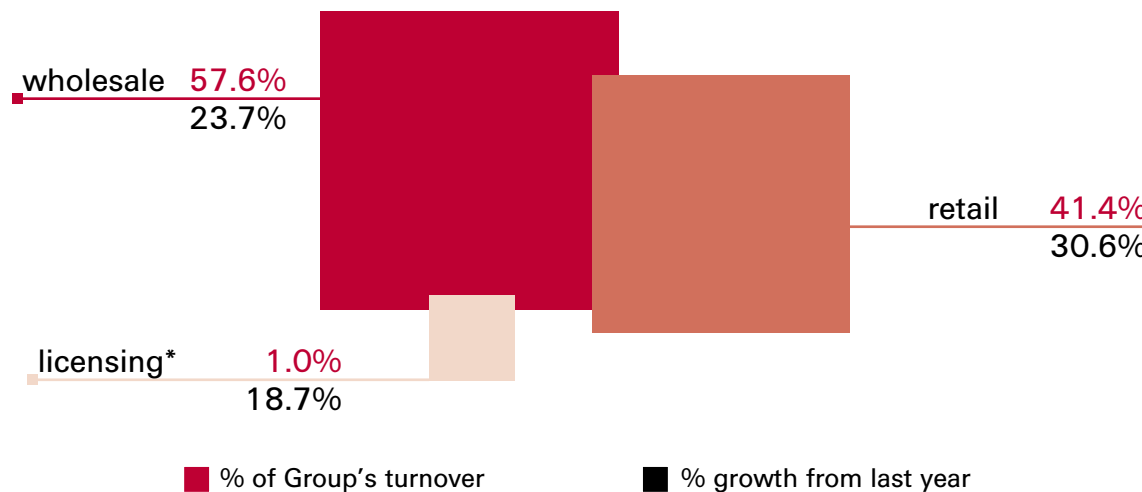


# all lines of business recorded double-digit % turnover growth and achieved higher operating margin



\* Last year's licensing income is adjusted to exclude Bollag-Guggenheim & Co. AG (the previous country distributor for Switzerland and Italy, which was acquired by the Group in December 2003 and was therefore no longer treated as a third party)

year ended June 30

<b>breakdown of group turnover*</b>	2005	2004	2003	2002	2001
<b>operation mix (%)</b>					
wholesale	58	59	57	57	56
retail	41	40	41	42	42
licensing and others	1	1	2	1	2
<b>product mix (%)</b>					
women's casual	39	39	40	45	45
women's collection	8	7	5	–	–
women's sports	3	2	2	2	–
edc women	13	13	11	10	9
men's casual	11	13	13	11	11
men's collection	2	–	–	–	–
edc men	1	–	–	–	–
kids & edc youth	6	7	8	8	9
bodywear	3	3	3	2	2
shoes	5	6	7	8	9
accessories	5	5	6	7	7
red earth	1	1	2	3	4
others**	3	4	3	4	4
<b>geographical mix (%)</b>					
europa	85	84	80	74	70
asia	9	9	13	18	21
australasia	4	4	5	6	7
north america and others	2	3	2	2	2

\* excludes inter-segment revenue

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

## operations review

### shoes

Esprit shoes are multi-faceted with options from dress to sporty to casual aiming to offer the right look at the right time for cosmopolitan and trendy men & women.

### By regions

The Group continued to expand its global reach by penetrating into existing markets while entering newer ones this financial year.

European turnover rose significantly by 28.1% to HK\$17.57 billion (FY2003/2004: HK\$13.72 billion) and contributed to 85.1% of total Group sales. Benefiting from our strong brand and our focus on providing quality products, positive developments were seen in all markets within the region. Fueled by productivity gains and selling space expansion, Germany and Benelux continued to achieve healthy growth of 20.9%# and accounted for 48.3% and 16.3% of Group turnover respectively. France, Scandinavia and Austria also reported solid growth of 48.1%, 38.6% and 37.0% respectively. Following the acquisition of Bollag-Guggenheim & Co. AG (the previous country distributor for Switzerland and Italy which was acquired by the Group in December 2003), full year turnover for Switzerland and Italy has been consolidated into the Group's account thereby contributing to the growth during the financial year.

Operations in Asia continued to improve and recorded 20.7% year-on-year turnover growth to HK\$1.87 billion (FY2003/2004: HK\$1.55 billion). Better merchandise planning, more full-price selling and wholesale expansion initiatives improved the financial performance of the region. Regional growth was also fueled by strong demand in Malaysia, Singapore and China where higher turnover was achieved. The Australasian market grew at a steady pace following the introduction of a wider product mix and the commencement of wholesale business in this market.

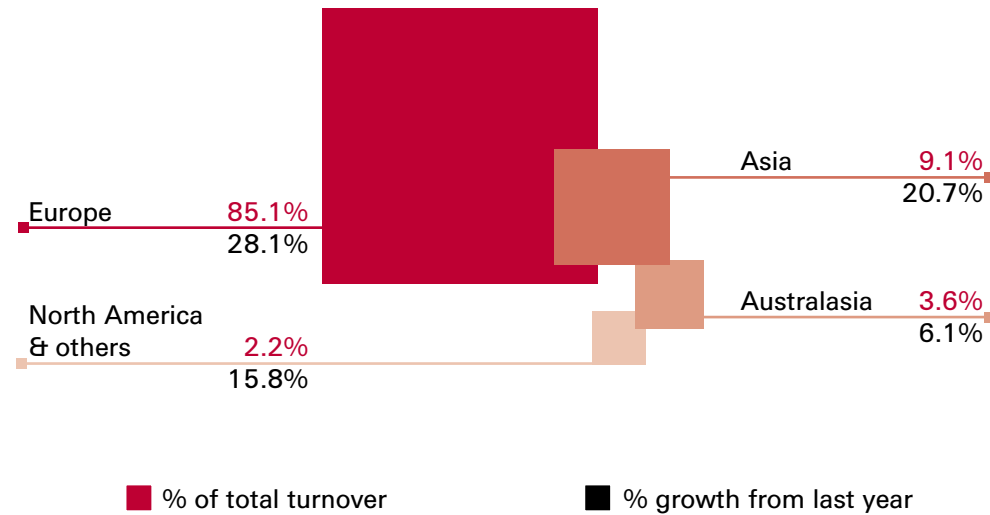
In North America, we focused on building retail islands in the East Coast to gain presence and optimize brand visibility and awareness. An e\*shop was launched this financial year to serve customers across the region. While we continued to work with higher-end department stores through wholesale arrangements, concentration was also placed on directly managed retail stores to re-establish the **ESPRIT** identity in the marketplace.

# The sales figures in Germany have been adjusted to exclude sales to Bollag-Guggenheim & Co. AG, which was acquired by the Group in December 2003.

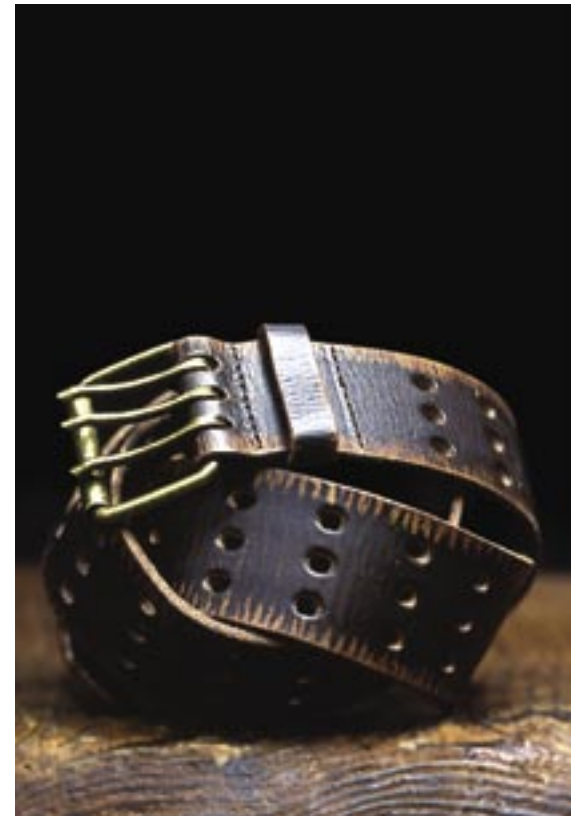




turnover breakdown by regions



**“penetrating into existing markets while entering newer ones”**



**accessories**

This line offers a broad range of matching chic and stylish accessories including bags, belts and wallets that complement our fashion line. It aims to integrate and reflect the contemporary and easy living lifestyles of our customers.

### kids

Esprit kids markets a full range of colorful and vibrant children's wear and accessories. These designs combine practicality with fashion and enable mix and match, meaning there is ample room for kids to express their personality through their clothes.



### By products

Turnover growth was seen across all key product divisions. Women's casual accounted for 38.6% of total turnover and continued to be the largest product division with year-on-year turnover increase of 25.8% to HK\$7,958.2 million. Strong momentum was also evident in women's collection, women's sports and edc women division, each recording turnover growth of 47.0%, 41.5% and 36.7% respectively.

The Group continued to define the character of each of its 12 product-divisions during the last financial year with inspiring designs, while maintaining affordable value. "casual" is about simple and crisp design with a stylish touch; "edc" offers fun and fashionable design with a youthful image and "collection" delivers sophisticated designs with refined and detailed finishing. In addition to introducing new product lines to different regions, the Group also worked on refining its product mix on both regional and store levels to better capitalize on the potential of each product division. edc men was launched in Europe and edc women and women's collection were introduced in Australia during the first half of the financial year.

Capitalizing on the Group's strong brand name and presence in major international cities, the Group expanded its parameters in the upper market segment by trading consumers upward in quality and style. The Group also strengthened its introductory-priced product segment by passing on some of the benefits of sourcing gains from currency and quota savings to the end consumers in the form of better quality or lower pricing, thereby increasing store traffic and encouraging purchases.

The strong sales performance during the year was driven by the continued supply of right products to the right customers at the right place and time. Our unwavering focus on quality, style and value, complemented by our 12 product-divisions and 12 collections-a-year strategy, resulted in the creation of more market-driven products in stores. This in effect helped the Group to not only minimize inventory levels but also generate healthier store traffic. The Group's strategy of not repeating "best sellers" increased newness in product offerings while simultaneously encouraging more full-price sell-through.

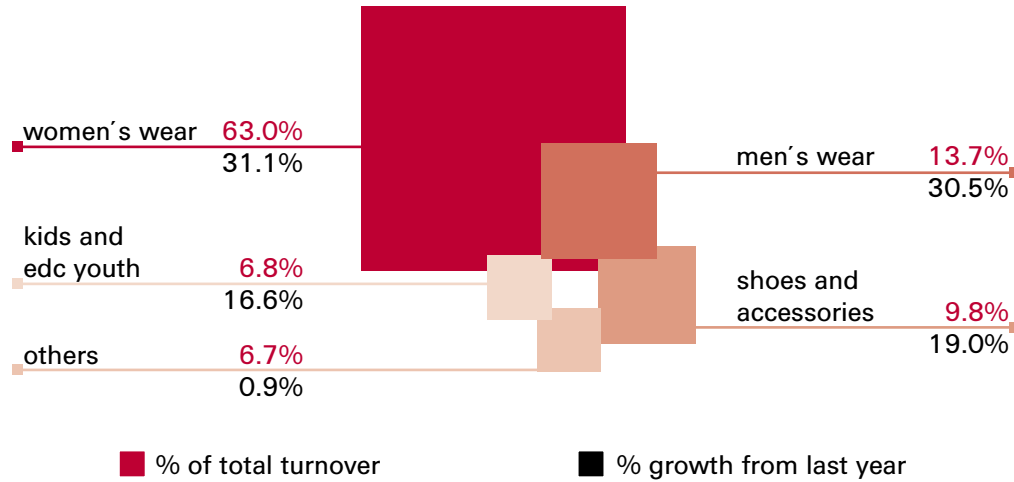


### edc youth

Funky and expressive, with a contemporary yet functional style, we provide comfortable and casual everyday fashion in a fun and lively environment. edc youth customers are self-confident teenagers who are open to new experiences and seeking a sense of freedom.



turnover breakdown by product mix



**“expanded our parameters in the upper market segment... also strengthened our introductory priced product segment...”**



## By distribution channels

### Wholesale

The Group's wholesale business continued to record double-digit growth during the financial year. Turnover grew by 23.7% to HK\$11.89 billion (FY2003/2004: HK\$9.61 billion) driven partly by the addition of over 106,000m<sup>2</sup> controlled selling space. Segment EBIT\* increased by 39.6% to HK\$3.26 billion (FY2003/2004: HK\$2.33 billion) and segment EBIT margin\* also expanded 3.1% points to 27.4% (FY2003/2004: 24.3%) through higher operational leverage.

Europe delivered 24.3% turnover growth and remained the Group's core wholesale market, accounting for 94.0% of the Group's wholesale turnover. Germany continued to be the Group's biggest wholesale country and achieved 15.8%\*\* sales growth. The rest of Europe now accounts for 46.2% of the Group's wholesale turnover and grew 34.6% year-on-year. The Group's penetration into Europe through controlled-space wholesale formats yielded encouraging results during the financial year, as approximately 85,000m<sup>2</sup> net selling space for partnership stores, shop-in-stores and identity corners was added (+33.1% YoY) in these markets. The Group expanded the geographic foothold of its wholesale concept this financial year by reaching into Spain, Italy and Switzerland with the opening of over 55, 150 and 95 wholesale point-of-sales respectively.

Wholesale diversification outside of Europe continued as the Group recorded 23.9% growth in Asia which accounted for 4.7% of total wholesale turnover. In addition to healthy wholesale sales growth in China and Thailand, this financial year marked the opening of the first Esprit showroom in Dubai. The Group also expanded its wholesale initiative to India by opening its first flagship store in Bangalore in the second half of the financial year. The Australasia region recorded 70.1% turnover growth driven by the introduction of edc and women's collection products into the region and the conversion of concession retail to wholesale formats with Myers and David Jones in Australia.

Horizontal selling space expansion was recorded this financial year as wholesale customers converted their selling space from non-controlled format such as multi-label stores, to controlled format such as partnership stores and shop-in-stores. Controlled-selling space wholesale formats were built with defined Esprit ambience, exclusively offering Esprit products that enabled wholesale customers to enjoy higher brand visibility, leading to increased sales and productivity.

As at June 30, 2005, the number of controlled-space wholesale point-of-sales including partnership stores, shop-in-stores and identity corners increased by over 1,700 in total to over 760, 3,200 and 5,700 (FY2003/2004: 589, 2,803 and 4,578), totaling over 147,000m<sup>2</sup>, 160,000m<sup>2</sup> and 135,000m<sup>2</sup> in selling space respectively and representing an aggregate of 31.5% growth from last financial year.

\* Segment EBIT and EBIT margin excluding inter-segment licensing expense.

\*\* The sales figures in Germany have been adjusted to exclude sales to Bollag-Guggenheim & Co. AG, which was acquired by the Group in December 2003.



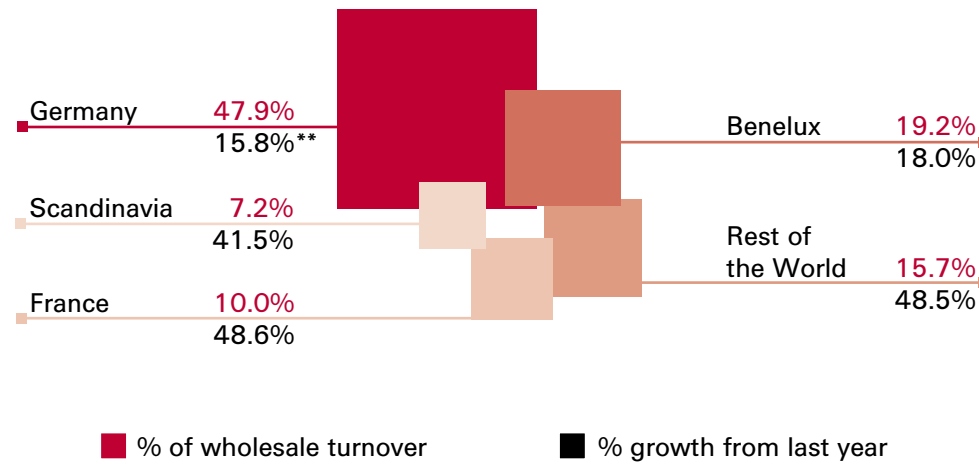
store paris



store vienna



wholesale turnover breakdown



**31.5% increase in  
controlled-wholesale space...  
27.4% wholesale ebit margin,  
up 3.1% points**





## operations review

### wholesale turnover (HK\$ MN)

FY 04|05 11,889

FY 03|04 9,613

FY 02|03 7,076

FY 01|02 5,220

FY 00|01 4,556

### wholesale controlled sales area (m<sup>2</sup>)

FY 04|05 443,321

FY 03|04 337,230

FY 02|03 264,838

FY 01|02 153,649

FY 00|01 112,621



key wholesale distribution channels (as at June 30, 2005)	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 stores	sales area sq.m.	net change in sales area
<b>europa</b>	<b>560</b>	<b>111,783</b>	<b>53%</b>	<b>2,678</b>	<b>114,542</b>	<b>20%</b>	<b>5,375</b>	<b>117,966</b>	<b>31%</b>
germany	184	42,043	31%	2,124	95,003	16%	3,149	68,724	20%
the netherlands	66	14,109	35%	7	214	no change	416	9,888	25%
france	95	10,428	55%	265	7,079	16%	221	5,758	37%
belgium	50	10,864	38%	72	3,299	29%	439	10,491	4%
scandinavia	34	11,818	163%	75	3,144	8%	633	10,071	20%
austria	85	14,859	37%	47	2,234	26%	77	1,767	23%
switzerland	5	1,152	n.a.	15	965	n.a.	55	1,302	n.a.
italy	8	1,095	n.a.	4	324	n.a.	204	5,245	n.a.
great britain	29	4,740	1217%	19	1,224	n.a.	175	4,540	481%
spain	4	675	n.a.	50	1,056	n.a.	6	180	n.a.
<b>asia</b>	<b>206</b>	<b>35,291</b>	<b>14%</b>	<b>536</b>	<b>46,242</b>	<b>-1%</b>	<b>263</b>	<b>17,497</b>	<b>2,277%</b>
china**	70	20,477	19%	359	37,714	-6%	221	17,060	n.a.
middle east	50	5,833	8%	13	1,406	24%	-	-	-100%
thailand	23	2,659	24%	75	3,961	78%	20	269	n.a.
philippines	14	1,352	9%	11	740	7%	-	-	-100%
korea	2	126	26%	19	423	-64%	-	-	n.a.
japan	6	220	-2%	-	-	n.a.	-	-	-100%
others	41	4,624	3%	59	1,998	12%	22	168	-47%
<b>north america</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>21</b>	<b>-***</b>	<b>n.a.***</b>	<b>112</b>	<b>-***</b>	<b>n.a.***</b>
canada	-	-	-	21	-***	n.a.***	112	-***	n.a.***
<b>group total</b>	<b>766</b>	<b>147,074</b>	<b>42%</b>	<b>3,235</b>	<b>160,784</b>	<b>13%</b>	<b>5,750</b>	<b>135,463</b>	<b>49%</b>

\* include Esprit & Red Earth stores/units

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

\*\*\* sales area not available

n.a. means not applicable, stores/identity corners opened in FY 2004/2005

### By distribution channels

#### Retail

Increased turnover, improved productivity and tightly controlled overheads resulted in profitability and margin improvements in retail operations during the financial year. Turnover rose 30.6% to HK\$8.55 billion (FY2003/2004: HK\$6.54 billion) and was driven by 8.5% comparable store sales growth and a 13.7% net increase in selling space. Retail segment EBIT\* increased 79.0% to HK\$917.0 million (FY2003/2004: HK\$512.2 million) and retail segment EBIT margin\* also grew by 2.9% points to 10.7% (FY2003/2004: 7.8%) respectively.

The Group's focus on operational excellence delivered improved financial results. Right merchandising that met customers' needs coupled with continuous supply of high quality products generated higher store traffic during the financial year. By analyzing individual store performance, square-footage within the store was re-allocated for product divisions to maximize productivity.

Retail turnover in Europe rose 35.6% year-on-year and accounted for 74.5% of total Group retail turnover with healthy comparable store sales growth of 9.5%. Germany and Benelux continued to be the Group's core retail markets and turnover in these countries grew 28.5% and 27.4% respectively, contributing to 49.8% and 12.6% of the Group's retail turnover. On the back of enhanced productivity and an improved macroeconomic environment, the Asian operation recorded 21.3% of turnover growth and 17.6% comparable store sales growth, accounting for 13.8% of total retail turnover. North America and Australasia, which represented 3.8% and 7.9% of the Group's retail turnover, also achieved 49.8% and 2.3% turnover growth respectively.

The Group invested HK\$730.5 million in capital expenditure during the financial year to open approximately 100 new retail stores, which was another record in the Group's history. Total directly managed retail space increased to over 193,000m<sup>2</sup> from 170,000m<sup>2</sup> at the end of the last financial year. The majority of the new space added was located in Europe where profitability is relatively higher. As of June 30, 2005, the Group operated over 630 directly managed stores worldwide.

The Group's online e\*shop is also an important and successful part of its retail initiative, offering a full range of Esprit apparel products to customers in Germany, Belgium, the Netherlands, Austria and the U.S. from the comfort of their own homes.

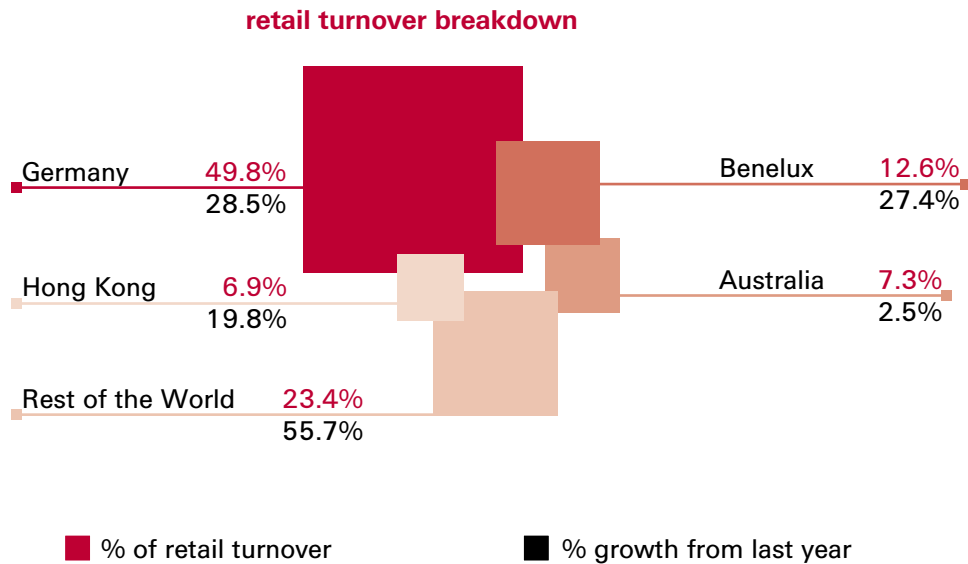


store zurich



store london

\* Segment EBIT and EBIT margin excluding inter-segment licensing expense



**14% increase in net retail selling space...**  
**10.7% retail ebit margin, up 2.9% points**



## operations review

### retail turnover (HK\$ MN)

FY 04|05 8,547

FY 03|04 6,545

FY 02|03 5,107

FY 01|02 3,841

FY 00|01 3,421

### retail sales area (m<sup>2</sup>)

FY 04|05 193,361

FY 03|04 170,029

FY 02|03 149,389

FY 01|02 138,928

FY 00|01 123,926



store new york

retail distribution channels (as at June 30, 2005)	directly managed stores*		
	no. of stores	sales area sq.m.	net change in sales area
<b>europa</b>	<b>211</b>	<b>120,514</b>	<b>15%</b>
germany	105	71,695	11%
the netherlands	28	10,777	no change
belgium	18	12,333	28%
switzerland	28	7,367	27%
austria	6	6,631	23%
france	17	5,336	40%
great britain	6	4,594	58%
denmark	2	1,281	no change
luxembourg	1	500	no change
<b>asia</b>	<b>209</b>	<b>30,932</b>	<b>3%</b>
hong kong (incl. macau)	51	14,168	-4%
taiwan	101	7,329	-1%
singapore	39	6,284	16%
malaysia	18	3,151	41%
<b>australasia (incl. new zealand)</b>	<b>160</b>	<b>22,934</b>	<b>17%</b>
<b>north america</b>	<b>51</b>	<b>18,981</b>	<b>18%</b>
canada	43	15,256	-5%
u.s.	8	3,725	n.a.
<b>group total</b>	<b>631</b>	<b>193,361</b>	<b>14%</b>

\* include Esprit & Red Earth stores, but excluding Salon  
n.a. means not applicable, stores opened or acquired in FY2004|2005



## By distribution channels

### Licensing

Licensing income from third parties increased to HK\$117.1 million (FY2003/2004: HK\$110.5 million). When last year's licensing income was adjusted to exclude Bollag-Guggenheim & Co. AG (the previous country distributor for Switzerland and Italy, which was acquired by the Group in December 2003 and was therefore no longer treated as a third party), third party licensing income grew by 18.7% year-on-year. The majority of the growth was from timewear, jewelry and eyewear. We have entered into 7 new licensing contracts and introduced 14 new product categories to the market during the financial year. As at June 30, 2005, we were working with over 35 licensees and offering around 25 categories of ESPRIT licensed products to consumers worldwide.

The Group has actively expanded the home products market during the financial year. Down, duvet and glassware were introduced in Europe and Asia and four shop-in-stores were opened by our Asian licensee to offer Esprit Home products in China. The Group also launched the first Collection fragrance by ESPRIT for both men and women in the second half of the financial year. Strong licensing partnerships were built in Australia, where bed linen, towels and footwear products were introduced.

The Group's licensing business helps to extend Esprit's lifestyle offerings to different product categories in different markets worldwide. We remained focused on the creation of licensed products and on the development of their respective controlled distribution channels to ensure they conform to our high standards. We will continue to internationalize our licensing business in the future and believe this business offers great growth potential.





key licensed product category	europa	asia	australasia	north america
baby carriages	■	■	■	
baby furniture	■			
bath	■	■	■	
bed	■	■	■	■
belts				■
costume jewelry EDC	■			
down	■	■		
eyewear	■	■	■	■
fragrance	■	■	■	■
glassware	■	■		
home	■	■		
jewelry	■	■	■	■
kid's accessories				■
kid's shoes			■	■
kid's wear				■
outerwear				■
school	■			
shoes			■	■
sleepwear/daywear		■		■
socks & tights EDC	■			
socks & tights Esprit	■	■	■	■
stationery	■	■	■	
swimwear				■
timewear	■	■	■	■
umbrellas	■	■	■	

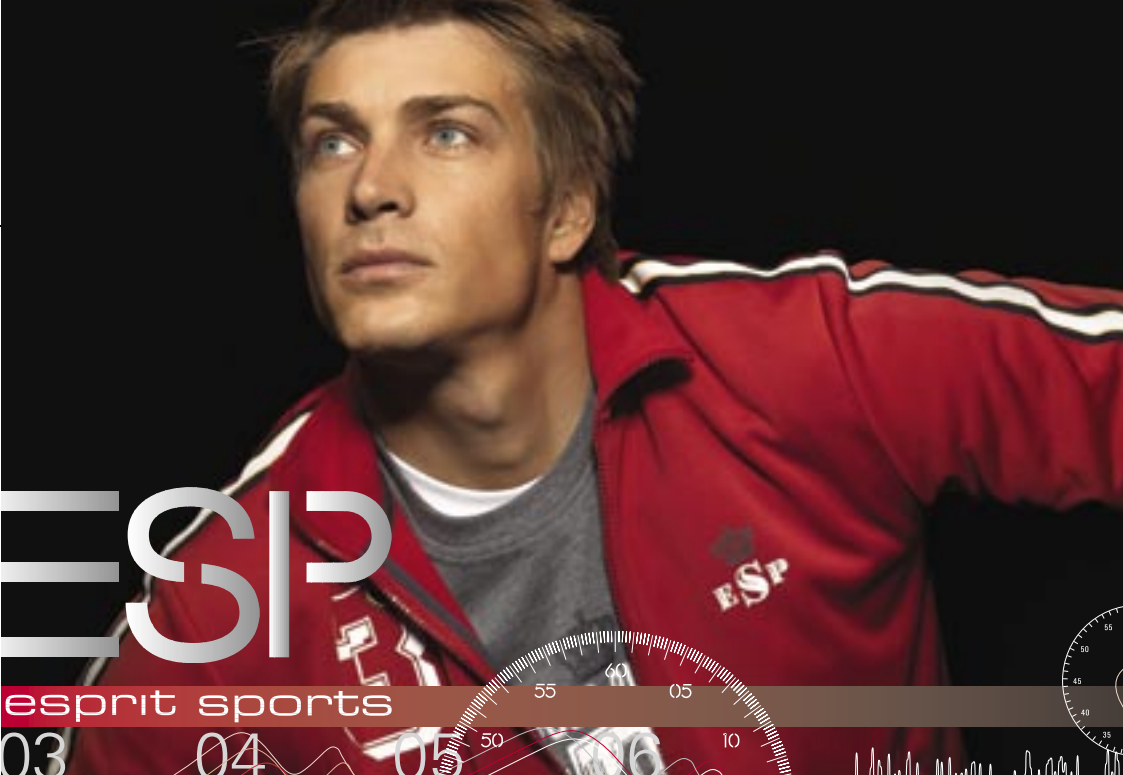




### Sourcing

The Group outsourced all production requirements to third party suppliers primarily in Asia and Europe. Regular and long-term cooperation with suppliers allows us to maintain a flexible sourcing structure that ensures buyers will place orders with the right suppliers and that goods are produced at the right price and are of good quality.

Price, logistics, quality and import regulations are the major factors to consider when determining where the order is placed. The phasing out of the quota system at the beginning of 2005 led to the creation of anti-surge safeguard measures imposed on Chinese textiles imported into Europe and the U.S. Regardless of such short-term impediments, additional volume leverage will help offset potential negative impacts. Our global sourcing base and flexible buying structure also give us the ability to source with suppliers in other countries not affected by the safeguard measures such as Vietnam, Indonesia and India in Asia and Turkey, Portugal and Romania in Europe, thus minimizing the potential impact on sourcing costs.



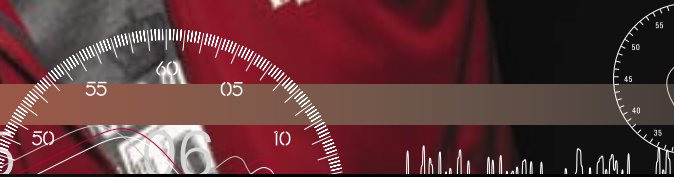
# ESPRIT

esprit sports

03

04

05



### bodywear

Esprit bodywear is designed with a commitment to comfort, quality and innovation. It has an extensive range of classic cotton & fashion underwear and intimate apparel in a variety of styles and fabrics. The products have all the good functional values aiming to provide physical and emotional comfort through good fit and a relaxed wearing experience.



### sports

The line offers coordinated outfits for athletic, sporty customers during sports activities and afterwards. The fabrics, cuts and styles meet the high functional demands of a variety of outdoor and leisure sports activities. All our items are designed to be durable, easy-to-wear, yet maintaining their shape and color through many washings.

# ESPRIT

esprit sports

