Financial review

The Group continued to benefit from double-digit percentage organic growth. During the six months ended December 31, 2006, the Group recorded turnover and earnings of HK$14,590.0 million and HK$2,399.6 million, achieving growth rates of 23.4% and 28.1% respectively. Strong growth momentum was found in all of our key operating countries and product divisions.

Turnover

During the six months ended December 31, 2006, the Group's turnover increased by 23.4% year-on-year to HK$14,590.0 million, attributable to the continued strong performance in Europe and the positive impact from the appreciation of the average daily EUR/HKD translation rate, which was approximately 6.7%.

Profitability

During the six months ended December 31, 2006, the Group's earnings before interest and taxation (EBIT) increased by 27.1% to HK$3,061.0 million, with EBIT margin moving up modestly by 0.6% point to 21.0%. The EBIT margins of wholesale and retail businesses were 25.8% and 18.0% respectively. Thanks to a stable cost structure and higher turnover, total operating expenses as a percentage of sales improved by 0.7% point to 31.1%.

Our China associated companies also recorded satisfactory results. During the reported period, their profit contribution increased from HK$40.7 million to HK$61.6 million due to strong turnover growth and an improving operating margin.

The Group's earnings before tax (EBT) rose to HK$3,171.2 million, representing an increase of 28.6% over the same period last year. With higher turnover and expanded margins, net earnings of the Group increased by 28.1% to HK$2,399.6 million and net earnings margin expanded by 0.6% point to 16.4%.

Seasonality of business

The Group's business is inevitably affected by seasonal trends. These trends are primarily attributable to seasonal shipments to wholesale customers and key holiday sales periods, as well as the pricing of seasonal products. Due to the fact that sales and operating income may fluctuate in any reporting period, half year financials may not be indicative of the future trend of business and may not be extrapolated to provide a reliable forecast.

Liquidity and financial resources

Our consolidated balance sheet remains healthy. As at December 31, 2006, the Group had a net cash balance of HK$3,589.7 million representing an increase of 45.4% from June 30, 2006. Net cash inflow from operating activities during the reported period, increased by 71.0% from the same period last year to HK$3,241.8 million. These reflect the Group's ability to generate solid earnings.

During the reported period, the Group invested HK$253.5 million in capital expenditure (capex), as compared to HK$520.5 million spent for the same period last year. Among the capex spent, HK$207.9 million was spent on the opening of new stores and refurbishment of existing stores. Free cash flow, defined as net cash from operating activities less capex, grew by 117.3% from the same period last year to HK$2,988.3 million.

As at December 31, 2006, the Group had no long-term bank borrowing or assets pledged for overdraft or any short-term revolving facility. The debt-to-equity ratio, expressed as a percentage of interest bearing external borrowings over shareholders' funds, was 0%. The current ratio (current assets divided by current liabilities) improved to 2.2x as at December 31, 2006 from 1.8x as at December 31, 2005.

Foreign exchange risk management

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$1,446.4 million as at December 31, 2006, representing an increase of HK$114.7 million over the balance of HK$1,331.7 million as at June 30, 2006.