

Financial review

Turnover

The Group achieved a total turnover of HK\$23,348.9 million, an increase of 18.2% in local currency terms compared to last financial year, which was attributable to the strong performance in Europe, in particular the new markets outside Germany. Due to an approximately 4.7% decline of the average daily EUR/HKD translation rate as compared to the same period last year, the Group's turnover grew 13.2% when translated into Hong Kong dollar terms.

Margins and Profitability

The Group achieved earnings before interest and taxation (EBIT) margin of 20.4%, up 0.6% point from a year ago. The improvement was driven by stringent cost control, in which total operating expenses as a percentage of sales dropped by 2.4% points to 32.3%. The increase in EBIT was slightly offset by the new share option expenses following the first year adoption of "Share-based payment" under International Financial Reporting Standards ("IFRS"). Furthermore, based on historical sales experience of recent years, the Group reassessed its inventory provisioning estimates during the financial year which is in full compliance with IFRS. As a result, there was a net credit to the income statement. Depreciation expenses were HK\$531.7 million, 17.6% higher than last financial year. The higher depreciation was mainly due to retail store expansion and the associated capital expenditure. Wholesale EBIT margin came in at 28.1%, 1.9% points higher than last financial year and the retail EBIT margin remained stable at 12.3% as compared to a year ago.

During the year, our China joint venture had turnover growth of 33.2%. The profitability of such strong turnover growth was partly offset by a lower gross margin and a higher effective tax rate, resulting in a net 15.8% increase in profit contribution from the China associate to HK\$84.4 million.

Higher turnover and improved EBIT margin drove earnings before taxation (EBT) up by 17.2% to HK\$4,885.5 million. EBT margin rose 0.7% point to 20.9%. The Group's effective tax rate marginally increased by 0.5% point to 23.5%. Total profit attributable to shareholders was HK\$3,737.4 million, an increase of 16.4% from last financial year, with

net profit margin increased 0.4% point to 16.0%. Return on shareholders' equity, defined as net earnings as a percentage of average shareholders' equity was 46.3%.

Earnings Per Share

Based on the 1,208,856,000 weighted average number of ordinary shares in issue during the financial year, the basic earnings per share were HK\$3.09, an increase of 15.3% from last financial year.

Liquidity and Financial Resources

Net cash inflow from operating activities for the financial year increased by 26.1% to HK\$3.43 billion. During the financial year, the Group invested HK\$837.5 million on capital expenditure for new stores opening, refurbishment of old stores and IT projects, as compared to HK\$961.8 million in the same period last year. Free cash flow, defined as net cash from operating activities less capex, increased by 74.9% to HK\$2.59 billion.

As at June 30, 2006, the Group has no long-term bank borrowings and did not pledge any assets as security for overdraft and/or short-term revolving facility, while our debt to equity ratio (interest bearing external borrowings divided by shareholders' funds) was 2.7%. The current ratio (current assets divided by current liabilities) improved to 2.3 (FY2004/2005: 2.0), and the Group ended the year with HK\$2.47 billion of net cash available (FY2004/2005: HK\$1.73 billion). The Group is committed to maintaining sufficient cash to support the needs of our business and to withstanding unanticipated business volatility.

Foreign Exchange

To minimize our foreign exchange exposure on sourcing costs for merchandise produced for Europe in Asia, suppliers in Asia were asked to quote and settle in Euros. In addition, the Group entered into foreign exchange forward contracts with major and reputable financial institutions to hedge foreign exchange risk. The notional amount of outstanding forward contracts amounted to HK\$1,331.7 million as at June 30, 2006, an increase of HK\$631.6 million over the balance of HK\$700.1 million as at June 30, 2005.

Dividend Policy

The Board is pleased to recommend a final dividend of HK\$0.73 per share (FY2004/2005: HK\$0.66) and a special dividend of HK\$1.08 per share (FY2004/2005: HK\$0.84). The total dividend for the year, including the interim dividend paid and the proposed final and special dividend, represents a total full year payout ratio of 75% (FY2004/2005: around 70%). The Board will review the Group's financial position and capital needs every year to decide on its special dividend recommendation.

Human Resources

The Group employs both full-time and part-time employees and has approximately 8,400 positions worldwide, after converting the part-time positions into full-time positions based on working hours (FY2004/2005: approximately 8,000). The most significant personnel increase was in the sales-related department, with a net addition of about 400 employees as a result of the expansion of retail operations.

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