



prospects

The new financial year has started well with higher levels of wholesale orders, a continuation of our improving retail performance, and a strong commitment to expand our global distribution both on the wholesale and retail level.

Adding quality and style to the Esprit brand & products

Strengthening the ESPRIT brand and products in the areas of quality, newness, freshness and internationality, will remain our focus. We believe that it is our products that make the brand successful. Strong performance of the Collection and Sports divisions in the past year confirmed our assessment that vast potential exists in the contemporary and sport segments. We will continue to develop the distinctive personality of each core product division. "Collection" will be developed into a distinctive concept with an urban and contemporary fashion and quality profile; "edc" will be positioned closer to the 'rule breaker' and 'restless individualist' segment to reinforce the youthful ESPRIT image; and "Casual" will be injected with more emotional elements and higher quality perception. Better integration of the visual merchandising, architecture, marketing, image and product divisions will further enhance the newness and freshness perception of the ESPRIT brand and products. Our goal is to develop ESPRIT into a brand of choice for customers worldwide not only for its product excellence, but also for the associated quality and style of life.

Leveraging on our successful wholesale model

Optimizing our successful and flexible wholesale concept, the wholesale team will continue to gain penetration in Germany, Benelux, France and Scandinavia; exploit potential in U.K., U.S., Canada and the Middle East; and extend the international reach of our wholesale business to Spain and Italy. In continental Europe, our wholesale order booking for the six months ending December 2004 shows double-digit % year-on-year growth. Over 150 partnership stores, 450 shop-in-

stores and 800 identity corners are planned to open for business in FY2004/2005. The visual appearance of existing controlled wholesale space is being upgraded to reflect the newness and freshness attributes shared by our directly managed retail stores. As a new initiative, we are joining with selected wholesale partners to test the concept of vertical integration of merchandise-management in certain shop-in-stores and place them under our direction. This integration will enable us to share the merchandising knowledge gained from our international operations, and further enhance our speed-to-market. We believe sales performance will be enhanced as a result of better merchandising and less inventory risk. In Australasia, the "Collection" and "edc" product lines are being introduced in the new fiscal year with plans to open over 50 concession stores in department stores such as Myers and David Jones. In Canada, women's "Collection", men's "Casual" and footwear product lines are being added.

Strategic retail expansion

In the first two months since the start of the new financial year, retail sales showed double-digit % year-on-year growth. New stores added in FY2003/2004 should help to further fuel the growth. We see significant potential in our retail business as we continue to refine our strategies and realize profitability improvement. Such success should provide us with additional opportunities to expand on the retail front and to further build on our international platform. The Company has budgeted approximately HK\$800 million for the opening of over 100 new stores worldwide including over 40 in Europe, 15 in Asia, 15 in North America and 25 in Australasia, increasing the total selling area directly managed by the Group by approximately 18% to over 200,000m². An additional HK\$200 million has also been budgeted to upgrade our existing directly managed retail stores and IT infrastructures.

Developments in North America

The recent opening of our first flagship store on Fifth Avenue in New York marked the start of our retail expansion in the U.S. Four more stores for New York are in the pipe-line including locations in Bridgewater Commons, Freehold Raceway Mall, Menlo Park Mall and Palisades Mall. Operating our own retail stores will allow us to establish an **ESPRIT** identity in the market by displaying our entire collection of women's and men's wear and accessories in our own visual environment. The stores will be positioned to target women and men age 25 to 40. We will initially focus our retail effort in New York, a highly cosmopolitan city. On the wholesale front, roll-out of wholesale shop-in-stores will continue with higher-end department stores such as Nordstrom. In Canada, we will expand our product offerings to include men's "Casual" and footwear as well as adding over ten shop-in-stores and partnership stores this year.

Elimination of textile quota

The Group currently sources approximately two-thirds of its merchandise from Asia, mostly from China, and anticipates lower sourcing costs due to the elimination of textile quota starting January 2005. We will continue to monitor market dynamics on quota elimination to ensure that the price-value correlation of our products remains competitive in the marketplace.

Looking into the future with confidence

The combination of a good start into the new financial year and the potential for further developments in products, distribution channels and markets gives us confidence that we can continue the Group's success.



**Enthusiasm for the past
is surpassed by our
optimism for the future**