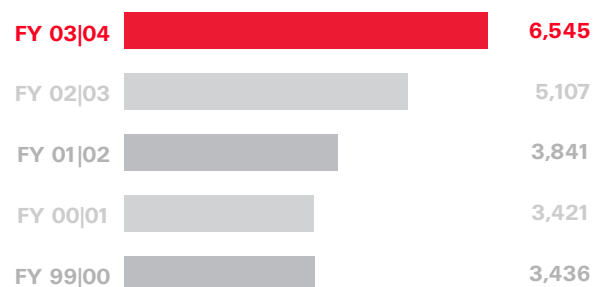


# all lines of business recorded double-digit % turnover growth and achieved higher operating margin

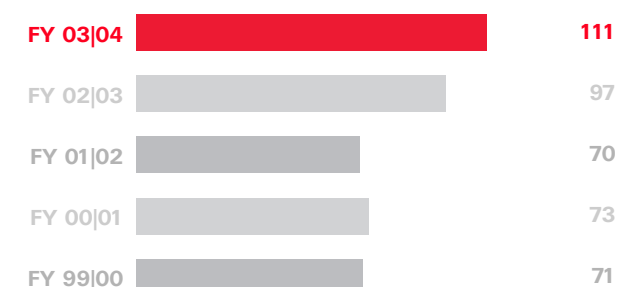
RETAIL TURNOVER (HK\$ MN)



WHOLESALE TURNOVER (HK\$ MN)



LICENSING TURNOVER (HK\$ MN)



### Breakdown of group turnover\*

<b>year ended 30th june</b>	2004	2003	2002	2001	2000
<b>OPERATION MIX (%)</b>					
wholesale	59	57	57	56	52
retail	40	41	42	42	47
licensing and others	1	2	1	2	1
<b>PRODUCT MIX (%)</b>					
women's wear	61	58	57	54	53
men's wear	13	13	11	11	11
kid's wear	7	8	8	9	10
shoes & accessories	11	13	15	16	17
red earth	1	2	3	4	6
others**	7	6	6	6	3
<b>GEOGRAPHICAL MIX (%)</b>					
europa	84	80	74	70	65
asia	9	13	18	21	24
australasia	4	5	6	7	9
north america and others	3	2	2	2	2

\* excludes inter-segment revenue

\*\* include salon, café, bodywear, bed & bath & licensed products such as timewear, eyewear, jewelry, etc.

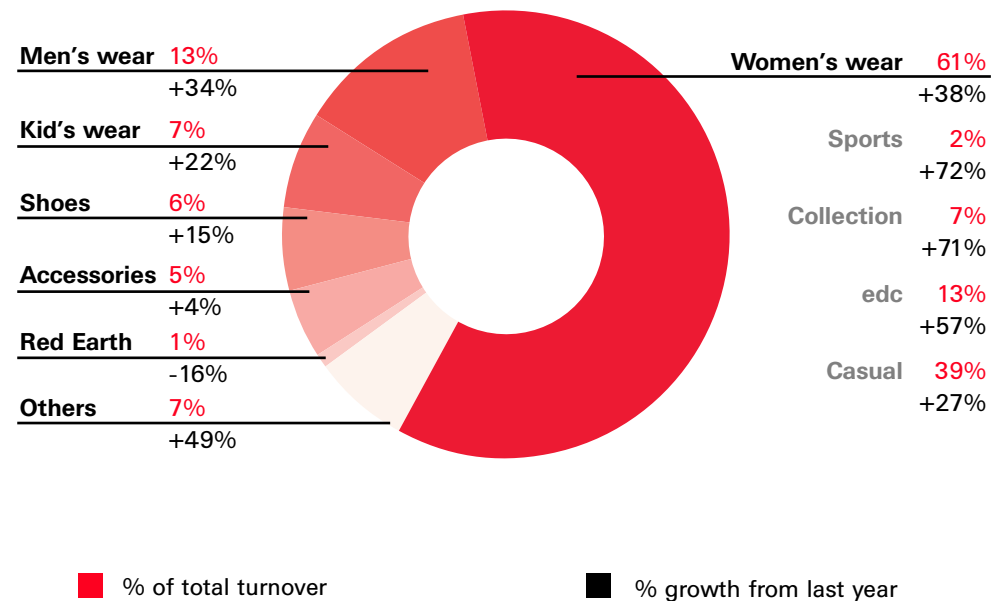
## operations review

### PRODUCTS

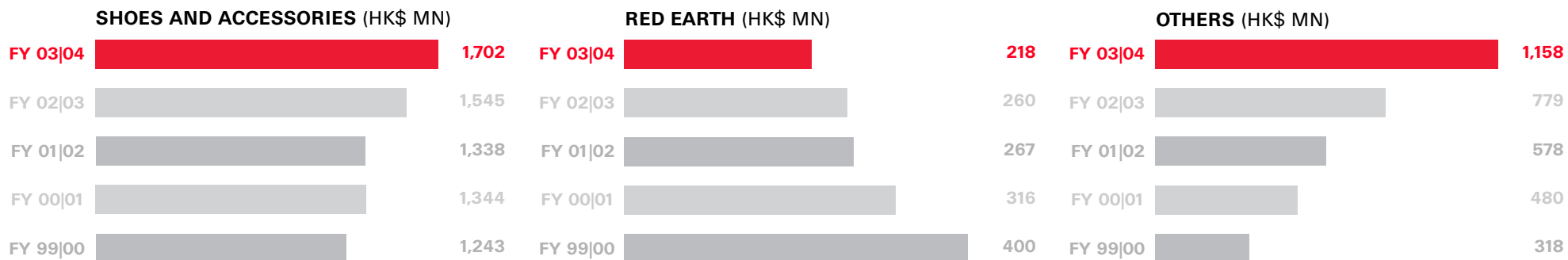
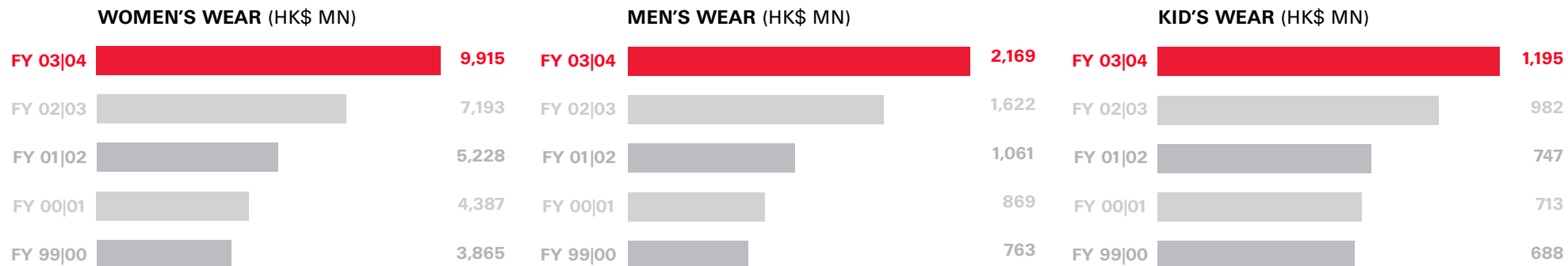
Women's Casual continues to be the largest product division making up 39% of total turnover and recorded 27% year-on-year increase. In terms of growth, Women's Sports, Women's Collection and Women's edc were the best performers and each recorded 72%, 71% and 57% turnover growth respectively.

We extended the price range and refined the positioning of our products. We carefully created, defined, and maintained a distinct character and meaning for each product division at every level, as well as articulated the brand essence that all lines share. The Casual, edc, Collection, and Sports divisions are now clearly differentiated and are therefore better positioned to capture the huge potential in each of these distinct segments. Products tailored to young teens and teenage males were added to form the edc youth and men's edc divisions. The new york edition was also added to satisfy customers with more lavish tastes. The broadened product range and our emphasis on quality and style cushioned us from the results of making the wrong bet on fashion trends, thereby minimizing our inventory risk.

Breakdown of turnover by product mix



**be fast and be right,  
fresh new products  
every month**





## operations review

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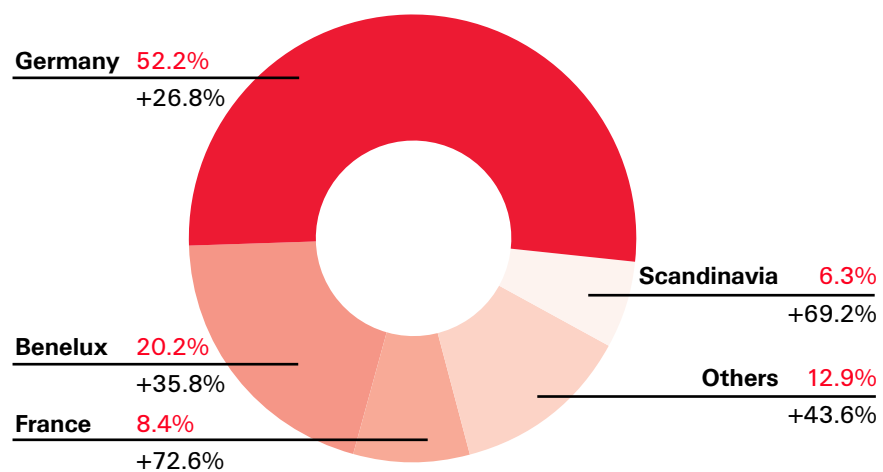
### WHOLESALE

Our wholesale business continued to record double-digit growth during the year. Turnover increased by 35.9% to HK\$9.61 billion (FY2002/2003: HK\$7.08 billion) and operating profit (EBIT) increased by 48.7% to HK\$2.12 billion (FY2002/2003: HK\$1.42 billion). Through volume leverage and carefully managed overheads, wholesale operating profit margin also improved 1.9% points to 22.0%.

Europe remained our core wholesale market. The region accounted for 93.6% of the Group's wholesale turnover and delivered 36.9% turnover growth. Our two biggest wholesale countries, Germany and Benelux, achieved 26.8% and 35.8% sales growth, respectively. France continued to gather momentum and recorded a remarkable sales increase of 72.6%. Selling space expansion from existing and new wholesale partners contributed primarily to the strong wholesale performance. As at June 30, 2004, the number of partnership stores, shop-in-stores and identity corners increased to over 580, 2,800 and 4,500 (FY2002/2003: 503, 2,304 and 3,652) respectively, with a corresponding selling space of approximately 103,700m<sup>2</sup>, 142,700m<sup>2</sup> and 90,900m<sup>2</sup>, representing 32.0%, 20.8% and 33.4% growth from last year.

Capitalizing on our international platform and flexible wholesale formats, we successfully expanded our international wholesale reach during the year. Wholesale turnover in Australasia increased 91.6% to HK\$39.8 million. 17 wholesale points-of-sales were opened in the U.K. and an Asian wholesale team was established to develop a distribution network with promising partners in the region. Progress was also made in the U.S. where our local wholesale partners gained better understanding of our division-by-division product positioning and placed our merchandise in the appropriate selling areas to reach the right target customer groups.

### Breakdown of wholesale turnover



■ % of wholesale turnover ■ % growth from last year

**35.9% wholesale growth....**  
**22.0% ebit margin up 1.9% points**

key wholesale distribution channels (as at june 30, 2004)	partnership stores			shop-in-stores			identity corners/others		
	no. of stores*	sales area sq.m.	net change in sales area	no. of stores*	sales area sq.m.	net change in sales area	no. of units*	sales area sq.m.	net change in sales area
<b>europa</b>	<b>393</b>	<b>72,854</b>	<b>41%</b>	<b>2,161</b>	<b>95,772</b>	<b>32%</b>	<b>4,211</b>	<b>90,121</b>	<b>32%</b>
germany	154	32,091	38%	1,777	82,196	35%	2,658	57,268	26%
belgium	38	7,890	47%	51	2,551	76%	428	10,126	60%
the netherlands	56	10,489	19%	7	214	-35%	341	7,919	29%
france	62	6,718	101%	225	6,129	24%	166	4,209	27%
austria	68	10,820	21%	33	1,776	-22%	66	1,434	10%
scandinavia	14	4,486	125%	68	2,906	13%	520	8,383	59%
great britain	1	360	n.a.	-	-	-	32	782	102%
<b>asia</b>	<b>125</b>	<b>13,594</b>	<b>9%</b>	<b>145</b>	<b>7,010</b>	<b>14%</b>	<b>93</b>	<b>736</b>	<b>n.a.</b>
thailand	18	2,151	63%	70	2,227	54%	-	-	-
philippines	13	1,245	12%	6	689	-13%	12	92	n.a.
korea	2	100	-74%	17	1,170	11%	-	-	-
japan	8	225	-49%	-	-	-100%	36	111	n.a.
dubai	14	701	0%	-	-	-	-	-	-
middle east	28	4,686	1%	7	1,133	-13%	10	218	n.a.
others	42	4,486	16%	45	1,791	22%	35	315	n.a.
<b>north america</b>									
u.s.	-	-	-	-	-	-100%	274	-**	-
<b>china***</b>	<b>71</b>	<b>17,230</b>	<b>20%</b>	<b>497</b>	<b>39,913</b>	<b>1%</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>group total</b>	<b>589</b>	<b>103,678</b>	<b>32%</b>	<b>2,803</b>	<b>142,695</b>	<b>21%</b>	<b>4,578</b>	<b>90,857</b>	<b>33%</b>

\* include Esprit & Red Earth stores/units

\*\* sales area not available

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

n.a. means not applicable, stores/identity corners opened in FY2003/2004



## operations review

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### RETAIL

Retail operations achieved solid productivity and profitability improvements this year. Turnover grew 28.1% to HK\$6.54 billion (FY2002/2003: HK\$5.11 billion) through positive comparable store growth of 5.3% and a 13.8% increase in net selling space. The retail operating profit (EBIT) increased by 308.6% to HK\$451.5 million (FY2002/2003: HK\$110.5 million) and operating profit margin grew significantly by 4.7% points to 6.9% (FY2002/2003: 2.2%).

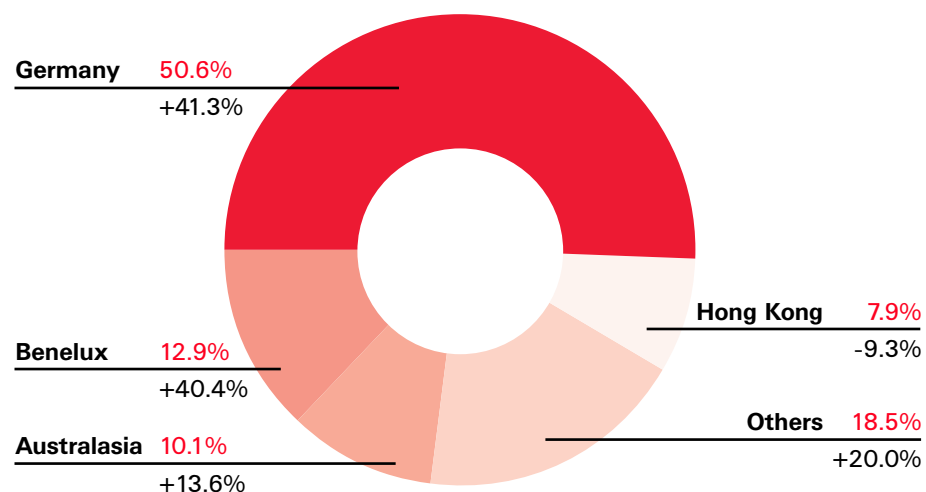
Our European retail operation, now accounting for 71.7% of total Group retail turnover, grew 44.7%. The operation recorded another year of double-digit comparable store growth of 11.2% (FY2002/2003: 14.1%) with a corresponding 2.9% points improvement in operating profit margin to 12.3%. Germany and Benelux contributed 50.6% and 12.9% to the Group's total retail turnover, registering 41.3% and 40.4% year-on-year turnover growth, respectively. This was the combined result of sales increases driven by a constant flow of fresh merchandise and the maturing of new stores that were opened for more than 12 months.

The improvement in Asian retail operations also contributed to the enhanced operating margin. We brought the retail operation in this region closer to break-even sooner than we expected. Despite the 12.6% decline in full year sales, the region saw a strong rebound in the second half of the financial year.

Since the beginning of the financial year, the Group invested HK\$377.6 million in capital expenditure to open approximately 90 new retail stores, bringing total directly managed retail space to over 170,000m<sup>2</sup>, a 13.8% net increase as compared to around 149,000m<sup>2</sup> at the end of the last financial year. As at June 30, 2004, the Group operated 557 directly managed stores worldwide. The majority of the retail expansion was undertaken in Europe, primarily in Germany and Benelux, where we continued to find good locations at a reasonable cost.



### Breakdown of retail turnover



■ % of retail turnover

■ % growth from last year

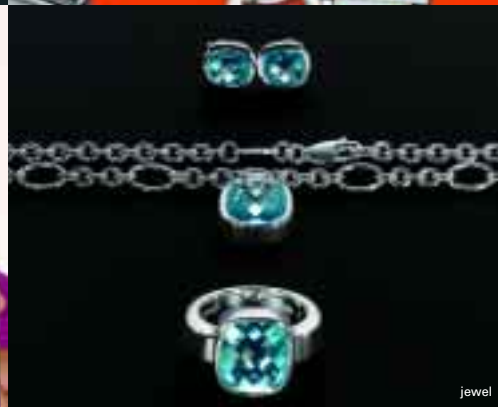
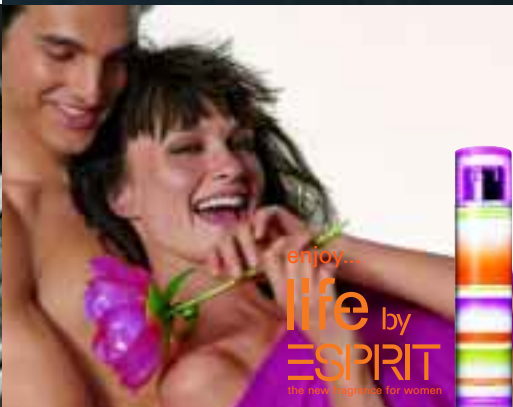
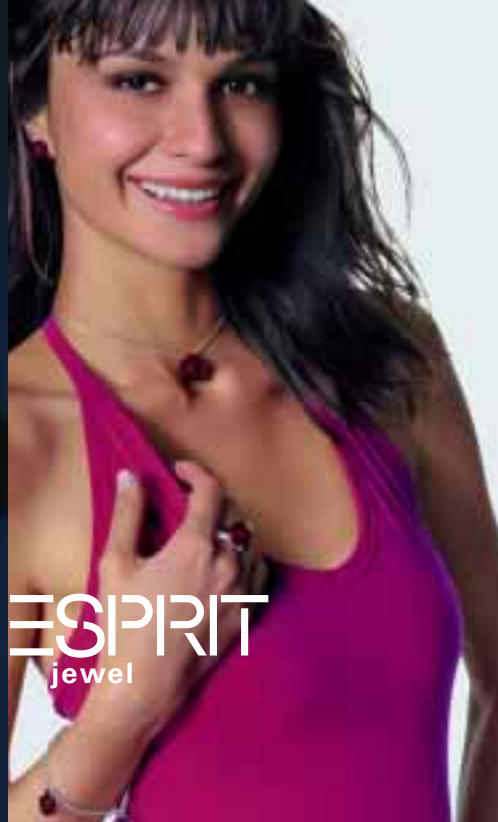
**28.1% retail growth....  
operating profit  
grew 309%**

retail distribution channels (as at June 30, 2004)	directly managed stores		
	no. of stores*	sales area sq.m.	net change in sales area
<b>europa</b>	<b>189</b>	<b>104,522</b>	<b>35%</b>
germany	97	64,419	21%
the netherlands	28	10,777	24%
belgium	15	9,630	58%
austria	5	5,392	75%
france	13	3,798	44%
great britain	3	2,910	39%
denmark	2	1,281	no change
switzerland	25	5,815	n.a.
luxembourg	1	500	n.a.
<b>asia</b>	<b>205</b>	<b>29,889</b>	<b>-3%</b>
hong kong (incl. macau)	55	14,813	-5%
taiwan	103	7,416	1%
singapore	33	5,423	1%
malaysia	14	2,237	-10%
<b>australasia</b>			
australia (incl. new zealand)	126	19,553	-17%
<b>north america</b>			
canada	37	16,065	-9%
<b>group total</b>	<b>557</b>	<b>170,029</b>	<b>14%</b>

\* include Esprit & Red Earth stores, but excluding Salon.

n.a. means not applicable, stores opened or acquired in FY2003/2004





## operations review

Key licensed product category	Europe	Asia	Australasia	North America
baby carriages	●			
bags				●
bed + bath	●	●	●	●
belts/cold weather				●
eyewear	●	●	●	●
footwear			●	●
fragrance	●	●	●	●
glassware	●			
home	●			
jewelry	●	●	●	●
kid's accessories				●
kid's wear				●
kid's shoes				●
outerwear				●
paper + friends	●			
school	●			
sleepwear/daywear				●
socks + tights	●			●
swimwear				●
timewear	●	●	●	●
umbrellas	●	●	●	

### LICENSING

Licensing turnover grew by 13.5% to HK\$110.5 million from HK\$97.4 million a year ago. 10 new licensing partners were added this year, increasing the total number of licensees to over 30. At the end of FY2003/2004, there were 23 categories of ESPRIT licensed products.

Major revenue contributors include footwear, eyewear and timewear. New products launched during the year included homeware and school accessories in Europe and watches and jewelry in the U.S..

We continue to focus on the selection of partners and on monitoring the creation of credible products that maintain our brand integrity and meet our stringent quality measures. During the year, we continued to work closely with our licensees to ensure that their product quality, controlled distribution and overall business developments conformed to our high standards. In the future, we remain open to potential licensing opportunities and look forward to introducing more licensing products to different regions and further expanding business with existing partners. We believe that this business continues to enhance our brand awareness and offer great potential for significant growth.



Inokashira dōri  
宇田川



Tokyo daize!

edc

by esprit

## operations review

### SOURCING

Our diverse and global sourcing base is one of our strong competitive advantages in the market place. During the year, we sourced approximately two-thirds of our merchandise from Asia. Quality, proximity to the markets and costs are the main factors under consideration when determining our sourcing mix. Although recent Euro strength enabled us to source from Asia at a relatively lower cost, we also passed some of the cost savings to our customers either through offering better quality products at the same price, through lowering retail prices, or through a combination of both.

We will continue to focus on strengthening our end-to-end supply chain and enhance our flexibility to serve different markets by building more strategic relationships with our suppliers and by further leveraging on our sourcing capabilities and our enlarged economies of scale.

### CHINA ASSOCIATE

Operations in China recorded 17.4% in turnover growth for the twelve months ended June 30, 2004 to HK\$729.3 million from HK\$621.4 million a year ago. The Esprit brand continues to be well positioned in the urban mid/high-end market in China.

We strengthened our relationship with our China partners by establishing closer communication with their management. In accordance with our aim to create products tailored to specific local market needs, we encouraged our China associates to work with our global product development team to ensure local product knowledge is incorporated into the product development process. We believe this market offers high development potential and we will continue to work with our China associates to ensure these opportunities are captured.

**global sourcing  
base...  
a strong  
competitive  
advantage**



**Esprit... a truly international lifestyle brand across  
the world in 40 countries**

frankfurt quebec  
amsterdam  
toronto sydney  
shanghai  
amsterdam  
frankfurt quebec  
paris cologne singapore  
london dusseldorf  
taipei seoul  
berlin  
hong kong  
paris  
london cologne  
shanghai singapore  
new york