Margins

Gross margins reached 54.4%, up 2.3% points from a year ago. These were mainly affected by three factors: quota and freight cost savings, the strength of the Euro and higher retail weighting in the Group's turnover mix.

Earnings before interest and taxation (EBIT) margin came in at 20.4%, up 2.8% points from a year ago helped by productivity enhancement and stringent cost control measures. Total operating expenses as a percentage of sales decreased marginally to 34% from 34.5% a year ago. Staff costs, the largest operating cost component, remained relatively flat compared to a year ago despite the addition of staff members.

Depreciation expenses were HK$452 million, 32.1% higher than last year. The higher depreciation was due mainly to the retail stores' expansion and the associated capital expenditure.

Net profit

Net profits were up 66.6%, growing from HK$2 billion to HK$3.34 billion and net profit margins increased 4% points to 16.2%. The Group's effective tax rate was 22.3%, 9.8% points lower than the 32.1% for FY2003/2004. Effective international tax planning and reduction in the number of loss making markets continued to harmonize our overall tax efficiency globally, which in turn led to a more efficient Group effective tax rate.

Liquidity and financial resources

Net cash inflow from operating activities for the financial year increased by 37.1% to HK$2.72 billion. During the financial year, the Group spent HK$961.8 million on capital expenditure for new store openings, store upgrading and IT projects, utilized HK$274.5 million on land and building acquisitions for the new head office in Hong Kong, and another HK$1,712.6 million on dividend payments in December 2004 and April 2005. The Group's financial position remained very strong with its net cash balance (cash and cash equivalent net of bank borrowings) similar to that of last year at HK$1.73 billion (FY2003/2004: HK$1.76 billion).

As at June 30, 2005, the Group has no long-term bank borrowings and did not pledge any assets as security for overdraft and/or short-term revolving facility. Our debt to equity ratio, expressed as a percentage of interest bearing external borrowings over shareholders' funds of HK$7.04 billion, was 0%. The current ratio (current assets divided by current liabilities) improved to 2 (FY2003/2004: 1.7).

Foreign exchange

To minimize our foreign exchange exposure on costs for merchandise produced for Europe in Asia, suppliers in Asia were asked to quote and settle in Euro. In addition, the Group entered into foreign exchange forward contracts with large and reputable financial institutions to hedge foreign exchange risk and reduce credit risks. Forward contracts increased from HK$367.1 million to HK$700.1 million in FY2004/2005, primarily due to turnover growth of the business.

Human resources

The Group employs both full-time and part-time employees and has approximately 8,000 positions worldwide after converting the part-time positions into full-time positions based on working hours. The most significant personnel increase was in the sales-related department.