

Operations review

Products

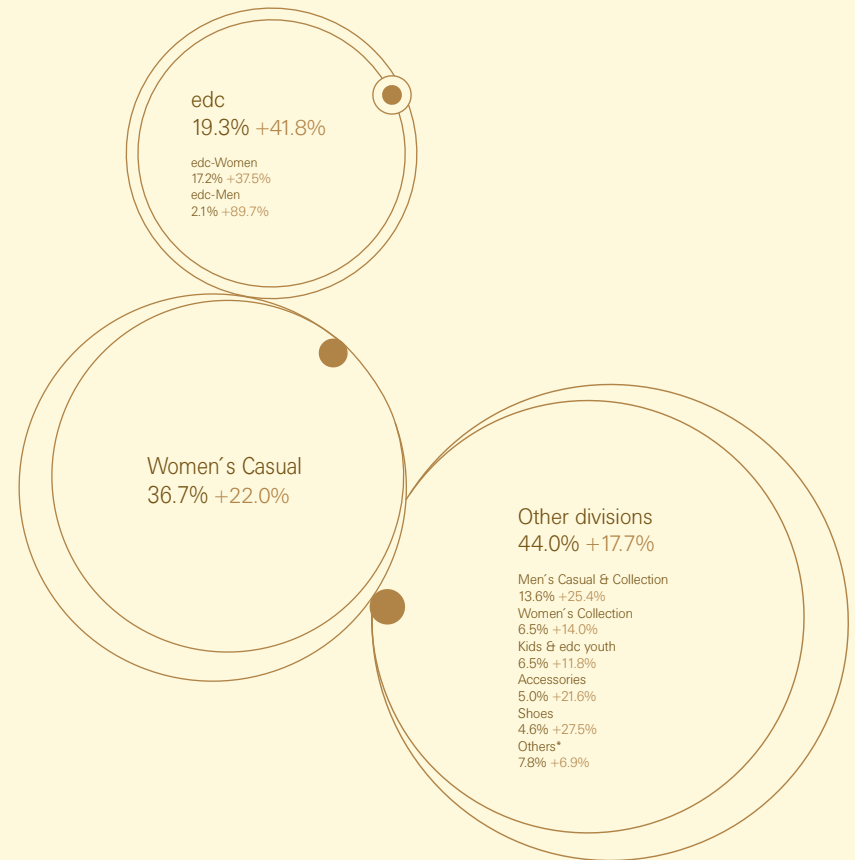
Our strong brand image and ability to offer a variety of high quality products at affordable prices enable us to stay competitive in the international market. Currently, our products are sold under two brands, Esprit and Red Earth. Product lines operated under Esprit brand range from casual wear to shoes and accessories while Red Earth brand mainly offers cosmetic, skin care and body care products. As at December 31, 2006, inventory turnover days for the Group was shortened to 50 days, an improvement of 4 days from 54 days as at June 30, 2006, resulting from the adoption of a careful merchandising strategy and increased popularity of our products.

Women's Casual continues to be the largest product division and contributed 36.7% of the Group's turnover. It posted a healthy growth of 22.0%. Outstanding performance was found in edc, our fastest growing product line, which reported 41.8% turnover growth. Within the edc line, edc-Women and edc-Men, representing 17.2% and 2.1% of the Group's turnover, registered growth rates of 37.5% and 89.7% respectively.



Other product divisions also showed strong growth momentum. Men's Casual and Men's Collection collectively accounted for 13.6% of the Group's turnover and recorded a total growth of 25.4%. Women's Collection recorded 14.0% growth representing 6.5% of the Group's turnover. Despite the smaller turnover contribution from Kids & edc youth (6.5%), Shoes (4.6%) and Accessories (5.0%) to the Group's turnover, their turnover growth rates were encouraging at 11.8%, 27.5% and 21.6% respectively. The remaining divisions, mainly Sports, Bodywear and Red Earth, together accounted for 7.8% of the Group's total turnover also grew by 6.9%.

Group turnover breakdown by products



% of total turnover % growth from last year

*Others include mainly Sports, Bodywear and Red Earth



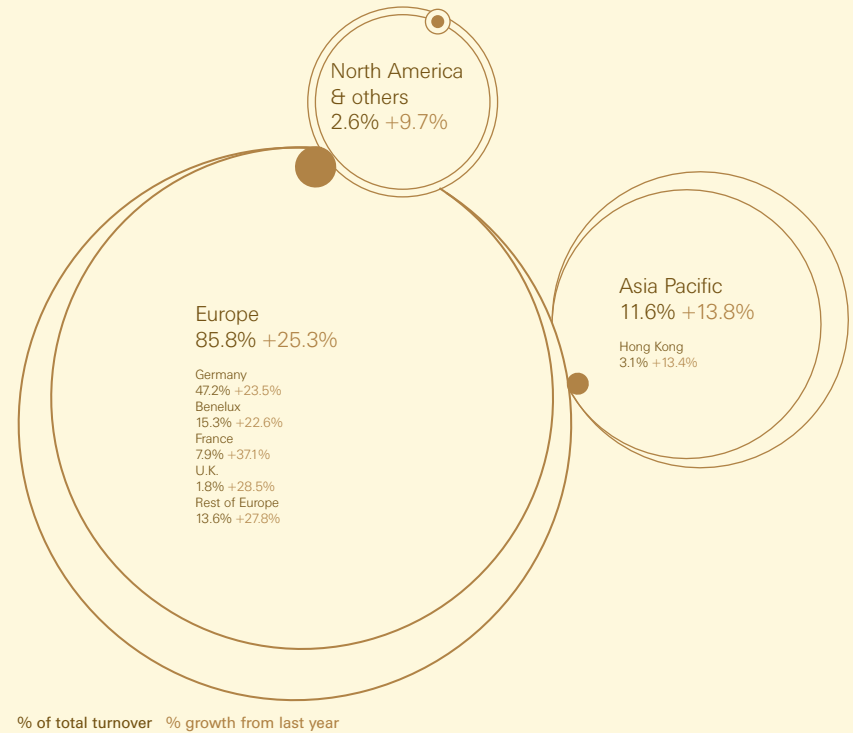
Regions

During the six months ended December 31, 2006, Europe recorded a strong turnover growth of 25.3% to HK\$12,523.8 million making up 85.8% of the Group's turnover. Germany and Benelux remained as our key European markets and accounted for 47.2% and 15.3% of the Group's turnover. They recorded turnover growth of 23.5% and 22.6% respectively. Our other focused European markets, namely Spain, Italy and the UK, delivered substantial turnover growth at 66.7%, 56.4% and 28.5% respectively.

During the six months ended December 31, 2006, Asia Pacific's turnover grew by 13.8% to HK\$1,697.0 million, representing 11.6% of the Group's turnover. Thanks to the strong economic recovery and the revival of consumer confidence in Hong Kong and Malaysia, these two countries recorded turnover growth rates of 13.4% and 42.5% respectively. Retail operation in Asia also continued to record improving profitability. Our Australia and New Zealand operations recorded a negative turnover growth of 11.4% to HK\$317.1 million and the restructuring of their operations is still in progress.

During the six months ended December 31, 2006, North America recorded a turnover growth of 9.7% to HK\$369.2 million, making up approximately 2.6% of the Group's turnover. We see our continued effort in improving productivity and strengthening the distribution network is gradually yielding fruitful results with an improving operating margin.

Group turnover breakdown by regions



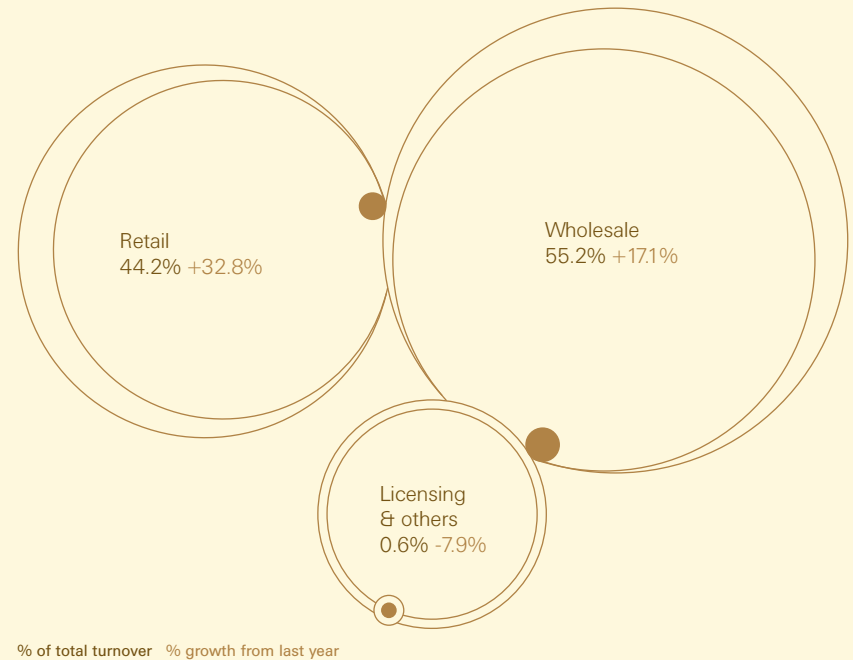


Distribution channels

We reach our customers via three principal distribution channels, i.e. wholesale, retail and licensing. During the six months ended December 31, 2006, the Group's turnover split between wholesale, retail and licensing was 55.2%, 44.2% and 0.6% respectively.

The overall EBIT for the Group grew by 27.1% to HK\$3,061.0 million. Improving retail profitability has opened up new strategic dimension for us. While improved productivity led to an increase in retail EBIT margin, the wholesale EBIT margin has been maintained at a healthy level to drive long-term growth. On a combined basis, the Group's EBIT margin remained relatively stable with marginal improvement of 0.6% point to 21.0%.

Group turnover breakdown by distribution channels



Wholesale

During the six months ended December 31, 2006, the wholesale segment recorded a turnover growth of 17.1% to HK\$8,059.8 million representing 55.2% of the Group's turnover.

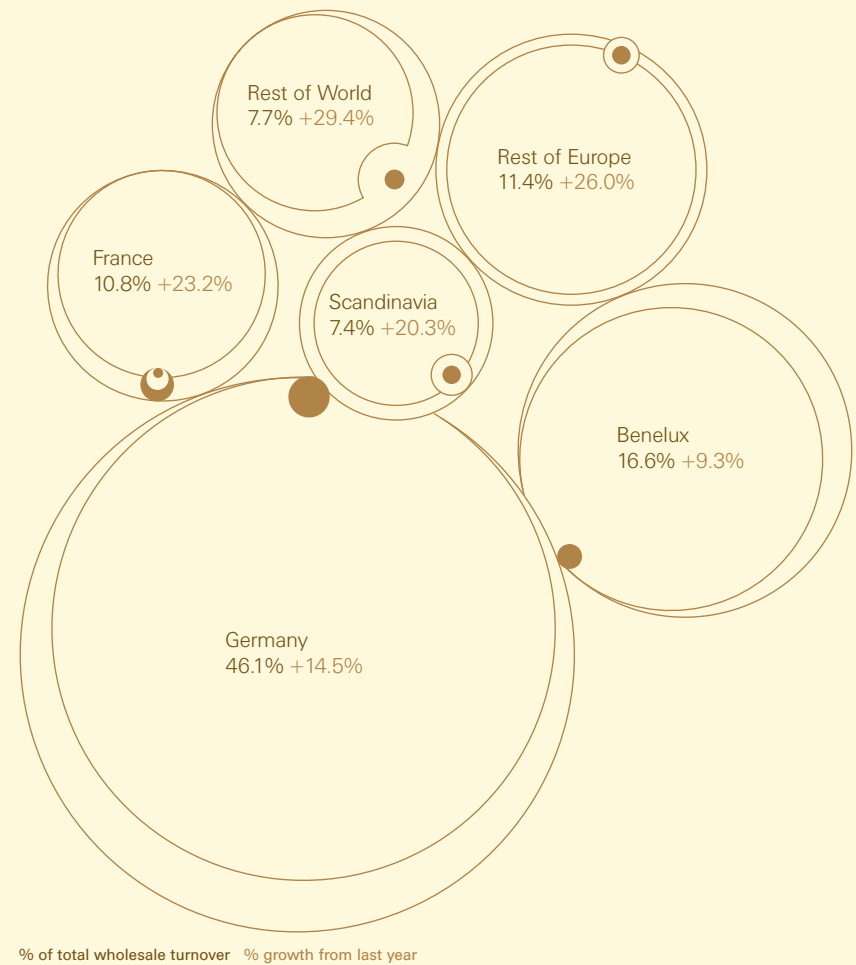
Europe, accounted for 92.3% of the Group's wholesale turnover, grew by 16.2% to HK\$7,440.2 million. The steady turnover growth in Europe was driven by the net addition of 492 Esprit controlled-space wholesale point-of-sales or 36,992m² controlled wholesale space.

Germany, our core wholesale market, representing 46.1% of the Group's wholesale turnover, reported a healthy turnover growth of 14.5%. Europe ex-Germany accounted for 46.2% of the Group's wholesale turnover and achieved 18.0% wholesale turnover growth. Through partnering with department stores and franchise operation, encouraging results were reported in Italy and Spain which recorded impressive wholesale turnover growth at 56.4% and 66.7% respectively.

During the six months ended December 31, 2006, Asia Pacific recorded a turnover growth of 35.2% to HK\$557.9 million, which accounted for 6.9% of the Group's wholesale turnover. The wholesale turnover growth was helped by the continued business growth in China and the Middle East.

As at December 31, 2006, the Group had over 590,000m² controlled wholesale space, a net increase of over 50,000m² or 9% increase from June 30, 2006. This comprised of a net increase of 631 new controlled-space wholesale point-of-sales, including 126 new partnership stores, 210 new shop-in-stores and 295 new identity corners, bringing the Group's total controlled-space wholesale point-of-sales to 12,090. This is partly due to our successful expansion in new markets. The net Esprit controlled-space wholesale point-of-sales additions in Italy, the Middle East and Spain were 45, 10 and 4, representing 26%, 35% and 8% net increase in controlled wholesale space respectively from June 30, 2006.

Breakdown of group wholesale turnover by markets



Key wholesale distribution channels (controlled-space only)

(as at December 31, 2006)	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**
Europe ^	829	171,685	15%	3,553	149,245	6%	6,364	142,341	4%
Germany	281	65,528	15%	2,826	123,728	7%	3,836	86,449	6%
France	176	23,162	27%	298	8,285	-1%	354	9,314	11%
Scandinavia	58	18,463	22%	93	3,967	-7%	749	11,708	11%
Austria	92	17,363	5%	52	2,545	27%	145	3,437	15%
The Netherlands	73	16,830	8%	18	687	73%	426	10,317	-4%
Belgium	58	13,587	no change	84	3,825	2%	415	9,895	-3%
Switzerland	41	8,498	19%	21	1,085	4%	96	2,470	-49%
Italy	34	4,920	47%	8	492	8%	265	6,898	15%
Great Britain	12	2,534	38%	39	2,032	4%	63	1,487	3%
Spain	4	800	36%	114	2,599	3%	15	366	no change
Asia Pacific	242	50,274	14%	133	6,505	1%	748	70,019	11%
China***	69	26,201	8%	8	141	-56%	655	69,186	11%
Middle East	62	10,337	34%	6	1,141	15%	8	78	63%
Thailand	30	3,866	8%	85	3,274	-5%	20	279	-3%
Philippines	18	2,658	5%	-	-	-	-	-	-
Japan	2	117	no change	-	-	-	-	-	-
Korea	-	-	-	2	275	n.a.**	26	182	18%
Australia & New Zealand	-	-	-	-	-	-	15	46	n.a.**
Others	61	7,095	16%	32	1,674	1%	24	248	12%
North America	-	-	-	32	-#	-#	189	-#	-#
Canada	-	-	-	32	-#	-#	189	-#	-#
Group Total	1,071	221,959	15%	3,718	155,750	6%	7,301	212,360	6%

* include Esprit & Red Earth stores /units

** net change from June 30, 2006

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

sales area not available

n.a. means not applicable

^ The net change in Esprit controlled-space wholesale point-of-sales and Esprit controlled-space wholesale sales area for Europe was: 492 and 36,992 m² respectively

Retail

During the six months ended December 31, 2006, the retail turnover grew by 32.8% to HK\$6,441.4 million, representing 44.2% of the Group's turnover. This is supported by strong comparable-store-sales growth of 20.2%. Benefiting from high turnover growth and a stable cost structure, our retail productivity continued to improve and thus, driving the retail EBIT margin to have expanded by 5.8% points to 18.0%.

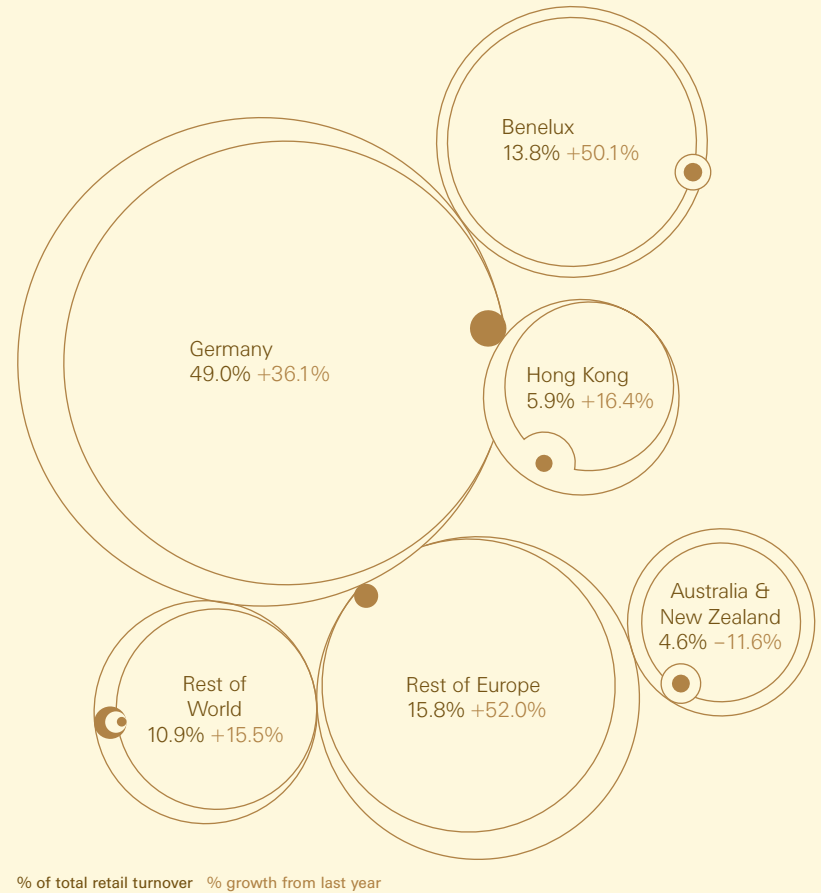
Europe contributed 78.6% of the Group's retail turnover and recorded an impressive turnover growth of 41.4% during the reported period, mainly driven by the strong comparable-store-sales growth of 25.6%. Strong growth momentum was found in almost all European retail markets especially in Germany, Benelux and France.

Asia Pacific and North America together accounted for 21.4% of the Group's retail turnover, reported turnover growth of 6.6% and 16.8% respectively. Their comparable-store-sales grew modestly by 1.1% and 8.2% respectively.

During the six months ended December 31, 2006, the Group invested HK\$207.9 million in the opening of 56 new stores and refurbishment of existing retail stores. Among these new stores, 40 were opened in Asia Pacific while 12 and 4 new stores were opened in Europe and North America. Separately, 86 retail stores (81 in Asia Pacific, 4 in Europe and 1 in North America) were closed during the period mainly due to the conversion of retail stores into wholesale point-of-sales in Australia and the closure of Red Earth counters in Taiwan. The Group had a total of 638 retail stores, and over 227,000m² retail selling space, representing a modest net growth of 1.6% from June 30, 2006.

The Group believes the online e-shops can provide our customers a new shopping experience. During the reported period, online e-shops were launched in Scandinavia. Going forward, more online e-shops will be rolled out to complement our retail distribution network.

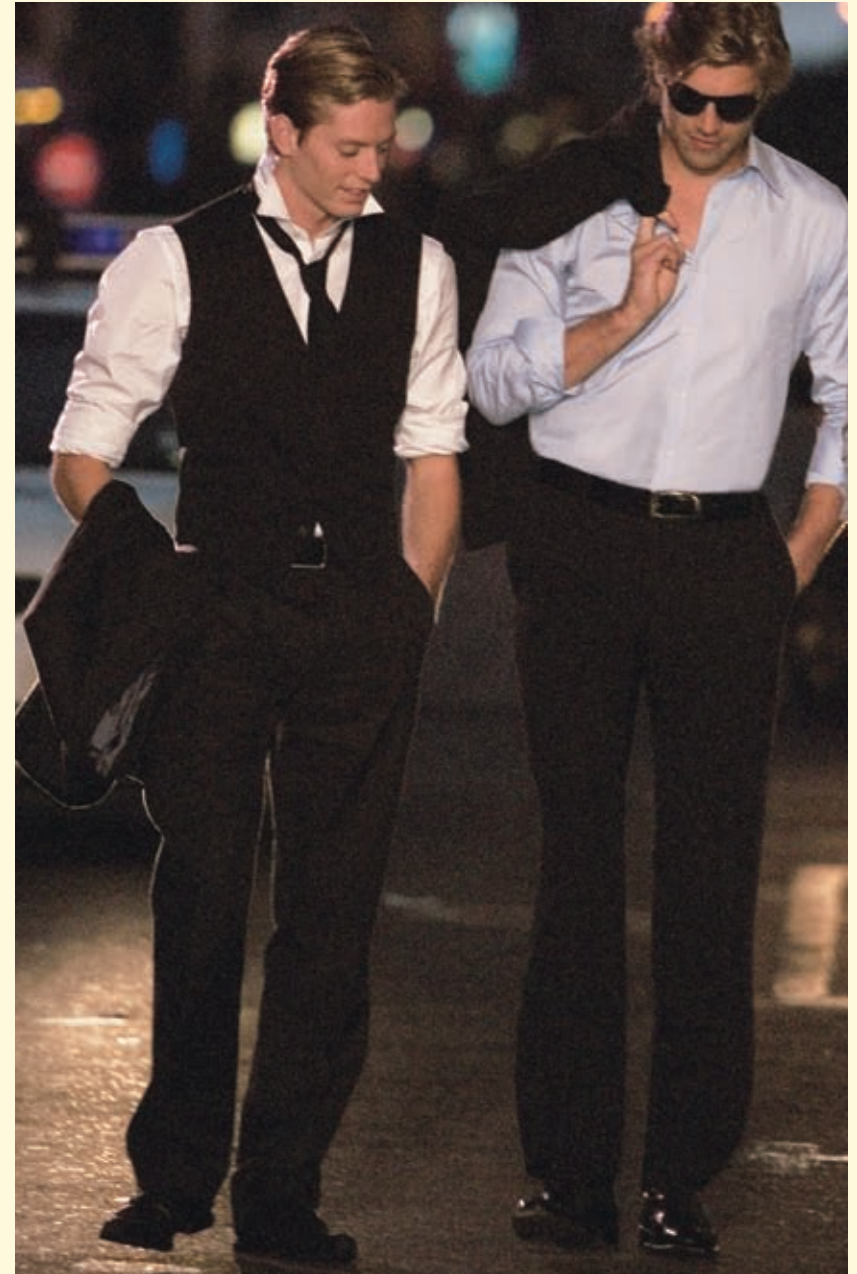
Breakdown of group retail turnover by markets



Retail distribution channels

(as at December 31, 2006)	directly managed stores		
	no. of stores*	sales area sq.m.	net change in sales area**
Europe	251	149,928	4%
Germany	117	85,774	4%
The Netherlands	42	14,840	19%
Belgium	19	14,000	0%
France	25	9,869	4%
Switzerland	27	8,695	-3%
Austria	8	8,358	no change
Great Britain	9	5,962	0%
Denmark	2	1,281	no change
Luxembourg	2	1,149	130%
Asia Pacific	324	54,784	-6%
Australia & New Zealand	113	19,607	-23%
Hong Kong (incl. Macau)	43	14,736	0%
Taiwan	82	7,589	-4%
Singapore	47	7,518	36%
Malaysia	39	5,334	13%
North America	63	22,908	4%
Canada	48	16,483	3%
U.S.	15	6,425	8%
Group Total	638	227,620	2%

* include Esprit & Red Earth stores/units, but exclude Salon
 ** net change from June 30, 2006





Licensing

During the reported period, the Group registered third party royalty income of HK\$50.6 million, representing approximately 0.3% of the Group's total turnover. As at December 31, 2006, we were working with over 35 licensees and collectively offered more than 30 categories of Esprit licensed products to consumers worldwide. In future, we will strengthen our licensed product lines and emphasis will be placed on fragrances, watches, jewelries, sunglasses and home products, which have received good market response.

Key licensed product categories

(as at December 31, 2006)	Europe	Asia Pacific	North America
baby carriages	○	○	
baby furniture	○		
bath textiles	○	○	
bathroom	○		
bed	○	○	○
belts			○
carpets	○		
custom jewelry edc	○		○
down	○	○	
eyewear	○	○	○
fragrance	○	○	○
furniture	○		
glassware	○		
golf		○	
home	○	○	
jewelry	○	○	
kids' accessories			○
kids' bed	○		
kids' shoes		○	○
kids' wear			○
lighting	○		
maternity	○		
outerwear			○
school	○		
shoes		○	
sleepwear/daywear			○
socks + tights edc	○		
socks + tights Esprit	○	○	○
soft toys	○		
stationery	○		
swimwear			○
timewear	○	○	○
towels	○	○	
umbrellas	○	○	
wallpaper	○		

