GIORDANO

GIORDANO INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 709)

ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED DECEMBER 31, 2018

Highlights

- *Group sales in 2018 were HK$5,509 million (2017: HK$5,412 million), an increase of 1.8%. Group comparable store sales and Group comparable store gross profit were down by 0.1% and 1.4%, respectively.*

- *Group gross profit grew by 0.9% to HK$3,250 million (2017: HK$3,221 million), driven mainly by increase in average selling price of 7.6%, offset by the increase in costs and decrease in volume. Group gross margin was slightly down by 0.5 percentage point to 59.0%.*

- *Profit after income taxes attributable to shareholders of the Company was HK$480 million, a decrease of 4.0% from 2017.*

- *Inventory turnover on costs increased by 2 days to 89 days, in anticipation of an early Chinese New Year.*

- *At year-end, the cash and bank balances, net of bank loans, was HK$1,017 million (2017: HK$1,167 million) representing a decrease of 12.9%, mainly due to larger payment of dividends to the Company's shareholders during 2018.*

- *Basic and diluted earnings per share were 30.5 HK cents (2017: 31.8 HK cents) and 30.4 HK cents (2017: 31.7 HK cents), respectively.*

- *The board of directors of the Company has recommended a final dividend of 16.5 HK cents per share (2017: 20.0 HK cents per share), making 33.5 HK cents per share for the year (2017: 35.0 HK cents per share).*

TABLE OF CONTENTS

List of tables:

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, 2018 along with comparative figures and explanatory notes.

Consolidated Income Statement

(In HK$ million, except earnings per share)	*Note*	**2018**	2017
Sales	*2*	**5,509**	5,412
Cost of sales	*4*	**(2,259)**	(2,191)
Gross profit		**3,250**	3,221
Other income and other gains, net	*3*	**86**	112
Distribution expense	*4*	**(2,440)**	(2,390)
Administrative expense	*4*	**(271)**	(254)
Operating profit	*4*	**625**	689
Finance expense		**(5)**	(4)
Share of profit of joint ventures		**64**	59
Profit before income taxes		**684**	744
Income taxes	*5*	**(142)**	(175)
Profit after income taxes for the year		**542**	569
Attributable to:			
Shareholders of the Company		**480**	500
Non-controlling interests		**62**	69
		542	569
Earnings per share attributable to shareholders of the Company	*6*		
Basic *(HK cents)*		**30.5**	31.8
Diluted *(HK cents)*		**30.4**	31.7

Consolidated Statement of Comprehensive Income

(In HK$ million)	**2018**	2017
Profit after income taxes for the year	**542**	569
Other comprehensive income:		
Items that may be reclassified to profit or loss		
Fair value change on financial asset at fair value through other comprehensive income	**(10)**	—
Fair value change on available-for-sale financial asset	—	(6)
Disposal of available-for-sale financial asset	—	(9)
Exchange adjustments on translation of overseas subsidiaries, joint ventures and branches	**(65)**	126
Total comprehensive income for the year	**467**	680
Attributable to:		
Shareholders of the Company	**414**	611
Non-controlling interests	**53**	69
	467	680

Consolidated Balance Sheet

(In HK$ million)	*Note*	As at December 31 **2018**	 2017
ASSETS			
Non-current assets			
Property, plant and equipment		**207**	234
Investment properties		**25**	28
Goodwill		**546**	546
Interest in joint ventures		**552**	563
Available-for-sale financial asset		**—**	16
Financial asset at fair value through other comprehensive income		**6**	—
Financial asset at fair value through profit or loss		**28**	28
Leasehold land and rental prepayments		**134**	147
Rental deposits		**122**	135
Deferred tax assets		**47**	51
		1,667	1,748
Current assets			
Inventories		**552**	524
Leasehold land and rental prepayments		**62**	58
Trade and other receivables	*8*	**528**	527
Cash and bank balances		**1,315**	1,465
		2,457	2,574
Total assets		**4,124**	4,322
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital		**79**	79
Reserves		**2,450**	2,528
Proposed dividends	*7*	**260**	314
Equity attributable to shareholders of the Company		**2,789**	2,921
Non-controlling interests		**220**	220
Total equity		**3,009**	3,141
Non-current liabilities			
Put option liabilities		**—**	6
Deferred tax liabilities		**123**	127
		123	133
Current liabilities			
Trade and other payables	*9*	**476**	484
Put option liabilities		**121**	121
Bank loans		**298**	298
Income tax payables		**97**	145
		992	1,048
Total liabilities		**1,115**	1,181
Total equity and liabilities		**4,124**	4,322
Net current assets		**1,465**	1,526
Total assets less current liabilities		**3,132**	3,274

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"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities (the "Listing Rules") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and by the Hong Kong Companies Ordinance. The consolidated financial statements have been prepared under the historical cost convention, except for certain financial assets and liabilities (including derivative instruments) measured at fair value.

(a) Impact of new and amended standards

The Group has applied the following new and amendments to HKFRS issued by the HKICPA which were effective for the Group's financial year beginning on or after January 1, 2018:

— HKFRS 9 Financial Instruments;

— HKFRS 15 Revenue from Contracts with Customers;

— Hong Kong (IFRIC)-Interpretation 22 Foreign Currency Transactions and Advance Consideration;

— Amendments to HKFRS 2 Classification and Measurement of Share-based Payment Transactions;

— Amendments to Hong Kong Accounting Standards ("HKAS") 28 As part of the Annual Improvements to HKFRSs 2014–2016 Cycle; and

— Amendments to HKAS 40 Transfers of Investment property.

The Company had to change its accounting policies and make certain retrospective adjustments following the adoption of HKFRS 9 and HKFRS 15. Changes in principal accounting policies are set out in note (c) below. The adoption of other above new effective interpretation and the amendments to existing standards did not result in substantial changes to the Group's accounting policies or financial results.

(b) New and revised HKFRSs in issue but not yet effective

The Group has not early applied the new and amendments to HKFRSs and interpretations that have been issued but not yet effective. These are not expected to have a material impact on the consolidated financial statements of the Group, except to note the following:

1. **Basis of preparation (continued)**

(b) New and revised HKFRSs in issue but not yet effective (continued)

HKFRS 16 Leases

Nature of change

HKFRS 16 was issued in January 2016. It will result lessees accounting for most leases within the scope of the standard in a manner similar to finance leases as the distinction between operating and finance leases is removed.

Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. The only exceptions are short-term and low-value leases.

Impact

The Group has set up a project team which has reviewed all of the Group's leasing arrangements over the last year in light of the new lease accounting rules in HKFRS 16.

The Group expects to adopt the standard using the modified retrospective approach where the cumulative effects of initially applying HKFRS 16 is recognized as an adjustment to the opening balance of retained profits and comparative figures are not restated.

The Group will recognize a right-of-use ("ROU") asset and a financial liability on the consolidated balance sheet. The asset will be depreciated over the terms of the leases, and the financial liability will be measured at amortized costs.

Lease expenses in the consolidated income statement are replaced by depreciation and interest expenses. Adoption of the new standard will have effects to the financial performance of the Group by increasing EBITDA and EBIT, while, when comparing to the HKAS 17, higher expenses will be incurred in the early years of lease terms, diminishing over the lease terms and will result lower expenses in the later part of the lease terms.

As at December 31, 2018, the Group has non-cancellable operating lease commitment of HK$1.2 billion of which approximately HK$0.2 billion relate to short term leases which does not fall within the scope of HKFRS 16. Based on a preliminary assessment, it is estimated that the implementation of the standard increases ROU asset by approximately HK$1.0 billion with a similar increase in financial liabilities.

The Group will continue to assess the full impact of the adoption of HKFRS 16 and further update of the impact will be provided in the interim report for six months ending June 30, 2019.

1. **Basis of preparation (continued)**

(c) **Changes in principal accounting policies**

The Group has adopted the following new accounting standards from January 1, 2018:

HKFRS 9 Financial Instruments

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of HKFRS 9 Financial Instruments from January 1, 2018 resulted in changes in accounting policies. In accordance with the transitional provision in HKFRS 9, comparative figures have not been restated with the exception of certain aspects of hedge accounting.

(i) Classification and measurement

On January 1, 2018 (the date of initial adoption of HKFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate HKFRS 9 categories. The main effects resulting from this reclassification are as follows:

(In HK$ million)	**As at December 31, 2017 As Originally presented**	**Impact on initial adoption of HKFRS 9**	**As at January 1, 2018 Restated**
Consolidated Balance Sheet (extract)			
Non-current assets			
Financial asset at fair value through other comprehensive income	—	16	16
Available-for-sale financial asset	16	(16)	—

The impact of these changes on the Group's equity is as follow:

(In HK$ million)	**Available-for-sale financial asset reserve**	**Effect on financial asset at fair value through other comprehensive income reserve**
Opening balance as at December 31, 2017	7	—
Reclassify available-for-sale financial asset reserve to financial asset at fair value through other comprehensive income reserve	(7)	7
Opening balance as at January 1, 2018	—	7

1. **Basis of preparation (continued)**

(c) **Changes in principal accounting policies (continued)**

HKFRS 9 Financial Instruments (continued)

(i) Classification and measurement (continued)

(a) Equity investments previously classified as available-for-sale

The Group elected to present in other comprehensive income changes in the fair value of its equity investment previously classified as available-for-sale, because the investment is held as long-term strategic investment that is not expected to be sold in the short to medium term. As a result, asset with a fair value of HK$16 million was reclassified from available-for-sale financial asset to financial assets at fair value through other comprehensive income ("FVOCI") and fair value gain of HK$7 million was reclassified from the available-for-sale financial asset reserve to financial assets at FVOCI reserve on January 1, 2018.

(ii) Impairment of financial assets

The Group was required to revise its impairment methodology under HKFRS 9 for trade and other receivables.

While cash and cash equivalents are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.

Trade and other receivables

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade and other receivables. However, there is no significant impact on the Group's accounting with respect to impairment of trade and other receivables. Accordingly, opening balance of retained profits as January 1, 2018 are not adjusted in respect to the adoption of simplified approach to measuring expected credit losses.

HKFRS 15 Revenue from Contracts with Customers

The Group has adopted HKFRS 15 Revenue from Contracts with Customers from January 1, 2018 which resulted in changes in accounting policies. The Group adopted HKFRS 15 using the modified retrospective approach which means that the cumulative impact of the adoption (if any) will be recognized in retained profits as of January 1, 2018 and that comparatives will not be restated. However, there is no significant impact on the Group's accounting with respect to the timing of revenue recognition and allocation of the transaction price to performance obligations identified. Accordingly, opening balance of retained profits at January 1, 2018 are not adjusted in respect to the adoption of HKFRS 15.

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 Wholesales 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.

As for brands, the Group presently operates *Giordano* and *Giordano Junior, Giordano Ladies, BSX* as well as other owned and licensed brands.

Segment operating profit is before finance expense, share of profit of joint ventures and income taxes. This is the measurement basis reported to management and the senior decision-makers for the purpose of resources allocation and assessment of segment performance.

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

	2018		2017	
(In HK$ million)	**Sales**	**Operating profit**	Sales	Operating profit
Retail and Distribution				
The rest of Asia Pacific	**1,623**	**233**	1,502	204
Mainland China	**1,293**	**89**	1,307	118
Hong Kong and Macau	**959**	**108**	969	95
Taiwan	**671**	**66**	642	64
The Middle East	**636**	**86**	673	121
	5,182	**582**	5,093	602
Wholesales to Overseas Franchisees	**327**	**49**	319	57
Segment results	**5,509**	**631**	5,412	659
Corporate functions		**(6)**		30
Finance expense		**(5)**		(4)
Share of profit of joint ventures		**64**		59
Profit before income taxes		**684**		744

2. Operating segments (continued)

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

	2018		2017	
(In HK$ million)	**Sales**	**Operating profit**	Sales	Operating profit
Retail and Distribution				
Giordano and *Giordano Junior*	**4,362**	**483**	4,331	522
Giordano Ladies	**452**	**72**	423	67
BSX	**137**	**6**	142	9
Others	**231**	**21**	197	4
	5,182	**582**	5,093	602

The Company has its domicile in Hong Kong. Sales to external customers recorded in Hong Kong and Macau are HK$1,286 million (2017: HK$1,288 million), Mainland China HK$1,293 million (2017: HK$1,307 million) and external customers from other markets HK$2,930 million (2017: HK$2,817 million).

Inter-segment sales of HK$1,208 million (2017: HK$1,157 million) has been eliminated upon consolidation.

Depreciation and amortization charged related to Mainland China was HK$22 million (2017: HK$22 million), Hong Kong and Macau HK$18 million (2017: HK$17 million), Taiwan HK$17 million (2017: HK$17 million), the rest of Asia Pacific HK$40 million (2017: HK$39 million) and the Middle East HK$16 million (2017: HK$15 million).

Income taxes charged related to Mainland China was HK$18 million (2017: HK$26 million), Hong Kong and Macau HK$11 million (2017: HK$14 million), Taiwan HK$12 million (2017: HK$10 million), the rest of Asia Pacific HK$67 million (2017: HK$56 million) and the Middle East HK$6 million (2017: HK$10 million).

2. Operating segments (continued)

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

(In HK$ million)	**Segment assets** **2018**	2017
Segment assets		
Hong Kong and Macau	**973**	981
The Middle East	**832**	858
The rest of Asia Pacific	**750**	779
Mainland China	**740**	853
Taiwan	**196**	193
	3,491	3,664
Interest in joint ventures	**552**	563
Available-for-sale financial asset	**—**	16
Financial assets at fair value through other comprehensive income	**6**	—
Financial assets at fair value through profit or loss	**28**	28
Deferred tax assets	**47**	51
Total assets	**4,124**	4,322

The total of non-current assets other than financial instruments and deferred tax assets located in Hong Kong and Macau was HK$167 million (2017: HK$186 million); Mainland China, HK$66 million (2017: HK$82 million); and other markets, HK$1,353 million (2017: HK$1,385 million).

3. Other income and other gains, net

(In HK$ million)	**2018**	2017
Royalty income	**31**	36
Interest income	**20**	16
Rental income	**13**	15
Dividend income	**3**	3
Net exchange gain	**1**	10
Gain on disposal of available-for-sale financial asset	**—**	9
Gain on bargain purchase of a subsidiary	**—**	4
Net loss on disposal of property, plant and equipment	**(2)**	(2)
Others	**20**	21
	86	112

4. Operating profit

Operating profit is after charging:

(In HK$ million)	**2018**	2017
Cost of sales		
Cost of inventories sold	**2,250**	2,169
Provision for obsolete stock and stock written off	**9**	22
	2,259	2,191
Distribution expense		
Operating lease rentals in respect of land and building		
— Minimum lease payments	**808**	822
— Contingent rent	**237**	231
Staff cost	**811**	783
Building management fee, government rates and utilities	**132**	127
Advertising, promotion and incentives	**129**	122
Depreciation of property, plant and equipment	**100**	96
Packaging and deliveries	**56**	54
Bank and credit card charges	**35**	34
Amortization of leasehold land prepayments	**6**	6
Others	**126**	115
	2,440	2,390
Administrative expense		
Staff cost	**157**	158
Legal and professional fee	**40**	23
Operating lease rentals in respect of land and building		
— Minimum lease payments	**17**	16
Auditor's remuneration	**7**	7
Computer and telecommunication	**7**	7
Depreciation of property, plant and equipment and investment properties	**7**	6
Travelling	**5**	5
Business and other taxes	**1**	2
Amortization of leasehold land prepayments	**—**	2
Others	**30**	28
	271	254

5. Income taxes

Hong Kong profits tax is calculated at the rate of 16.5% (2017: 16.5%) on the estimated assessable profits for the year. Income taxes on profits assessable outside Hong Kong are calculated at the rates applicable in the respective jurisdictions.

(In HK$ million)	**2018**	2017
Current income taxes		
Hong Kong	**20**	27
Outside Hong Kong	**87**	97
(Over)/under provision in prior years	**(3)**	16
Withholding taxes	**33**	27
	137	167
Deferred income taxes		
Origination and reversal of temporary differences	**5**	8
	142	175

This charge excludes the share of joint ventures' income taxes for the year of HK$19 million (2017: HK$16 million). The share of profit of joint ventures in the consolidated income statement is after income taxes accrued in the appropriate income tax jurisdictions.

The Hong Kong Inland Revenue Department initiated a review on the prior year's tax affairs of a subsidiary of the Group. An additional tax assessment was subsequently issued and a one-off tax provision of HK$15 million was made for the year ended December 31, 2017.

6. Earnings per share

The calculations of basic and diluted earnings per share are based on the profit after income taxes attributable to shareholders of the Company for the year of HK$480 million (2017: HK$500 million).

The basic earnings per share is based on the weighted average of 1,575,281,071 shares (2017: 1,570,885,493 shares) in issue during the year.

The diluted earnings per share is calculated by adjusting the weighted average of 1,575,281,071 shares (2017: 1,570,885,493 shares) in issue during the year by the weighted average of 2,922,810 shares (2017: 4,749,102 shares) deemed to be issued if all outstanding share options granted under the share option schemes of the Company had been exercised.

7. Dividends

(In HK$ million)	**2018**	2017
Interim dividend declared and paid of 17.0 HK cents per share (2017: 15.0 HK cents per share)	**268**	235
Final dividend proposed after the balance sheet date of 16.5 HK cents per share (2017: 20.0 HK cents per share)	**260**	314
	528	549

On March 7, 2019, the Board has recommended a final dividend of 16.5 HK cents per share and is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. 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 of the Company in issue as at the reporting date.

8. Trade and other receivables

(In HK$ million)	**2018**	2017
Trade receivables	**330**	301
Less: Loss allowance	**(14)**	(7)
Trade receivables, net	**316**	294
Ageing analysis from the invoice date (net of loss allowance) is as follows:		
0–30 days	**203**	211
31–60 days	**66**	44
61–90 days	**28**	20
Over 90 days	**19**	19
	316	294
Other receivables, including deposits and prepayments	**212**	233
	528	527

Trade receivables comprise mainly amounts due from franchisees, licensees and retail proceeds due from department stores. The Group normally allows a credit period of 30–90 days. The carrying amounts of trade receivables are stated approximately at their fair values.

9. Trade and other payables

(In HK$ million)	**2018**	2017
Trade payables	**124**	90
Ageing analysis is as follows:		
0–30 days	**93**	66
31–60 days	**17**	6
61–90 days	**4**	5
Over 90 days	**10**	13
	124	90
Other payables and accrued expense	**352**	394
	476	484

The carrying amounts of trade payables are stated approximately at their fair values.

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

The following commentaries refer to year-on-year ("YOY") comparison of the Group, for the years ended December 31, 2018 and 2017 unless otherwise indicated.

OVERVIEW

- The Group is an international apparel retailer with a portfolio of brands, including *Giordano* and *Giordano Junior, Giordano Ladies, BSX*, as well as other owned and licensed brands.

- We offer high-quality, value-for-money and easy-to-wear apparel through a network of 2,426 stores (or 2,330,078 sq. ft. of retail floor space) as at December 31, 2018, of which 1,309 were standalone stores. Majority of the stores were in Greater China, South Korea, Southeast Asia and the Middle East. We manage our stores by geographic regions and by distribution channels. Net increase of stores during the year was 12, as shown in Table 1.

- Group sales[1] for the year were HK$5,509 million at a gross margin of 59.0%. The Group's comparable store sales ("Group CSS")[2] and comparable store gross profit ("Group CSGP")[2] were down by 0.1% and 1.4%, respectively. Table 2 provides details by major markets.

- Profit after income taxes attributable to shareholders of the Company ("PATS") was HK$480 million, a decrease of 4.0% from 2017.

- Cash and bank balances, net of bank loan, were HK$1,017 million at December 31, 2018.

Table 1: Store portfolio

	Store numbers at December 31		Retail floor space (sq. ft. in thousands) at December 31	
	2018	2017	**2018**	2017
Retail and Distribution				
Mainland China				
Franchised stores	**639**	605	**493**	471
DOS	**298**	324	**250**	268
The rest of Asia Pacific	**606**	602	**634**	619
Taiwan	**200**	200	**198**	195
The Middle East				
Franchised stores	**39**	41	**38**	44
DOS	**143**	148	**176**	182
Hong Kong and Macau	**76**	75	**87**	86
Overseas franchisees	**425**	419	**454**	447
Total	**2,426**	2,414	**2,330**	2,312

RESULTS OF OPERATIONS

Table 2: Group results of operations

(In HK$ million)	**2018**	**% to sales**	2017	% to sales	**Change**
The rest of Asia Pacific	**1,623**	**29.5%**	1,502	27.8%	**8.1%**
Mainland China	**1,293**	**23.5%**	1,307	24.1%	**(1.1%)**
Hong Kong and Macau	**959**	**17.4%**	969	17.9%	**(1.0%)**
Taiwan	**671**	**12.2%**	642	11.9%	**4.5%**
The Middle East	**636**	**11.5%**	673	12.4%	**(5.5%)**
Wholesale sales to overseas franchisees	**327**	**5.9%**	319	5.9%	**2.5%**
Group sales	**5,509**	**100.0%**	5,412	100.0%	**1.8%**
Gross profit	**3,250**	**59.0%**	3,221	59.5%	**0.9%**
Operating expense	**(2,711)**	**(49.2%)**	(2,644)	(48.9%)	**2.5%**
Operating profit	**625**	**11.3%**	689	12.7%	**(9.3%)**
EBITDA	**821**	**14.9%**	874	16.1%	**(6.1%)**
PATS	**480**	**8.7%**	500	9.2%	**(4.0%)**
Global brand sales[3]	**6,961**		7,067		**(1.5%)**
Global brand gross profit[3]	**4,272**		4,363		**(2.1%)**
Group CSS growth	**(0.1%)**		5.2%		
Group CSGP growth	**(1.4%)**		5.0%		
Net cash and bank balances at year end	**1,017**		1,167		**(12.9%)**
Inventories at year end	**552**		524		**5.3%**
Inventory turnover on costs ("ITOC") (days)[4]	**89**		87		**2**

Sales and gross profit

Group sales increased slightly by 1.8%, or by 0.9% if translated at constant exchange rates. The first half registered a stronger growth of 9.2% while the second half recorded a decline of 5.2%. The Sino-US trade dispute has created greater uncertainty and overshadowed global economic prospects, gradually affecting the retail environment and consumer sentiment. The decline in group sales in the second half of the year was mainly attributable to the decline in sales in Greater China. Group CSS and Group CSGP were down by 0.1% and 1.4%, respectively.

The Group's e-business is directly-managed and derived mainly from both third-party platforms and our own website in Greater China. This channel generated HK$314 million in revenue at a 1.3% growth rate (see Table 3). Our e-business in Taiwan was revamped during the year and is now our second largest e-business operation. In 2018, the Group launched e-business in a number of its markets and anticipates meaningful contributions within the next two years.

Sales from physical stores recorded a stable growth of 1.7%. Wholesale sales to both onshore and offshore franchisees grew by 2.6%. We will continue to expand both e-business and wholesale sales to franchisees as the operating margin is generally higher.

Core Giordano lines constituted 85.6% of global brand sales. Under an integrated marketing approach, comparable store sales ("CSS") of childrenswear rose by 6.9% while comparable store gross profit ("CSGP") rose by 4.8%. Despite recording smaller growth rates for CSS and CSGP of 1.1% and 1.5%, respectively, our premium womenswear brand, *Giordano Ladies*, continued to grow. During 2018, we had 84 *Giordano Ladies* stores which recorded total sales of 452 million, compared with 423 million in 2017, representing an increase of 6.9%.

Table 3: Sales by channels

(In HK$ million)	**2018**	**Contribution**	2017	Contribution	**Change**
Physical stores	**4,440**	**80.6%**	4,366	80.7%	**1.7%**
E-business	**314**	**5.7%**	310	5.7%	**1.3%**
Retail sales	**4,754**	**86.3%**	4,676	86.4%	**1.7%**
Wholesale sales to franchisees	**755**	**13.7%**	736	13.6%	**2.6%**
Group sales	**5,509**	**100.0%**	5,412	100.0%	**1.8%**

The Group is steadfast in defending gross margin through disciplined merchandising and stringent pricing. Faced with a fierce competitive retail landscape in the second half of 2018, the Group offered extended season-end promotions, resulting in a minor decrease in gross margin of 0.5 percentage points to 59.0%. Group gross profit grew by 0.9% to HK$3,250 million (2017: HK$3,221 million), driven mainly by an increase in average selling price of 7.6%, offset by an increase in average product cost of 8.5% and volume decrease of 6.3%. Average product cost was higher due largely to the appreciation of the Renminbi as the majority of our products were sourced from Mainland China. However, the impact began to diminish with the depreciation of the Renminbi since June which stabilized towards the end of the year. Overseas sourcing from Vietnam and Bangladesh have helped maintain and will gradually improve future gross margin. The Group's gross margin was temporarily trimmed while its financial position remained robust to support its growth strategy in the long term. An analysis of change in Group gross profit is provided in Table 4.

Table 4: Gross profit variance analysis by region

(In HK$ million)	**2017**	**Product costs**	**Selling price**	**Volume**	**Vietnam acquisition**	**Translational exchange impact**	**Miscellaneous**	**2018**
The rest of Asia Pacific	900	(41)	76	(6)	32	7	—	**968**
Mainland China	708	(55)	86	(70)	—	15	2	**686**
Hong Kong and Macau	664	(20)	49	(40)	—	—	2	**655**
The Middle East	431	16	(9)	(54)	—	3	6	**393**
Taiwan	394	(21)	57	(25)	—	7	—	**412**
Market mix	—	(3)	16	(13)	—	—	—	**—**
Retail and distribution	**3,097**	**(124)**	**275**	**(208)**	**32**	**32**	**10**	**3,114**
Wholesale sales to overseas franchisees/ subsidiaries	124							**136**
Group	**3,221**							**3,250**

Other income and other gains, net

Other income and other gains, which comprise royalty income, interest income, rental income, exchange difference and gain from disposal of assets, decreased by HK$26 million to HK$86 million in 2018, due mainly to a one-off gain on disposal of financial assets and acquisition gain of a subsidiary. There are no gains or losses realized on the sale of financial assets in current year and decrease in exchange gain.

Operating expense

Operating expense ratio was stable at 49.2% (2017: 48.9%). Shop occupancy charges to sales were slightly lower due to the closure of non-performing DOS and the opening of stores in more reasonably-priced locations, particularly in Greater China. Shop occupancy charges to sales were 21.0% (2017: 21.4%). Although staff cost increased, reflecting a general inflationary trend in the industry, total staff cost to sales only increased from 17.4% to 17.6%.

Operating profit

Operating profit was HK$625 million, a decrease of 9.3%, but would have only been down by 7.5% if excluding the one-off gain on disposal of financial assets and acquisition gain of a subsidiary.

Table 5: Sales and operating profit contribution by region

	Contribution by region	
For the year ended December 31, 2018	**Sales**	**Operating profit**
The rest of Asia Pacific	**29.5%**	**37.4%**
Mainland China	**23.5%**	**14.2%**
Hong Kong and Macau	**17.4%**	**17.3%**
Taiwan	**12.2%**	**10.6%**
The Middle East	**11.5%**	**13.7%**
Wholesale sales to overseas franchisees	**5.9%**	**7.8%**
Wholesale sales to overseas subsidiaries	—	**11.1%**
Headquarter expense, net of other income and gains	—	**(12.1%)**
	100.0%	**100.0%**

Income taxes

Income taxes amounted to HK$142 million (2017: HK$175 million), representing an effective tax rate of 20.8% (2017: 23.5%). The effective tax rate was lowered as there was a one-off tax provision made in 2017 and increased utilization of tax losses in 2018.

Profit after income taxes attributable to shareholders of the Company

PATS decreased by 4.0% to HK$480 million (2017: HK$500 million), as shown in Table 6. Net margin was 8.7%, a slight decrease of 0.5 percentage points, for reasons cited in the preceding commentaries.

Table 6: Analysis of change in PATS

(In HK$ million)	
Reported 2017 PATS	**500**
The rest of Asia Pacific	**30**
Hong Kong and Macau	**13**
South Korea	**4**
Taiwan	**1**
Wholesale sales to overseas franchisees/subsidiaries	**(4)**
Mainland China	**(32)**
The Middle East	**(36)**
Income taxes, non-controlling interests, finance expense and headquarter expense	**(3)**
2018 PATS without currency translation difference	**473**
Currency translation difference	**7**
Reported 2018 PATS	**480**

ANALYSIS BY MARKET

The following market-specific comments are in local currencies or, if in HK$, are at constant exchange rates to remove distortions from the translation of financial statements. These figures have not removed the impact on imported product costs contracted at non-local currencies.

Mainland China

Table 7: Mainland China

(In Renminbi million)	**2018**	**% to sales**	2017	% to sales	**Change**
DOS	**522**	**47.8%**	556	49.3%	**(6.1%)**
Wholesale sales to franchisees	**333**	**30.5%**	323	28.6%	**3.1%**
E-business	**237**	**21.7%**	250	22.1%	**(5.2%)**
Total sales	**1,092**	**100.0%**	1,129	100.0%	**(3.3%)**
Gross profit	**580**	**53.1%**	612	54.2%	**(5.2%)**
Operating expense	**(518)**	**(47.4%)**	(522)	(46.2%)	**(0.8%)**
Operating profit	**75**	**6.9%**	102	9.0%	**(26.5%)**
DOS	**522**		556		**(6.1%)**
Franchised stores	**555**		546		**1.6%**
E-business	**237**		250		**(5.2%)**
Total brand sales	**1,314**		1,352		**(2.8%)**
CSS growth	**(0.9%)**		8.9%		
CSGP growth	**(2.5%)**		8.9%		
DOS	**298**		324		**(26)**
Franchised stores	**639**		605		**34**
Stores at year end	**937**		929		**8**

Mainland China business was affected by the Sino-US trade dispute and volatility in the stock market, which increased uncertainties on China's economic growth and negatively impacted the domestic retail performance. In this connection, the Group recorded CSS decrease of 0.9%. The two strategic channels of e-business and franchising will continue to be our key drivers in the medium term.

Hong Kong and Macau

Table 8: Hong Kong and Macau

(In HK$ million)	**2018**	**% to sales**	2017	% to sales	**Change**
Total sales	**959**	**100.0%**	969	100.0%	**(1.0%)**
Gross profit	**655**	**68.3%**	664	68.5%	**(1.4%)**
Operating expense	**(551)**	**(57.5%)**	(567)	(58.5%)	**(2.8%)**
Operating profit	**108**	**11.3%**	95	9.8%	**13.7%**
CSS growth	**3.1%**		5.7%		
CSGP growth	**1.9%**		4.7%		
Stores at year end	**76**		75		**1**

In Hong Kong and Macau, well-executed marketing programs, smart promotional activities and stringent cost control all helped achieve double-digit growth amidst complex macroeconomic conditions. This market experienced a difficult retail landscape caused by an economic slowdown since the third quarter of the year. Severe typhoons and an abnormally warm winter also adversely affected its sales.

Taiwan

Table 9: Taiwan

(In New Taiwanese Dollar million)	**2018**	**% to sales**	2017	% to sales	**Change**
Total sales	**2,586**	**100.0%**	2,516	100.0%	**2.8%**
Gross profit	**1,588**	**61.4%**	1,543	61.3%	**2.9%**
Operating expense	**(1,342)**	**(51.9%)**	(1,316)	(52.3%)	**2.0%**
Operating profit	**254**	**9.8%**	249	9.9%	**2.0%**
CSS growth	**1.2%**		1.1%		
CSGP growth	**1.7%**		5.2%		
Stores at year end	**200**		200		**—**

Taiwan rebounded to report an operating profit increase of 34.9% in the first half of 2018. Its operating profit only increased by 2.0% for the full year, similarly due to the uncertainty created by the Sino-US trade dispute. E-business of the Group in Taiwan continued its growth momentum throughout the year.

The rest of Asia Pacific

Table 10: The rest of Asia Pacific

(In HK$ million, translated at constant exchange rates)	**2018**	**% to sales**	2017	% to sales	**Change**
Total sales	**1,618**	**100.0%**	1,502	100.0%	**7.7%**
Gross profit	**961**	**59.4%**	900	59.9%	**6.8%**
Operating expense	**(737)**	**(45.6%)**	(709)	(47.2%)	**3.9%**
Operating profit	**234**	**14.5%**	204	13.6%	**14.7%**
CSS growth	**0.3%**		2.2%		
CSGP growth	**(0.2%)**		3.1%		
Stores at year end	**606**		602		**4**

In the rest of Asia Pacific, sales improvement was particularly notable in Indonesia, Thailand and Vietnam. The acquired Vietnam operations contributed to 5.6% of the regional sales. Operating profit from the region recorded positive growth from Indonesia, Thailand and Vietnam, attributable largely to improved sales and cost control.

Table 11: The rest of Asia Pacific region (by market)

(In HK$ million, translated at constant exchange rates)	**Sales**			**CSS growth**		**CSGP growth**		**Store number at December 31**	
	2018	2017	**Change**	**2018**	2017	**2018**	2017	**2018**	2017
Indonesia	**618**	555	**11.4%**	**3.6%**	8.1%	**0.8%**	10.3%	**249**	252
Thailand	**340**	325	**4.6%**	**1.1%**	(6.4%)	**2.7%**	(7.5%)	**169**	162
Singapore	**305**	311	**(1.9%)**	**(2.2%)**	0.2%	**(4.3%)**	2.3%	**43**	44
Malaysia	**188**	186	**1.1%**	**(5.2%)**	8.8%	**(1.7%)**	7.7%	**93**	92
Vietnam*	**90**	40	**125.0%**	**N/A**	N/A	**N/A**	N/A	**39**	29
Australia	**66**	76	**(13.2%)**	**11.4%**	7.2%	**9.4%**	10.8%	**11**	16
Cambodia	**11**	9	**22.2%**	**(8.2%)**	29.8%	**(8.4%)**	34.9%	**2**	1
India	**—**	—	**N/A**	**N/A**	N/A	**N/A**	N/A	**—**	6
Total	**1,618**	1,502	**7.7%**	**0.3%**	2.2%	**(0.2%)**	3.1%	**606**	602

* Vietnam operations were acquired on July 1, 2017 and its results were consolidated by the Group since the acquisition date.

Indonesia stood out with an overall CSS and CSGP growth of 7.0% and 3.6%, respectively, for both Giordano and non-Giordano brands, with operating profit increasing by 16.0%. Thailand continued to achieve stable growth, with operating profit advancing by 11.1%, attributable mainly to sales growth and improvement of gross margin by 1.2 percentage points from 62.6% to 63.8%. In Singapore, operating profit decreased by 6.0% where business has been adversely affected by an overall stagnant economy and lower tourist traffic.

The Middle East

Table 12: The Middle East

(In HK$ million, translated at constant exchange rates)	**2018**	**% to sales**	2017	% to sales	**Change**
Total sales	**631**	**100.0%**	673	100.0%	**(6.2%)**
Gross profit	**390**	**61.8%**	431	64.0%	**(9.5%)**
Operating expense	**(305)**	**(48.3%)**	(313)	(46.5%)	**(2.6%)**
Operating profit	**85**	**13.5%**	121	18.0%	**(29.8%)**
CSS growth	**(5.0%)**		6.2%		
CSGP growth	**(11.0%)**		2.9%		
Stores at year end	**182**		189		**(7)**

In the Middle East where consumers were adapting to the newly introduced Value-Added Tax and changes in economic policies, CSS dropped by 7.3% in the first quarter of 2018. In the early weeks of 2019, we saw growth in CSS of 4.0%. Management believes that consumers have now adjusted to these changes and the retail industry has stabilized.

South Korea (a 48.5% joint venture under an independent management team)

Table 13: South Korea

(In Korean Won million)	**2018**	**% to sales**	2017	% to sales	**Change**
Total sales	**205,582**	**100.0%**	214,696	100.0%	**(4.2%)**
Gross profit	**122,073**	**59.4%**	125,096	58.3%	**(2.4%)**
Net profit	**18,532**	**9.0%**	17,371	8.1%	**6.7%**
Share of profit	**8,988**		8,425		**6.7%**
CSS growth	**(1.6%)**		(5.4%)		
CSGP growth	**0.5%**		(1.9%)		
Stores at year end	**186**		193		**(7)**

South Korea reported a net profit increase of 6.7%, attributable to better cost control, closure of non-performing stores and enhanced gross margin. Inventory rationalization and lower product costs due to the sharing of the Group's sourcing capacity.

Wholesale sales to overseas franchisees

Table 14: Store numbers of overseas franchisees

By market	At December 31 **2018**	2017
South Korea	**186**	193
Southeast Asia	**224**	212
Other markets	**15**	14
Total stores	**425**	419

Wholesale sales to overseas franchisees rose by 2.5% to HK$327 million (2017: HK$319 million). Wholesale sales would have improved by 6.9% if the wholesales to Vietnam, now consolidated, were excluded. Wholesale sales to South Korea increased by 10.5% on its increased sourcing through the Group. Management is continuing to explore franchise and wholesale prospects outside of our core markets, such as Africa and the Central Asia. Though initially small, these markets will eventually bear fruit.

FINANCIAL POSITION

Liquidity and financial resources

As usual, the Group's financial position is sound. At December 31, 2018, the cash and bank balances, net of bank loans, were HK$1,017 million (2017: HK$1,167 million), a decrease of 12.9%. The decrease was mainly attributable to larger payment of dividends to the Company's shareholders during 2018. The major sources and uses of the cash and bank balances, net of bank loans, are (i) HK$539 million cash inflow from operating activities; (ii) HK$84 million investment in capital expenditure; and (iii) HK$632 million dividend payment to shareholders and non-controlling interests.

The short-term bank borrowings, denominated in HK$, amounted to HK$298 million (2017: HK$298 million) and, was a financial instrument designed to leverage interest rate differentials among banks in the region for yield enhancement. The Group's gearing ratio, defined as the ratio of total borrowings less cash and bank balances to equity attributable to owners of the Company was −0.4(2017: −0.4). As at December 31, 2018, the Group's current ratio was 2.5 based on current assets of HK$2,457 million and current liabilities of HK$992 million (2017: 2.5).

Property, plant and equipment

During the year, our capital expenditure was HK$84 million (2017: HK$104 million) mainly due to store upgrades. Management will continue to invest in our shop ambiance to strengthen our brand image, especially in Hong Kong and Macau.

Goodwill and put option liabilities

The goodwill and put option liabilities stems from the acquisition of the Middle East operations in the years of 2012 and 2015. We carry out annual impairment tests and concluded that there was no impairment to goodwill in the 2018 financial year.

Interests in joint ventures

The balance mainly represents our 48.5% interest in the South Korea joint venture. The change by HK$11 million during the year has come from our share of profit of HK$64 million, offset by dividends received and currency translation difference.

Inventories

Group inventories at December 31, 2018 increased by HK$28 million or 5.3% to HK$552 million (2017: HK$524 million). ITOC increased by 2 days to 89 days. The increase in ITOC is attributed to the higher stock level primarily due to the early receipt of Chinese New Year ("CNY") orders.

Inventories at suppliers and franchisees are not our legal liabilities. In spite of this, the Group responsibly tracks their levels to ensure that we do not build up excessive off-balance sheet inventories. Increase in inventories in South Korea was to meet the recent sales. Inventories held by franchisees in Mainland China increased due to net growth of franchised stores by 34. Our system inventories had increased by 3.4% YOY. Management considers these levels to be appropriate given an early CNY. That said, given the uncertain outlook, management will closely monitor the inventory levels to avoid an inventory glut, which would invariably affect future gross margin.

Table 15: System inventories

	At December 31	
(In HK$ million)	**2018**	2017
Inventories held by the Group	**552**	524
Inventories held by 48.5% South Korea joint venture	**200**	175
Inventories held by franchisees in Mainland China	**94**	91
Finished goods at suppliers (not yet shipped)	**27**	54
Total system inventories	**873**	844

Trade receivables and payables

The Group monitors the recoverability of trade receivables to mitigate bad debt risks. Trade receivable turnover days for the year ended December 31, 2018 was 59 days, increased by 4 days compared to last year. The increase reflects early shipments of CNY goods to its wholesale sales customers and franchisees where relevant and does not pose a concern to the Group's bad debt risks. Trade payable turnover days decreased by 4 days to 20 days during the year. This is in line with the credit period granted by our suppliers, but also demonstrates the Group's good faith in assisting our suppliers' cash flow situation.

Pledge of assets

No assets were pledged as at December 31, 2018 and 2017.

Contingent liabilities

There were no contingent liabilities as at December 31, 2018 and 2017.

Foreign exchange risk

The Group faces foreign exchange risk mainly arising from purchases from a Renminbi-based supply chain and sales proceeds in local currencies of the relevant Group entities. Foreign exchange risk arising from recognized assets and liabilities is considered to be insignificant. This is due to the fact that balance denominated in currencies other than the functional currency of the relevant Group entity are generally settled promptly leaving minimal outstanding foreign currency position as at the balance sheet date. Management monitors foreign exchange risks of the Group regularly. The Group does not employ financial instruments for hedging purpose. Forward foreign exchange contracts may be used when major fluctuation in the relevant foreign currency is anticipated.

Dividends

The Company has adopted a dividend policy on November 8, 2018 (the "Dividend Policy"). The aim of the Dividend Policy is to return surplus cash to its shareholders through the payment of dividends and share repurchase. In line with the 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.

Having carefully considered the economic outlook, the Group's financial position, its future expansion plans and other factors, the Board has thus recommended a final dividend of 16.5 HK cents per share (2017: 20.0 HK cents per share) for the year ended December 31, 2018. Together with the interim dividend of 17.0 HK cents per share (2017: 15.0 HK cents per share) paid on September 21, 2018, total 2018 dividend would amount to 33.5 HK cents per share (2017: 35.0 HK cents per share), representing a payout of 110% of 2018 earnings per share (2017: 110%). Subject to the approval of shareholders at the forthcoming annual general meeting of the Company, the final dividend will be payable on Friday, June 21, 2019 to shareholders whose names appear on the register of members of the Company on Thursday, June 6, 2019.

OUTLOOK

The transitory concerns stemming from the evident volatility in global markets and economies will carry over from 2018 and the global retail industry will remain problematic in 2019. The lack of clarity stemming from the ongoing Sino-US trade dispute and rising interest rates will likely cast a shadow on consumer spending, while extreme weather patterns and constantly evolving consumer behavior will all pose challenges to our business in the longer term. It requires flexibility and agility to deal with these uncertainties. For example, markets affected by the recent abnormally warm winter launched spring merchandise during CNY as customers were reluctant to pay for winter jackets. We were able to quickly shift to spring merchandise thanks to our dependable supply chain. The sales results were satisfactory, but we must remain vigilant and even more agile in 2019.

In the face of opportunities and challenges in 2019, the Group expects consumer sentiment to remain cautious. We will closely monitor to the latest international and domestic economic and financial developments, evaluate the situation, seize opportunities while implementing the improvement in quality and efficiency and exploring the potential of its existing businesses, strategic marketing as well as explore new business opportunities to facilitate growth.

That said, with a strong value proposition and a clear brand image that resonates with our customers, as well as our unrelenting pursuit of operational excellence, we are confident that we can navigate the challenges ahead. To this end, management will intensify various marketing investments to upgrade our brand image.

Geographically, the Group will continue to reinforce its existing markets while actively developing new ones. The main thrust will continue to be from Mainland China and Southeast Asia, although we must strengthen our operations to stay competitive amidst increased competition and rising costs and expenses. Having secured new franchisees in South Africa and France, we now have a dedicated team exploring new markets and we expect to see breakthroughs in Central Asia and the African continent.

Development of local e-shops in our existing markets will also be accelerated to offer our customers a more comprehensive shopping experience, allowing us to serve a wider local customer base.

Our new lines are also gaining traction. Beau Monde, which was rolled-out in 2014 and has been marketed primarily through our e-platforms, continued to make substantial ground in 2018. The G-motion line, which has now become a staple in most of our shops around the world, will undergo further enhancement in 2019 to create an even more comprehensive offering. This line, with upgraded fabrics and design, will sell at premium prices.

Our Middle East business has stabilized and is showing signs of recovery. Our Southeast Asian markets, in particular Indonesia and Thailand, have performed favorably and will continue its momentum in 2019.

Talent management will continue to play an important role in our business strategy since it manages one of the most important assets of the Company — our people. We will continue to effectively manage our employees to help them develop their skills and capabilities in order to retain them. Our Fast-Track Management Scheme was restructured in 2014 and the graduates from that intake are now deployed in important executive positions across multiple disciplines within the Group's business. We will both extend and expand the programme in Hong Kong and Mainland China, with additional programmes tailored to develop existing talent within the Group.

OTHER INFORMATION

Human Resources

At December 31, 2018, the Group had approximately 8,200 employees (December 31, 2017: 8,300). The Group offers competitive remuneration packages and generous, goal-oriented bonuses 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.

Annual General Meeting

The annual general meeting of the Company is scheduled to be held on Friday, May 24, 2019 (the "2019 AGM"). A notice convening the 2019 AGM, which constitutes part of the circular to shareholders, will be sent to the shareholders together with the 2018 annual report of the Company. The notice of the 2019 AGM and the proxy form will also be available on the websites of the Company and Hong Kong Exchange and Clearing Limited.

Closure of Register of Members

Annual General Meeting

For determining the entitlement to attend and vote at the 2019 AGM, the register of members of the Company will be closed from Monday, May 20, 2019 to Friday, May 24, 2019 (both days inclusive), during which period no share transfers will be registered. In order to be eligible to attend and vote at the 2019 AGM, all completed transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Abacus Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Friday, May 17, 2019.

Final Dividend

For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from Tuesday, June 4, 2019 to Thursday, June 6, 2019 (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 registrar, Tricor Abacus Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Monday, June 3, 2019.

Corporate Governance Code

During the year ended December 31, 2018, the Company has complied with all applicable code provisions under the Corporate Governance Code as set out in Appendix 14 to the Listing Rules, 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 leadership, allowing 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.

Securities Transactions by Directors

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, 2018.

Purchase, Sale or Redemption of the Company's Listed Securities

During the year ended December 31, 2018, a total of 240,000 ordinary shares were repurchased by the Company on the Stock Exchange. All the repurchased shares were subsequently cancelled by the Company. The Directors believe that the repurchases were made to reflect the Company's confidence in its long-term business prospects and would ultimately benefit the Company and create value for the shareholders of the Company. Details of the repurchases of shares of the Company are as follows:

Month of repurchase	Number of shares repurchased	Highest price per share *HK$*	Lowest price per share *HK$*	Aggregate purchase price (before expenses) *HK$*
August	240,000	4.41	4.36	1,051,400

Save as disclosed above, there was no purchase, sale or redemption by the Company or any of its subsidiaries, of any listed securities of the Company during the year ended December 31, 2018.

Review of Financial Information

The Group's audited consolidated financial statements for the year ended December 31, 2018 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 Group's consolidated statement of comprehensive income, the consolidated balance sheet and the related notes thereto for the year ended December 31, 2018 as set out in the preliminary announcement have been agreed by the Company's external auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

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

Hong Kong, March 7, 2019

As at the date of this announcement, the Board comprises three Executive Directors; namely, Dr. LAU Kwok Kuen, Peter (Chairman and Chief Executive), Dr. CHAN Ka Wai and Mr. Mark Alan LOYND; two Non-executive Directors; namely, Dr. CHENG Chi Kong and Mr. CHAN Sai Cheong; and three Independent Non-executive Directors; namely, Dr. Barry John BUTTIFANT, Mr. KWONG Ki Chi and Professor WONG Yuk (alias, HUANG Xu).

[1] *Group sales refer to consolidated sales and include retail sales from directly operated stores and sales to all overseas/non-consolidated franchisees.*

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

[3] *Global brand sales/gross profit are at 2018 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 a joint venture.*

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