GIORDANO INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 709)

ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED DECEMBER 31, 2016

Highlights

- *Consolidated sales in 2016 were HK$5,145 million (2015: HK$5,381 million), a decrease of 4%, mainly due to closure of non-performing stores in Greater China and weakened Renminbi reducing the translated sales from Mainland China.*

- *Consolidated gross profit registered a minor decrease of 1%, supported by an improved gross margin of 1.8 percentage points to 59.4% (2015: 57.6%), due to pricing discipline and increased sales contribution from regions with higher margin.*

- *Comparable store gross profit was up by 2% against flat comparable store sales.*

- *Profit attributable to shareholders of the Company increased by 2% year-on-year to HK$434 million (2015: HK$426 million), while net profit margin rose to 8.4% from 7.9% in 2015.*

- *Inventory turnover days on costs were flat year-on-year at 78 days.*

- *At year-end, net cash and bank balances were HK$1,095 million (December 31, 2015: HK$1,076 million). Conversion rate of free cash flow from operations before tax to EBIT was 100% (2015: 120%).*

- *The board of directors has recommended the payment of a final dividend of 15.0 HK cents per share (2015: 14.5 HK cents).*

- *Both basic and diluted earnings per share increased to 27.7 HK cents (2015: 27.1 HK cents).*

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The board of directors (the "Board") of Giordano International Limited (the "Company") presents the following audited annual results of the Company and its subsidiaries (the "Group") for the year ended December 31, 2016 together with comparative figures and explanatory notes.

Consolidated Income Statement

(In HK$ million, except earnings per share)	*Note*	**2016**	2015
Sales	*2*	**5,145**	5,381
Cost of sales		**(2,090)**	(2,284)
Gross profit		**3,055**	3,097
Other income and other gains, net		**85**	89
Distribution expense		**(2,299)**	(2,242)
Administrative expense		**(273)**	(388)
Operating profit	*2, 3*	**568**	556
Finance expense		**(1)**	–
Share of profit of joint ventures		**43**	42
Profit before taxation		**610**	598
Taxation	*4*	**(122)**	(118)
Profit for the year		**488**	480
Attributable to:			
Shareholders of the Company		**434**	426
Non-controlling interests		**54**	54
		488	480
Earnings per share for profit attributable to shareholders of the Company			
Basic and Diluted (HK cents)	*5*	**27.7**	27.1

Consolidated Statement of Comprehensive Income

(In HK$ million)	**2016**	2015
Profit for the year	**488**	480
Other comprehensive income:		
Items that may be reclassified to profit or loss		
Fair value change on available-for-sale financial asset	**22**	–
Exchange adjustments on translation of overseas subsidiaries, joint ventures and branches	**(35)**	(121)
Total comprehensive income for the year	**475**	359
Attributable to:		
Shareholders of the Company	**416**	319
Non-controlling interests	**59**	40
	475	359

Consolidated Balance Sheet

(In HK$ million)	*Note*	As at December 31 **2016**	2015
ASSETS			
Non-current assets			
Property, plant and equipment		**221**	239
Goodwill		**546**	546
Interest in joint ventures		**480**	503
Available-for-sale financial asset		**35**	13
Financial asset at fair value through profit or loss		**28**	28
Leasehold land and rental prepayments		**192**	205
Rental deposits		**127**	109
Deferred tax assets		**50**	48
		1,679	1,691
Current assets			
Inventories		**447**	491
Leasehold land and rental prepayments		**51**	47
Trade and other receivables	*7*	**544**	542
Cash and bank balances		**1,393**	1,076
		2,435	2,156
Total assets		**4,114**	3,847
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital		**79**	79
Reserves		**2,470**	2,483
Proposed dividends	*6*	**236**	228
Equity attributable to shareholders of the Company		**2,785**	2,790
Non-controlling interests		**182**	176
Total equity		**2,967**	2,966
Non-current liabilities			
Put option liabilities		**19**	19
Deferred tax liabilities		**103**	111
		122	130
Current liabilities			
Trade and other payables	*8*	**538**	559
Put option liabilities		**102**	102
Bank loans		**298**	–
Taxation		**87**	90
		1,025	751
Total liabilities		**1,147**	881
Total equity and liabilities		**4,114**	3,847
Net current assets		**1,410**	1,405
Total assets less current liabilities		**3,089**	3,096

Notes to the consolidated financial statements:

1. **Basis of preparation**

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial asset, financial asset at fair value through profit or loss and derivative financial instruments, which are carried at fair value.

The accounting policies and methods of computation used in preparing the financial information extracted from the audited consolidated financial statements are consistent with those followed in preparing the annual financial statements of the Group for the year ended December 31, 2015, except for the adoption of the following new and amended HKFRS, which are relevant to the Group's operation and are effective for accounting periods beginning on or after January 1, 2016.

– Accounting for acquisitions of interests in joint operations – Amendments to HKFRS 11

– Clarification of acceptable methods of depreciation and amortization – Amendments to HKAS 16 and HKAS 38

– Annual improvements to HKFRSs 2012-2014 cycle; and

– Disclosure initiative – Amendments to HKAS 1

The adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

2. **Operating segments**

The Group determines its operating segments based on its development strategies and operational control. There are two major operating segments: Retail and Distribution and Wholesale Sales to overseas franchisees. Management manages the Retail and Distribution operating segment geographically and by brand.

Geographically, the Retail and Distribution operating segment in Mainland China and the Middle East comprise directly operated stores ("DOS") and franchised stores. Hong Kong and Macau, Taiwan and the rest of Asia Pacific do not have material local franchised stores. Group stores span most of Asia Pacific and the Middle East. There are also presently insignificant sales from franchised stores in south Asia, North America, and Central Europe.

As for brands, the Group presently manages *Giordano* & *Giordano Junior*, *Giordano Ladies*, *BSX* and other less significant brands or third party licensed brands.

Segment operating profit is before share of profit of joint ventures and taxation. This is the measurement basis reported to management and the senior decision-makers for the purpose of resource allocation and assessment of segment performance.

2. Operating segments (continued)

Analysis of the Group's operating segment sales and operating profit by geographic regions is as follows.

(In HK$ million)	**2016** Sales	**2016** Operating profit	2015 Sales	2015 Operating profit
Retail and Distribution				
Mainland China	**1,285**	**102**	1,451	90
Hong Kong and Macau	**927**	**87**	971	70
Taiwan	**615**	**39**	639	49
The rest of Asia Pacific	**1,388**	**164**	1,317	151
The Middle East	**626**	**108**	639	112
	4,841	**500**	5,017	472
Wholesale sales to overseas franchisees	**304**	**54**	364	52
Segment results	**5,145**	**554**	5,381	524
Corporate functions		**14**		32
Finance expense		**(1)**		–
Share of profit of joint ventures		**43**		42
Profit before taxation		**610**		598

Further analysis of the Retail and Distribution operating segment by brand is as follows.

(In HK$ million)	**2016** Sales	**2016** Operating profit	2015 Sales	2015 Operating profit
Retail and Distribution				
Giordano & Giordano Junior	**4,130**	**422**	4,302	414
Giordano Ladies	**401**	**65**	393	43
BSX	**147**	**9**	167	1
Others	**163**	**4**	155	14
	4,841	**500**	5,017	472

The Company has its domicile in Hong Kong. Sales to external customers from Hong Kong and Macau are HK$1,231 million (2015: HK$1,335 million), Mainland China HK$1,285 million (2015: HK$1,451 million) and external customers from other markets HK$2,629 million (2015: HK$2,595 million).

Inter-segment sales of HK$1,012 million (2015: HK$1,076 million) have been eliminated upon consolidation.

Depreciation and amortization charged related to Mainland China was HK$26 million (2015: HK$36 million), Hong Kong and Macau HK$15 million (2015: HK$17 million), Taiwan HK$18 million (2015: HK$16 million), the rest of Asia Pacific HK$43 million (2015: HK$39 million) and the Middle East HK$24 million (2015: HK$26 million).

Income tax expense charged related to Mainland China was HK$14 million (2015: HK$24 million), Hong Kong and Macau HK$11 million (2015: HK$11 million), Taiwan HK$6 million (2015: HK$7 million), the rest of Asia Pacific HK$47 million (2015: HK$40 million) and the Middle East HK$9 million (2015: HK$9 million).

2. Operating segments (continued)

Analysis of the Group's segment assets by geographic regions is as follows:

(In HK$ million)	**Segment assets** 2016	Segment assets 2015
Segment assets		
Mainland China	**775**	967
Hong Kong and Macau	**1,064**	636
Taiwan	**184**	179
The rest of Asia Pacific	**658**	617
The Middle East	**840**	856
	3,521	3,255
Interest in joint ventures	**480**	503
Available-for-sale financial asset	**35**	13
Financial asset at fair value through profit or loss	**28**	28
Deferred tax assets	**50**	48
Total assets	**4,114**	3,847

The total of non-current assets other than financial instruments and deferred tax assets located in Hong Kong is HK$197 million (2015: HK$201 million); Mainland China, HK$72 million (2015: HK$91 million); and other markets, HK$1,297 million (2015: HK$1,310 million).

3. Operating profit

The operating profit is stated after charging:

(In HK$ million)	**2016**	2015
Amortization of leasehold land prepayments	**8**	8
Auditor's remuneration	**6**	6
Depreciation of property, plant and equipment	**118**	126
Operating lease rentals in respect of land and buildings		
– Minimum lease payments	**861**	892
– Contingent rent	**229**	224
– Management fee	**60**	54
Provision for obsolete stock and stock written off	**–**	5
Staff costs	**900**	886

4. Taxation

Hong Kong profits tax is calculated at the rate of 16.5% (2015: 16.5%) on the estimated assessable profits for the year. Income tax on profits assessable outside Hong Kong is calculated at the rates applicable in the respective jurisdictions.

(In HK$ million)	**2016**	2015
Current income tax		
Hong Kong	**20**	20
Outside Hong Kong	**72**	70
Over provision in prior years	**(2)**	–
Withholding tax on profit distribution from subsidiaries and joint venture	**27**	37
	117	127
Deferred tax		
Origination and reversal of temporary differences	**5**	(7)
Over provision in prior years	**–**	(2)
	5	(9)
Taxation charge	**122**	118

This charge excludes the share of joint ventures' taxation for the year of HK$11 million (2015: HK$11 million). The share of profit of joint ventures in the consolidated income statement is after income taxes accrued in the appropriate income tax jurisdictions.

5. Earnings per share

The calculations of basic and diluted earnings per share are based on the consolidated profit attributable to shareholders of the Company for the year of HK$434 million (2015: HK$426 million).

The basic earnings per share is based on the weighted average of 1,570,561,403 shares (2015: 1,570,283,230 shares) in issue during the year.

The diluted earnings per share is based on 1,571,089,251 shares (2015: 1,571,667,143 shares) which is the total of the weighted average of 1,570,561,403 shares (2015: 1,570,283,230 shares) in issue during the year and the weighted average of 527,848 shares (2015: 1,383,913 shares) deemed to be issued if all outstanding share options granted under the share option schemes of the Company had been exercised.

6. Dividends

(In HK$ million)	**2016**	2015
Interim dividend declared and paid of 12.5 HK cents (2015: 12.5 HK cents) per share	**196**	196
Final dividend proposed after the balance sheet date of 15.0 HK cents (2015: 14.5 HK cents) per share	**236**	228
	432	424

At the Board meeting on March 9, 2017, the directors of the Company recommended the payment of a final dividend of 15.0 HK cents per share. The proposed dividend has not been recognized as a liability at the balance sheet date. The amount of proposed dividend was based on the shares in issue as at the proposed date.

7. Trade and other receivables

(In HK$ million)	**2016**	2015
Trade receivables	**274**	275
Less provision for impairment	**(8)**	(11)
Trade receivables, net	**266**	264
Aging analysis from the invoice date net of provision for impairment is as follows:		
0 – 30 days	**180**	187
31 – 60 days	**50**	42
61 – 90 days	**17**	13
Over 90 days	**19**	22
	266	264
Other receivables, including deposits and prepayments	**278**	278
	544	542

Trade receivables comprise mainly amounts due from wholesale customers and retail proceeds due from department stores. The Group normally allows a credit period of 30-60 days.

8. Trade and other payables

(In HK$ million)	**2016**	2015
Trade payables	**205**	232
Aging analysis is as follows:		
0 – 30 days	**185**	186
31 – 60 days	**9**	32
61 – 90 days	**4**	8
Over 90 days	**7**	6
	205	232
Other payables and accrued expense	**333**	327
	538	559

MANAGEMENT DISCUSSION AND ANALYSIS OF GROUP RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The following commentaries refer to year-on-year ("YOY") comparison of the year ended December 31, 2016 and 2015 unless otherwise stated.

OVERVIEW

- The Group is an international apparel retailer with a portfolio of brands, including proprietary *Giordano* and *Giordano Junior*, *Giordano Ladies*, *BSX*, other less significant brands and non-proprietary third party brands under license.
- We operated 2,397 stores (equivalent to 2,318,600 sq. ft. of retail floor space) in over 30 countries as at December 31, 2016, of which 1,254 were standalone stores. The majority of stores were in Greater China, South Korea, South East Asia and the Middle East. We manage our store portfolio by geographic region and by distribution channel. We target to expand our footprint in South East Asia and franchise network in China, and the retail floor space from these regions increased by 6% as at year-end.
- Consolidated sales[1] for the year ended December 31, 2016 were HK$5,145 million. Gross profit margin was 59.4%. Group comparable store gross profit[2] ("Group CSGP") (measures subsidiaries only) was up by 2% despite flat Group comparable store sales[2] ("Group CSS").
- Profit attributable to shareholders of the Company ("PATS") was HK$434 million.
- Net cash and bank balances were HK$1,095 million.

Table 1: Store portfolio

	Store numbers at December 31		Retail floor space (sq. ft. in thousands) at December 31	
	2016	2015	**2016**	2015
Retail and Distribution				
Mainland China				
Direct-operated stores	**357**	374	**300**	330
Franchised stores	**562**	517	**453**	418
Hong Kong and Macau	**73**	71	**82**	90
Taiwan	**203**	205	**197**	202
The rest of Asia Pacific	**581**	586	**578**	559
The Middle East	**191**	202	**224**	248
Overseas franchisees	**430**	416	**485**	456
Total	**2,397**	2,371	**2,319**	2,303

RESULTS OF OPERATIONS

Table 2: Overview of Group results of operations

(In HK$ million)	Full Year 2016	Full Year 2015	Full Year Change	Second Half 2016	Second Half 2015	Second Half Change	First Half 2016	First Half 2015	First Half Change
Group sales	**5,145**	5,381	(4%)	**2,613**	2,645	(1%)	**2,532**	2,736	(7%)
Gross profit	**3,055**	3,097	(1%)	**1,547**	1,531	1%	**1,508**	1,566	(4%)
Gross profit margin	**59.4%**	57.6%	1.8pp	**59.2%**	57.9%	1.3pp	**59.6%**	57.2%	2.4pp
Operating expenses	**(2,572)**	(2,630)	(2%)	**(1,288)**	(1,291)	Flat	**(1,284)**	(1,339)	(4%)
Operating profit	**568**	556	2%	**301**	281	7%	**267**	275	(3%)
Operating margin	**11.0%**	10.3%	0.7pp	**11.5%**	10.6%	0.9pp	**10.5%**	10.1%	0.4pp
EBITDA	**748**	743	1%	**395**	373	6%	**353**	370	(5%)
PATS	**434**	426	2%	**230**	218	6%	**204**	208	(2%)
Net profit margin	**8.4%**	7.9%	0.5pp	**8.8%**	8.2%	0.6pp	**8.1%**	7.6%	0.5pp
Global brand sales[3]	**6,740**	6,810	(1%)	**3,446**	3,446	Flat	**3,294**	3,364	(2%)
Global brand gross profit[3]	**4,118**	4,042	2%	**2,125**	2,049	4%	**1,993**	1,993	Flat
Group CSS	**Flat**	4%		**Flat**	Flat		**(1%)**	9%	
Group CSGP	**2%**	4%		**3%**	1%		**Flat**	8%	
Free cash flow from operations	**505**	644	(22%)	**246**	287	(14%)	**259**	357	(27%)
Net cash and bank balances at period end	**1,095**	1,076	2%				**1,084**	1,029	5%
Inventories at period end	**447**	491	(9%)				**392**	453	(13%)
Inventory turnover on cost ("ITOC") (days)[4]	**78**	78	Flat				**70**	70	Flat

Table 3: Group sales by region

(In HK$ million)	**2016**	2015	Change	Change (at constant exchange rates)
Mainland China	**1,285**	1,451	(11%)	(7%)
Hong Kong & Macau	**927**	971	(5%)	(5%)
Taiwan	**615**	639	(4%)	(3%)
The rest of Asia Pacific	**1,388**	1,317	5%	6%
The Middle East	**626**	639	(2%)	(2%)
Retail and Distribution	**4,841**	5,017	(4%)	(2%)
Wholesale sales to overseas franchisees	**304**	364	(16%)	(16%)
Total	**5,145**	5,381	(4%)	(3%)

Sales

Sales by geographic region

Consolidated group sales declined by 4%, but would have only been down by 3% if translated at constant exchange rates. Sales reduction in Greater China explained mostly to the decline in consolidated sales. Group CSS was flat amidst subdued global economic growth that stymied consumer sentiment.

The marked slowdown of the Mainland Chinese economy largely contributed towards the 2% CSS drop in this region. This, coupled with the closure of non-performing stores resulting from the rationalization of the shop portfolio, and the depreciation of the Renminbi ("RMB") against the Hong Kong dollar ("HKD" or "HK$") all resulted in the reduction in reported sales there by 11%. The resilient team in Hong Kong continued to weather the adverse retail environment and stabilized CSS. The sales decline in Hong Kong was mainly due to net shop closures. In Taiwan, the acute economic slowdown, falling consumer confidence as well as plummeting Mainland Chinese tourist numbers have all adversely affected the reported sales.

Translated at constant exchange rates, the rest of Asia Pacific recorded an increase in sales of 6%, attributable to regional CSS growth of 5% and net store gains. Mixed currency movements in this region contained the reported sales growth to 5% in the year under review. Thailand and Indonesia were the two biggest sales drivers in the rest of Asia Pacific region in 2016, sales elevated by 21% and 11%, respectively.

In the Middle East, the unsettled regional economies have not been conducive to consumer spending. Efforts to stimulate the economies through infrastructure and tourism projects continue to be stymied by the effects of plunging oil prices, which fell to below US$50 per barrel for the first time since 2009. Regional CSS plummeted 15% in the first quarter. We reacted by revamping the merchandise mix and promotion strategies that together helped narrow down regional CSS decline to 3% for the full year.

Sales by brand

With respect to the core Giordano brand, 72% of sales derived from menswear, 23% from womenswear and 5% from junior wear. Menswear brand CSS increased by 3%, and brand CSGP rose further to 6%. Polos continued to be our strongest product category. Womenswear, however, recorded a drop of 3% in brand CSS. In addition to selling through multi-brand stores, there were 42 (2015: 46) womenswear counters in Mainland China and Thailand as at December 31, 2016.

Our premium womenswear brand, *Giordano Ladies*, recorded an increase in brand CSS by 3% and brand CSGP by 4%. In particular, CSS in the South East Asia region surged by 17%. Management will expand the brand's global footprint beyond Greater China.

Chart 1: Quarterly global brand sales and YOY change

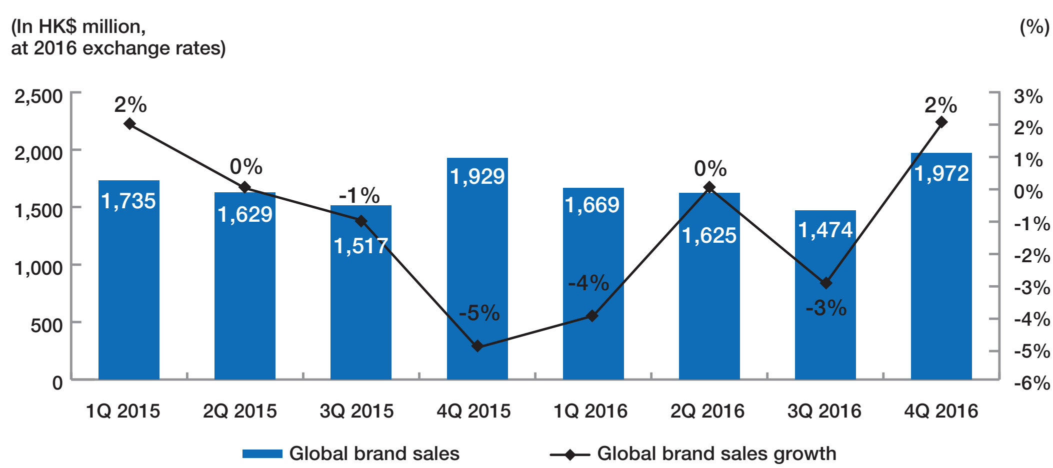
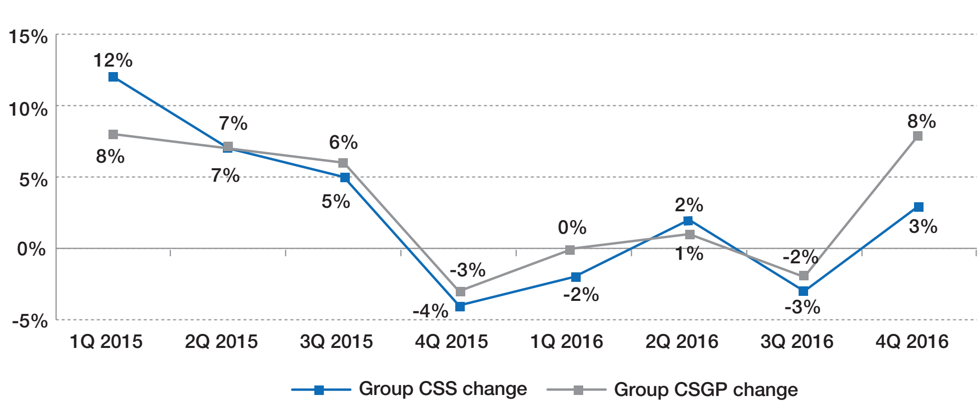


Chart 2: Quarterly Group CSS and CSGP change



Gross profit

While the Group makes its purchases from a RMB-based supply chain, its markets receive retail proceeds in local currencies. The relative strengthening or weakening of local currencies of each market against RMB will improve or reduce the gross profit and the gross profit margin in each market.

As the Group reports its results in HKD, the relative strengthening or weakening of local currencies against HKD will also increase or decrease the Group's reported income statements when translating the results of operations of each market into HKD.

Although consolidated sales decreased by 4%, consolidated gross profit decreased by only 1% to HK$3,055 million (2015: HK$3,097 million). This was attributable to the Group's emphasis on defending gross margin through disciplined merchandising and stringent pricing. Group gross margin was up by 1.8 percentage points to 59.4% (2015: 57.6%).

Group average selling price rose by 3%, primarily due to the adjustment of selling prices in the rest of Asia Pacific region from the latter half of 2015 when their currencies depreciated sharply against the RMB. Better market mix from the increased sales contribution of this region further enhanced the Group average selling price.

The Group reduced average product cost by 2%, owing to the depreciation of RMB. Nevertheless, the increased costs of higher quality fabrics and trims offset a portion of these cost saving.

Sales volume was down by 5%, mainly due to shop closures in Mainland China and Hong Kong.

Chart 3: Quarterly Group gross profit margin and YOY change

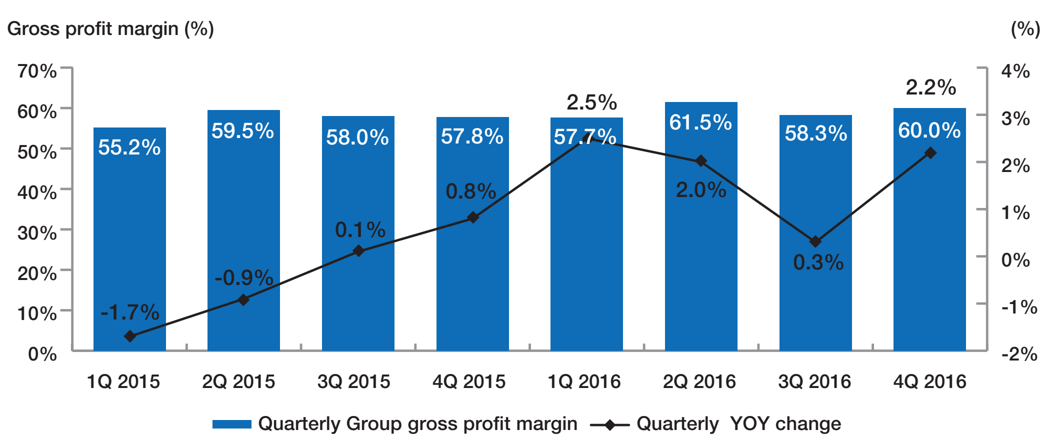


Table 4: Gross profit variance analysis by region

(In HK$ million)	2015 gross profit	Average product cost	Average selling price	Volume	Exchange impact	Miscellaneous	2016 gross profit
Mainland China	776	(5)	37	(71)	(38)	(1)	**698**
Hong Kong & Macau	646	(2)	29	(49)	16	–	**640**
Taiwan	374	14	(19)	2	(8)	(1)	**362**
The rest of Asia Pacific	773	(28)	100	(10)	(6)	–	**829**
The Middle East	414	16	(14)	(2)	–	(1)	**413**
Wholesales & Intercompany	114	(22)	(28)	(6)	55	–	**113**
Market mix	–	(8)	38	(30)	–	–	**–**
Group	**3,097**	**(35)**	**143**	**(166)**	**19**	**(3)**	**3,055**

Other income and other gains, net

Other income and other gains mainly consisted of royalty income, rental income, gain from disposal of property, plant and equipment as well as interest income. Other income and other gains dropped by 4% or HK$4 million due to fewer units of staff quarters sold in the year under review.

Operating expenses

The Group remains vigilant in its spending. There was a reduction in operating expenses by HK$58 million or 2%. Operating expense ratio increased by 1.1 percentage points from 48.9% to 50.0%, largely due to lower consolidated sales. With the uplift in gross profit margin of 1.8 percentage points, operating expenses to gross profit decreased by 0.7 percentage points to 84.2%, enhancing our operating margin by 0.7 percentage points to 11.0% YOY.

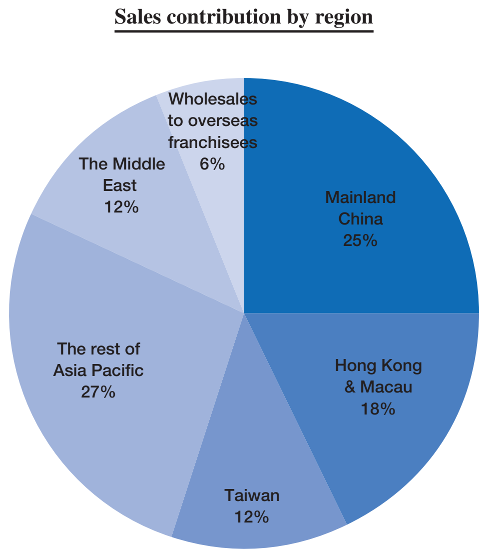
Rental expense decreased by 3% due to the closure of non-performing stores, particularly in Mainland China, and rental reduction initiatives, although this was largely offset by expansion of retail space by 3% in the South East Asia region. Staff expense to sales was 17.5% (2015: 16.5%), attributable to salary increments and the increase in statutory staff benefits in certain markets. Advertising and marketing expenses declined by 5% with fewer global advertising campaigns this year. The Group will continue to execute impactful marketing programs in 2017 where appropriate. Shop overhead expenses, comprising shop depreciation, utilities, credit card charges and other miscellaneous expenses, also declined by 7%.

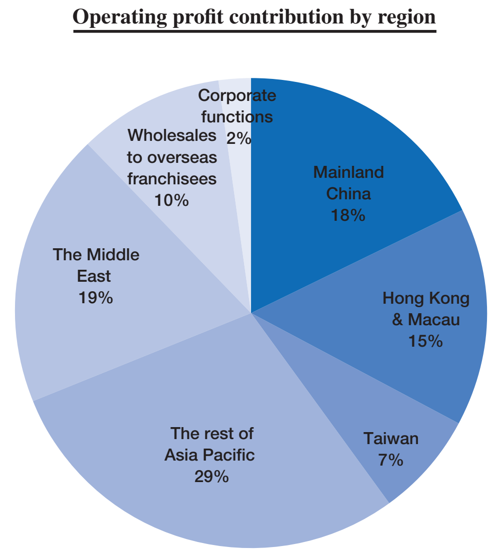
Operating profit

The Group's operating profit was better in the second half of the financial year, increased by 7% YOY as compared to 3% decline in the first half.

The Middle East recorded the highest return on sales in the Group with an operating margin of 17.3% (2015: 17.5%), owing largely to its strong brand equity. Although there was an initial blip in the first quarter when CSS plummeted by 15%, and it rebounded in ensuing quarters. Greater China made up 55% of the Group's consolidated sales, but due to its relatively low operating margin among the markets, it only contributed 40% of the Group's operating profit. Upon rationalization of store portfolio and gross profit margin uplift, we managed to increase Greater China's operating margin by 1.3 percentage points to 8.1% in the year under review. Management expects the operating margin in Greater China will continue to improve.

Chart 4: Sales and operating profit contribution by region





Taxation

Taxation amounted to HK$122 million (2015: HK$118 million), representing an effective tax rate of 20.0% (2015: 19.7%).

Profit attributable to shareholders of the Company

Profit attributable to shareholders of the Company ("PATS") was up by 2% to HK$434 million (2015: HK$426 million). Net profit margin increased by 0.5 percentage points from 7.9% to 8.4%, attributable to strengthened gross profit margin, which compensated the rising operating costs, in particular, staff costs and statutory staff benefits. At constant exchange rates, PATS would have been HK$443 million, an increase of 4% YOY. The difficulties in Taiwan and the Middle East markets weighing on the profits there were entirely offset by the growth in other markets.

Table 5: Analysis of change in PATS

(In HK$ million)

Reported 2015 PATS	**426**
Increase in profit from Mainland China	**17**
Increase in profit from Hong Kong and Macau	**17**
Decrease in profit from Taiwan	**(9)**
Increase in profit from the rest of Asia Pacific	**14**
Decrease in profit from the Middle East	**(4)**
Increase in share of profit of South Korea	**3**
Increase in profit from wholesales	**2**
Taxation, non-controlling interests and corporate functions	**(23)**
2016 PATS without currency translation difference	**443**
Currency translation difference	**(9)**
Reported 2016 PATS	**434**

The following market-specific comments by management are in local currencies or, if in HKD, are at constant exchange rates to remove distortions from the translation of results of operations and financial condition from local currencies to HKD. The figures have not removed the impact on imported product cost contracted at non-local currencies.

Mainland China

Table 6: Overview of Mainland China

	Full Year			**Second Half**			**First Half**		
(In RMB million)	**2016**	2015	Change	**2016**	2015	Change	**2016**	2015	Change
Total sales	**1,103**	1,182	(7%)	**564**	570	(1%)	**539**	612	(12%)
DOS	**785**	865	(9%)	**396**	413	(4%)	**389**	452	(14%)
Wholesale to franchisees	**318**	317	Flat	**168**	157	7%	**150**	160	(6%)
Total brand sales	**1,310**	1,415	(7%)	**643**	667	(4%)	**667**	748	(11%)
DOS	**785**	865	(9%)	**396**	413	(4%)	**389**	452	(14%)
Franchised stores	**525**	550	(5%)	**247**	254	(3%)	**278**	296	(6%)
CSS	**(2%)**	6%		**(1%)**	Flat		**(3%)**	12%	
Gross profit	**599**	632	(5%)	**305**	310	(2%)	**294**	322	(9%)
Gross profit margin	**54.3%**	53.5%	0.8pp	**54.1%**	54.4%	(0.3pp)	**54.5%**	52.6%	1.9pp
CSGP	**Flat**	7%		**1%**	3%		**(1%)**	10%	
Operating expenses	**(526)**	(581)	(9%)	**(262)**	(278)	(6%)	**(264)**	(303)	(13%)
Operating profit	**87**	73	19%	**47**	40	18%	**40**	33	21%
Operating margin	**7.9%**	6.2%	1.7pp	**8.3%**	7.0%	1.3pp	**7.4%**	5.4%	2.0pp
Number of stores at period end	**919**	891	28				**896**	928	(32)
DOS	**357**	374	(17)				**360**	435	(75)
Franchised stores	**562**	517	45				**536**	493	43

Commencing in the second half of 2015, we revamped our store portfolio by exiting non-performing stores. This affected total sales comparison such that total sales were down double-digit in the first half of 2016 despite comparable store sales only declined by 3%. In the second half of the year, total sales became more comparable; coupled with the expansion of our franchise network, the region's total sales modestly decreased by 1% YOY.

Amid the steady cooling of the Chinese economy, we managed to report flat CSGP. Gross profit margin was up by 0.8 percentage points to 54.3%, primarily due to the increase in average selling price of 3%. We refined the product mix by offering higher quality products that yielded higher selling prices and better margins. With the support of a flexible supply chain, we were able to "under-buy" and stock less, reducing the pressure to markdown at season-end.

Operating profit rose by 19% in local currency terms, and operating margin improved by 1.7 percentage points. This is the combination of gross profit margin improvement and better channel mix from our franchise business, which yielded higher returns.

Profit drivers from this region include the expansion of our franchise network in third- and fourth-tier cities and e-business. Sales from e-business rose by 13% with its sales contribution to regional brand sales increasing to 15% (2015: 13%). Our sales in third-party platforms both surged by more than 20% after consolidation of our online platforms. Management will continue to invest resources to support e-business growth. This year we will move and merge our Mainland China distribution center and e-business warehouse under one roof to enhance operating efficiencies and inventory control.

Chart 5: Mainland China quarterly brand sales and YOY change

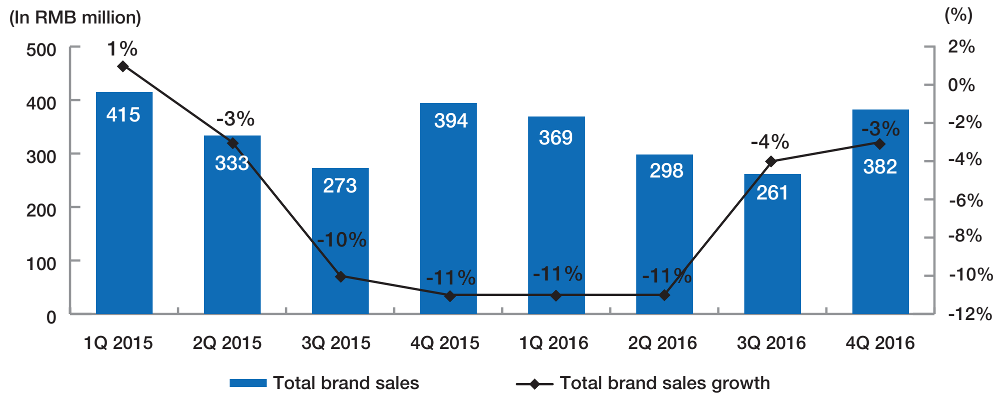
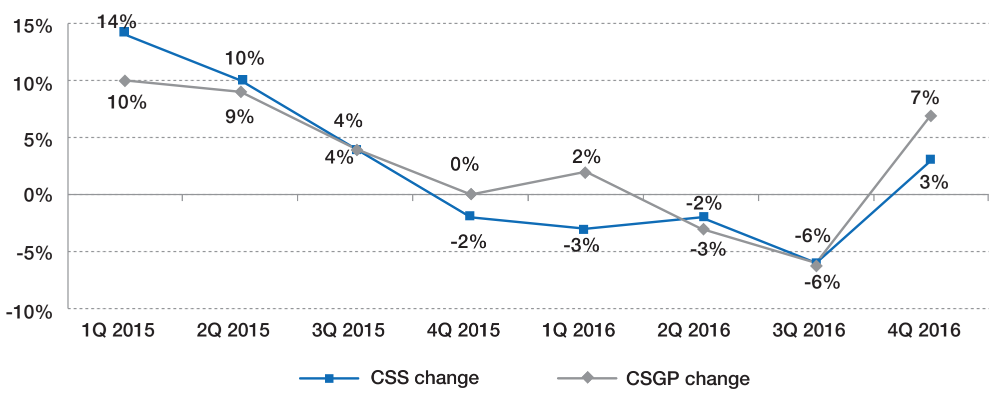


Chart 6: Mainland China quarterly CSS and CSGP change



Hong Kong and Macau

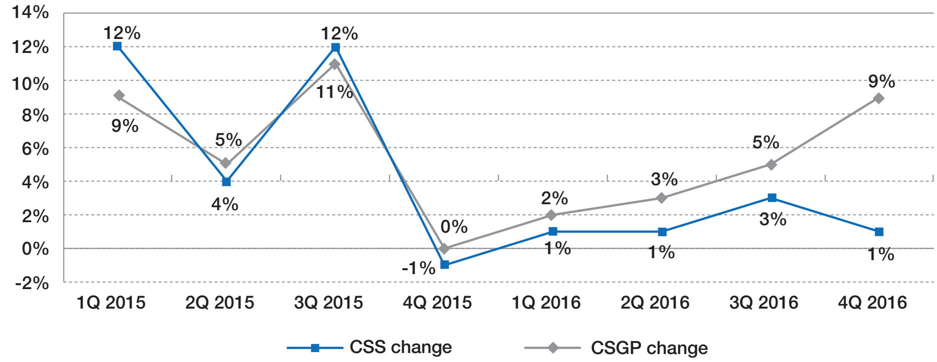
Table 7: Overview of Hong Kong and Macau

	Full Year			Second Half			First Half		
(In HK$ million)	**2016**	2015	Change	**2016**	2015	Change	**2016**	2015	Change
Total sales	**927**	971	(5%)	**470**	492	(4%)	**457**	479	(5%)
CSS	**Flat**	7%		**2%**	4%		**1%**	8%	
Gross profit Gross profit margin	**640** **69.0%**	646 66.5%	(1%) 2.5pp	**327** **69.6%**	325 66.1%	1% 3.5pp	**313** **68.5%**	321 67.0%	(3%) 1.5pp
CSGP	**3%**	6%		**7%**	4%		**2%**	8%	
Operating expenses	**(562)**	(579)	(3%)	**(285)**	(288)	(1%)	**(277)**	(291)	(5%)
Operating profit Operating margin	**87** **9.4%**	70 7.2%	24% 2.2pp	**49** **10.4%**	38 7.7%	29% 2.7pp	**38** **8.3%**	32 6.7%	19% 1.6pp
Number of stores at period end	**73**	71	2				**70**	74	(4)

Sales recorded a decrease of 5% despite CSS being flat, due mainly to closure of stores that took place in 2015. Trading conditions in Hong Kong's retail industry were challenging, but our resilient operations team managed to increase CSGP quarter-to-quarter. Gross profit margin enhanced by 2.5 percentage points to 69.0%, driven by the increase in average selling price by 3%. This was the result of better product mix from higher margin products and successful marketing campaigns, which increased store footfall.

Rental expense to sales ratio receded by one percentage point, mainly due to the exit from high rent locations coupled with successful rental reductions. While the rents for street stores may well be declining, shopping mall rents are continuing to rise. Management continues to evaluate the economics of prime locations and plans to open new stores when occupancy costs return to reasonable levels. Staff costs to sales ratio increased by 2.0 percentage points as we enhanced our salary competitiveness in the market. Supported by strong gross margin growth in the second half of the financial year and strict control of other operating expenses, we widened the operating profit growth and reported a hike of 29% in the second half or 24% for the full year.

Chart 7: Hong Kong and Macau quarterly CSS and CSGP change



Taiwan

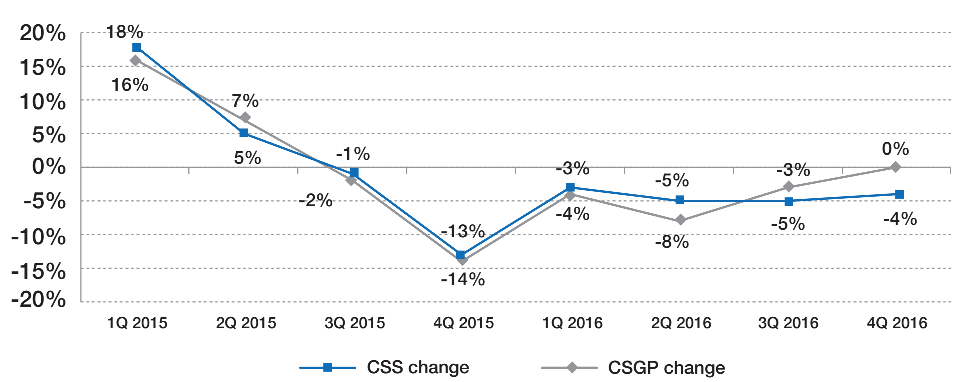
Table 8: Overview of Taiwan

	Full Year			Second Half			First Half		
(In NTD million)	**2016**	2015	Change	**2016**	2015	Change	**2016**	2015	Change
Total sales	**2,571**	2,637	(3%)	**1,200**	1,267	(5%)	**1,371**	1,370	Flat
CSS	**(3%)**	1%		**(4%)**	(8%)		**(4%)**	12%	
Gross profit Gross profit margin	**1,514** **58.9%**	1,543 58.5%	(2%) 0.4pp	**728** **60.7%**	742 58.6%	(2%) 2.1pp	**786** **57.3%**	801 58.5%	(2%) (1.2pp)
CSGP	**(3%)**	Flat		**(1%)**	(9%)		**(5%)**	11%	
Operating expenses	**(1,354)**	(1,355)	Flat	**(658)**	(673)	(2%)	**(696)**	(682)	2%
Operating profit Operating margin	**162** **6.3%**	201 7.6%	(19%) (1.3pp)	**67** **5.6%**	76 6.0%	(12%) (0.4pp)	**95** **6.9%**	125 9.1%	(24%) (2.2pp)
Number of stores at period end	**203**	205	(2)				**211**	201	10

The stagnant economy in Taiwan has dampened consumer confidence and continued to pose a great challenge to our business there. A recent publication by the National Central University notes that the consumer confidence index in December 2016 had fallen to its lowest since October 2013. Full-year CSGP dropped by 3% despite successfully narrowing the CSGP drop to 1% in the second half of the financial year. We responded to the market weakness by reshaping the product mix to offer more price-competitive products. This also helped restrict the decrease in operating profit in the second half of the year.

Full year operating profit shrank by 19% with operating margin down from 7.6% to 6.3%. We opened net ten stores in the first half of the financial year, but they failed to deliver expected sales and adversely affected the operating margin. Management will carefully evaluate Taiwan's expansion plans and non-performing stores, especially in the absence of any imminent signs of growth.

Chart 8: Taiwan quarterly CSS and CSGP change



The rest of Asia Pacific

Table 9: Overview of the rest of Asia Pacific region

(In HK$ million, translated at constant exchange rates)	Full Year			Second Half			First Half		
	2016	2015	Change	**2016**	2015	Change	**2016**	2015	Change
Total sales	**1,400**	1,317	6%	**713**	679	5%	**687**	638	8%
CSS	**5%**	5%		**4%**	3%		**5%**	9%	
Gross profit	**837**	773	8%	**432**	391	10%	**405**	382	6%
Gross profit margin	**59.8%**	58.7%	1.1pp	**60.6%**	57.6%	3.0pp	**59.0%**	59.9%	(0.9pp)
CSGP	**6%**	4%		**7%**	2%		**4%**	7%	
Operating expenses	**(677)**	(622)	9%	**(335)**	(309)	8%	**(342)**	(313)	9%
Operating profit	**166**	151	10%	**97**	83	17%	**69**	68	1%
Operating margin	**11.9%**	11.5%	0.4pp	**13.6%**	12.2%	1.4pp	**10.0%**	10.7%	(0.7pp)
Number of stores at period end	**581**	586	(5)				**582**	559	23

Table 10: Store number of markets in the rest of Asia Pacific region

	At	
	December 31 2016	December 31 2015
Indonesia	**237**	224
Thailand	**159**	153
Malaysia	**90**	90
Singapore	**45**	47
India	**29**	49
Australia	**20**	22
Cambodia	**1**	1
Total number of stores	**581**	586
Total retail floor space (sq. ft.)	**577,700**	558,800

The depreciation of the RMB, especially in the second half of the financial year, benefited the import costs from this region as most production orders were settled in RMB. The gross profit margin enhanced by 1.1 percentage points, predominately from the 3.0 percentage points increase in gross profit margin from the second half of the financial year.

Currencies in this region have been gradually appreciating to the Group reporting currency, HKD. Profitability declined by HK$1 million (2015: HK$18 million) in the year under review due to the translation of operating results in local currencies to HKD. There was still negative impact to reported results when translating the operating results from these markets into HKD, but the impact was smaller compared to last year.

Commentaries on key markets in this region are as follows:

Against a high third quarter base when Singapore celebrated its Golden Jubilee last year that attracted unusually high store footfall, full year CSS eventually dropped by only 1%. As we trimmed down the stock level, we had less stock clearance pressure. Therefore, gross profit margin increased by 1.1 percentage points, attributable to a 3% increase in average selling price.

The Malaysian government introduced Goods and Services Tax in April 2015. This encouraged unusually high consumption prior to the implementation, creating a rather high comparable base. CSGP was up by 2% although CSS was down by 3%, primarily due to the increase in gross profit margin by 3.8 percentage points, driven by the increase in average selling price by 14%. This was largely due to the alleviation of markdown pressure after successfully reducing stock levels, as well as the adjustment of selling prices to compensate for the unfavorable impact of import costs denominated in RMB when the Malaysia Ringgit depreciated quite heavily against RMB in 2015. Owing to the achievement of high gross profit margin growth, operating profit increased by 5% YOY in current exchange rates, or 11% in local currency terms.

With 237 shops as at year-end, Indonesia is our largest market in South East Asia. Its sales accounted for 35% (2015: 34%) of our retail sales value in the rest of Asia Pacific region. In Indonesia, we run both Giordano brand and licensed brand DOS and in the year under review, their performance varied. Giordano brand CSS expanded by 5% whereas licensed brand CSS slipped by 27%. Supported by GDP growth of 5% in the year under review and better merchandise assortment, Giordano brand CSS increased by the same extent. On the other hand, licensed brands' sales decline was primarily due to upward adjustments of licensor-directed retail prices and delayed shipments of merchandise. The licensor has since revised its pricing guideline in the middle of the financial year. We did see a gradual improvement in the CSS, although we have yet to see a noticeable rebound. With the net addition of 13 stores in the past 12 months, reported sales increased by 11%. However, escalated operating expenses, particularly rental expenses and statutory staff benefits, brought down operating margin by 2.3 percentage points, resulting in a 3% decline in operating profit. The local management team has built one of the strongest Giordano brand image among all markets, providing a solid foundation to keep the business on a growth trajectory.

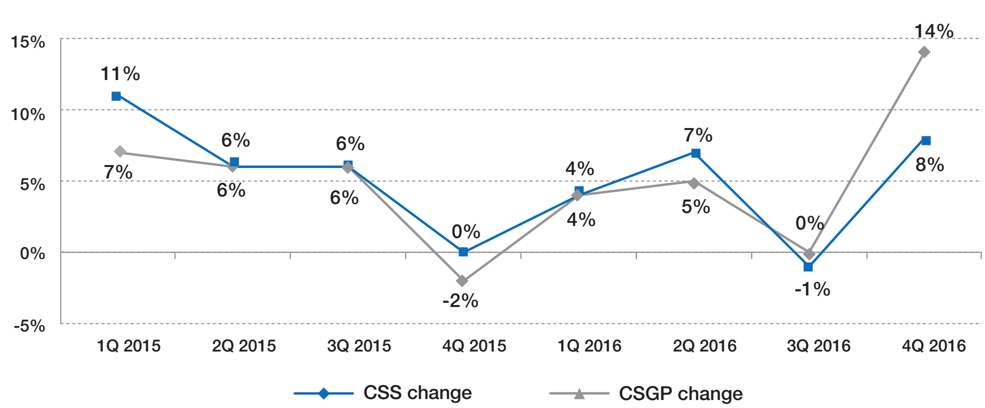
Thailand reported an overwhelmingly strong performance in the year under review, with CSS and CSGP surging by 20% and 21%, respectively. Operating profit translated at constant exchange rate also surged by 64%, leveraged by increased sales and controlled operating expenses.

CSS in Australia saw a double-digit dip in the first half of the financial year. We responded by restructuring the sales force there and managed to narrow down CSS decline to 8% for the full year. Nevertheless, operating loss still widened YOY. Management continues to assess if this market fits in the Group's ongoing strategy.

Table 11: Sales by markets in rest of Asia Pacific region

	Sales at constant exchange rate			CSS		CSGP	
(In HK$ million)	**2016**	2015	Change	**2016**	2015	**2016**	2015
Singapore	**309**	317	(3%)	**(1%)**	10%	**(1%)**	9%
Indonesia	**486**	444	9%	**5%**	1%	**4%**	(2%)
Malaysia	**183**	184	(1%)	**(3%)**	(7%)	**2%**	(8%)
Thailand	**327**	262	25%	**20%**	15%	**21%**	15%
Australia	**78**	84	(7%)	**(8%)**	8%	**(9%)**	6%
India	**10**	21	(52%)	**(39%)**	(15%)	**(39%)**	(18%)
Cambodia	**7**	5	40%	**42%**	N/A	**41%**	N/A
Total	**1,400**	1,317	6%	**5%**	5%	**6%**	4%

Chart 9: The rest of Asia Pacific quarterly CSS and CSGP change



The Middle East

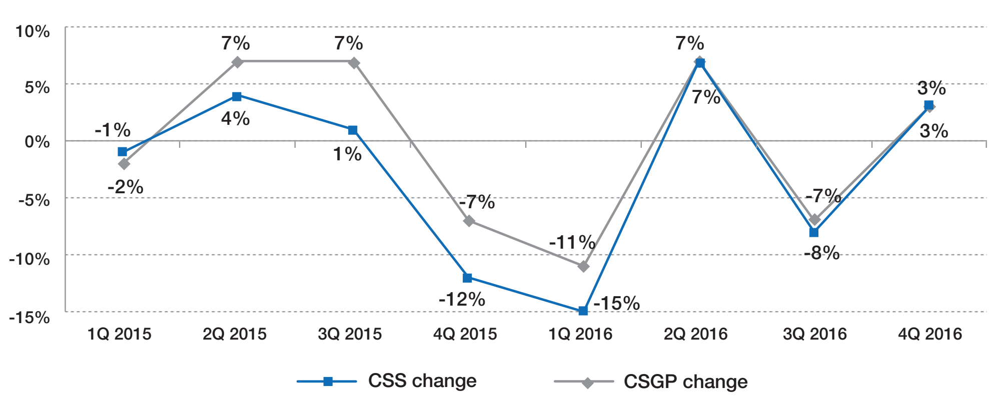
Table 12: Overview of the Middle East

(In HK$ million, translated at constant exchange rates)	**Full Year**			**Second Half**			**First Half**		
	2016	2015	Change	**2016**	2015	Change	**2016**	2015	Change
Total sales	**625**	639	(2%)	**310**	319	(3%)	**315**	320	(2%)
CSS	**(3%)**	(3%)		**(3%)**	(5%)		**(4%)**	1%	
Gross profit Gross profit margin	**413** **66.1%**	414 64.8%	Flat 1.3pp	**200** **64.5%**	209 65.5%	(4%) (1.0pp)	**213** **67.6%**	205 64.1%	4% 3.5pp
CSGP	**(1%)**	1%		**(3%)**	Flat		**(1%)**	2%	
Operating expenses	**(306)**	(302)	1%	**(152)**	(157)	(3%)	**(154)**	(145)	6%
Operating profit Operating margin	**108** **17.3%**	112 17.5%	(4%) (0.2pp)	**48** **15.5%**	52 16.3%	(8%) (0.8pp)	**60** **19.0%**	60 18.8%	Flat 0.2pp
Number of stores at period end	**191**	202	(11)				**196**	202	(6)

In the Middle East, unsettled regional economies have not been conducive to consumer spending. Efforts to stimulate the economies through infrastructure and tourism projects continue to be stymied by the effects of plunging oil prices, which fell to below US$50 per barrel for the first time since 2009, and government austerity measures. Regional CSS plummeted 15% in the first quarter. We reacted by revamping the merchandise assortment and promotion strategies that together helped narrow down regional CSS decline to 3% for the full year. Sales in our wholesale markets through franchisees decreased by 14%, primarily due to net closure of stores. This was the result of weakened consumer demand from depreciated local currencies against a strong United States dollar. In April last year, the Group completed the acquisition of Kuwait and Qatar operations, and has consolidated sales from these operations since the completion date. Without consolidation, sales would have decreased by 4%.

At constant exchange rates, despite sales were down by 2%, gross profit was flat YOY. Gross profit margin was up by 1.3 percentage points, primarily due to improved product mix from high-margin products. The increasing rental expense slightly deleveraged the operating results, which recorded a decrease of 4% YOY. Management will continue to enhance operating efficiency to combat the adversity there and will seek to expand our footprint when the economy turns the corner.

Chart 10: The Middle East quarterly CSS and CSGP change



South Korea (a joint venture)

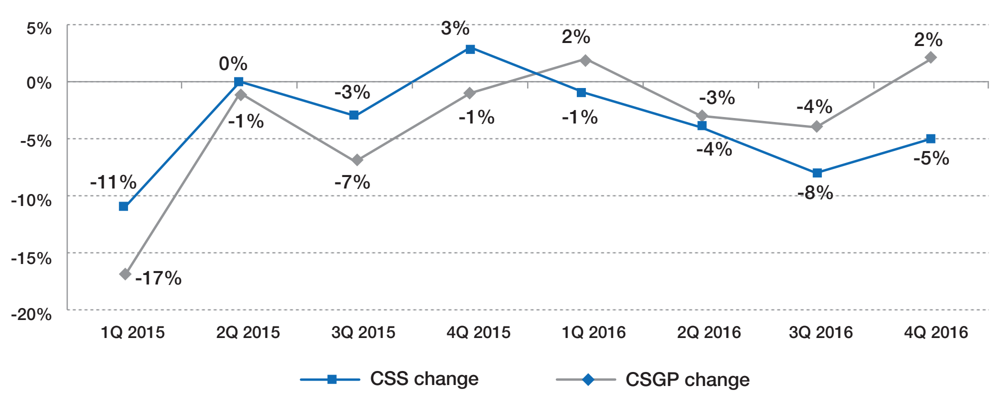
Table 13: Overview of South Korea

(In KRW million)	Full Year 2016	Full Year 2015	Change	Second Half 2016	Second Half 2015	Change	First Half 2016	First Half 2015	Change
Total sales	**215,037**	218,007	(1%)	**113,518**	115,543	(2%)	**101,519**	102,464	(1%)
CSS	**(4%)**	(3%)		**(6%)**	1%		**(2%)**	(6%)	
Gross profit	**119,822**	118,555	1%	**63,452**	62,065	2%	**56,370**	56,490	Flat
Gross profit margin	**55.7%**	54.4%	1.3pp	**55.9%**	53.7%	2.2pp	**55.5%**	55.1%	0.4pp
CSGP	**(1%)**	(7%)		**(2%)**	(3%)		**Flat**	(9%)	
Net Profit	**12,641**	11,749	8%	**7,197**	6,705	7%	**5,444**	5,044	8%
Share of profit (% of equity holding: 48.5%)	**6,131**	5,698	8%	**3,491**	3,252	7%	**2,640**	2,446	8%
Number of stores at period end	**200**	198	2				**195**	200	(5)

South Korea, a 48.5% joint venture under an independent management team, registered a 4% decrease in CSS and 1% decline in CSGP. Gross profit margin was up by 1.3 percentage points. This was after an extended period of unusually low gross profit margin particularly in the second half of 2015 when the Middle East Respiratory Syndrome broke out. South Korea underwent inventory rationalization during the year under review and had HK$62 million less inventory on December 31, 2016 compared with December 31, 2015. Its inventory turnover days also fell from 105 days to 80 days for the year ended December 31, 2016.

The depreciation of the Korean Won ("KRW") against HKD continued to lower our share of profit there. Our share of profit rose by 8% in local currency terms, but only increased by 3% at current exchange rates. Going forward, management expects that South Korea will further enhance product margins from leveraging the Group's sourcing power.

Chart 11: South Korea quarterly CSS and CSGP change



Group wholesales to overseas franchisees and non-consolidated entities

Table 14: Store number of overseas franchisees and non-consolidated subsidiaries

By market	At December 31 2016	At December 31 2015
South Korea	**200**	198
Myanmar	**111**	112
Philippines	**76**	68
Vietnam	**28**	25
Japan	**10**	9
Other markets	**5**	4
Total number of stores	**430**	416
Total retail floor space (sq. ft.)	**485,200**	455,700

Wholesale sales fell by 16% to HK$304 million (2015: HK$364 million), primarily due to reduced purchases from South Korea which underwent inventory rationalization. Elsewhere, the Philippines, Myanmar and Vietnam have collectively registered 20% sales growth and the Group's wholesale sales to these markets increased by 10%. Management will continue to support the growth of our overseas franchise network.

FINANCIAL CONDITION

Free cash flow from operations

Free cash flow from operations is essential to create shareholder value and this has been a constant key performance indicator internally. During the year under review, free cash flow from operations was HK$505 million (2015: HK$644 million). The high level of free cash flow from operations in year 2015 was to some degree exceptional due to timing difference in settlement with suppliers. The cash conversion rate, which measures our ability to convert reported profit into cash and calculated by dividing free cash flow before taxes paid of HK$619 million to EBIT, was 100% (2015: 120%).

Net cash and bank balances at HK$1,095 million, increased slightly from last year year-end (2015: HK$1,076 million). During the year under review, we added HK$298 million short-term bank loans denominated in HKD to leverage interest rates differential among banks in the region for yield enhancement.

Management considers the current cash and bank balances and free cash flow from operations sufficient to support our business operations and fund our growth and initiatives.

Table 15: Free cash flow from operations

(In HK$ million)	**2016**	2015
EBIT	**622**	609
Depreciation and amortization	**126**	134
Capital expenditure less disposals	**(100)**	(83)
Share of pre-tax profit of joint ventures/associates (net of dividends)	**(21)**	(18)
Changes in working capital	**–**	112
Decrease in rental deposits and repayments less amortization	**1**	19
Others	**(9)**	(40)
Tax paid	**(114)**	(89)
Free cash flow from operations	**505**	644

Table 16: Analysis of change in cash and bank balances

(In HK$ million)	**2016**	2015
Cash and bank balances at beginning of the year	**1,076**	915
Free cash flow from operations	**505**	644
Addition of bank loans	**298**	–
Dividends paid to shareholders and non-controlling interests	**(477)**	(470)
Acquisition of Kuwait and Qatar operations	**–**	16
Proceeds from issuance of new shares	**2**	3
Exchange difference	**(11)**	(32)
Cash and bank balances at end of the year	**1,393**	1,076

Financial position

Property, plant, and equipment

During the year, we increased capital expenditure by HK$6 million to HK$104 million (2015: HK$98 million) on the addition of stores and store upgrades. Management will continue to invest in our shop ambiance as when we strengthen our brand image.

Goodwill and put option liabilities

The goodwill and put option liabilities arose from the acquisition of the Middle East operations in year 2012. We performed annual impairment test and considered there was no impairment to the goodwill.

Interests in joint ventures

The balance in HK$480 million represents our interest in the 48.5% joint venture in South Korea. The decrease in balance by HK$23 million during the year under review was due to share of profit for the year of HK$43 million, offset by dividends received of HK$33 million and currency translation difference of HK$33 million.

Leasehold land and rental prepayments

At December 31, 2016, leasehold land and rental prepayments decreased by HK$9 million to HK$243 million (2015: HK$252 million), mainly attributable to additional rental prepayments of HK$59 million, offset by amortization of HK$67 million.

Inventory

Inventory control is a key indicator of merchandising efficiency and remains a core competence of the Group. Group inventories at December 31, 2016 dropped by HK$44 million or 9% to HK$447 million (December 31, 2015: HK$491 million). During the year, ITOC days closed at 78 days, same as last year.

The Group responsibly monitors inventories at our suppliers and Mainland China franchisees as well as our own consolidated inventories (collectively, the "system inventory"). Although inventories at suppliers and Mainland China franchisees are not our legal liabilities, this discipline ensures that we do not build up off-balance sheet inventories. The system inventory was down by 12% compared to December 31, 2015, in spite of bulk production and stockholding by suppliers of core items.

Table 17: System inventory

	At	
(In HK$ million)	**December 31 2016**	December 31 2015
Inventories held by the Group	**447**	491
Inventories held by franchisees in Mainland China	**88**	75
Finished goods at suppliers (not yet shipped)	**20**	67
Total system inventory	**555**	633

Trade receivables and payables

The Group monitors the recoverability of trade receivables to mitigate bad debt risk. Trade receivables turnover days for the year ended December 31, 2016 was 54 days, increased by 3 days compared to last year. Trade receivables past due more than 90 days represents 7% of trade receivables, same as 2015 year-end. Trade payables turnover days in the year under review was 37 days (2015: 38 days), which was comparable to the normal credit period of 30-45 days.

Final dividend

The Board has resolved to recommend the payment of a final dividend of 15.0 HK cents per share (2015: 14.5 HK cents per share) for the year ended December 31, 2016 to shareholders, subject to the approval of the shareholders of the Company at the forthcoming annual general meeting of the Comapny. This totals HK$236 million and reflects the continuing strong free cash flow, working capital management, and net cash position. Group policy is to return surplus cash to shareholders. Management is confident that there are sufficient funds in the business for medium term investments.

OUTLOOK

In the near future, we foresee both challenges and opportunities in the markets we operate in. The macroeconomic and geopolitical conditions, particularly in the United States and Europe, will cause some degree of uncertainty globally, affecting market sentiment and dampening consumer appetite. That said, our unrelenting pursuit of operational excellence and discipline, coupled with initiatives taken to stimulate the economies within which we operate will allow management to persevere.

The likely ongoing, but gradual depreciation of the Renminbi will continue to benefit the Group insofar as average product cost is concerned. Likewise, however, translated sales from Mainland China will be negatively impacted and this may also frustrate any increase in sales attributable to resurging local currencies in South East Asia. Management will continue to monitor ongoing changes in the dynamics between the currencies and take appropriate action when we anticipate threats or opportunities.

Management's outlook on Mainland China continues to be cautiously optimistic. We will complete the merger of our two existing warehouses in southern China into one facility, which will improve operating efficiencies and allow us to further reinforce our inventory control. The expansion and improvement of our Mainland franchise network will also continue into 2017. In terms of our China e-commerce business, management will strive to advance its partnership status with third-party platforms.

Our Hong Kong operations and management teams will strive to maintain the momentum in rental savings, focused renovation of its retail outlets, the expansion of its retail network as well as carefully selected marketing campaigns. That said, this will be in the context of tougher market and operating conditions in the coming year, and while the rents for street stores may well be declining, shopping mall rents are continuing to rise and this may hinder the growth potential of our business in Hong Kong.

In Taiwan, the reduction in number of tourists has had a major impact on the economy. Impending regulatory changes relating to overtime payments will also pose a challenge, although both our local management team and Group management have prepared measures well in advance to respond.

Collectively, the rest of Asia Pacific will continue improving its merchandising and marketing. We do not see imminent threats in this region.

The performance of our Middle East business improved in the latter half of last year and our local management team will strive to maintain this momentum into 2017. That said, uncertainties and challenges remain in the region. While oil price is slowly recovering, sustainability remains an issue. As interest in imminent world-class events such as the 2020 Expo in Dubai and the football world cup in 2022 begins to gathers pace, more visitors may be attracted to the Emirates, but this remains to be seen. Management will continue to enforce strict discipline in both costs and merchandising control.

Our South Korea joint venture appears to have continued its recovery. The management team, having decisively rationalized inventory throughout 2016, should be able to continue its performance momentum through improved merchandising and cost control.

Regional economic environments are not conducive to overall sales increases in the medium term therefore management will continue focus on improving CSS and CSGP growth. Finally, management is confident that it will continue to sustain good cash balances by managing the Group's working capital and cash flow from operations.

OTHER INFORMATION

HUMAN RESOURCES

On December 31, 2016, the Group had approximately 8,000 employees (December 31, 2015: 8,100). The Group offers competitive remuneration packages and generous, goal-oriented bonuses targeted to different levels of staff. We offer senior managers performance-based bonus schemes and share options to reward and retain a high caliber leadership team. We also invest heavily in training in sales and customer service, management, planning and leadership development to retain a skilled and motivated workforce.

DIVIDENDS

It is the Company's intention to return surplus cash to its shareholders through the payment of dividends. In line with its dividend policy, the Company has been paying a substantial portion of its earnings as an ordinary dividend, the amount of which may vary depending on cash on hand, future investment requirements and working capital considerations.

After due consideration of the economic outlook, the Group's financial position, its future expansion plans and other factors, the Board has resolved to recommend to shareholders the payment of a final dividend of 15.0 HK cents per share (2015: 14.5 HK cents per share) for the year ended December 31, 2016. Together with the interim dividend of 12.5 HK cents per share (2015: 12.5 HK cents per share) paid on September 23, 2016, total 2016 dividend would amount to 27.5 HK cents per share (2015: 27.0 HK cents per share), representing a payout of 99% of 2016 per share earnings (2015: 99%). Subject to the approval of shareholders at the forthcoming annual general meeting of the Company, the final dividend will be payable on Friday, June 23, 2017 to shareholders whose names appear on the register of members of the Company on Wednesday, June 7, 2017.

ANNUAL GENERAL MEETING

The annual general meeting of the Company is scheduled to be held on Friday, May 26, 2017 ("2017 AGM"). A notice convening the 2017 AGM, which constitutes part of the circular to shareholders, will be sent to the shareholders together with the 2016 annual report of the Company. The notice of the 2017 AGM and the proxy form will also be available on the websites of the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

CLOSURE OF REGISTER OF MEMBERS

Annual General Meeting

For determining the entitlement to attend and vote at the 2017 AGM, the register of members of the Company will be closed from Tuesday, May 23, 2017 to Friday, May 26, 2017 (both days inclusive), during which period no share transfers will be registered. In order to be eligible to attend and vote at the above annual general meeting, all completed transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrars, Tricor Abacus Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Monday, May 22, 2017.

Final Dividend

For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from Monday, June 5, 2017 to Wednesday, June 7, 2017 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, all completed transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrars, Tricor Abacus Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Friday, June 2, 2017.

CORPORATE GOVERNANCE CODE

During the year ended December 31, 2016, the Company has complied with all applicable code provisions under the Corporate Governance Code as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange, except for the following deviations:

Code provision A.2.1

Code provision A.2.1 provides that the roles of the chairman and the chief executive should be separate and should not be performed by the same individual.

Currently, Dr. LAU Kwok Kuen, Peter holds the positions of Chairman and Chief Executive. In view of Dr. LAU's extensive experience in the industry and deep understanding of the Group's businesses, the Board believes that vesting the roles of both Chairman and Chief Executive in Dr. LAU provides the Group with strong and consistent leadership, allows for more effective planning and execution of long term business strategies and enhances efficiency in decision-making. The Board also believes that the Company already has a strong corporate governance structure appropriate for its circumstances in place to ensure effective oversight of Management.

Code provision A.4.2

Code provision A.4.2 provides that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

According to the Bye-Laws of the Company, one-third of the directors, with the exception of Chairman or Managing Director, shall retire from office by rotation at each annual general meeting. In the opinion of the Board, stability and continuation are key factors to the successful implementation of business plans. The Board believes that it is beneficial to the Group that there is continuity in the role of the Chairman and, therefore, the Board is of the view that the Chairman should be exempt from this arrangement at the present time.

Code provision A.4.3

Code provision A.4.3 provides if an independent non-executive director serves more than nine years, his further appointment should be subject to a separate resolution to be approved by the shareholders.

Mr. KWONG Ki Chi has served as an Independent Non-executive Director of the Company for more than nine years since April 26, 2004. In accordance with the Bye-Laws of the Company, Mr. KWONG retired from office by rotation at the 2015 annual general meeting (the "2015 AGM") and offered himself for re-election at the 2015 AGM. An ordinary resolution was passed at the 2015 AGM to approve the appointment of Mr. KWONG Ki Chi as an Independent Non-executive Director of the Company. Mr. KWONG will retire from office by rotation at the 2017 AGM and offer himself for re-election.

The Board is of the opinion that Mr. KWONG Ki Chi remains independent notwithstanding the length of his service and believes that his extensive knowledge and experience will continue to generate valuable contribution to the Company and the shareholders as a whole.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted its own Code of Conduct for Securities Transactions by Directors (the "Code of Conduct for Securities Transactions"). This is on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules, and has been updated from time to time. Having made specific enquiries to all Directors, all Directors confirmed that they had complied with the required standards set out in the Model Code and the Code of Conduct for Securities Transactions throughout the year ended December 31, 2016.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended December 31, 2016.

REVIEW OF FINANCIAL STATEMENTS AND PRELIMINARY RESULTS ANNOUNCEMENT

The Group's audited consolidated financial statements for the year ended December 31, 2016 including the accounting principles and practices adopted have been reviewed by the Audit Committee in conjunction with the Company's external auditor.

The figures in respect of the preliminary announcement of the Group's results for the year ended December 31, 2016 have been agreed by the Group's auditor, PricewaterhouseCoopers ("PwC"), to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PwC did not constitute an assurance engagement and consequently no assurance has been expressed by PwC on the preliminary announcement.

By Order of the Board
LAU Kwok Kuen, Peter
Chairman and Chief Executive

Hong Kong, March 9, 2017

As at the date of this announcement, the Board comprises three executive directors; namely, Dr. LAU Kwok Kuen, Peter (Chairman and Chief Executive), Mr. Ishwar Bhagwandas CHUGANI and Dr. CHAN Ka Wai; two non-executive directors; namely, Dr. CHENG Chi Kong, Adrian and Mr. CHAN Sai Cheong; and four independent non-executive directors; namely, Dr. Barry John BUTTIFANT, Mr. KWONG Ki Chi, Professor WONG Yuk (alias, Huang Xu) and Mr. Simon Devilliers RUDOLPH.

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[1] *Group sales refer to consolidated sales and include retail sales from directly operated stores and wholesale sales to all franchisees.*

[2] *Group CSS/CSGP are total Giordano brand sales/gross profit of consolidated subsidiaries, at constant currency rates, from existing directly-operated stores and franchised stores that have been fully operating in the same prior period.*

[3] *Global brand sales/gross profit are at 2016 exchange rates, and are greater than Group sales/gross profit to include the total of Giordano retail sales/gross profit, in directly-operated stores, franchised stores and stores operated by joint ventures.*

[4] *ITOC refers to inventories held at period end divided by cost of sales and multiplied by number of days in the period.*