



The Group's strong financial performance this financial year gives us confidence that FY2005/2006 will be another year with positive top and bottom line performance.

At Esprit, offering the right products that satisfy market needs is one of the keys to nurturing the brand's success and sustaining its growth. The 12 collections product offerings currently available are designed to meet the needs of different target customer groups. We will continue to strengthen our product offerings in the new financial year by focusing on the areas of newness, quality and style. We will also enhance the communication of our brand's character to consumers with the aim of long-term brand building. Better visual merchandising, window display, image and marketing plans will be introduced to complement the product offerings, thereby reinforcing the Group's position in the marketplace.

The Group will continue to penetrate into existing markets and expand newer ones through wholesale distribution channels in the new financial year. In Europe, our wholesale order booking for the six months ending December 2005 shows high teens year-on-year growth. Partnership stores will be used to gain penetration in core markets such as Germany, Benelux and France where the Esprit brand already has substantial brand presence. Shop-in-stores and identity corners concept with department stores and multi-label retailers will be used to enter new markets in order to minimize capital expenditure requirements. U.K., Italy and Spain will be the newer European markets of focus for FY2005/2006. Asia wholesale initiatives for the fiscal year include entering the India market as well as expanding our distribution channels to duty free stores in Thailand, the Philippines and Vietnam. Over 200 partnership stores, 500 shop-in-stores and 700 identity corners are also planned for FY2005/2006. We are confident that the wholesale momentum will continue this year.

Retail expansion in major cosmopolitan cities heightens the impact of the Group's brand power by showcasing the breadth and depth of the Group's complete product offerings in our own stores, which are all built with the Esprit spirit and character. Approximately HK\$900 million has been budgeted for the opening of over 110 directly managed stores and the renovation of existing stores worldwide in FY2005/2006. Over 40 stores in Europe, 50 in Asia, 10 in North America and 10 in Australasia are expected to be opened, adding over 25,000m², 4,000m², 6,000m², 3,000m² of retail space respectively and increasing the total

selling area of directly managed stores by approximately 17%. Selling space expansion together with comparable store sales growth through productivity improvements should continue to fuel retail turnover growth in the new financial year.

The elimination of quotas that commenced in January 2005 resulted in anti-surge measures against Chinese textiles imported into Europe and the U.S., thereby affecting sourcing structure. Euro movements and the potential further revaluation of the Renminbi will have an impact on sourcing costs. However, the Group is confident that further volume leverage will help offset the above potential negative impact. A solid sourcing infrastructure and a flexible global sourcing base allow buying to be done economically in other competitive as well as non-quota bounded countries thus minimizing the potential impact on sourcing costs. The Group will continue to monitor market dynamics, exploit alternative sourcing opportunities in low-cost countries and make adjustments to the mix of our sourcing base when necessary with the aim of upholding the price-value correlation of our products and remaining competitive in the marketplace.

With an expanding wholesale and retail distribution network, improving retail productivity and profitability, together with stringent cost control measures and the advantage of additional volume leverage from the Group's wholesale business, the Group is confident that the new financial year will produce another set of satisfactory results.



