

Letter from the CEO

The 2006 FIFA World Cup reminded me of a simple law of nature. In any competitive environment there exists one universal law - the fit, the strong and the committed always prevail. Esprit's performance in the past financial year makes a fine example of this.

The financial year FY2005/2006 has proven to be yet another successful year for our company. Esprit delivered record results with strong earnings growth, margin expansion and improvement in our overall financial strength despite the effects of a weak Euro. We continue to merit from our emphasis on achieving product excellence for our mid-priced positioning and are convinced of Esprit's vast potential for growth. Our unwavering dedication to operational efficiency allows us to continue delivering strong results for our brand and enhance shareholder value.

Yet these results would not have been achieved without having encountered many challenges. We experienced a product issue in a major product division during the financial year, which provided us with a valuable opportunity for illustrating our new management team's swift and effective responsiveness. In overall terms, it was gratifying that our team quickly analyzed the cause of the problem and implemented a comprehensive solution to avoid further similar incidents. We have since bolstered our management line-up and installed a new control system to ensure right product offering and excellent quality commitment. The improvement in organizational structure places us at a new found position of strength and affords us considerable leverage to meet new challenges.

Capitalizing on our diversified product portfolio and strong distribution network, the Group continued its international expansion during the financial year. Europe remained as our core region with turnover accounting for 85% of the Group's total turnover. Notwithstanding Esprit's strong performance in this region, we continued to strengthen our presence in newer markets such as Spain, Italy and the Middle East, establishing a solid foundation for these longer-term growth drivers. Our recent organizational restructuring in North America and Australasia provide us with strong strategic platforms from where we aim to capitalize on our untapped potential in these respective regions. Overall, the Group will continue to expand into profitable markets, while improving productivity in less profitable ones.

Guiding this development has been an outstanding group of talented management throughout the organization. Their enthusiasm and unwavering desire to excel remains our number-one asset. In January 2006, the group appointed Thomas Grote as the new President of ESPRIT Brand. I have great confidence in Thomas's abilities and trust his leadership and dedication to herald a new phase of success for ESPRIT Brand. But while we fortify our management structure, we work just as diligently to prepare the ESPRIT brand for the years to come. Our industry is ever changing. Consumers' tastes and preferences demand the apparel industry to be in a constant state of flux. It is imperative to offer new and stylish products at reasonable prices and we believe here lay our strengths. Retail distributors of large department stores and small retailers struggle to cope with this pressure. Esprit, being a major supplier in the apparel industry, has achieved a considerable competitive edge by supplying high quality, reasonably priced merchandise that meet customer needs at a speedy product cycle. As a strong established brand, we continue to perfect our proven "12-collection a year model", providing our consumers, both retail and wholesale, with a constant flow of new products, thereby always recognizing and implementing new trends.

Esprit's future is becoming ever brighter. Naturally I thank my colleagues at Esprit for their commitment and accomplishment in making this another very successful year for our company. Motivated by our success we will continue to put the greatest effort in to our work. Esprit will strive to become an established "international youthful lifestyle company" renowned for its product quality and modernity. Equipped with strong financial credentials, a robust business model and a brand culture with a growing international presence, I have every reason to look forward to another very fruitful year for Esprit.

Heinz KROGNER
Deputy Chairman & Group CEO
September 13, 2006

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