

We believe there are huge potentials in many untapped markets with vast opportunities for long-term growth. We are confident that our market-driven product development process and our diversified product offerings will continue to enable us to prevail over our competitors. With our fresh quality products, better visual merchandising and marketing efforts, our stores and product offerings radiate modernity and quality, thereby reinforcing Esprit's image in the hearts of our customers.

The Group is expected to invest over HK\$1 billion to further expand our global distribution network and for upgrading IT systems to cope with our long term growth. Such capital expenditure is expected to be funded by current year's operating cashflow. On the retail front, the Group's comparable-store-sales growth was over 10% for the two months ended August 2006. The Group is expected to invest approximately HK\$660 million for the opening and expansion of over 80 directly managed stores globally and the refurbishment of existing stores, increasing the Group's retail selling space by approximately 9.0% or over 31,000m². Over 35 stores in Europe, 30 in Asia Pacific and 10 in North America will be opened, adding more than 22,000m², 5,000m², and 3,000m² of retail space respectively. Within Europe, Germany, Benelux and France will remain as our focuses for retail expansion with the addition of over 14,000m², 3,000m² and 2,000m² retail selling space respectively. Selling space expansion together with comparable-store-sales growth through productivity improvements should continue to fuel retail turnover growth in the new financial year.

Wholesale orders booked to December 2006 showed a low teens percentage year-on-year increase in local currency. To further expand our wholesale geographical reach, around 230, 500 and 800 partnership stores, shop-in-stores and identity corners are scheduled to be opened in FY2006/2007 respectively. Over 940 and 190 controlled-space wholesale point-of-sales are planned for Germany and France respectively.

In terms of geographical reach, we expect stable growth at Germany and Benelux, and they will continue to be our core markets in FY2006/2007. Leveraging on our success in these core markets, the Group will continue to cultivate the high potential but under-penetrated markets such as France, Spain, Italy, Canada and the UK while further developing newer markets such as India and Korea. With a very successful launch of the ESPRIT brand in India in FY2005/2006, over 50 new stores are expected to be opened in the market in the next 2 years. In North America, further sales and margin improvement are expected as we continue to roll out new retail space, expand our presence in Nordstrom's national network, and restructure merchandise management in the region. To strengthen our international expansion, Mr. Jerome Griffith has been appointed as President of Esprit North America, and Australasia has been integrated into a newly created Asia Pacific region.

Against a background of the EU and the US reintroducing import quotas on textiles imported from China, together with rising value-added tax (VAT) in Germany, there remain new challenges for the Group. Nevertheless, the Group is confident of its ability to combat these adverse operating conditions through, among other things, our diversified sourcing base, further volume leverage, and if necessary, retail price adjustment.

Overall, Esprit's future is becoming ever brighter. Under the leadership of Mr. Thomas Grote, our new President of ESPRIT Brand, several new positions had been added, such as the Global Marketing Director, Global Product Director, President of Asia Pacific and the Fit Development Team, which will also enhance the Group's internal control and better risk management. The Group will continue to improve its overall profitability performance, supported by a diversified product portfolio, improving retail productivity and an expanding geographical reach.

"The world is our culture"

