and transparency remain the hallmarks of our disclosure practices.

### Compliance with the code on corporate governance practices

The Company has applied the principles and complied with the Code throughout the year ended June 30, 2008, except that: (i) Non-executive Directors of the Company do not have a specific term of appointment as detailed above (code provision A.4.1); and (ii) the role of chairman and chief executive officer is performed by the same individual as noted below (code provision A.2.1).

Under the code provision A.2.1 of the Code, the role of chairman and chief executive officer should be separated and should not be performed by the same individual. Mr. Heinz Jürgen KROGNER-KORNALIK, Group CEO, was unanimously elected by the Board as Chairman on December 5, 2006. The dual role arrangement is considered to be appropriate by the Board at the current stage of development of the Company and will be reviewed periodically. The respective responsibilities of the Chairman and the Group CEO are set out in the Esprit Corporate Governance handbook.

The Esprit Corporate Governance Code has been adopted by the Board of the Company throughout the financial year ended June 30, 2008 which ensures greater transparency and quality of disclosure as well as more effective risk control.

### Model Code for Securities Transactions by Directors

The Company has adopted a code of conduct regarding Directors’ securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) contained in Appendix 10 of the Listing Rules.

The Company has made specific enquiry with all Directors and all of them confirmed that, for the financial year ended June 30, 2008, they have complied with the required standard set out in the Model Code.

### Directors’ responsibilities for the financial statements

The Directors are responsible for overseeing the preparation of financial statements for the year ended June 30, 2008, to ensure that they give a true and fair view of the state of affairs of the Group and of its profit and cash flows for that financial year. In reviewing the financial statements for the year ended June 30, 2008, the Directors are satisfied that Management have selected appropriate accounting policies, applied them consistently in accordance with the International Financial Reporting Standards and made judgments and estimates that are prudent and reasonable, and have prepared the financial statements on the going concern basis.

The Directors are responsible to ensure the maintenance of proper accounting records, safeguarding of the assets of the Company and taking reasonable steps for the prevention and detection of fraud and other irregularities.

### Auditors’ remuneration

A summary of fees for audit and non-audit services to the external auditors for the financial years ended June 30, 2008 and June 30, 2007 is as follows:

Nature of the services	2008	2007
	HK\$ million	HK\$ million
<b>Audit services</b>	<b>14</b>	11
<b>Other services*</b>	<b>3</b>	8
	<b>17</b>	19

\* Non-audit service fees are mainly for tax compliance and related services, and advisory services in relation to employee benefits.

## 05.2 REPORT OF THE DIRECTORS

The Directors have pleasure in presenting their annual report and the audited financial statements for the year ended June 30, 2008.

### PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of the principal subsidiaries are shown in note 30 to the financial statements. The Group is principally engaged in wholesale and retail distribution and licensing of quality fashion and life-style products designed under its own internationally-known Esprit brand name, together with Red Earth cosmetics, skin and body care products.

### RESULTS AND APPROPRIATIONS

The results of the Group and appropriations of the Company are set out in the consolidated income statement on page 99 and in the accompanying notes to the financial statements.

The interim dividend of HK\$0.95 per share, totaling HK\$1,181 million, was paid on April 3, 2008.

The Directors recommend the payment of a final dividend of HK\$1.15 per share and a special dividend of HK\$2.10 per share. Details are set out in note 9 to the financial statements.

### RESERVES

Movements in reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on page 103 and in note 29 to the financial statements respectively.

### SHARE CAPITAL

During the year, 12,700,000 (2007: 10,950,000) ordinary shares of HK\$0.10 each were issued in relation to the share options exercised by Directors and employees under the share option scheme of the Company adopted on November 26, 2001 at exercise prices in the range of HK\$14.60 to HK\$86.85 each (representing a premium in the range of HK\$14.50 to HK\$86.75 each). Further details of movements in share capital of the Company are set out in note 20 to the financial statements.

### FINANCIAL SUMMARY

A summary of the results and the balance sheets of the Group for the last five financial years is set out on page 151.

### PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the year are set out in note 14 to the financial statements.

### PENSION SCHEMES

Particulars of pension schemes of the Group are set out in note 11 to the financial statements.

### PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at June 30, 2008 are set out in note 30 to the financial statements.

### CHARITABLE DONATIONS

During the year, the Group made charitable donations totaling HK\$10 million.

Esprit Cares Trusts were set up to provide dedicated resources for worthy charitable causes. During the year, Esprit Cares Trusts have made a number of donations, including but not limited to SOS Children's Village of India, Red Cross Society of China – Sichuan Earthquake Relief and The Community Chest.

Particulars of the charitable initiatives undertaken by the Group are set out in the Corporate Social Responsibilities section on pages 59 to 71 to this report.

### DIRECTORS

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

#### Executive Directors

HEINZ JÜRGEN KROGNER-KORNALIK

(Chairman)

THOMAS JOHANNES GROTE

JEROME SQUIRE GRIFFITH

JOHN POON CHO MING

(resigned on July 20, 2008)

#### Non-executive Directors

JÜRGEN ALFRED RUDOLF FRIEDRICH

MICHAEL YING LEE YUEN

(resigned on January 30, 2008)

#### Independent Non-executive Directors

PAUL CHENG MING FUN

(Deputy Chairman)

ALEXANDER REID HAMILTON

HANS-JOACHIM KÖRBER

(appointed on May 5, 2008)

RAYMOND OR CHING FAI

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## REPORT OF THE DIRECTORS

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

### DIRECTORS AND SENIOR MANAGEMENT PROFILE

#### Executive Directors

**HEINZ JÜRGEN KROGNER-KORNALIK**, aged 67, is Executive Director and Group Chief Executive Officer, became Chairman of the Board effective from December 5, 2006. He has been with the Group since January 1995. Mr. KROGNER is primarily responsible for the overall corporate direction and strategy of the Group, as well as providing leadership for the management in achieving the goals and targets set by the Board. He possesses a degree in business administration and industrial engineering. He was a consultant with Kurt Salmon Associates in a variety of areas, including production, organization, marketing, strategy and brand positioning, as well as with several textile firms, always in executive positions, before joining the Group.

**THOMAS JOHANNES GROTE**, aged 45, is President of the Esprit brand. In addition to acting as a major player in formulating and setting the global strategy of the Esprit brand, Mr. GROTE is responsible for ensuring proper execution of such global strategy. He is also responsible for overseeing all aspects of the Group's operations, including the Group's wholesale, retail and licensing business. Mr. GROTE has been with the Group for more than 14 years and during this time, has been overseeing the significant development and growth of the Group. He completed business college in 1983 and has over 20 years of experience in the fashion and textile industry.

**JEROME SQUIRE GRIFFITH**, aged 50, is President of Esprit North America. Before taking up his current position, Mr. GRIFFITH has years of experience at the global business headquarters in Ratingen, Germany where he was responsible for the global retail operation. Before joining the Group in 2002, he held senior positions in major retail companies in the United States and Europe. He received his Bachelor of Science Degree in Marketing from Pennsylvania State University.

#### Non-executive Directors

**PAUL CHENG MING FUN**, aged 71, Independent Non-executive Director of the Company since November 2002 and became Deputy Chairman of the Company effective from July 20, 2008. Mr. CHENG is also an independent non-executive director of several companies which are listed on The Stock Exchange of Hong Kong Limited, and the AIM Board of the London Stock Exchange. He was a former member of the Hong Kong Legislative Council as well as Chairman of Inchcape Pacific Limited, N M Rothschild & Sons (Hong Kong) Ltd., the Hong Kong General Chamber of Commerce, and the American Chamber of Commerce in Hong Kong. He is currently an Honorary Steward of the Hong Kong Jockey Club.

**JÜRGEN ALFRED RUDOLF FRIEDRICH**, aged 70, founded Esprit's European operations in 1976 and was appointed a Non-executive Director in 1997. He has over 32 years of experience in the apparel distribution and marketing business and is currently retired in Switzerland.

**ALEXANDER REID HAMILTON**, aged 66, has been an Independent Non-executive Director of the Company since August 1995. He is also a director of CITIC Pacific Limited, China Cosco Holdings Company Limited, Shangri-La Asia Limited, China Central Properties Limited and a number of other Hong Kong companies. He was a partner of Price Waterhouse with whom he practiced for 16 years.

**HANS-JOACHIM KÖRBER**, aged 62, was appointed an Independent Non-executive Director in May 2008. Dr. KÖRBER has 32 years of experience in finance & accounting, controlling, logistics and IT, including 23 years of experience in retailing. He graduated as Master Brewer in brewing technology and earned a doctor degree in business management from Technical University of Berlin, Germany. Dr. KÖRBER was the former Chairman and Chief Executive Officer of Metro AG, one of the world's largest retailers, until his retirement at the end of 2007. He is a director of Air Berlin PLC, Skandinaviska Enskilda Banken AB and Sysco Corporation.

**RAYMOND OR CHING FAI**, aged 58, was appointed an Independent Non-executive Director of the Company in 1996. He is the Vice Chairman and Chief Executive of Hang Seng Bank Limited, a director of The Hongkong and Shanghai Banking Corporation Limited, Cathay Pacific Airways Limited, Hutchison Whampoa Limited, 2009 East Asian Games (Hong Kong) Limited and Chairman of Hang Seng Life Limited.

### Senior Management

**CHRISTOPH AUHAGEN**, aged 48, is Senior Vice President Collection. He is responsible for the planning and execution of a global product strategy for Collection. Mr. AUHAGEN joined the Group in May 2007. He has 25 years of solid experience gaining from various garment manufacturing companies and from a reputable retail department store chain in Germany. He acted as managing director of a garment manufacturing company for 10 years prior to joining the Group.

**URSULA BUCK**, aged 46, is Head of Global Licensing. She holds a Bachelor Degree in Business Management and Economics from the University of Augsburg. She joined the Group in 2002 and has 14 years' experience in licensing fashion products. Prior to joining the Group, she worked in lifestyle companies such as Valentino and Hugo Boss and has 7 years' experience with McKinsey & Company, a management consultancy firm.

**BELLA CHHOA PECK LIM**, aged 38, is Company Secretary and Senior Vice President – Group Legal and Compliance. She joined the Group in March 2006, has been overseeing the Group's legal, company secretarial and tax compliance matters. Ms. CHHOA is a solicitor qualified to practice in Hong Kong. Prior to joining the Group, she had been the company secretary of another company listed on The Stock Exchange of Hong Kong Limited for a number of years. She graduated from the University of Hong Kong with a degree in law in 1993. She also has a master of business administration degree from the Chinese University of Hong Kong.

**BRIAN LEX AUSTIN GEMAS**, aged 41, is Global Retail Manager. Following his 18 years of experience in the retail industry, including various leadership positions at global apparel companies, he joined Esprit in 2005. Within the group, he has previously held the positions of Head of Merchandise Operations – Europe, and Head of Global Planning.

**UDO GREISER**, aged 51, is Global Product Director – edc. He began his professional career in the consumer electronics sector in 1991, where he gained his expertise in the areas of sales and distribution in retail, of which his last position was Managing Director. In 2002, he joined the Group as Sales Manager – edc and was appointed as Global Business Manager – edc in 2003.

**WOLFRAM HAIL**, aged 49, is President Asia Pacific Esprit. He joined the Group in August 2007. He is in charge of the overall business strategy of Asia Pacific region of the Esprit Group. Prior to joining the Group, he had worked with various reputable global apparel companies, all in senior management roles. He has 25 years of extensive experience in the apparel industry. He holds a Master of Business Administration degree (Diplom-Kaufmann) with the University of Cologne.

**PATRICK LAU YIU PONG**, aged 41, is Senior Vice President – Group Finance. He has been with the Group for over 8 years. He is responsible for various Group Finance functions including corporate finance, investor relations, treasury and business analysis. He has over 15 years' experience in corporate finance with various listed companies. He holds a bachelor of applied science degree from the University of Toronto. He also has a master of business administration degree from Schulich School of Business, York University.

**JIM NOWAK**, aged 36, is Senior Vice President – Head of Esprit Casual. He has 19 years of working experience, all gained from the apparel industry. He has served the Group for 8 years and has worked in various divisions such as edc, women and men casual, and kids division before being made Senior Vice President – Head of Esprit Casual of the Group in October 2007. He is in charge of the global strategy for Esprit casual lines.

**ERNST-PETER VOGEL**, aged 43, is Deputy Chief Financial Officer of the Group. He is primarily responsible for the Group's finance functions including the Group's

statutory and management reporting. He joined the Group in 2003 as Senior Vice President – Finance Europe and has been overseeing various global finance projects of the Group in the past years. He has over 10 years of extensive experience in finance and tax matters and possesses the qualification as a German CPA and tax advisor. He holds a Master of Business Administration degree (Diplom-Kaufmann) with the University of Frankfurt. Prior to joining the Group, he headed the finance team of an international lifestyle group.

### DIRECTORS' EMOLUMENTS

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

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

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## REPORT OF THE DIRECTORS

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

The remuneration of all the Directors during the financial year, excluding Directors' interests in share options of the Company which are detailed in "share options" section below, is set out in note 12 to the financial statements.

Particulars of the Directors' and senior management's emoluments disclosed pursuant to Section 161 of the Companies Ordinance and Appendix 16 of the Listing Rules are set out in note 12 to the financial statements.

### SHARE OPTIONS

The Company adopted a share option scheme on November 26, 2001 (the "2001 Share Option Scheme"). Particulars of the 2001 Share Option Scheme are set out in note 20 to the financial statements.

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

### Directors

#### HEINZ JÜRGEN KROGNER-KORNALIK

Date of Grant (mm/dd/yyyy)	Exercise Price (HK\$)	Vesting Date (mm/dd/yyyy)	Exercise Period (mm/dd/yyyy)	Number of Share Options				As at 06/30/2008
				As at 07/01/2007	Granted	Exercised	Lapsed	
11/26/2002	14.60	11/26/2007	11/26/2007 – 11/25/2008	800,000	–	800,000	–	–
11/26/2003	24.20	11/26/2007	11/26/2007 – 11/25/2009	600,000	–	600,000	–	–
		11/26/2008	11/26/2008 – 11/25/2009	600,000	–	–	–	600,000
11/27/2004	42.58	11/27/2007	11/27/2007 – 11/26/2010	600,000	–	600,000	–	–
		11/27/2008	11/27/2008 – 11/26/2010	600,000	–	–	–	600,000
		11/27/2009	11/27/2009 – 11/26/2010	600,000	–	–	–	600,000
02/07/2007	83.00	02/07/2008	02/07/2008 – 02/06/2013	160,000	–	–	–	160,000
		02/07/2009	02/07/2009 – 02/06/2013	160,000	–	–	–	160,000
		02/07/2010	02/07/2010 – 02/06/2013	160,000	–	–	–	160,000
		02/07/2011	02/07/2011 – 02/06/2013	160,000	–	–	–	160,000
02/11/2008	102.12	02/07/2012	02/07/2012 – 02/06/2013	160,000	–	–	–	160,000
		02/11/2009	02/11/2009 – 02/10/2014	–	120,000	–	–	120,000
		02/11/2010	02/11/2010 – 02/10/2014	–	120,000	–	–	120,000
		02/11/2011	02/11/2011 – 02/10/2014	–	120,000	–	–	120,000
		02/11/2012	02/11/2012 – 02/10/2014	–	120,000	–	–	120,000
		02/11/2013	02/11/2013 – 02/10/2014	–	120,000	–	–	120,000
In aggregate				4,600,000	600,000	2,000,000	–	3,200,000

SHARE OPTIONS (continued)

Directors (continued)

THOMAS JOHANNES GROTE

Date of Grant (mm/dd/yyyy)	Exercise Price (HK\$)	Vesting Date (mm/dd/yyyy)	Exercise Period (mm/dd/yyyy)	Number of Share Options				As at 06/30/2008
				As at 07/01/2007	Granted	Exercised	Lapsed	
11/26/2002	14.60	11/26/2006	11/26/2006 – 11/25/2008	320,000	-	320,000	-	-
		11/26/2007	11/26/2007 – 11/25/2008	320,000	-	320,000	-	-
11/26/2003	24.20	11/26/2006	11/26/2006 – 11/25/2009	240,000	-	-	-	240,000
		11/26/2007	11/26/2007 – 11/25/2009	240,000	-	-	-	240,000
		11/26/2008	11/26/2008 – 11/25/2009	240,000	-	-	-	240,000
11/27/2004	42.58	11/27/2006	11/27/2006 – 11/26/2010	240,000	-	-	-	240,000
		11/27/2007	11/27/2007 – 11/26/2010	240,000	-	-	-	240,000
		11/27/2008	11/27/2008 – 11/26/2010	240,000	-	-	-	240,000
		11/27/2009	11/27/2009 – 11/26/2010	240,000	-	-	-	240,000
12/05/2006	80.95	12/05/2007	12/05/2007 – 12/04/2012	160,000	-	-	-	160,000
		12/05/2008	12/05/2008 – 12/04/2012	160,000	-	-	-	160,000
		12/05/2009	12/05/2009 – 12/04/2012	160,000	-	-	-	160,000
		12/05/2010	12/05/2010 – 12/04/2012	160,000	-	-	-	160,000
		12/05/2011	12/05/2011 – 12/04/2012	160,000	-	-	-	160,000
12/05/2007	118.70	12/05/2008	12/05/2008 – 12/04/2013	-	120,000	-	-	120,000
		12/05/2009	12/05/2009 – 12/04/2013	-	120,000	-	-	120,000
		12/05/2010	12/05/2010 – 12/04/2013	-	120,000	-	-	120,000
		12/05/2011	12/05/2011 – 12/04/2013	-	120,000	-	-	120,000
		12/05/2012	12/05/2012 – 12/04/2013	-	120,000	-	-	120,000
In aggregate				3,120,000	600,000	640,000	-	3,080,000

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## REPORT OF THE DIRECTORS

### SHARE OPTIONS (continued)

#### Directors (continued)

JEROME SQUIRE GRIFFITH				Number of Share Options				
Date of Grant (mm/dd/yyyy)	Exercise Price (HK\$)	Vesting Date (mm/dd/yyyy)	Exercise Period (mm/dd/yyyy)	As at 07/01/2007	Granted	Exercised	Lapsed	As at 06/30/2008
11/26/2002	14.60	11/26/2006	11/26/2006 – 11/25/2008	320,000	-	320,000	-	-
		11/26/2007	11/26/2007 – 11/25/2008	320,000	-	320,000	-	-
11/26/2003	24.20	11/26/2006	11/26/2006 – 11/25/2009	240,000	-	240,000	-	-
		11/26/2007	11/26/2007 – 11/25/2009	240,000	-	240,000	-	-
		11/26/2008	11/26/2008 – 11/25/2009	240,000	-	-	-	240,000
11/27/2004	42.58	11/27/2006	11/27/2006 – 11/26/2010	240,000	-	240,000	-	-
		11/27/2007	11/27/2007 – 11/26/2010	240,000	-	240,000	-	-
		11/27/2008	11/27/2008 – 11/26/2010	240,000	-	-	-	240,000
		11/27/2009	11/27/2009 – 11/26/2010	240,000	-	-	-	240,000
In aggregate				2,320,000	-	1,600,000	-	720,000

SHARE OPTIONS (continued)

Directors (continued)

JOHN POON CHO MING (resigned on July 20, 2008)

Date of Grant (mm/dd/yyyy)	Exercise Price (HK\$)	Vesting Date (mm/dd/yyyy)	Exercise Period (mm/dd/yyyy)	Number of Share Options				As at 06/30/2008
				As at 07/01/2007	Granted	Exercised	Lapsed	
11/26/2002	14.60	11/26/2007	11/26/2007 – 11/25/2008	480,000	-	480,000	-	-
11/26/2003	24.20	11/26/2007	11/26/2007 – 11/25/2009	360,000	-	360,000	-	-
		11/26/2008	11/26/2008 – 11/25/2009	360,000	-	-	-	360,000
11/27/2004	42.58	11/27/2007	11/27/2007 – 11/26/2010	360,000	-	360,000	-	-
		11/27/2008	11/27/2008 – 11/26/2010	360,000	-	-	-	360,000
		11/27/2009	11/27/2009 – 11/26/2010	360,000	-	-	-	360,000
02/07/2007	83.00	02/07/2008	02/07/2008 – 02/06/2013	160,000	-	-	-	160,000
		02/07/2009	02/07/2009 – 02/06/2013	160,000	-	-	-	160,000
		02/07/2010	02/07/2010 – 02/06/2013	160,000	-	-	-	160,000
		02/07/2011	02/07/2011 – 02/06/2013	160,000	-	-	-	160,000
		02/07/2012	02/07/2012 – 02/06/2013	160,000	-	-	-	160,000
02/11/2008	102.12	02/11/2009	02/11/2009 – 02/10/2014	-	120,000	-	-	120,000
		02/11/2010	02/11/2010 – 02/10/2014	-	120,000	-	-	120,000
		02/11/2011	02/11/2011 – 02/10/2014	-	120,000	-	-	120,000
		02/11/2012	02/11/2012 – 02/10/2014	-	120,000	-	-	120,000
		02/11/2013	02/11/2013 – 02/10/2014	-	120,000	-	-	120,000
In aggregate				3,080,000	600,000	1,200,000	-	2,480,000

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## REPORT OF THE DIRECTORS

### SHARE OPTIONS (continued)

#### Employees & Consultants

Date of Grant (mm/dd/yyyy)	Exercise Price (HK\$)	Vesting Date (mm/dd/yyyy)	Exercise Period (mm/dd/yyyy)	Number of Share Options				
				As at 07/01/2007	Granted	Exercised	Lapsed	As at 06/30/2008
11/26/2002	14.60	11/26/2005	11/26/2005 – 11/25/2008	120,000	–	–	–	120,000
		11/26/2006	11/26/2006 – 11/25/2008	580,000	–	220,000	–	360,000
		11/26/2007	11/26/2007 – 11/25/2008	2,296,000	–	1,516,000	60,000	720,000
11/26/2003	24.20	11/26/2005	11/26/2005 – 11/25/2009	65,000	–	65,000	–	–
		11/26/2006	11/26/2006 – 11/25/2009	600,000	–	185,000	–	415,000
		11/26/2007	11/26/2007 – 11/25/2009	2,102,000 <sup>(Note B)</sup>	–	1,292,000	40,000	770,000
		11/26/2008	11/26/2008 – 11/25/2009	2,102,000 <sup>(Note B)</sup>	–	–	280,000	1,822,000
12/23/2003	24.45	12/23/2006	12/23/2006 – 12/22/2009	120,000	–	–	–	120,000
		12/23/2007	12/23/2007 – 12/22/2009	120,000	–	–	–	120,000
		12/23/2008	12/23/2008 – 12/22/2009	120,000	–	–	–	120,000
11/27/2004	42.58	11/27/2005	11/27/2005 – 11/26/2010	580,000 <sup>(Note B)</sup>	–	300,000	–	280,000
		11/27/2006	11/27/2006 – 11/26/2010	1,000,000 <sup>(Note B)</sup>	–	390,000	160,000	450,000
		11/27/2007	11/27/2007 – 11/26/2010	2,707,000 <sup>(Note B)</sup>	–	1,642,000	270,000	795,000
		11/27/2008	11/27/2008 – 11/26/2010	2,707,000 <sup>(Note B)</sup>	–	–	600,000	2,107,000
		11/27/2009	11/27/2009 – 11/26/2010	2,707,000 <sup>(Note B)</sup>	–	–	600,000	2,107,000
12/23/2004	47.10	12/23/2005	12/23/2005 – 12/22/2010	90,000	–	–	–	90,000
		12/23/2006	12/23/2006 – 12/22/2010	90,000	–	–	–	90,000
		12/23/2007	12/23/2007 – 12/22/2010	90,000	–	–	–	90,000
		12/23/2008	12/23/2008 – 12/22/2010	90,000	–	–	–	90,000
		12/23/2009	12/23/2009 – 12/22/2010	90,000	–	–	–	90,000
01/21/2005	45.60	01/21/2008	01/21/2008 – 01/20/2011	80,000	–	80,000	–	–
		01/21/2009	01/21/2009 – 01/20/2011	80,000	–	–	–	80,000
		01/21/2010	01/21/2010 – 01/20/2011	80,000	–	–	–	80,000
11/28/2005	55.11	11/28/2006	11/28/2006 – 11/27/2011	345,000	–	90,000	120,000	135,000
		11/28/2007	11/28/2007 – 11/27/2011	810,000	–	480,000	180,000	150,000
		11/28/2008	11/28/2008 – 11/27/2011	810,000	–	–	360,000	450,000
		11/28/2009	11/28/2009 – 11/27/2011	810,000	–	–	360,000	450,000
		11/28/2010	11/28/2010 – 11/27/2011	810,000	–	–	360,000	450,000
12/02/2005	56.20	12/02/2006	12/02/2006 – 12/01/2011	100,000	–	–	–	100,000
		12/02/2007	12/02/2007 – 12/01/2011	280,000 <sup>(Note B)</sup>	–	140,000	–	140,000
		12/02/2008	12/02/2008 – 12/01/2011	280,000 <sup>(Note B)</sup>	–	–	–	280,000
		12/02/2009	12/02/2009 – 12/01/2011	280,000 <sup>(Note B)</sup>	–	–	–	280,000
		12/02/2010	12/02/2010 – 12/01/2011	280,000 <sup>(Note B)</sup>	–	–	–	280,000

SHARE OPTIONS (continued)

Employees & Consultants (continued)

Date of Grant (mm/dd/yyyy)	Exercise Price (HK\$)	Vesting Date (mm/dd/yyyy)	Exercise Period (mm/dd/yyyy)	Number of Share Options				
				As at 07/01/2007	Granted	Exercised	Lapsed	As at 06/30/2008
12/23/2005	56.50	12/23/2006	12/23/2006 – 12/22/2011	90,000	-	-	-	90,000
		12/23/2007	12/23/2007 – 12/22/2011	90,000	-	-	-	90,000
		12/23/2008	12/23/2008 – 12/22/2011	90,000	-	-	-	90,000
		12/23/2009	12/23/2009 – 12/22/2011	90,000	-	-	-	90,000
		12/23/2010	12/23/2010 – 12/22/2011	90,000	-	-	-	90,000
02/23/2006	64.31	02/23/2007	02/23/2007 – 02/22/2012	60,000	-	60,000	-	-
		02/23/2008	02/23/2008 – 02/22/2012	140,000	-	140,000	-	-
		02/23/2009	02/23/2009 – 02/22/2012	140,000	-	-	-	140,000
		02/23/2010	02/23/2010 – 02/22/2012	140,000	-	-	-	140,000
		02/23/2011	02/23/2011 – 02/22/2012	140,000	-	-	-	140,000
11/27/2006	80.60	11/27/2007	11/27/2007 – 11/26/2012	405,000	-	300,000	60,000	45,000
		11/27/2008	11/27/2008 – 11/26/2012	405,000	-	-	150,000	255,000
		11/27/2009	11/27/2009 – 11/26/2012	405,000	-	-	150,000	255,000
		11/27/2010	11/27/2010 – 11/26/2012	405,000	-	-	150,000	255,000
		11/27/2011	11/27/2011 – 11/26/2012	405,000	-	-	150,000	255,000
12/04/2006	79.49	12/04/2007	12/04/2007 – 12/03/2012	210,000 <sup>(Note 8)</sup>	-	60,000	-	150,000
		12/04/2008	12/04/2008 – 12/03/2012	210,000 <sup>(Note 8)</sup>	-	-	-	210,000
		12/04/2009	12/04/2009 – 12/03/2012	210,000 <sup>(Note 8)</sup>	-	-	-	210,000
		12/04/2010	12/04/2010 – 12/03/2012	210,000 <sup>(Note 8)</sup>	-	-	-	210,000
		12/04/2011	12/04/2011 – 12/03/2012	210,000 <sup>(Note 8)</sup>	-	-	-	210,000
12/05/2006	80.95	12/05/2007	12/05/2007 – 12/04/2012	976,000 <sup>(Note 8)</sup>	-	240,000	120,000	616,000
		12/05/2008	12/05/2008 – 12/04/2012	976,000 <sup>(Note 8)</sup>	-	-	280,000	696,000
		12/05/2009	12/05/2009 – 12/04/2012	976,000 <sup>(Note 8)</sup>	-	-	280,000	696,000
		12/05/2010	12/05/2010 – 12/04/2012	976,000 <sup>(Note 8)</sup>	-	-	280,000	696,000
		12/05/2011	12/05/2011 – 12/04/2012	976,000 <sup>(Note 8)</sup>	-	-	280,000	696,000
02/07/2007	83.00	02/07/2008	02/07/2008 – 02/06/2013	80,000	-	-	-	80,000
		02/07/2009	02/07/2009 – 02/06/2013	80,000	-	-	-	80,000
		02/07/2010	02/07/2010 – 02/06/2013	80,000	-	-	-	80,000
		02/07/2011	02/07/2011 – 02/06/2013	80,000	-	-	-	80,000
		02/07/2012	02/07/2012 – 02/06/2013	80,000	-	-	-	80,000

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## REPORT OF THE DIRECTORS

### SHARE OPTIONS (continued)

#### Employees & Consultants (continued)

Date of Grant (mm/dd/yyyy)	Exercise Price (HK\$)	Vesting Date (mm/dd/yyyy)	Exercise Period (mm/dd/yyyy)	Number of Share Options				
				As at 07/01/2007	Granted	Exercised	Lapsed	As at 06/30/2008
02/28/2007	86.85	02/28/2008	02/28/2008 – 02/27/2013	120,000	-	60,000	-	60,000
		02/28/2009	02/28/2009 – 02/27/2013	120,000	-	-	-	120,000
		02/28/2010	02/28/2010 – 02/27/2013	120,000	-	-	-	120,000
		02/28/2011	02/28/2011 – 02/27/2013	120,000	-	-	-	120,000
		02/28/2012	02/28/2012 – 02/27/2013	120,000	-	-	-	120,000
12/04/2007	119.00	12/04/2008	12/04/2008 – 12/03/2013	-	210,000	-	-	210,000
		12/04/2009	12/04/2009 – 12/03/2013	-	210,000	-	-	210,000
		12/04/2010	12/04/2010 – 12/03/2013	-	210,000	-	-	210,000
		12/04/2011	12/04/2011 – 12/03/2013	-	210,000	-	-	210,000
		12/04/2012	12/04/2012 – 12/03/2013	-	210,000	-	-	210,000
12/05/2007	118.70	12/05/2008	12/05/2008 – 12/04/2013	-	642,000	-	120,000	522,000
		12/05/2009	12/05/2009 – 12/04/2013	-	642,000	-	120,000	522,000
		12/05/2010	12/05/2010 – 12/04/2013	-	642,000	-	120,000	522,000
		12/05/2011	12/05/2011 – 12/04/2013	-	642,000	-	120,000	522,000
		12/05/2012	12/05/2012 – 12/04/2013	-	642,000	-	120,000	522,000
01/31/2008	100.80	01/31/2009	01/31/2009 – 01/30/2014	-	1,400,000	-	-	1,400,000
		01/31/2010	01/31/2010 – 01/30/2014	-	1,400,000	-	-	1,400,000
		01/31/2011	01/31/2011 – 01/30/2014	-	1,400,000	-	-	1,400,000
		01/31/2012	01/31/2012 – 01/30/2014	-	1,400,000	-	-	1,400,000
		01/31/2013	01/31/2013 – 01/30/2014	-	1,400,000	-	-	1,400,000
02/11/2008	102.12	02/11/2009	02/11/2009 – 02/10/2014	-	60,000	-	-	60,000
		02/11/2010	02/11/2010 – 02/10/2014	-	60,000	-	-	60,000
		02/11/2011	02/11/2011 – 02/10/2014	-	60,000	-	-	60,000
		02/11/2012	02/11/2012 – 02/10/2014	-	60,000	-	-	60,000
		02/11/2013	02/11/2013 – 02/10/2014	-	60,000	-	-	60,000

SHARE OPTIONS (continued)

Employees & Consultants (continued)

Date of Grant (mm/dd/yyyy)	Exercise Price (HK\$)	Vesting Date (mm/dd/yyyy)	Exercise Period (mm/dd/yyyy)	Number of Share Options				
				As at 07/01/2007	Granted	Exercised	Lapsed	As at 06/30/2008
05/06/2008	94.80	05/06/2009	05/06/2009 – 05/05/2014	–	60,000	–	–	60,000
		05/06/2010	05/06/2010 – 05/05/2014	–	60,000	–	–	60,000
		05/06/2011	05/06/2011 – 05/05/2014	–	60,000	–	–	60,000
		05/06/2012	05/06/2012 – 05/05/2014	–	60,000	–	–	60,000
		05/06/2013	05/06/2013 – 05/05/2014	–	60,000	–	–	60,000
In aggregate				33,446,000	11,860,000	7,260,000	5,890,000	32,156,000
<b>Total</b>				<b>46,566,000</b>	<b>13,660,000</b>	<b>12,700,000</b>	<b>5,890,000</b>	<b>41,636,000</b>

Notes:

1. The closing prices of the shares of the Company immediately before the options granted on December 4, 2007, December 5, 2007, January 31, 2008, February 11, 2008 and May 6, 2008 were HK\$118.80, HK\$119.00, HK\$93.55, HK\$95.70 and HK\$91.95 respectively.
2. The weighted average closing price of the shares immediately before the date of exercise by Mr. Heinz Jürgen KROGNER-KORNALIK was HK\$112.11.
3. The weighted average closing price of the shares immediately before the date of exercise by Mr. Thomas Johannes GROTE was HK\$118.80.
4. The weighted average closing price of the shares immediately before the date of exercise by Mr. Jerome Squire GRIFFITH was HK\$117.70.
5. The weighted average closing price of the shares immediately before the date of exercise by Mr. John POON Cho Ming was HK\$112.11.
6. The weighted average closing price of the shares immediately before the dates of exercise by the employees and consultants was HK\$108.89.
7. No share options were cancelled under the 2001 Share Option Scheme during the year.
8. Adjustment to the opening balance as at July 1, 2007 was due to certain share options lapsed before July 1, 2007 but reported during the year ended June 30, 2008.

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

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## REPORT OF THE DIRECTORS

### ACCOUNTING TREATMENT FOR SHARE OPTIONS

Details of accounting treatment for share options are set out in note 20 to the financial statements.

### DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at June 30, 2008, the interests or short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures

Ordinance (Chapter 571 of the laws of Hong Kong) ("SFO") as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited ("SEHK") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Listing Rules, were as follows:

#### (1) Shares of the Company

Name of Directors	Capacity	Beneficial interest in shares	Beneficial interest in unlisted underlying shares (Note 3)	Total number of shares	Approximate percentage of aggregate interests to total issued share capital
HEINZ JÜRGEN KROGNER-KORNALIK	Beneficial owner	–	3,200,000	3,200,000	0.26%
THOMAS JOHANNES GROTE	Beneficial owner	–	3,080,000	3,080,000	0.25%
JEROME SQUIRE GRIFFITH	Beneficial owner	983,000	720,000	1,703,000	0.14%
JÜRGEN ALFRED RUDOLF FRIEDRICH	Beneficial owner	79,101,176	–	80,693,777	6.49%
	Interest of a controlled corporation (Note 1)	1,541,700	–		
	Interest of spouse (Note 2)	50,901	–		
JOHN POON CHO MING (resigned on July 20, 2008)	Beneficial owner	1,470,000	2,480,000	3,950,000	0.32%

#### Notes:

- The shares were held by JAF Foundation of which Mr. Jürgen Alfred Rudolf FRIEDRICH controlled 100% share interest.
- The shares were held by Mrs. Anke Beck FRIEDRICH, the spouse of Mr. Jürgen Alfred Rudolf FRIEDRICH.
- The interests of Directors and chief executives of the Company in the underlying shares of equity derivatives in respect of options granted to them pursuant to the 2001 Share Option Scheme are detailed in "share options" section above.
- All interests disclosed above represent long position in the shares and underlying shares of the Company.

**(2) Share Options of the Company**

The interests of the Directors and chief executives of the Company in the share options of the Company are detailed in “share options” section above.

As at June 30, 2008, save as disclosed above, none of the Directors, chief executives of the Company or their associates had any interests or short positions (within the meaning of Part XV of the SFO), whether beneficial or non-beneficial, in the shares, underlying shares or debentures of the Company or any of its associated corporations as recorded in the register required to

be kept under Section 352 of the SFO or as otherwise notified to the Company and SEHK pursuant to the Model Code.

**DIRECTORS' INTERESTS IN CONTRACTS**

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

**SUBSTANTIAL SHAREHOLDERS' INTERESTS**

As at June 30, 2008, the following shareholders (other than the Directors and chief executives of the Company whose interests or short positions in the shares and underlying shares of the Company as disclosed above) had interests or short positions in the shares and underlying shares of the Company which were recorded in the register required to be kept by the Company under Section 336 of the SFO:

Name of shareholders	Capacity	Number of shares (Long position)	Number of shares (Short position)	Total number of Shares	Approximate percentage of aggregate interests to total issued share capital
Capital Research and Management Company	Investment manager (Note 1)	174,266,700	Nil	174,266,700	14.01%
JPMorgan Chase & Co.	Interest of controlled corporations (Notes 2 to 5)	122,920,259	4,834,600	127,754,859	10.27%
HSBC International Trustee Limited	Trustee (Note 6)	106,390,517	Nil	106,390,517	8.55%

Notes:

- All interests disclosed herein represent long positions in the shares of the Company.
- The shares held by JPMorgan Chase & Co. were held in the following capacities:

Capacity	Number of shares (Long position)	Number of shares (Short position)
Beneficial owner	2,346,490	4,834,600
Investment manager	70,275,668	Nil
Custodian corporation/approved lending agent	50,298,101	Nil

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## REPORT OF THE DIRECTORS

### SUBSTANTIAL SHAREHOLDERS' INTERESTS (continued)

Notes (continued):

3. Details of the interest in long position of the 122,920,259 shares held by JPMorgan Chase & Co. were as follows:

Name	Direct (D) / Indirect (I) interests in the shares	Aggregate long position in the shares	Approximate percentage of aggregate interests to total issued share capital
JPMorgan Chase Bank, N.A.	D	53,745,944	4.32%
JPMorgan Chase Bank, N.A.	I	2,349,248	0.19%
J.P. Morgan International Inc.	I	2,349,248	0.19%
Bank One International Holdings Corporation	I	2,349,248	0.19%
J.P. Morgan International Finance Limited	I	2,349,248	0.19%
J.P. Morgan Overseas Capital Corporation	I	670,848	0.05%
J.P. Morgan Whitefriars Inc.	D	668,090	0.05%
J.P. Morgan International Bank Limited	D	2,758	0.00%
JPMorgan Asset Management Holdings Inc.	I	66,825,067	5.37%
JPMorgan Asset Management (Canada) Inc.	D	2,688,100	0.22%
J.P. Morgan Investment Management Inc.	D	12,601,903	1.01%
JPMorgan Asset Management (Asia) Inc.	I	34,142,129	2.74%
JF International Management Inc.	D	275,600	0.02%
JF Asset Management (Singapore) Limited – Co Reg #: 197601586K	D	3,109,500	0.25%
JF Asset Management Limited	D	27,239,029	2.19%
JF Asset Management Limited	I	1,611,200	0.13%
JF Funds Limited	I	1,611,200	0.13%
JF Asset Management (Taiwan) Limited	D	1,611,200	0.13%
JPMorgan Asset Management (Japan) Limited	D	1,906,800	0.15%
JPMorgan Asset Management International Limited	I	17,392,935	1.40%
JPMorgan Asset Management Holdings (UK) Limited	I	17,392,935	1.40%
JPMorgan Asset Management (UK) Limited	D	14,669,435	1.18%
JPMorgan Asset Management (UK) Limited	I	2,723,500	0.22%
China International Fund Management Ltd	D	2,709,400	0.22%
JPMorgan Asset Management (London) Limited	D	14,100	0.00%
J.P. Morgan Capital Holdings Limited	I	1,678,400	0.13%
J.P. Morgan Chase (UK) Holdings Limited	I	1,678,400	0.13%
J.P. Morgan Chase International Holdings Limited	I	1,678,400	0.13%
J.P. Morgan Securities Ltd.	D	1,678,400	0.13%

**SUBSTANTIAL SHAREHOLDERS' INTERESTS  
(continued)**

Notes (continued):

3. (continued):

Explanatory Notes:

All the following interests were deemed to be held by the relevant company under the SFO. JPMorgan Chase & Co. was deemed to be interested in an aggregate of 122,920,259 shares held or deemed to be held by: (I) JPMorgan Chase Bank, N.A. (56,095,192 shares); and (II) JPMorgan Asset Management Holdings Inc. (66,825,067 shares), all were wholly-owned subsidiaries of JPMorgan Chase & Co.

- (I) JPMorgan Chase Bank, N.A. directly held 53,745,944 shares and was also deemed to be interested in an aggregate of 2,349,248 shares held by the following indirect subsidiaries held through J.P. Morgan International Finance Limited ("JPIF"):
- (a) 668,090 shares were held by J.P. Morgan Whitefriars Inc., wholly-owned by J.P. Morgan Overseas Capital Corporation, a wholly-owned subsidiary of JPIF;
  - (b) 1,678,400 shares were held by J.P. Morgan Securities Ltd., 98.95% subsidiary of J.P. Morgan Chase International Holdings Limited, 97.58% subsidiary of J.P. Morgan Chase (UK) Holdings Limited, wholly-owned by J.P. Morgan Capital Holdings Limited, wholly-owned by JPIF; and
  - (c) 2,758 shares were held by J.P. Morgan International Bank Limited, wholly-owned by J.P. Morgan Overseas Capital Corporation, a wholly-owned subsidiary of JPIF.
- (II) JPMorgan Asset Management Holdings Inc. ("JPAMH") was deemed to be interested in an aggregate of 66,825,067 shares held by the following subsidiaries:
- (a) 2,688,100 shares were held by JPMorgan Asset Management (Canada) Inc., directly wholly-owned by JPAMH;
  - (b) 12,601,903 shares were held by J.P. Morgan Investment Management Inc., directly wholly-owned by JPAMH;
  - (c) 34,142,129 shares were deemed to be held by JPMorgan Asset Management (Asia) Inc. ("JPAsia"), directly wholly-owned by JPAMH, through the following subsidiaries:
    - (i) 275,600 shares were held by JF International Management Inc., wholly-owned by JPAsia;
    - (ii) 3,109,500 shares were held by JF Asset Management (Singapore) Limited – Co Reg #:197601586K, wholly-owned by JPAsia;
    - (iii) 27,239,029 shares were held by JF Asset Management Limited, wholly-owned by JPAsia;
    - (iv) 1,611,200 shares were held by JF Asset Management (Taiwan) Limited, 99.90% subsidiary of JF Funds Limited, wholly-owned by JF Asset Management Limited, wholly-owned by JPAsia; and
    - (v) 1,906,800 shares were held by JPMorgan Asset Management (Japan) Limited, wholly-owned by JPAsia; and
  - (d) 17,392,935 shares were deemed to be held by JPMorgan Asset Management International Limited ("JPAMI"), directly wholly-owned by JPAMH, through the following subsidiaries:
    - (i) 14,669,435 shares were held by JP Morgan Asset Management (UK) Limited, wholly-owned by JPMorgan Asset Management Holdings (UK) Limited, a wholly-owned subsidiary of JPAMI;
    - (ii) 2,709,400 shares were held by China International Fund Management Ltd, 49.00% owned by JP Morgan Asset Management (UK) Limited, wholly-owned by JPMorgan Asset Management Holdings (UK) Limited, a wholly-owned subsidiary of JPAMI; and
    - (iii) 14,100 shares were held by JP Morgan Asset Management (London) Limited, wholly-owned subsidiary of JP Morgan Asset Management (UK) Limited, wholly-owned by JPMorgan Asset Management Holdings (UK) Limited, a wholly-owned subsidiary of JPAMI.
4. 50,298,101 shares of the interests disclosed in Note 3 above represent shares of the Company in the lending pool.
5. Details of the interest in short position of the 4,834,600 shares held by JPMorgan Chase & Co. were as follows:

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## REPORT OF THE DIRECTORS

### SUBSTANTIAL SHAREHOLDERS' INTERESTS (continued)

Notes (continued):

5. (continued):

Name	Direct (D) / Indirect (I) interests in the shares	Aggregate short position in the shares	Approximate percentage of aggregate interests to total issued share capital
JPMorgan Chase Bank, N.A.	I	4,834,600	0.39%
J.P. Morgan International Inc.	I	4,834,600	0.39%
Bank One International Holdings Corporation	I	4,834,600	0.39%
J.P. Morgan International Finance Limited	I	4,834,600	0.39%
J.P. Morgan Overseas Capital Corporation	I	3,156,200	0.25%
J.P. Morgan Whitefriars Inc.	D	3,156,200	0.25%
J.P. Morgan Capital Holdings Limited	I	1,678,400	0.13%
J.P. Morgan Chase (UK) Holdings Limited	I	1,678,400	0.13%
J.P. Morgan Chase International Holdings Limited	I	1,678,400	0.13%
J.P. Morgan Securities Ltd.	D	1,678,400	0.13%

Explanatory Notes:

All the following interests were deemed to be held by the relevant company under the SFO. JPMorgan Chase & Co. was deemed to have a short position in an aggregate of 4,834,600 shares held by the following indirect subsidiaries:

- (a) 3,156,200 shares held by J.P. Morgan Whitefriars Inc., indirect wholly-owned subsidiary of JPMorgan Chase & Co.; and
- (b) 1,678,400 shares held by J.P. Morgan Securities Ltd., 98.95% subsidiary of J.P. Morgan Chase International Holdings Limited, 97.58% subsidiary of J.P. Morgan Chase (UK) Holdings Limited, indirect wholly-owned subsidiary of JPMorgan Chase & Co.

6. Details of the interest in the 106,390,517 shares held by HSBC International Trustee Limited were as follows:

Name	Direct (D) / Indirect (I) interests in the shares	Aggregate long position in the shares	Approximate percentage of aggregate interests to total issued share capital
Michael YING Lee Yuen	I	106,208,352	8.54%
YET Holdings Limited	I	106,208,352	8.54%
Great View International Limited	D	106,208,352	8.54%
HSBC International Trustee Limited	D	182,165	0.01%

Explanatory Notes:

All the following interests were deemed to be held by the relevant company under SFO. HSBC International Trustee Limited ("HITL"), being the trustee of the discretionary trust set up by Mr. Michael Ying Lee Yuen on January 9, 2006 and other discretionary trusts, was directly interested or deemed to be interested in an aggregate of 106,390,517 shares. HITL was also deemed to be interested in 106,208,352 shares held by Great View International Limited, a wholly-owned subsidiary of YET Holdings Limited, 100% controlled by HITL.

Save as aforesaid and as disclosed in the "Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures" section of this report, the Company has not been notified by any person who had interest or short position in the shares or underlying shares of the Company as at June 30, 2008 which were required to be notified to the Company pursuant to Part XV of the SFO or which are recorded in the register required to be kept by the Company under Section 336 of the SFO.

#### PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

Neither the Company nor any of its subsidiaries have purchased, sold or redeemed any of the Company's shares during the year. The Company has purchased 2,615,500 shares of the Company in July 2008 after the financial year end.

#### PRE-EMPTIVE RIGHTS

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

#### MAJOR CUSTOMERS AND SUPPLIERS

During the year, less than 10% of the Group's sales were attributable to the five largest customers and less than 20% of the Group's purchases were attributable to the five largest suppliers.

#### PUBLIC FLOAT

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

#### MANAGEMENT CONTRACTS

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

#### RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS

Details of the significant related party transactions undertaken in the normal course of business are provided under note 27 to the financial statements. None of these related party transactions constitutes a connected transaction as defined in the Listing Rules.

#### AUDIT COMMITTEE

As required under the Listing Rules, the Company has an Audit Committee comprising of five Non-executive Directors of the Company, four of whom are Independent Non-executive Directors of the Company. The Audit Committee has reviewed the accounting principles and practices adopted by the Group and has also discussed auditing, internal controls, and financial reporting matters including the review of the consolidated results of the Group for the year ended June 30, 2008.

#### CORPORATE GOVERNANCE

Particulars of the Company's corporate governance practices are set out on pages 74 to 78 of this report.

#### AUDITORS

The financial statements have been audited by PricewaterhouseCoopers who are due to retire and, being eligible, offer themselves for re-appointment at the 2008 Annual General Meeting.

On behalf of the board



HEINZ JÜRGEN KROGNER-KORNALIK  
Chairman

Hong Kong, August 27, 2008



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youth by esprit



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# 06 FINANCIAL SECTION FY 07|08

## 06.1 INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF ESPRIT HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Esprit Holdings Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 99 to 150, which comprise the consolidated balance sheet as of June 30, 2008, and the consolidated income statement, the consolidated cash flow statement and the consolidated statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and of the Group as of June 30, 2008, and of the Group's financial performance and cash flows for the year then ended in accordance with International

Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

### OTHER MATTERS

This report, including the opinion, has been prepared for and only for you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.



PricewaterhouseCoopers  
Certified Public Accountants

Hong Kong, August 27, 2008

## 06.2 CONSOLIDATED INCOME STATEMENT

For the year ended June 30, 2008

	Notes	2008 HK\$ million	2007 HK\$ million
<b>Turnover</b>	5	<b>37,227</b>	29,640
Cost of goods sold		<b>(17,257)</b>	(13,755)
<b>Gross profit</b>		<b>19,970</b>	15,885
Staff costs	11	<b>(4,426)</b>	(3,514)
Operating lease charge		<b>(2,918)</b>	(2,325)
Depreciation		<b>(750)</b>	(597)
Other operating costs		<b>(4,155)</b>	(3,190)
<b>Operating profit</b>	6	<b>7,721</b>	6,259
Interest income		<b>190</b>	149
Share of results of associates		<b>145</b>	130
<b>Profit before taxation</b>		<b>8,056</b>	6,538
Taxation	7	<b>(1,606)</b>	(1,358)
<b>Profit attributable to shareholders</b>	8	<b>6,450</b>	5,180
<b>Dividends</b>	9	<b>5,219</b>	3,916
<b>Earnings per share</b>	10		
– Basic		<b>HK\$5.21</b>	HK\$4.22
– Diluted		<b>HK\$5.15</b>	HK\$4.16

The notes on pages 105 to 150 form an integral part of these consolidated financial statements.

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 CONSOLIDATED BALANCE SHEET

## 06.3 CONSOLIDATED BALANCE SHEET

As at June 30, 2008

	Notes	2008 HK\$ million	2007 HK\$ million
<b>Non-current assets</b>			
Intangible assets	13	2,121	2,057
Property, plant and equipment	14	3,395	2,525
Other investments		7	7
Investments in associates	15	583	406
Prepaid lease payments	16	170	175
Deferred tax assets	22	510	396
		<b>6,786</b>	5,566
<b>Current assets</b>			
Inventories	17	3,170	2,192
Debtors, deposits and prepayments	18	5,332	3,991
Amounts due from associates	15	83	48
Bank balances and cash	19	2,767	1,829
Short-term bank deposits	19	3,754	3,403
		<b>15,106</b>	11,463
<b>Current liabilities</b>			
Creditors and accrued charges	21	4,571	3,637
Taxation		989	933
		<b>5,560</b>	4,570
<b>Net current assets</b>			
		<b>9,546</b>	6,893
<b>Total assets less current liabilities</b>			
		<b>16,332</b>	12,459

ANNUAL REPORT FY 07|08  
 CONSOLIDATED BALANCE SHEET

	Notes	2008 HK\$ million	2007 HK\$ million
<b>Equity</b>			
Share capital	20	124	123
Reserves		15,820	11,958
<b>Shareholders' funds</b>		<b>15,944</b>	12,081
<b>Non-current liabilities</b>			
Deferred tax liabilities	22	388	378
		<b>16,332</b>	12,459

Approved by the Board of Directors on August 27, 2008.



HEINZ JÜRGEN **KROGNER-KORNALIK**  
 Chairman



THOMAS JOHANNES **GROTE**  
 Executive Director

The notes on pages 105 to 150 form an integral part of these consolidated financial statements.

ANNUAL REPORT FY 07|08  
 CONSOLIDATED CASH FLOW STATEMENT

## 06.4 CONSOLIDATED CASH FLOW STATEMENT

For the year ended June 30, 2008

	Notes	2008 HK\$ million	2007 HK\$ million
<b>Cash flows from operating activities</b>			
Cash generated from operations	23	7,602	6,985
Hong Kong profits tax paid		–	(1)
Overseas tax paid		(1,632)	(1,103)
<b>Net cash inflow from operating activities</b>		<b>5,970</b>	5,881
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(1,352)	(615)
Proceeds from disposal of property, plant and equipment	23	6	5
Proceeds from disposal of other investments		–	1
Interest received		190	119
<b>Net cash used in investing activities</b>		<b>(1,156)</b>	(490)
<b>Cash flows from financing activities</b>			
Net proceeds on issue of shares for cash		405	340
Dividends paid		(4,256)	(3,086)
<b>Net cash used in financing activities</b>		<b>(3,851)</b>	(2,746)
<b>Net increase in cash and cash equivalents</b>		<b>963</b>	2,645
<b>Cash and cash equivalents at beginning of year</b>		<b>5,232</b>	2,469
<b>Effect of change in exchange rates</b>		<b>326</b>	118
<b>Cash and cash equivalents at end of year</b>	19	<b>6,521</b>	5,232

The notes on pages 105 to 150 form an integral part of these consolidated financial statements.

## 06.5 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended June 30, 2008

	Share capital HK\$ million	Share premium HK\$ million	Employee share-based payment reserve HK\$ million	Hedging reserve HK\$ million	Contributed surplus HK\$ million	Translation reserve HK\$ million	Capital reserve HK\$ million	Retained profits HK\$ million	Total HK\$ million
<b>At July 1, 2007</b>	<b>123</b>	<b>2,391</b>	<b>282</b>	<b>(12)</b>	<b>7</b>	<b>755</b>	<b>1</b>	<b>8,534</b>	<b>12,081</b>
Exchange translation recognized directly in equity	-	-	-	-	-	1,116	-	-	1,116
Fair value gain on cash flow hedge	-	-	-	7	-	-	-	-	7
Profit attributable to shareholders	-	-	-	-	-	-	-	6,450	6,450
Total recognized income	-	-	-	7	-	1,116	-	6,450	7,573
2006/07 final and special dividends paid (Note 9)	-	-	-	-	-	-	-	(3,075)	(3,075)
2007/08 interim dividend paid (Note 9)	-	-	-	-	-	-	-	(1,181)	(1,181)
Issues of shares (Note 20)	1	404	-	-	-	-	-	-	405
Employee share option benefits	-	-	141	-	-	-	-	-	141
Transfer of reserve	-	101	(101)	-	-	-	-	-	-
<b>At June 30, 2008</b>	<b>124</b>	<b>2,896</b>	<b>322</b>	<b>(5)</b>	<b>7</b>	<b>1,871</b>	<b>1</b>	<b>10,728</b>	<b>15,944</b>
Representing:									
Proposed final and special dividends									4,038
Balance after proposed final and special dividends									11,906
<b>At June 30, 2008</b>									<b>15,944</b>

The notes on pages 105 to 150 form an integral part of these consolidated financial statements.

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## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital HK\$ million	Share premium HK\$ million	Employee share-based payment reserve HK\$ million	Hedging reserve HK\$ million	Contributed surplus HK\$ million	Translation reserve HK\$ million	Capital reserve HK\$ million	Retained profits HK\$ million	Total HK\$ million
At July 1, 2006	122	1,975	230	(41)	7	373	1	6,440	9,107
Exchange translation recognized directly in equity	-	-	-	-	-	382	-	-	382
Fair value gain on cash flow hedge	-	-	-	29	-	-	-	-	29
Profit attributable to shareholders	-	-	-	-	-	-	-	5,180	5,180
Total recognized income	-	-	-	29	-	382	-	5,180	5,591
2005/06 final and special dividends paid	-	-	-	-	-	-	-	(2,225)	(2,225)
2006/07 interim dividend paid (Note 9)	-	-	-	-	-	-	-	(861)	(861)
Issues of shares (Note 20)	1	339	-	-	-	-	-	-	340
Employee share option benefits	-	-	129	-	-	-	-	-	129
Transfer of reserve	-	77	(77)	-	-	-	-	-	-
At June 30, 2007	123	2,391	282	(12)	7	755	1	8,534	12,081
Representing:									
Proposed final and special dividends									3,055
Balance after proposed final and special dividends									9,026
At June 30, 2007									12,081

The contributed surplus of the Group represents the difference between the nominal value of the shares of the subsidiaries acquired pursuant to the Group reorganization in 1993 and the nominal value of the Company's shares issued in exchange thereof.

The capital reserve of the Group represents a non-distributable reserve set aside by a subsidiary according to relevant statutory requirements.

The notes on pages 105 to 150 form an integral part of these consolidated financial statements.

## 06.6 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended June 30, 2008

### 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 also has its shares traded on the International Bulletin Board of the London Stock Exchange.

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 are presented in millions of units of Hong Kong Dollars, unless otherwise stated.

These consolidated financial statements have been approved for issue by the Board of Directors on August 27, 2008.

### 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 7 “Financial Instruments: Disclosures”, the amendment to IAS 1 “Presentation of Financial Statements – Capital Disclosures” and IFRIC 11 “IFRS 2 – Group and Treasury Share Transactions”.

IFRS 7 and the complementary amendment to IAS 1 introduce new disclosures relating to financial instruments and do not have any impact on the classification and valuation of the Group’s financial instruments.

IFRIC 11 provides guidance on whether share-based transactions involving treasury shares or involving Group entities (for example, options over a parent’s shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and Group companies. This interpretation does not have any impact on the Group’s financial statements but has an impact on the Company’s profit attributable to shareholders and equity for the current and prior years.

The Group did not early adopt the following International Accounting Standards (“IAS”), IFRS and International Financial Reporting Interpretations Committee (“IFRIC”) interpretations that have been issued up to the date of approval of these consolidated financial statements. The adoption of these standards is anticipated not to result in substantial changes to the Group’s accounting policies, except for IAS 1 (Revised) “Presentation of Financial Statements”, IFRS 8 “Operating Segments”, IAS 27 (Revised) “Consolidated and Separate Financial Statements” and IFRS 3 (Revised) “Business Combinations”. The adoption of IAS 1 (Revised) and IFRS 8 may result in changes in disclosures and presentation of the consolidated financial statements while the Group is in the process of making an assessment of the impact of IAS 27 (Revised) and IFRS 3 (Revised) upon initial application.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

		<b>Effective for accounting periods beginning on or after</b>
IAS 1 (Revised)	Presentation of Financial Statements	January 1, 2009
IAS 23 (Amendment)	Borrowing Costs	January 1, 2009
IAS 27 (Revised)	Consolidated and Separate Financial Statements	July 1, 2009
IAS 32 and IAS 1 (Amendment)	Puttable Financial Instruments and Obligations Arising on Liquidation	January 1, 2009
IAS 39 (Amendment)	Eligible Hedged Items	July 1, 2009
IFRS 2 (Amendment)	Share-based Payment Vesting Conditions and Cancellations	January 1, 2009
IFRS 3 (Revised)	Business Combinations	July 1, 2009
IFRS 8	Operating Segments	January 1, 2009
IFRIC 12	Service Concession Arrangements	January 1, 2008
IFRIC 13	Customer Loyalty Programmes	July 1, 2008
IFRIC 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	January 1, 2008
IFRIC 15	Agreements for the Construction of Real Estate	January 1, 2009
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	October 1, 2008
Various IASs and IFRSs	Improvements to IFRSs	January 1, 2009 or* July 1, 2009

\* All the amendments will be effective for accounting periods beginning on or after January 1, 2009 except the amendments to IFRS 5 "Non-current Assets Held for Sales and Discontinued Operations" which will be effective for accounting periods beginning on or after July 1, 2009.

## 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 consolidated financial statements also requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the accounting policies. The areas involving a higher degree of judgment and complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 4 "Critical accounting estimates and judgments".

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.

#### (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 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. Goodwill on acquisitions of associates is included in investments in associates.

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.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (d) Foreign currency translation (continued)

##### (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.

##### (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 are depreciated over the initial lease terms. 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 <sup>1</sup> / <sub>3</sub> – 5%
Plant and machinery	30%
Furniture and office equipment	10 – 33 <sup>1</sup> / <sub>3</sub> %
Motor vehicles	25 – 30%

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

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

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

#### (f) Intangible assets

##### (i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates and is tested for impairment as part of the cost of 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.

##### (ii) Trademarks

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

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (g) Impairment of non-financial 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 asset's carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognized.

### (h) Inventories

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

### (i) Receivables and payables

Receivables and payables are recognized initially at fair value and subsequently measured at amortised cost using the effective interest method, 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. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. 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 carrying amount of the assets is reduced through the use of an allowance account, and the amount of provision is recognized in the income statement. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited to 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 impacts 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.

### (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.

# ANNUAL REPORT FY 07|08

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (l) Employee benefits (continued)

##### (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 cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. 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 transactions cost 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, returns, rebates and discounts and after eliminating sales within the Group. Revenue is recognized as follows:

##### (i) Sales of goods – wholesale

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

##### (ii) Sales of goods – retail

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

##### (iii) Licensing income

Licensing income is recognized on an accrual 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.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

#### (ii) Cash flow hedge (continued)

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

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

### (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 consolidated financial statements in the period in which the dividends are approved by the Company's shareholders.

## 3 FINANCIAL RISK MANAGEMENT

### (a) Financial risk factors

The Group's activities expose it to a variety of financial risks, mainly 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.

#### (i) 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 primarily arises from future commercial transactions and recognized assets and liabilities.

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 currency forward contracts to reduce foreign exchange risk.

The Group's profit attributable to shareholders and shareholders' funds would increase by approximately **HK\$5 million** (2007: HK\$31 million) in response to a 1% strengthening in Euro vs US Dollars in relation to monetary items and derivative financial instruments in existence at the balance sheet date.

#### (ii) Credit risk

The Group's credit risk is primarily attributable to trade and other debtors and deposits with banks. There is no concentration of credit risk with respect to trade debtors as the Group has a large number of internationally dispersed customers. 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, bank transfer or by credit card. The Group grants credit for a period which is usually 30 to 60 days to certain wholesale and franchise customers. The Group does not hold any collateral over the trade debtors. The Group manages the credit risk mainly by purchasing credit guarantee insurance and arranging the trade debtors to be covered by letters of credit or bank guarantees. Individual risk limits are set based on internal ratings in accordance with limits set by management. The utilization of credit limits is regularly monitored.

The credit risk on deposits with banks is limited because the Group mainly places the deposits in banks with high credit rating and management does not expect any losses from non-performance by banks.

#### (iii) Liquidity risk

The Group manages liquidity risk by continuously monitoring forecast and actual cash flows, by keeping sufficient cash and cash equivalents and by maintaining adequate banking facilities.

The Group does not have significant financial liabilities except for creditors and accrued charges which have contractual maturities less than 1 year.

#### (iv) Interest rate risk

The Group has no interest-bearing borrowings. The Group's exposure to change in interest rates is mainly attributable to its interest-bearing assets, including bank balances and short-term bank deposits.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 3 FINANCIAL RISK MANAGEMENT (continued)

#### (b) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group's capital structure is being reviewed periodically to ensure these objectives are to be achieved. In order to maintain or adjust the capital structure, the Group will consider the macroeconomic conditions, prevailing interest rate and adequacy of cash flows generating from operations and may adjust the amounts of dividends paid to shareholders, return capital to shareholders or issue new shares.

Currently, the Group has no external borrowings. The capital structure of the Group solely consists of shareholders' funds, comprising share capital and reserves.

### 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments 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, 2008. 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, 2008 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 6% and a discount rate of 15%. 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) Impairment of property, plant and equipment

In accordance with IAS 36 "Impairment of Assets", the Group assesses annually whether property, plant and equipment have any indication of impairment. The Group estimates the recoverable amount of the asset if any such indication exists. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. The value in use calculation involves estimating the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and applying the appropriate discount rate to those future cash flows. The estimation of future cash flows and selection of discount rate require the use of judgments and estimates. Management believes that any reasonably foreseeable change in any of the above key elements in the value in use calculation would not result in material additional impairment charges.

#### (c) Net realizable value of inventories

In accordance with IAS 2 "Inventories", the Group estimates annually the net realizable value of inventories. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. These estimates are based on the current market condition and the historical experience of selling products of similar nature. It could change significantly as a result of changes in customer taste and competitor actions in response to changes in market conditions. Management reassesses these estimates at each balance sheet date.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

**(d) 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 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.

**Turnover and segment information**

	2008 HK\$ million	2007 HK\$ million
Turnover		
Sales of goods	<b>36,998</b>	29,429
Licensing and other income	<b>229</b>	211
	<b>37,227</b>	29,640

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 5 TURNOVER AND SEGMENT INFORMATION (continued)

#### 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.

	For the year ended June 30, 2008				
	Wholesale HK\$ million	Retail HK\$ million	Licensing & others HK\$ million	Eliminations HK\$ million	Group HK\$ million
Turnover	20,943	16,055	229	–	37,227
Inter-segment sales	–	–	959	(959)	–
	<b>20,943</b>	<b>16,055</b>	<b>1,188</b>	<b>(959)</b>	<b>37,227</b>
Segment results	5,207	2,012	588	(4)	7,803
Unallocated net expenses					(82)
Interest income					190
Share of results of associates					145
Profit before taxation					<b>8,056</b>
Segment EBIT-ex-inter-segment licensing expense/income (note)	5,545	2,129	133	(4)	7,803
Segment assets	11,528	7,799	1,408	(4,843)	15,892
Investments in associates					666
Intangible assets					2,121
Other unallocated assets					3,213
Total assets					<b>21,892</b>
Segment liabilities	3,406	5,770	54	(4,843)	4,387
Other unallocated liabilities					1,561
Total liabilities					<b>5,948</b>
Capital expenditure	240	1,009	27	–	1,276
Depreciation	123	605	3	–	731
Impairment of property, plant and equipment	–	23	–	–	23
Provision for retail store exit costs	–	–	–	–	–

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5 TURNOVER AND SEGMENT INFORMATION (continued)

Primary reporting format – business segments (continued)

	For the year ended June 30, 2007				
	Wholesale HK\$ million	Retail HK\$ million	Licensing & others HK\$ million	Eliminations HK\$ million	Group HK\$ million
Turnover	16,601	12,828	211	–	29,640
Inter-segment sales	–	–	727	(727)	–
	16,601	12,828	938	(727)	29,640
Segment results	4,126	1,854	470	(43)	6,407
Unallocated net expenses					(148)
Interest income					149
Share of results of associates					130
Profit before taxation					<u>6,538</u>
Segment EBIT – ex-inter-segment licensing expense/income (note)	4,387	1,943	120	(43)	6,407
Segment assets	9,952	5,456	672	(3,696)	12,384
Investments in associates					454
Intangible assets					2,057
Other unallocated assets					2,134
Total assets					<u>17,029</u>
Segment liabilities	2,885	4,260	74	(3,696)	3,523
Other unallocated liabilities					1,425
Total liabilities					<u>4,948</u>
Capital expenditure	117	448	1	–	566
Depreciation	96	474	3	–	573
Impairment of property, plant and equipment	–	16	–	–	16
Provision for retail store exit costs	–	4	–	–	4

Note: The trademark owners receive licensing income based on wholesale and retail turnover. Should the licensing fee not be allocated to the wholesale and retail segments, 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\$5,545 million** (2007: HK\$4,387 million) and **HK\$2,129 million** (2007: HK\$1,943 million) respectively, representing wholesale segment EBIT margin (“segment EBIT/segment turnover”) of **26.5%** (2007: 26.4%) and retail segment EBIT margin of **13.3%** (2007: 15.1%).

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 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.

	<b>Turnover 2008 HK\$ million</b>	<b>Capital expenditure 2008 HK\$ million</b>	<b>Segment assets 2008 HK\$ million</b>
Europe	<b>32,296</b>	<b>851</b>	<b>16,168</b>
Asia Pacific	<b>4,073</b>	<b>187</b>	<b>2,924</b>
North America and others	<b>858</b>	<b>238</b>	<b>1,643</b>
Eliminations	<b>–</b>	<b>–</b>	<b>(4,843)</b>
	<b>37,227</b>	<b>1,276</b>	<b>15,892</b>
Unallocated assets:			
Intangible assets			<b>2,121</b>
Investments in associates			<b>666</b>
Other assets			<b>3,213</b>
<b>Total</b>			<b>21,892</b>

	<b>Turnover 2007 HK\$ million</b>	<b>Capital expenditure 2007 HK\$ million</b>	<b>Segment assets 2007 HK\$ million</b>
Europe	25,573	388	12,212
Asia Pacific	3,367	121	2,468
North America and others	700	57	1,400
Eliminations	–	–	(3,696)
	29,640	566	12,384
Unallocated assets:			
Intangible assets			2,057
Investments in associates			454
Other assets			2,134
<b>Total</b>			<b>17,029</b>

6 OPERATING PROFIT

	2008 HK\$ million	2007 HK\$ million
Operating profit is arrived at after charging and (crediting) the following:		
Auditors' remuneration	14	11
Depreciation	750	597
Impairment of property, plant and equipment	23	16
Loss on disposal of property, plant and equipment	33	25
Amortization of prepaid lease payments	5	5
Operating lease rental expenses – land and buildings (including variable rental of <b>HK\$153 million</b> (2007: HK\$126 million))	<b>2,918</b>	2,325
Net exchange losses on foreign currency forward contracts	133	78
Other net exchange gains	<b>(307)</b>	(54)
Net charge for provision for obsolete inventories	20	21
Provision for impairment of trade debtors/bad debts written off	86	76
Provision for retail store exit costs	–	4

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7 TAXATION

	2008 HK\$ million	2007 HK\$ million
Current tax		
Hong Kong profits tax		
Provision for current year	–	–
Overseas taxation		
Provision for current year	<b>1,660</b>	1,586
Underprovision/(Reversal of provision) in respect of prior years	<b>17</b>	(178)
	<b>1,677</b>	1,408
Deferred tax (Note 22)		
Current year	<b>(157)</b>	(50)
Effect of changes in tax rates	<b>86</b>	–
<b>Taxation</b>	<b>1,606</b>	1,358

Hong Kong profits tax is calculated at **16.5%** (2007: 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 **19.9%** (2007: 20.8%).

7 TAXATION (continued)

	2008 HK\$ million	2007 HK\$ million
Profit before taxation	<b>8,056</b>	6,538
Tax calculated at applicable tax rate	<b>1,523</b>	1,517
Expenses not deductible for tax purpose	<b>24</b>	47
Non-taxable income	<b>(18)</b>	(11)
Utilization of carried forward tax losses	<b>(20)</b>	(32)
Tax effect of tax losses not recognized	<b>19</b>	21
Tax effect of share of results of associates	<b>(29)</b>	(30)
Under/(Over) provision in prior years and others	<b>21</b>	(154)
Tax effect on deferred tax balances due to changes in income tax rates	<b>86</b>	-
Taxation	<b>1,606</b>	1,358

8 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\$5,448 million** (2007 (as restated): HK\$3,947 million (Note 29)).

9 DIVIDENDS

	2008 HK\$ million	2007 HK\$ million
Paid interim dividend of <b>HK\$0.95</b> (2007: HK\$0.70) per share	<b>1,181</b>	861
Proposed – final dividend of <b>HK\$1.15</b> (2007: HK\$1.00) per share	<b>1,429</b>	1,232*
– special dividend of <b>HK\$2.10</b> (2007:HK\$1.48) per share	<b>2,609</b>	1,823*
	<b>5,219</b>	3,916

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 9 DIVIDENDS (continued)

The amount of 2008 proposed final and special dividends is based on **1,242,504,934 shares** (2007: 1,231,930,434 shares as at August 29, 2007) in issue as at **August 27, 2008**. The proposed final and special dividends for 2008 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, 2009.

\* The actual final and special dividends paid for 2007 was HK\$3,075 million due to additional shares issued during the period from August 30, 2007 to December 4, 2007, the date of closure of the register of members.

### 10 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.

	2008 HK\$ million	2007 HK\$ million
Profit attributable to shareholders	6,450	5,180
Weighted average number of ordinary shares in issue (million)	1,238	1,226
Basic earnings per share (HK dollars per share)	5.21	4.22

#### 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.

	2008 HK\$ million	2007 HK\$ million
Profit attributable to shareholders	6,450	5,180
Weighted average number of ordinary shares in issue (million)	1,238	1,226
Adjustments for share options (million)	13	19
Weighted average number of ordinary shares for diluted earnings per share (million)	1,251	1,245
Diluted earnings per share (HK dollars per share)	5.15	4.16

11 STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	2008 HK\$ million	2007 HK\$ million
Salaries and wages	<b>3,162</b>	2,605
Social security costs and other staff costs	<b>1,048</b>	714
Pensions costs of defined contribution plans	<b>75</b>	66
Employee share option benefits	<b>141</b>	129
	<b>4,426</b>	3,514

**Defined 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 percent of the employee's relevant income, subject to a cap of monthly relevant income of HK\$20,000 per employee, are made to the scheme and are vested immediately. The Group also operates several defined contribution retirement plans for its overseas subsidiaries and pays contributions to publicly or privately administered pension plans on a mandatory, contractual or voluntary basis. Contributions to the schemes by the Group and employees are calculated at fixed percentages of employees' basic salaries or at agreed fixed amounts.

Under the defined contribution scheme in some countries, where employees leave the scheme prior to the full vesting of the employer's contributions, the amount of forfeited contributions is used to reduce the contributions payable by the Group. During the year, the Group did not have any contributions forfeited in accordance with the schemes' rules (2007: HK\$1 million) which have been applied towards the contributions payable by the Group.

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12 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

Name of Director	Fees <sup>4</sup> HK\$'000	Basic salaries, allowance and benefits in kind HK\$'000	Bonuses HK\$'000	Share option benefits HK\$'000	Provident fund contributions/ retirement benefit costs HK\$'000	2008 Total emoluments HK\$'000	2007 Total emoluments HK\$'000
HEINZ JÜRGEN KROGNER-KORNALIK	–	12,887 (EUR1,123,620)	45,876 (EUR4,000,000)	13,817 (EUR1,204,783)	75 (EUR6,502)	72,655 (EUR6,334,905)	59,291 (EUR5,823,212)
THOMAS JOHANNES GROTE	–	11,747 (EUR1,024,274)	11,469 (EUR1,000,000)	10,908 (EUR951,048)	–	34,124 (EUR2,975,322)	22,856 (EUR2,244,753)
JEROME SQUIRE GRIFFITH	–	5,654 (USD725,400)	3,118 (USD400,000)	2,387 (USD306,203)	–	11,159 (USD1,431,603)	12,823 (USD1,644,955)
JOHN POON CHO MING	–	10,532	11,469	11,431	12	33,444	23,788
JÜRGEN ALFRED RUDOLF FRIEDRICH <sup>1,3</sup>	425	–	–	–	–	425	300
MICHAEL YING LEE YUEN <sup>1</sup>	205	–	–	–	–	205	3,687
SIMON LAI SAU CHEONG <sup>1</sup>	–	–	–	–	–	–	106
PAUL CHENG MING FUN <sup>2,3</sup>	650	–	–	–	–	650	450
ALEXANDER REID HAMILTON <sup>2,3</sup>	650	–	–	–	–	650	450
HANS-JOACHIM KÖRBER <sup>2,3</sup>	90	–	–	–	–	90	–
RAYMOND OR CHING FAI <sup>2,3</sup>	650	–	–	–	–	650	450
Total for the year 2008	2,670	40,820	71,932	38,543	87	154,052	
Total for the year 2007	2,006	27,960	60,629	33,583	23		124,201

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

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

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

<sup>4</sup> The amount includes directors' fees of **HK\$2.0 million** (2007: HK\$1.4 million) paid to independent non-executive directors

12 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** (2007: four) Directors whose emoluments are reflected in the analysis presented above. The emoluments receivable by the remaining **one** (2007: one) during the year are listed below:

	2008 HK\$'000	2007 HK\$'000
Salaries, housing and other allowances and benefits in kind	3,109	2,251
Bonuses	6,308	4,073
Share option benefits	4,300	2,886
Pensions costs of defined contribution plans	6	5
	<b>13,723</b>	9,215

Emoluments Band	Number of Individuals	
	2008	2007
HK\$ 9,000,001 – HK\$ 9,500,000	–	1
HK\$ 13,500,001 – HK\$ 14,000,000	1	–

13 INTANGIBLE ASSETS

	Trademarks HK\$ million	Goodwill HK\$ million	Total HK\$ million
<b>Cost</b>			
At July 1, 2006	1,985	42	2,027
Exchange translation	30	–	30
At July 1, 2007	<b>2,015</b>	<b>42</b>	<b>2,057</b>
Exchange translation	<b>55</b>	<b>9</b>	<b>64</b>
<b>At June 30, 2008</b>	<b>2,070</b>	<b>51</b>	<b>2,121</b>

The trademarks are considered to have an indefinite useful life and were tested for impairment at June 30, 2008, as described in note 4(a).

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14 PROPERTY, PLANT AND EQUIPMENT

	Freehold land outside Hong Kong HK\$ million	Buildings HK\$ million	Leasehold improvements and fixtures HK\$ million	Plant and machinery HK\$ million	Furniture and office equipment HK\$ million	Motor vehicles HK\$ million	Total HK\$ million
<b>Cost</b>							
At July 1, 2007	23	202	3,297	11	1,743	49	5,325
Exchange translation	2	26	495	3	317	12	855
Additions	–	–	951	–	374	27	1,352
Disposals	–	–	(174)	–	(84)	(15)	(273)
At June 30, 2008	25	228	4,569	14	2,350	73	7,259
<b>Depreciation</b>							
At July 1, 2007	–	58	1,493	5	1,221	23	2,800
Exchange translation	–	22	247	4	245	7	525
Charge for the year	–	8	426	1	301	14	750
Disposals	–	–	(143)	–	(78)	(13)	(234)
Impairment charge	–	–	23	–	–	–	23
At June 30, 2008	–	88	2,046	10	1,689	31	3,864
<b>Net book value</b>							
At June 30, 2008	25	140	2,523	4	661	42	3,395

14 PROPERTY, PLANT AND EQUIPMENT (continued)

	Freehold land outside Hong Kong HK\$ million	Buildings HK\$ million	Leasehold improvements and fixtures HK\$ million	Plant and machinery HK\$ million	Furniture and office equipment HK\$ million	Motor vehicles HK\$ million	Total HK\$ million
<b>Cost</b>							
At July 1, 2006	23	200	2,815	10	1,527	40	4,615
Exchange translation	–	2	177	1	78	3	261
Additions	–	–	425	–	175	15	615
Disposals	–	–	(120)	–	(37)	(9)	(166)
At June 30, 2007	23	202	3,297	11	1,743	49	5,325
<b>Depreciation</b>							
At July 1, 2006	–	48	1,182	4	935	17	2,186
Exchange translation	–	1	80	–	55	1	137
Charge for the year	–	9	313	1	263	11	597
Disposals	–	–	(98)	–	(32)	(6)	(136)
Impairment charge	–	–	16	–	–	–	16
At June 30, 2007	–	58	1,493	5	1,221	23	2,800
<b>Net book value</b>							
At June 30, 2007	23	144	1,804	6	522	26	2,525

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15 INVESTMENTS IN ASSOCIATES

	2008 HK\$ million	2007 HK\$ million
Share of net assets	<b>583</b>	406

The following is a list of the principal associates, all of which are unlisted as at June 30, 2008:

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

Except for royalty payments by TSI which have scheduled payment due dates and bear interest at Hong Kong dollar prime rate plus 3% on overdue balances, the amounts due from associates are unsecured, interest free and have no fixed terms of repayment.

### 15 INVESTMENTS IN ASSOCIATES (continued)

Summary of unaudited consolidated financial information of the associates as at June 30 is as follows:

	<b>2008</b> HK\$ million	2007 HK\$ million
Assets	<b>1,518</b>	1,009
Liabilities	<b>(328)</b>	(181)
Net assets	<b>1,190</b>	828
Revenue	<b>2,292</b>	1,595
Net Profit	<b>296</b>	265

### 16 PREPAID LEASE PAYMENTS

	<b>2008</b> HK\$ million	2007 HK\$ million
Net book value at beginning of year	<b>180</b>	185
Amortization	<b>(5)</b>	(5)
Net book value at end of year	<b>175</b>	180
Current portion of non-current assets	<b>(5)</b>	(5)
Non-current portion	<b>170</b>	175

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

### 17 INVENTORIES

	<b>2008</b> HK\$ million	2007 HK\$ million
Finished goods	<b>2,990</b>	2,070
Consumables	<b>176</b>	118
Raw materials	<b>4</b>	4
	<b>3,170</b>	2,192

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18 DEBTORS, DEPOSITS AND PREPAYMENTS

	2008 HK\$ million	2007 HK\$ million
Trade debtors	4,161	3,090
Less: provision for impairment of trade debtors	(154)	(122)
	<b>4,007</b>	2,968
Deposits	616	481
Prepayments	287	101
Other debtors and receivables	422	441
	<b>5,332</b>	3,991
Maximum exposure to credit risk	<b>5,045</b>	3,890

The ageing analysis by due date of trade debtors net of provision for impairment is as follows:

	2008 HK\$ million	2007 HK\$ million
Current	3,268	2,479
1-30 days	366	238
31-60 days	151	84
61-90 days	63	76
Over 90 days	159	91
Amount past due but not impaired	739	489
	<b>4,007</b>	2,968

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

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

Concerning trade debtors that are neither impaired nor past due, there were no indications at the balance sheet date that defaults in payment obligations will occur as these relate to a number of independent customers for whom there is no recent history of default.

### 18 DEBTORS, DEPOSITS AND PREPAYMENTS (continued)

Movements in provision for impairment of trade debtors are as follows:

	2008 HK\$ million	2007 HK\$ million
At beginning of year	122	81
Provision for impairment of trade debtors	99	82
Bad debts written off	(74)	(41)
Unused amounts reversed	(13)	(6)
Exchange translation	20	6
At end of year	154	122

The individually impaired receivables mainly relate to wholesalers which have unexpected liquidity problems.

During the year, the Group renegotiated the terms of trade debtors totaling **HK\$149 million** (2007: HK\$64 million) that would otherwise be past due at the balance sheet date.

### 19 CASH AND CASH EQUIVALENTS

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

	2008 HK\$ million	2007 HK\$ million
Bank balances and cash	2,767	1,829
Short-term bank deposits	3,754	3,403
	6,521	5,232

The maximum exposure to credit risk as at June 30, 2008 is the carrying amount of bank balances and short-term bank deposits.

For financial reporting purposes, the effective interest rate on cash and cash equivalents for 2008 was determined to be **3.2%** (2007: 3.0%); the short-term bank deposits have a maturity of less than 30 days.

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20 SHARE CAPITAL

	2008 HK\$ million	2007 HK\$ million
<b>Authorized:</b>		
2,000,000,000 shares of HK\$0.10 each	<b>200</b>	200
	Number of shares of HK\$0.10 each million	Nominal value HK\$ million
<b>Issued and fully paid:</b>		
Balance at July 1, 2006	1,220	122
Exercise of share options	11	1
Balance at June 30, 2007	1,231	123
Balance at July 1, 2007	<b>1,231</b>	<b>123</b>
Exercise of share options (Note (a))	<b>13</b>	<b>1</b>
<b>Balance at June 30, 2008</b>	<b>1,244</b>	<b>124</b>

(a) During the year, **12,700,000** (2007: 10,950,000) 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\$86.85** (2007: HK\$14.60 to HK\$64.31) each (representing a premium in the range of **HK\$14.50 to HK\$86.75** (2007: HK\$14.50 to HK\$64.21) each).

(b) Share options

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

## 20 SHARE CAPITAL (continued)

### 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.

### Participants of the Scheme

The board may at its discretion grant options to:

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

- (iii) a company beneficially owned by any director, employee, consultant, customer, supplier, agent, partner, adviser of or contractor to the Group or an Affiliate.

### Total number of shares available for issue under the Scheme and percentage of issued share capital at June 30, 2008

The total number of shares available for issue upon exercise of all outstanding options already granted under the Scheme is 41,636,000 shares, representing 3.35% of the issued share capital of the Company at June 30, 2008.

The maximum number of shares available for issue upon exercise of options not yet been granted under the Scheme is 36,781,371 shares, representing 2.96% of the issued share capital of the Company at June 30, 2008.

### 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 as amended and in force.

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.

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### 20 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, 2008 under the Scheme were as follows:

	Number of share options	
	2008	2007 As restated
Opening balance (Note (i))	<b>46,566,000</b>	54,015,000
Granted during the year (Note (ii))	<b>13,660,000</b>	12,980,000
Exercised during the year (Note (iii))	<b>(12,700,000)</b>	(10,950,000)
Lapsed during the year (Note (iv))	<b>(2,250,000)</b>	(4,895,000)
Forfeited during the year (Note (iv))	<b>(3,640,000)</b>	(4,584,000)
Closing balance (Notes (iv) and (v))	<b>41,636,000</b>	46,566,000

- (i) Adjustment to the opening balance as at July 1, 2006 was due to certain share options lapsed before July 1, 2006 but reported during the year ended June 30, 2008.

20 SHARE CAPITAL (continued)

(ii) Details of share options granted during the year ended June 30, 2008 were as follows:

Exercise period	Exercise price HK\$	Number of options
December 4, 2008 – December 3, 2013	119.00	210,000
December 4, 2009 – December 3, 2013	119.00	210,000
December 4, 2010 – December 3, 2013	119.00	210,000
December 4, 2011 – December 3, 2013	119.00	210,000
December 4, 2012 – December 3, 2013	119.00	210,000
December 5, 2008 – December 4, 2013	118.70	762,000
December 5, 2009 – December 4, 2013	118.70	762,000
December 5, 2010 – December 4, 2013	118.70	762,000
December 5, 2011 – December 4, 2013	118.70	762,000
December 5, 2012 – December 4, 2013	118.70	762,000
January 31, 2009 – January 30, 2014	100.80	1,400,000
January 31, 2010 – January 30, 2014	100.80	1,400,000
January 31, 2011 – January 30, 2014	100.80	1,400,000
January 31, 2012 – January 30, 2014	100.80	1,400,000
January 31, 2013 – January 30, 2014	100.80	1,400,000
February 11, 2009 – February 10, 2014	102.12	300,000
February 11, 2010 – February 10, 2014	102.12	300,000
February 11, 2011 – February 10, 2014	102.12	300,000
February 11, 2012 – February 10, 2014	102.12	300,000
February 11, 2013 – February 10, 2014	102.12	300,000
May 6, 2009 – May 5, 2014	94.80	60,000
May 6, 2010 – May 5, 2014	94.80	60,000
May 6, 2011 – May 5, 2014	94.80	60,000
May 6, 2012 – May 5, 2014	94.80	60,000
May 6, 2013 – May 5, 2014	94.80	60,000
		<b>13,660,000</b>

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### 20 SHARE CAPITAL (continued)

Details of share options granted during the year ended June 30, 2007 were as follows:

Exercise period	Exercise price HK\$	Number of options
November 27, 2007 – November 26, 2012	80.60	525,000
November 27, 2008 – November 26, 2012	80.60	525,000
November 27, 2009 – November 26, 2012	80.60	525,000
November 27, 2010 – November 26, 2012	80.60	525,000
November 27, 2011 – November 26, 2012	80.60	525,000
December 4, 2007 – December 3, 2012	79.49	255,000
December 4, 2008 – December 3, 2012	79.49	255,000
December 4, 2009 – December 3, 2012	79.49	255,000
December 4, 2010 – December 3, 2012	79.49	255,000
December 4, 2011 – December 3, 2012	79.49	255,000
December 5, 2007 – December 4, 2012	80.95	1,296,000
December 5, 2008 – December 4, 2012	80.95	1,296,000
December 5, 2009 – December 4, 2012	80.95	1,296,000
December 5, 2010 – December 4, 2012	80.95	1,296,000
December 5, 2011 – December 4, 2012	80.95	1,296,000
February 7, 2008 – February 6, 2013	83.00	400,000
February 7, 2009 – February 6, 2013	83.00	400,000
February 7, 2010 – February 6, 2013	83.00	400,000
February 7, 2011 – February 6, 2013	83.00	400,000
February 7, 2012 – February 6, 2013	83.00	400,000
February 28, 2008 – February 27, 2013	86.85	120,000
February 28, 2009 – February 27, 2013	86.85	120,000
February 28, 2010 – February 27, 2013	86.85	120,000
February 28, 2011 – February 27, 2013	86.85	120,000
February 28, 2012 – February 27, 2013	86.85	120,000
		12,980,000

20 SHARE CAPITAL (continued)

(iii) Details of share options exercised during the year ended June 30, 2008 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 13, 2007	14.60	80,000	8	1,160	101.50
July 13, 2007	24.20	60,000	6	1,446	101.50
July 13, 2007	42.58	300,000	30	12,744	101.50
July 13, 2007	55.11	90,000	9	4,951	101.50
August 9, 2007	64.31	60,000	6	3,853	105.80
November 26, 2007	14.60	2,016,000	202	29,232	116.10
November 26, 2007	24.20	1,617,000	162	38,970	116.10
November 27, 2007	14.60	180,000	18	2,610	114.60
November 27, 2007	24.20	140,000	14	3,374	114.60
November 27, 2007	42.58	1,972,000	197	83,771	114.60
November 27, 2007	80.60	150,000	15	12,075	114.60
December 4, 2007	14.60	900,000	90	13,050	119.00
December 4, 2007	24.20	230,000	23	5,543	119.00
December 4, 2007	42.58	300,000	30	12,744	119.00
December 4, 2007	55.11	240,000	24	13,202	119.00
December 4, 2007	56.20	80,000	8	4,488	119.00
December 4, 2007	79.49	60,000	6	4,763	119.00
December 5, 2007	80.95	120,000	12	9,702	118.70
December 7, 2007	14.60	640,000	64	9,280	110.10
December 7, 2007	24.20	480,000	48	11,568	110.10
December 7, 2007	42.58	600,000	60	25,488	110.10
December 7, 2007	55.11	90,000	9	4,951	110.10
December 7, 2007	80.60	90,000	9	7,245	110.10
December 13, 2007	14.60	120,000	12	1,740	103.50
December 13, 2007	24.20	210,000	21	5,061	103.50
December 13, 2007	42.58	360,000	36	15,293	103.50
December 13, 2007	55.11	90,000	9	4,951	103.50
December 21, 2007	80.60	60,000	6	4,830	114.70
February 11, 2008	45.60	80,000	8	3,640	93.50
February 14, 2008	55.11	60,000	6	3,300	98.35
February 14, 2008	56.20	60,000	6	3,366	98.35
February 14, 2008	80.95	80,000	8	6,468	98.35
April 2, 2008	14.60	80,000	8	1,160	93.00
April 2, 2008	24.20	60,000	6	1,446	93.00
April 2, 2008	42.58	60,000	6	2,549	93.00
April 2, 2008	64.31	60,000	6	3,852	93.00
April 2, 2008	86.85	60,000	6	5,205	93.00
April 22, 2008	64.31	80,000	8	5,137	97.90
April 25, 2008	14.60	120,000	12	1,740	97.20
April 25, 2008	24.20	65,000	6	1,566	97.20
April 25, 2008	42.58	60,000	6	2,549	97.20
May 2, 2008	80.95	40,000	4	3,234	94.30
June 25, 2008	14.60	160,000	16	2,320	86.00
June 25, 2008	24.20	120,000	12	2,892	86.00
June 25, 2008	42.58	120,000	12	5,098	86.00
		<b>12,700,000</b>	<b>1,270</b>	<b>403,607</b>	

\* "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).

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### 20 SHARE CAPITAL (continued)

(iv) Adjustments to the number of share options lapsed/forfeited during the year ended June 30, 2007 and the closing balance as at June 30, 2007 were due to certain share options lapsed/forfeited before July 1, 2007 but reported during the year ended June 30, 2008.

(v) 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,	
		2008	2007 As restated
<b>Directors</b>			
November 26, 2008*	14.60	–	640,000
November 26, 2008**	14.60	–	1,920,000
November 26, 2009*	24.20	<b>480,000</b>	480,000
November 26, 2009**	24.20	<b>1,440,000</b>	2,880,000
November 27, 2010*	42.58	<b>480,000</b>	480,000
November 27, 2010**	42.58	<b>2,880,000</b>	4,320,000
December 5, 2012*	80.95	<b>160,000</b>	–
December 5, 2012**	80.95	<b>640,000</b>	800,000
February 7, 2013*	83.00	<b>320,000</b>	–
February 7, 2013**	83.00	<b>1,280,000</b>	1,600,000
December 5, 2013**	118.70	<b>600,000</b>	–
February 11, 2014**	102.12	<b>1,200,000</b>	–
<b>Employees and consultants</b>			
November 26, 2008*	14.60	<b>1,200,000</b>	700,000
November 26, 2008**	14.60	–	2,296,000
November 26, 2009*	24.20	<b>1,185,000</b>	665,000
November 26, 2009** (Note (iv))	24.20	<b>1,822,000</b>	4,204,000
December 23, 2009*	24.45	<b>240,000</b>	120,000
December 23, 2009**	24.45	<b>120,000</b>	240,000
November 27, 2010* (Note (iv))	42.58	<b>1,525,000</b>	1,580,000
November 27, 2010** (Note (iv))	42.58	<b>4,214,000</b>	8,121,000
December 23, 2010*	47.10	<b>270,000</b>	180,000
December 23, 2010**	47.10	<b>180,000</b>	270,000
January 21, 2011**	45.60	<b>160,000</b>	240,000
November 28, 2011*	55.11	<b>285,000</b>	345,000
November 28, 2011**	55.11	<b>1,350,000</b>	3,240,000

20 SHARE CAPITAL (continued)

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

Expiry date	Exercise price HK\$	Number of share options outstanding as at June 30,	
		2008	2007 As restated
<b>Employees and consultants (continued)</b>			
December 2, 2011*	56.20	240,000	100,000
December 2, 2011** (Note (iv))	56.20	840,000	1,120,000
December 23, 2011*	56.50	180,000	90,000
December 23, 2011**	56.50	270,000	360,000
February 23, 2012*	64.31	–	60,000
February 23, 2012**	64.31	420,000	560,000
November 27, 2012*	80.60	45,000	–
November 27, 2012**	80.60	1,020,000	2,025,000
December 4, 2012*	79.49	150,000	–
December 4, 2012** (Note (iv))	79.49	840,000	1,050,000
December 5, 2012*	80.95	616,000	–
December 5, 2012** (Note (iv))	80.95	2,784,000	4,880,000
February 7, 2013*	83.00	80,000	–
February 7, 2013**	83.00	320,000	400,000
February 28, 2013*	86.85	60,000	–
February 28, 2013**	86.85	480,000	600,000
December 4, 2013**	119.00	1,050,000	–
December 5, 2013**	118.70	2,610,000	–
January 31, 2014**	100.80	7,000,000	–
February 11, 2014**	102.12	300,000	–
May 6, 2014**	94.80	300,000	–
		<b>41,636,000</b>	46,566,000

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

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

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### 20 SHARE CAPITAL (continued)

Share option expenses charged to the consolidated income statement are based on valuation determined using the Binomial model. Share options granted were valued based on the following assumptions:

Date of grant	Option value <sup>1</sup> HK\$	Share price at the date of grant <sup>2</sup> HK\$	Exercisable price HK\$	Expected volatility <sup>3</sup>	Annual risk-free interest rate <sup>4</sup>	Life of option <sup>5</sup>	Dividend yield <sup>6</sup>
November 26, 2002	3.22 – 5.38	14.60	14.60	47.19%	2.14% – 3.73%	2 – 6 years	1.87%
November 26, 2003	4.42 – 7.70	24.20	24.20	38.29%	1.53% – 3.54%	2 – 6 years	1.85%
December 23, 2003	4.39 – 7.71	24.45	24.45	38.09%	1.18% – 3.42%	2 – 6 years	1.85%
November 27, 2004	7.64 – 13.17	42.20	42.58	38.88%	1.35% – 2.90%	2 – 6 years	1.77%
December 23, 2004	8.46 – 14.64	47.10	47.10	38.18%	1.00% – 2.88%	2 – 6 years	1.77%
January 21, 2005	8.15 – 14.00	45.60	45.60	37.23%	1.55% – 3.03%	2 – 6 years	1.77%
November 28, 2005	8.44 – 14.59	54.45	55.11	28.98%	4.10% – 4.28%	2 – 6 years	1.89%
December 2, 2005	9.01 – 15.37	56.20	56.20	29.05%	4.16% – 4.37%	2 – 6 years	1.89%
December 23, 2005	7.67 – 14.67	56.50	56.50	23.50% – 27.50%	4.03% – 4.20%	2 – 6 years	1.89%
February 23, 2006	7.67 – 16.78	58.80	64.31	31.10%	4.07% – 4.20%	2 – 6 years	1.89%
November 27, 2006	12.57 – 21.01	80.00	80.60	28.64%	3.66% – 3.79%	2 – 6 years	1.84%
December 4, 2006	12.16 – 20.36	78.70	79.49	28.26%	3.49% – 3.67%	2 – 6 years	1.84%
December 5, 2006	12.42 – 20.81	80.95	80.95	28.38%	3.48% – 3.68%	2 – 6 years	1.84%
February 7, 2007	13.42 – 22.58	83.00	83.00	29.18%	4.10% – 4.22%	2 – 6 years	1.84%
February 28, 2007	13.81 – 23.23	81.40	86.85	28.85%	3.94% – 4.08%	2 – 6 years	1.84%
December 4, 2007	21.66 – 35.73	119.00	119.00	37.87%	1.86% – 2.75%	2 – 6 years	1.81%
December 5, 2007	21.37 – 35.46	118.70	118.70	37.74%	1.65% – 2.71%	2 – 6 years	1.81%
January 31, 2008	21.36 – 34.09	100.80	100.80	45.98%	1.55% – 2.25%	2 – 6 years	1.81%
February 11, 2008	21.88 – 34.78	93.50	102.12	46.74%	1.47% – 2.13%	2 – 6 years	1.81%
May 6, 2008	21.04 – 33.66	94.80	94.80	48.56%	1.65% – 2.53%	2 – 6 years	1.81%

## 20 SHARE CAPITAL (continued)

1. Since the 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.
2. The share price at the date of grant disclosed is the closing price of the Company's shares as stated in SEHK's daily quotations sheet on the date of grant of the relevant option; where the date of grant of the relevant option did not fall on a Business Day (as defined in the Listing Rules), the closing price of the Company's shares as stated in SEHK's daily quotations sheet immediately preceding the date of grant was disclosed.
3. As stated in IFRS 2, the issuer can use either i) implied volatilities obtained from market information; or ii) historical volatilities as expected volatility input to the Binomial option pricing model. With the exception of those share options 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.
4. 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.
5. The expected option life was determined by reference to historical data of option holders' behaviour.
6. Dividend yield was based on the average dividend yield (excluding special dividend) for the three years preceding the year of grant.

## 21 CREDITORS AND ACCRUED CHARGES

	2008 HK\$ million	2007 HK\$ million
Trade creditors	1,572	1,438
Accruals	1,997	1,390
Other creditors and payables	1,002	809
	<b>4,571</b>	3,637

The ageing analysis of trade creditors is as follows:

	2008 HK\$ million	2007 HK\$ million
0-30 days	1,419	1,347
31-60 days	94	55
61-90 days	17	7
Over 90 days	42	29
	<b>1,572</b>	1,438

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

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22 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\$ million	Elimination of unrealized profits HK\$ million	Trademarks HK\$ million	Tax losses HK\$ million	Other deferred tax assets HK\$ million	Other deferred tax liabilities HK\$ million	Total HK\$ million
At July 1, 2006	24	238	(313)	33	20	(45)	(43)
(Charged)/Credited to income statement	(10)	58	(8)	4	8	(2)	50
Exchange difference recognized in equity	1	16	(9)	-	4	(1)	11
At June 30, 2007	<b>15</b>	<b>312</b>	<b>(330)</b>	<b>37</b>	<b>32</b>	<b>(48)</b>	<b>18</b>
(Charged)/Credited to income statement	<b>(3)</b>	<b>89</b>	-	<b>27</b>	<b>26</b>	<b>18</b>	<b>157</b>
Changes in tax rates	-	<b>(80)</b>	<b>(7)</b>	<b>(2)</b>	<b>(2)</b>	<b>5</b>	<b>(86)</b>
Exchange difference recognized in equity	<b>2</b>	<b>49</b>	<b>(21)</b>	<b>2</b>	<b>6</b>	<b>(5)</b>	<b>33</b>
<b>At June 30, 2008</b>	<b>14</b>	<b>370</b>	<b>(358)</b>	<b>64</b>	<b>62</b>	<b>(30)</b>	<b>122</b>

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:

	2008 HK\$ million	2007 HK\$ million
Deferred tax assets	<b>510</b>	396
Deferred tax liabilities	<b>388</b>	378

## 22 DEFERRED TAXATION (continued)

At June 30, 2008, the Group had unused tax losses of approximately **HK\$881 million** (2007: HK\$965 million) available for offset against future taxable profits. A deferred tax asset has been recognized in respect of approximately **HK\$307 million** (2007: HK\$201 million) of such losses. No deferred tax asset has been recognized in respect of the remaining losses of approximately **HK\$574 million** (2007: HK\$764 million). Included in unrecognized tax losses are losses of approximately **HK\$78 million** (2007: HK\$157 million) that will expire in the next five to twenty years. Other losses may be carried forward indefinitely.

## 23 NOTES TO CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of profit before taxation to cash generated from operations:

	2008 HK\$ million	2007 HK\$ million
Profit before taxation	<b>8,056</b>	6,538
Adjustments for:		
Interest income	<b>(190)</b>	(149)
Amortization of prepaid lease payments	<b>5</b>	5
Depreciation	<b>750</b>	597
Impairment of property, plant and equipment	<b>23</b>	16
Loss on disposal of property, plant and equipment	<b>33</b>	25
Provision for retail store exit costs	<b>–</b>	4
Share of results of associates	<b>(145)</b>	(130)
Employee share option expense	<b>141</b>	129
Operating profit before changes in working capital	<b>8,673</b>	7,035
Increase in inventories	<b>(978)</b>	(91)
Increase in debtors, deposits and prepayments	<b>(1,341)</b>	(1,145)
(Increase)/Decrease in amounts due from associates	<b>(35)</b>	54
Increase in creditors and accrued charges	<b>941</b>	1,040
Effect of foreign exchange rate changes	<b>342</b>	92
Cash generated from operations	<b>7,602</b>	6,985

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23 NOTES TO CONSOLIDATED CASH FLOW STATEMENT (continued)

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

	2008 HK\$ million	2007 HK\$ million
Net book amount	39	30
Loss on disposal of property, plant and equipment	(33)	(25)
Proceeds from disposal of property, plant and equipment	6	5

24 OPERATING LEASE COMMITMENTS

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

	2008 HK\$ million	2007 HK\$ million
Land and buildings		
– within one year	2,582	1,810
– in the second to fifth year inclusive	9,521	6,521
– after the fifth year	9,675	7,346
	<b>21,778</b>	15,677
Other equipment		
– within one year	27	23
– in the second to fifth year inclusive	26	15
	<b>53</b>	38
	<b>21,831</b>	15,715

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, 2008 are **HK\$100 million** (2007: HK\$110 million).

## 25 CAPITAL COMMITMENTS

	2008 HK\$ million	2007 HK\$ million
Contracted but not provided for	467	186
Authorized but not contracted for	1,250	770
	<b>1,717</b>	956

## 26 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 foreign currency forward contracts to which the Group has committed is as below:

	2008 HK\$ million	2007 HK\$ million
Foreign currency forward contracts – cash flow hedges	492	948

At June 30, 2008, the fair value of the foreign currency forward contracts is estimated to be approximately **HK\$13 million** (2007: HK\$22 million). These amounts are based on market values of equivalent instruments at the balance sheet date and are included in other creditors and payables.

Losses in equity on foreign currency forward contracts as of June 30, 2008 will be released to the consolidated 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 consolidated income statement.

The Group did not have any ineffective portion of changes in fair value of foreign currency forward contracts for the year ended June 30, 2008 (2007: nil).

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 27 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:

	2008 HK\$ million	2007 HK\$ million
<b>Transactions with associates</b>		
Sales of finished goods	999	690
Royalty and accrued interest receivable/received	46	38
Commission received	6	4

### 28 EVENTS AFTER THE BALANCE SHEET DATE

In July 2008, the Company repurchased 2,615,500 of its own ordinary shares at a total consideration of HK\$203 million on SEHK.

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	2008 HK\$ million	2007 HK\$ million As restated
Investments in subsidiaries, at cost	(i)	753	624
Loans to subsidiaries	(ii)	1,634	1,637
Amounts due from subsidiaries	(ii)	8,504	8,164
Current assets		–	12
Current liabilities		(19)	(15)
Amounts due to subsidiaries	(ii)	(2,952)	(4,240)
Net assets		7,920	6,182
Share capital	20	124	123
Share premium	(iii)	2,896	2,391
Contributed surplus	(iii)	474	474
Employee share-based payment reserve	(iii)	322	282
Retained profits	(i), (iii)	4,104	2,912
Shareholders' funds		7,920	6,182

- i. In prior years, expenses relating to share options granted to employees of both the Company and its subsidiaries was recognized as an expense in the income statement of the Company. Following the adoption of IFRIC 11, expenses relating to share options granted to employees of subsidiaries of the Company are pushed down to those subsidiaries.

The effect of adoption of IFRIC 11 on the profit attributable to shareholders of the Company for the year is as follows:

	2008 HK\$ million	2007 HK\$ million
Increase in profit attributable to shareholders (Note (iii))	129	120

The effect of the adoption of IFRIC 11 on the balance sheet of the Company as at June 30, 2008 and June 30, 2007 is as follows:

	2008 HK\$ million	2007 HK\$ million
Increase in investments in subsidiaries	536	407
Increase in retained profits (Note (iii))	536	407

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 29 SUMMARIZED BALANCE SHEET OF THE COMPANY (continued)

ii. The loans to subsidiaries and the amounts due from/to subsidiaries are unsecured, interest free and have no fixed term of repayment.

iii. Movements of reserves are as follows:

	Share premium HK\$ million	Contributed surplus HK\$ million	Employee share-based payment reserve HK\$ million	Retained profits HK\$ million	Total HK\$ million
At July 1, 2006, as previously reported	1,975	474	230	1,764	4,443
Effect of adoption of IFRIC 11 (Note (i))	-	-	-	287	287
At July 1, 2006, as restated	1,975	474	230	2,051	4,730
Profit attributable to shareholders, as restated (Note (i))	-	-	-	3,947	3,947
2005/06 final and special dividends paid	-	-	-	(2,225)	(2,225)
2006/07 interim dividend paid (Note 9)	-	-	-	(861)	(861)
Issues of shares	339	-	-	-	339
Employee share option benefits	-	-	129	-	129
Transfer of reserve	77	-	(77)	-	-
Balance at June 30, 2007, as restated	2,391	474	282	2,912	6,059
Representing:					
Proposed final and special dividends					3,055
Balance after proposed final and special dividends, as restated					3,004
Balance at June 30, 2007, as restated					6,059
At July 1, 2007, as restated	<b>2,391</b>	<b>474</b>	<b>282</b>	<b>2,912</b>	<b>6,059</b>
Profit attributable to shareholders	-	-	-	5,448	5,448
2006/07 final and special dividends paid (Note 9)	-	-	-	(3,075)	(3,075)
2007/08 interim dividend paid (Note 9)	-	-	-	(1,181)	(1,181)
Issues of shares (Note 20)	404	-	-	-	404
Employee share option benefits	-	-	141	-	141
Transfer of reserve	101	-	(101)	-	-
Balance at June 30, 2008	<b>2,896</b>	<b>474</b>	<b>322</b>	<b>4,104</b>	<b>7,796</b>
Representing:					
Proposed final and special dividends					4,038
Balance after proposed final and special dividends					3,758
Balance at June 30, 2008					7,796

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, 2008 amounted to **HK\$4,900 million** (2007 (as restated): HK\$3,668 million).

iv. The Company did not have any operating lease commitment at June 30, 2008 (2007: Nil).

v. The Company did not have any significant capital commitment at June 30, 2008 (2007: Nil).

### 30 PRINCIPAL SUBSIDIARIES

The following are the principal subsidiaries as at June 30, 2008 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 Card Services GmbH	Germany	100%	EUR25,000	Issuance, accounting of and service in connection with GiftCard, as provided for Esprit group and distribution partners in Europe
Esprit China Distribution Limited	British Virgin Islands/Hong Kong	100%	USD100	Investment holding
Esprit Corporate Services Limited	British Virgin Islands/Hong Kong	100%	USD100	Financial services
Esprit de Corp (1980) Ltd.	Canada	100%	CAD1,000,100	Retail distribution of apparel and accessories
Esprit de Corp Danmark A/S	Denmark	100%	DKK12,000,000	Wholesale and retail distribution of apparel and accessories
Esprit de Corp (Far East) Limited	Hong Kong	100%	HKD1,200,000	Sourcing of apparel and accessories
Esprit de Corp. France S.A.	France	100%	EUR6,373,350	Wholesale and retail distribution of apparel and accessories
Esprit De Corp (Malaysia) Sdn, Bhd.	Malaysia	100%	MYR2,000,000	Retail distribution of apparel and accessories
Esprit de Corp. (Spain) S.L.	Spain	100%	EUR10,000	Wholesale distribution of apparel and accessories

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 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 Design & Product Development GmbH	Germany	100%	EUR100,000	Provision of services to the worldwide Esprit group in relation to the development of designs, styles and prototypes for the sales line of Esprit products
Esprit Europe B.V.	The Netherlands	100%	EUR1,500,000	Investment holding and wholesale and retail distribution of apparel and accessories, licensing of trademarks
Esprit Europe GmbH	Germany	100%	EUR5,112,919	Management and control function; render of services to the Esprit group
Esprit Europe Services GmbH	Germany	100%	EUR2,700,000	Sourcing, purchase and sale of merchandise, distribution of merchandise and other logistic functions, including customs dealing and quality control
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 mbH	Austria	100%	EUR100,000	Wholesale and retail distribution of apparel and accessories
Esprit International (limited partnership)	United States	100%	N/A	Holding and licensing of trademarks
Esprit International (GP) Inc.	United States	100%	USD1,000	General partner of Esprit International (limited partnership)

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 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 Italy Retail S.R.L.	Italy	100%	EUR10,000	Retail distribution of apparel and accessories
Esprit Luxembourg S.á.r.L.	Luxembourg	100%	EUR250,000	Retail distribution of apparel and accessories
Esprit Macao Commercial Offshore Limited	Macao	100%	MOP3,000,000	Wholesale distribution of apparel and accessories
Esprit (Norway) A/S	Norway	100%	NOK16,000,000	Wholesale distribution of apparel and accessories
Esprit Property Limited	Hong Kong	100%	HKD2	Investment holding
Esprit Regional Services Limited	British Virgin Islands/Hong Kong	100%	USD1	Provision of services
Esprit Retail B.V. & Co. KG (limited partnership)	Germany	100%	EUR5,000,000	Retail distribution of apparel and accessories, operation of Esprit Café
Esprit Retail (Hong Kong) Limited	Hong Kong	100%	HKD10,000	Retail distribution of apparel and accessories and operation of Salon Esprit
Esprit (Retail) Proprietary Limited	Australia	100%	AUD200,000	Wholesale and retail distribution of apparel and accessories
Esprit Retail Pte Ltd	Singapore	100%	SGD3,000,000	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
Esprit US Distribution Limited	United States	100%	USD1,000	Wholesale distribution of apparel and accessories
Esprit US Online Shop Limited	United States	100%	USD1,000	Online retail distribution of apparel and accessories

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 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 Retail Limited	United States	100%	USD0.001	Retail distribution of apparel and accessories
Esprit US Wholesale Limited	United States	100%	USD1,000	Wholesale distribution of apparel and accessories
Esprit Wholesale GmbH	Germany	100%	EUR5,000,000	Wholesale distribution of apparel and accessories
Garment, Accessories 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
Sijun Fashion (Shenzhen) Co., Ltd.	The People's Republic of China (Note d)	100%	USD1,600,000	Sample development

Notes:

- (a) All subsidiaries were held indirectly by the Company, except ESP Group Limited.
- (b) All are ordinary share capital unless otherwise stated.
- (c) Representing 100 class A shares of CAD 1.00 each.
- (d) Wholly owned foreign enterprise.

## 06.7 FIVE-YEAR FINANCIAL SUMMARY

### CONSOLIDATED BALANCE SHEET ITEMS

	<b>As at June 30, 2008</b> HK\$ million	As at June 30, 2007 HK\$ million	As at June 30, 2006 HK\$ million	As at June 30, 2005 HK\$ million	As at June 30, 2004 HK\$ million
Intangible assets	<b>2,121</b>	2,057	2,027	2,009	2,021
Property, plant and equipment	<b>3,395</b>	2,525	2,429	2,053	1,474
Other investments	<b>7</b>	7	8	8	8
Investments in associates	<b>583</b>	406	269	182	155
Prepaid lease payments	<b>170</b>	175	180	184	21
Deferred tax assets	<b>510</b>	396	315	205	104
Net current assets	<b>9,546</b>	6,893	4,237	2,728	1,964
	<b>16,332</b>	12,459	9,465	7,369	5,747
Equity					
Share capital	<b>124</b>	123	122	120	119
Reserves	<b>15,820</b>	11,958	8,985	6,919	5,296
Shareholders' funds	<b>15,944</b>	12,081	9,107	7,039	5,415
Deferred tax liabilities	<b>388</b>	378	358	330	332
	<b>16,332</b>	12,459	9,465	7,369	5,747

### CONSOLIDATED INCOME STATEMENT ITEMS

	<b>Year ended</b> <b>June 30, 2008</b> HK\$ million	Year ended June 30, 2007 HK\$ million	Year ended June 30, 2006 HK\$ million	Year ended June 30, 2005 HK\$ million	Year ended June 30, 2004 HK\$ million
Turnover	<b>37,227</b>	29,640	23,349	20,632	16,357
Operating profit	<b>7,721</b>	6,259	4,765	4,075	2,837
Interest income	<b>190</b>	149	37	22	40
Finance costs	<b>–</b>	–	(1)	(2)	(22)
Share of results of associates	<b>145</b>	130	84	73	63
Profit before taxation	<b>8,056</b>	6,538	4,885	4,168	2,918
Taxation	<b>(1,606)</b>	(1,358)	(1,148)	(957)	(949)
Profit attributable to shareholders	<b>6,450</b>	5,180	3,737	3,211	1,969