

letter from ceo

FY2003/2004 has been a remarkable year for the Group. We exceeded the financial targets set at the beginning of the financial year and closed with record turnover margins and earnings. We continue to capture market share in our core markets as well as grow via geographical expansion and product diversification.

A stronger brand with dynamic positioning

The key strategy behind our success is our firm commitment to building brand loyalty with an uncompromising focus on quality and value. We have differentiated ESPRIT from the rest of the competitive landscape with several distinct elements that are built into our business model: ESPRIT is an international youthful lifestyle brand offering 'smart affordable luxury' and bringing newness and style to the life of our customers. This unique positioning has reinforced and will continue to reinforce the ESPRIT brand dominance in our core markets, thereby enhancing our market share growth.

A broader range of fresh market-driven products every month

We successfully increased the flow of fresh merchandise into our stores by extending the 12 collections-year strategy to all key product divisions. Our central-buying program improved collaboration between our product team, designers and local merchandisers to generate more market-driven products tailored to different geographic regions. Through careful product differentiation and diversification, we also extended the breadth and depth of our product coverage to capture a wider range of customers and to penetrate further into the reach of distinct target groups. The overall aggregate result is remarkable. We reduced our fashion and inventory risks, increased our store traffic and encouraged more spending on full-price products. Store productivity, efficiency and turnover all improved as a result.

Europe – channel expansion and productivity enhancement

Europe continues to lead the growth. Our brand dominance, our continuous flow of new market-driven products of quality and value, and our diversified distribution channels all contributed to our success. This momentum was fueled by significant expansion in Germany and the Benelux countries as well as a breakthrough into France and Scandinavia. Selling space expansion and productivity improvement at both wholesale and retail levels continue to be the main drivers of our strong performance in these markets. Due to the Euro's relative strength, we are able to pass on noticeable improvements in product quality to customers without having to sacrifice our gross margin. As a result, the market rewarded us with increased sales. We also accelerated our expansion in the U.K. and regained direct control of Switzerland and Italy last year. The vastly untapped potential of our core markets plus the prospects offered by the newer ones should give us ample room for continuous growth.

Asia – the awakening dragon

In Asia, we exceeded our target of improving the region's financial performance and strengthened its foundation for long-term growth. Our focus on products and margins paid off. The combined results of better merchandise, more full-price selling and vigilant inventory planning helped bring the region closer to break-even sooner than we had expected. By further unifying our global merchandising systems and enhancing our brand image, we are optimistic about the performance of this region in the new financial year.

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U.S. – laying the foundation for long term growth

We undertook a strategic review of our U.S. business and refined our product and distribution strategies to accommodate the needs of specific local markets. Working closely with our department store partners, we restructured the wholesale distribution network to retain our presence only in prime store locations. Further wholesale expansion into the mid/high-end department stores such as Nordstrom is planned. We also strengthened our management team in the U.S. and are anticipating an increase in brand awareness through the establishment of our retail network/stores and an e-shop for this region; both initiatives are due to launch in the first-half of FY2004/2005. Our expertise in products and sales, together with the intensification of brand awareness, will enable us to build our presence in the U.S. and establish a solid platform for long-term growth.

A stronger global structure: improved inner strength

Our achievements are a team effort and I thank our employees for their exceptional contributions. We transformed ourselves into a stronger global company last year. Our strategies, people and systems are working smoothly under the new global structure, and most importantly, generating firm-wide profitability enhancement. Our scale is now of sufficient magnitude that we can capitalize on some of the expanded margins while still passing on enough benefits to our customers to maintain and bolster our competitiveness. Our increasingly flexible and efficient international business platform will continue to support the Company's growth and enable us to exploit additional opportunities that may be presented to the Group in the future.

Turning challenge into opportunity

The industry has reached a new level in which consumers are not only price conscious but they are also demanding quality, service and style. Economic globalization has increased the sophistication of the middle class and

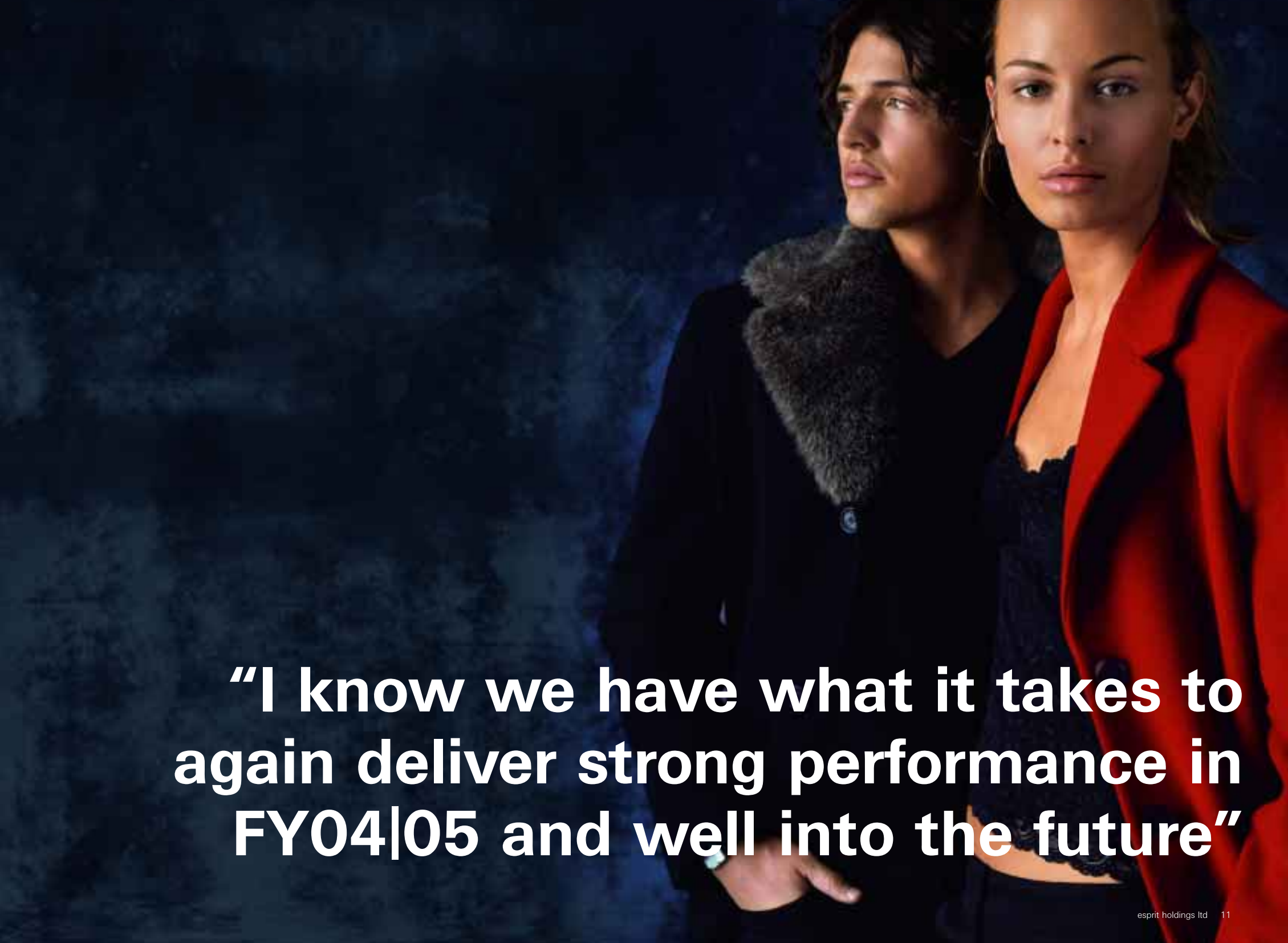
taught consumers to be 'smart shoppers'. In the long run, we believe customers cannot consume more, – because they already have everything – but they will only consume in a BETTER and SMARTER way. To turn this challenge into opportunity, we will continue to do what we do well – we will offer quality and stylish products that are traditionally available only in the luxury markets to customers at affordable prices. We bring quality and value to ordinary people in every day life.

Enthusiasm for the past: optimism for the future

Although the past year was truly spectacular, perhaps the most significant message from our results is that substantial organic growth potential remains in the world of Esprit as it exists today. I am pleased that Thomas Grote and Jerome Griffith have assumed the role of Joint Chief Operating Officer of the ESPRIT brand in addition to their global wholesale and global retail responsibilities. They have the skills and experience to continue to drive our organic growth in the international arena. Looking ahead, I believe that our strong brand name, healthy growth prospects and exceptional management team, along with our sensibly priced quality product offerings and diversified distribution channels, will enable us to achieve continued financial success. I know that we have what it takes to again deliver a strong performance in FY2004/2005 and well into the future.



Heinz KROGNER
Deputy Chairman and Group CEO
September 15, 2004



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