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GIORDANO

GIORDANO INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 709)

ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED DECEMBER 31, 2017

Highlights

- *Consolidated sales in 2017 were HK$5,412 million (2016: HK$5,145 million), an increase of 5.2%. Group comparable store sales and comparable store gross profit were up by 5.2% and 5.0%, respectively.*

- *Consolidated gross profit grew by 5.4% to HK$3,221 million (2016: HK$3,055 million), driven mainly by volume increase of 7.9%. Consolidated gross margin was slightly up by 0.1 percentage point to 59.5%.*

- *Profit after income taxes attributable to shareholders of the Company was HK$500 million, an increase of 15.2% over 2016.*

- *Inventory turnover on costs increased by 9 days to 87 days.*

- *At year-end, the cash and bank balances, net of bank loans, reached HK$1,167 million (2016: HK$1,095 million) representing an increase of 6.6% year-on-year.*

- *Basic and diluted earnings per share increased to 31.8 HK cents (2016: 27.7 HK cents) and 31.7 HK cents (2016: 27.7 HK cents), respectively.*

- *The board of directors of the Company has recommended a final dividend of 20.0 HK cents per share (2016: 15.0 HK cents per share), making 35.0 HK cents per share for the year (2016: 27.5 HK cents per share).*

- *The Company commenced a share repurchase initiative on June 20, 2017. During the year, the Company repurchased a total of 7,442,000 ordinary shares on The Stock Exchange of Hong Kong Limited. All the repurchased shares were subsequently cancelled by the Company.*

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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, 2017 along with comparative figures and explanatory notes.

Consolidated Income Statement

(In HK$ million, except earnings per share)	*Note*	**2017**	2016
Sales	*2*	**5,412**	5,145
Cost of sales	*4*	**(2,191)**	(2,090)
Gross profit		**3,221**	3,055
Other income and other gains, net	*3*	**112**	85
Distribution expense	*4*	**(2,390)**	(2,299)
Administrative expense	*4*	**(254)**	(273)
Operating profit	*4*	**689**	568
Finance expense		**(4)**	(1)
Share of profit of joint ventures		**59**	43
Profit before income taxes		**744**	610
Income taxes	*5*	**(175)**	(122)
Profit after income taxes for the year		**569**	488
Attributable to:			
Shareholders of the Company		**500**	434
Non-controlling interests		**69**	54
		569	488
Earnings per share attributable to shareholders of the Company	*6*		
Basic *(HK cents)*		**31.8**	27.7
Diluted *(HK cents)*		**31.7**	27.7

Consolidated Statement of Comprehensive Income

(In HK$ million)	**2017**	2016
Profit after income taxes for the year	**569**	488
Other comprehensive income:		
Items that may be reclassified to profit or loss		
Fair value change on available-for-sale financial asset	**(6)**	22
Disposal of available-for-sale financial asset	**(9)**	–
Exchange adjustments on translation of overseas subsidiaries, joint ventures and branches	**126**	(35)
Total comprehensive income for the year	**680**	475
Attributable to:		
Shareholders of the Company	**611**	416
Non-controlling interests	**69**	59
	680	475

Consolidated Balance Sheet

(In HK$ million)	*Note*	**As at December 31 2017**	2016
ASSETS			
Non-current assets			
Property, plant and equipment		**234**	221
Investment properties		**28**	–
Goodwill		**546**	546
Interest in joint ventures		**563**	480
Available-for-sale financial asset		**16**	35
Financial asset at fair value through profit or loss		**28**	28
Leasehold land and rental prepayments		**147**	192
Rental deposits		**135**	127
Deferred tax assets		**51**	50
		1,748	1,679
Current assets			
Inventories		**524**	447
Leasehold land and rental prepayments		**58**	51
Trade and other receivables	*8*	**527**	544
Cash and bank balances		**1,465**	1,393
		2,574	2,435
Total assets		**4,322**	4,114
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital		**79**	79
Reserves		**2,528**	2,470
Proposed dividends	*7*	**314**	236
Equity attributable to shareholders of the Company		**2,921**	2,785
Non-controlling interests		**220**	182
Total equity		**3,141**	2,967
Non-current liabilities			
Put option liabilities		**6**	19
Deferred tax liabilities		**127**	103
		133	122
Current liabilities			
Trade and other payables	*9*	**484**	538
Put option liabilities		**121**	102
Bank loans		**298**	298
Income tax payable		**145**	87
		1,048	1,025
Total liabilities		**1,181**	1,147
Total equity and liabilities		**4,322**	4,114
Net current assets		**1,526**	1,410
Total assets less current liabilities		**3,274**	3,089

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.

(a) Impact of new and amended standards

The Group has applied the following amended standards which are effective for the Group's financial year beginning on or after January 1, 2017:

– Disclosure initiative – Amendments to Hong Kong Accounting Standards ("HKAS") 7;

– Recognition of Deferred Tax Assets for Unrealized Losses – Amendments to HKAS 12; and

– As part of annual improvements to HKFRSs 2014-2016 cycle – Amendments to HKAS 12.

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

(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:

HKFRS 9 Financial Instruments
The new standard addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

The Group has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on January 1, 2018:

The equity investment that is currently classified as available-for-sale will satisfy the conditions for classification as at fair value through other comprehensive income ("FVOCI") and hence there will be no change to the accounting for this asset. The financial asset that is currently classified at fair value through profit or loss will continue to be measured on the same basis under HKFRS 9. Accordingly, the Group does not expect the new guidance to affect the classification and measurement of these financial assets. However, gains or losses realized on the sale of financial assets at FVOCI will no longer be transferred to profit or loss on sale, but instead reclassified below the line from the FVOCI reserve to retained profits. During the 2017 financial year, HK$9 million of such gains were recognized in profit or loss in relation to the disposal of available-for-sale financial assets.

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

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

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from HKAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortized cost, debt instruments measured at FVOCI, contract assets under HKFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of adoption of the new standard.

The new standard is mandatory for financial years commencing on or after January 1, 2018. The Group will apply the new rules retrospectively from January 1, 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated.

HKFRS 15 Revenue from Contracts with Customers

The HKICPA has issued a new standard for the recognition of revenue. This will replace HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

The directors of the Company anticipate that the application of HKFRS 15 in the future may result in more disclosures. However, they do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amount of revenue recognized in the respective reporting periods. HKFRS 15 is mandatory for financial years starting on or after January 1, 2018. The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognized in retained profits as of January 1, 2018 and that comparatives will not be restated.

1. Basis of preparation (continued)

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

HKFRS 16 Leases

HKFRS 16 will result in almost all leases being recognized on the balance sheet, 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. The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of HK$1,303 million. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

The new standard is mandatory for financial years commencing on or after January 1, 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

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 resource allocation and assessment of segment performance.

2. Operating segments (continued)

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

(In HK$ million)	**2017** Sales	**2017** Operating profit	2016 Sales	2016 Operating profit
Retail and Distribution				
Mainland China	**1,307**	**118**	1,285	102
Hong Kong and Macau	**969**	**95**	927	87
Taiwan	**642**	**64**	615	39
The rest of Asia Pacific	**1,502**	**204**	1,388	164
The Middle East	**673**	**121**	626	108
	5,093	**602**	4,841	500
Wholesales to Overseas Franchisees	**319**	**57**	304	54
Segment results	**5,412**	**659**	5,145	554
Corporate functions		**30**		14
Finance expense		**(4)**		(1)
Share of profit of joint ventures		**59**		43
Profit before income taxes		**744**		610

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

(In HK$ million)	**2017** Sales	**2017** Operating profit	2016 Sales	2016 Operating profit
Retail and Distribution				
Giordano and *Giordano Junior*	**4,331**	**522**	4,130	422
Giordano Ladies	**423**	**67**	401	65
BSX	**142**	**9**	147	9
Others	**197**	**4**	163	4
	5,093	**602**	4,841	500

The Company has its domicile in Hong Kong. Sales to external customers recorded in Hong Kong and Macau were HK$1,288 million (2016: HK$1,231 million); Mainland China, HK$1,307 million (2016: HK$1,285 million); and external customers from other markets, HK$2,817 million (2016: HK$2,629 million).

Inter-segment sales of HK$1,157 million (2016: HK$1,012 million) have been eliminated upon consolidation.

Depreciation and amortization charged related to Mainland China was HK$22 million (2016: HK$26 million), Hong Kong and Macau HK$17 million (2016: HK$15 million), Taiwan HK$17 million (2016: HK$18 million), the rest of Asia Pacific HK$39 million (2016: HK$43 million) and the Middle East HK$15 million (2016: HK$24 million).

Income taxes charged related to Mainland China was HK$26 million (2016: HK$14 million), Hong Kong and Macau HK$14 million (2016: HK$11 million), Taiwan HK$10 million (2016: HK$6 million), the rest of Asia Pacific HK$56 million (2016: HK$47 million) and the Middle East HK$10 million (2016: HK$9 million).

2. Operating segments (continued)

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

	Segment assets	
(In HK$ million)	**2017**	2016
Segment assets		
Mainland China	**853**	775
Hong Kong and Macau	**981**	1,064
Taiwan	**193**	184
The rest of Asia Pacific	**779**	658
The Middle East	**858**	840
	3,664	3,521
Interest in joint ventures	**563**	480
Available-for-sale financial asset	**16**	35
Financial asset at fair value through profit or loss	**28**	28
Deferred tax assets	**51**	50
Total assets	**4,322**	4,114

The total of non-current assets other than financial instruments and deferred tax assets located in Hong Kong was HK$186 million (2016: HK$197 million); Mainland China, HK$82 million (2016: HK$72 million); and other markets, HK$1,385 million (2016: HK$1,297 million).

Segment analysis of results of operations are detailed in the Management Discussion and Analysis of Group Results of Operations and Financial Position hereafter.

3. Other income and other gains, net

(In HK$ million)	**2017**	2016
Royalty income	**36**	37
Interest income	**16**	12
Rental income	**15**	13
Net exchange gain	**10**	–
Gain on disposal of available-for-sale financial asset	**9**	–
Gain on bargain purchase	**4**	–
Dividend income	**3**	3
Net loss on disposal of property, plant and equipment	**(2)**	–
Others	**21**	20
	112	85

4. Operating profit

Operating profit is after charging:

(In HK$ million)	**2017**	2016
Cost of sales		
Cost of inventories sold	**2,169**	2,083
Provision for obsolete stock and stock written off	**22**	7
	2,191	2,090
Distribution expense		
Operating lease rentals in respect of land and building		
– Minimum lease payments	**822**	832
– Contingent rent	**231**	228
Staff cost	**783**	728
Building management fee, government rates and utilities	**127**	124
Advertising, promotion and incentives	**122**	100
Depreciation of property, plant and equipment	**96**	109
Packaging and deliveries	**54**	49
Bank and credit card charges	**34**	28
Amortization of leasehold land prepayments	**6**	6
Others	**115**	95
	2,390	2,299
Administrative expense		
Staff cost	**158**	172
Legal and professional fee	**23**	19
Operating lease rentals in respect of land and building		
– Minimum lease payments	**16**	17
Computer and telecommunication	**7**	9
Auditor's remuneration	**7**	6
Depreciation of property, plant and equipment	**6**	9
Travelling	**5**	7
Business and other taxes	**2**	3
Amortization of leasehold land prepayments	**2**	2
Others	**28**	29
	254	273

5. Income taxes

Hong Kong profits tax is calculated at the rate of 16.5% (2016: 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)	**2017**	2016
Current income taxes		
Hong Kong	**27**	20
Outside Hong Kong	**97**	72
Under/(over) provision in prior years	**16**	(2)
Withholding taxes	**27**	27
	167	117
Deferred income taxes		
Origination and reversal of temporary differences	**8**	5
	175	122

This charge excludes the share of joint ventures' income taxes for the year of HK$16 million (2016: 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.

During the year, the Hong Kong Inland Revenue Department initiated a review on the prior years' 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 during the year.

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$500 million (2016: HK$434 million).

The basic earnings per share is based on the weighted average of 1,570,885,493 shares (2016: 1,570,561,403 shares) in issue during the year.

The diluted earnings per share is calculated by adjusting the weighted average of 1,570,885,493 shares (2016: 1,570,561,403 shares) in issue during the year by the weighted average of 4,749,102 shares (2016: 527,848 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)	**2017**	2016
Interim dividend declared and paid of 15.0 HK cents per share (2016: 12.5 HK cents per share)	**235**	196
Final dividend proposed after the balance sheet date of 20.0 HK cents per share (2016: 15.0 HK cents per share)	**314**	236
	549	432

On March 8, 2018, the Board has recommended a final dividend of 20.0 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 of the Company in issue as at the proposed date.

8. Trade and other receivables

(In HK$ million)	**2017**	2016
Trade receivables	**301**	274
Less: Provision for impairment	**(7)**	(8)
Trade receivables, net	**294**	266
Aging analysis from the invoice date net of provision for impairment is as follows:		
0 – 30 days	**211**	180
31 – 60 days	**44**	50
61 – 90 days	**20**	17
Over 90 days	**19**	19
	294	266
Other receivables, including deposits and prepayments	**233**	278
	527	544

Trade receivables comprise mainly amounts due from franchisees, licensees and retail proceeds due from department stores. The Group normally allows a credit period of 30-60 days. The carrying amounts of trade and other receivables are stated approximately at their fair values.

9. Trade and other payables

(In HK$ million)	**2017**	2016
Trade payables	**90**	205
Aging analysis is as follows:		
0 – 30 days	**66**	185
31 – 60 days	**6**	9
61 – 90 days	**5**	4
Over 90 days	**13**	7
	90	205
Other payables and accrued expense	**394**	333
	484	538

The carrying amounts of trade payables, other payables and accrued expense 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, 2017 and 2016 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, easy-to-wear apparel at value-for-money prices through a network of 2,414 stores (or 2,312,200 sq. ft. of retail floor space) as at December 31, 2017, of which 1,268 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 17, shown in Table 1.
- Group sales[1] for the year were HK$5,412 million at a gross margin of 59.5%. The Group's comparable store gross profit ("Group CSGP")[2] was up by 5.0%, with comparable store sales ("Group CSS")[2] up by 5.2%. Table 2 provides details and by major market.
- Profit after income taxes attributable to shareholders of the Company ("PATS") was HK$500 million, an increase of 15.2%, over 2016.
- Cash and bank balances, net of bank loans, were HK$1,167 million at December 31, 2017.

Table 1: Store portfolio

	Store number at December 31		Retail floor space (sq. ft. in thousands) at December 31	
	2017	2016	**2017**	2016
Retail and Distribution				
Mainland China				
DOS	**324**	357	**268**	300
Franchised stores	**605**	562	**471**	453
The rest of Asia Pacific	**602**	581	**619**	578
Taiwan	**200**	203	**195**	197
The Middle East				
DOS	**148**	150	**182**	181
Franchised stores	**41**	41	**44**	43
Hong Kong and Macau	**75**	73	**86**	82
Overseas franchisees	**419**	430	**447**	485
Total	**2,414**	2,397	**2,312**	2,319

RESULTS OF OPERATIONS

Table 2: Group results of operations

(In HK$ million)	**2017**	**% to sales**	2016	% to sales	**Change**
The rest of Asia Pacific	**1,502**	**27.8%**	1,388	27.0%	**8.2%**
Mainland China	**1,307**	**24.1%**	1,285	25.0%	**1.7%**
Hong Kong and Macau	**969**	**17.9%**	927	18.0%	**4.5%**
The Middle East	**673**	**12.4%**	626	12.2%	**7.5%**
Taiwan	**642**	**11.9%**	615	11.9%	**4.4%**
Wholesale sales to overseas franchisees	**319**	**5.9%**	304	5.9%	**4.9%**
Group sales	**5,412**	**100.0%**	5,145	100.0%	**5.2%**
Gross profit	**3,221**	**59.5%**	3,055	59.4%	**5.4%**
Operating expense	**(2,644)**	**(48.9%)**	(2,572)	(50.0%)	**2.8%**
Operating profit	**689**	**12.7%**	568	11.0%	**21.3%**
EBITDA	**874**	**16.1%**	748	14.5%	**16.8%**
PATS	**500**	**9.2%**	434	8.4%	**15.2%**
Global brand sales[3]	**7,002**		6,795		**3.0%**
Global brand gross profit[3]	**4,332**		4,156		**4.2%**
Group CSS growth	**5.2%**		(0.2%)		
Group CSGP growth	**5.0%**		1.8%		
Net cash and bank balances at year end	**1,167**		1,095		**6.6%**
Inventories at year end	**524**		447		**17.2%**
Inventory turnover on cost ("ITOC") (days)[4]	**87**		78		**9**

Sales and gross profit

The Group sales increased by 5.2%, or by 4.3% if translated at constant exchange rates. The second half registered a stronger growth of 6.9%, better than the 3.4% recorded in the first half. Group CSS and CSGP were up by 5.2% and 5.0%, respectively.

The Group's e-business is directly managed and derived mainly from third party platforms as well as our own proprietary website in Greater China. This channel generated HK$310 million in revenue at a 31.4% growth rate (see Table 3). Accounting for 93.2% of Group's e-business sales, e-business in Mainland China continued its momentum and recorded a 28.2% increase in sales on various platforms combined. Our e-business in Taiwan was revamped during the year and is now the second largest e-business operation. In 2017, the Group launched e-businesses in a number of its markets and anticipates meaningful contributions within the next two years.

Sales from physical stores recorded a stable growth of 4.1%. Wholesale sales to both onshore and offshore franchisees grew by 2.9%. Wholesale sales would have achieved a stronger growth in Mainland China, but an early Chinese New Year ("CNY") shifted sales to franchisees from early 2017 to late 2016.

Core Giordano lines constituted 88.1% of total brand sales. The performance of our core womenswear improved significantly and CSS had turned from a negative 0.7% for the first half to a positive 12.9% for the second half. Full year CSS and CSGP were up by 5.8% and 6.7%, respectively. Menswear's CSS and CSGP were up by 5.8% and 5.4%, respectively. Under an integrated marketing approach, CSS of childrenswear rose by 16.1% while CSGP rose by 19.3%. Despite recording smaller growth rates for CSS and CSGP of 0.2% and 0.9%, respectively, our premium womenswear brand, *Giordano Ladies*, continued to expand. During 2017, we had 79 *Giordano Ladies* stores and recorded total sales of HK$423 million, compared with HK$401 million in 2016, representing an increase of 5.5%.

Table 3: Sales by channel

(In HK$ million)	**2017**	**Contribution**	2016	Contribution	**Change**
Physical stores	**4,366**	**80.7%**	4,194	81.5%	**4.1%**
E-business	**310**	**5.7%**	236	4.6%	**31.4%**
Retail sales	**4,676**	**86.4%**	4,430	86.1%	**5.6%**
Wholesale sales to franchisees	**736**	**13.6%**	715	13.9%	**2.9%**
Group sales	**5,412**	**100.0%**	5,145	100.0%	**5.2%**

The Group is steadfast in defending gross margin through disciplined merchandising and stringent pricing. Group gross margin was slightly up by 0.1 percentage point to 59.5%. Group gross profit grew by 5.4% to HK$3,221 million (2016: HK$3,055 million), driven mainly by volume increase of 7.9%. Average selling price and average product cost declined by 4.1% and 4.0%, respectively. Average product cost was lowered largely due to the depreciation of Renminbi as majority of products were sourced from Mainland China. However, the impact has been diminishing since the third quarter of 2017. Management is alert to the foreign exchange risk from the Renminbi fluctuation and has undertaken strategic risk reduction measures. Overseas sourcing from Vietnam and Bangladesh is one such measure and will help maintain or improve future gross margin. Challenged by inventory glut in the industry, the Group's markets in Mainland China, Hong Kong, Macau and the Middle East resorted to controlled sale promotions in 2017. The Group's inventory, however, remains healthy. An analysis of change in Group gross profit is provided in Table 4.

Table 4: Gross profit variance analysis by region

(In HK$ million)	2016	Product costs	Selling price	Volume	Vietnam acquisition	Translational exchange impact	Miscellaneous	2017
The rest of Asia Pacific	829	(11)	35	14	27	10	(4)	**900**
Mainland China	698	22	(43)	39	–	(4)	(4)	**708**
Hong Kong and Macau	640	11	(57)	69	–	–	1	**664**
The Middle East	413	14	(72)	82	–	–	(6)	**431**
Taiwan	362	10	9	(13)	–	25	1	**394**
Market mix	–	(2)	20	(18)	–	–	–	**–**
Retail and distribution	**2,942**	**44**	**(108)**	**173**	**27**	**31**	**(12)**	**3,097**
Wholesales to overseas franchisees/subsidiaries	113							**124**
Group	**3,055**							**3,221**

Other income and other gains, net

Other income and other gains comprised royalty income, rental income, exchange difference, gain from disposal of assets and interest income. It increased by HK$27 million to HK$112 million in 2017. The upsurge was mainly due to exchange gain, interest income and the disposal gain of an available-for-sale financial asset.

Operating expense

While operating expense continued to be stable, higher CSS improved operating expense leverage by 1.1 percentage points to 48.9% (2016: 50.0%). Shop occupancy charges to sales was lowered 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 21.4% (2016: 22.7%). Although staff cost increased due to manpower shortage in the industry, total staff cost to sales dropped slightly from 17.5% to 17.4%. This was due to a 5.2% increase in Group sales and a better human resource management process.

Operating profit

Operating profit rose by 21.3%. Most regions recorded double-digit growth, particularly Southeast Asia regions, Mainland China and Taiwan, attributable mainly to improved merchandising and channel mix as well as effective cost control. Management expects operating margin in most regions will be maintained in 2018.

Table 5: **Sales and operating profit contribution by region**

For the year ended December 31, 2017	Contribution by region	
	Sales	Operating profit
The rest of Asia Pacific	**27.8%**	**29.6%**
Mainland China	**24.1%**	**17.1%**
Hong Kong and Macau	**17.9%**	**13.8%**
The Middle East	**12.4%**	**17.6%**
Taiwan	**11.9%**	**9.3%**
Wholesales to overseas franchisees	**5.9%**	**8.3%**
Wholesales to overseas subsidiaries	**–**	**9.4%**
Headquarter expense, net of other income and gains	**–**	**(5.1%)**
	100.0%	**100.0%**

Income taxes

Income taxes amounted to HK$175 million (2016: HK$122 million), representing an effective tax rate of 23.5% (2016: 20.0%). During the year, the Hong Kong Inland Revenue Department initiated a review on the prior years' tax affairs of a subsidiary of the Group. An additional tax assessment was subsequently issued and a one-off tax provision was made in the year of 2017. In the absence of this one-off tax provision, the effective tax rate would be 21.5%. The slightly higher effective tax rate resulted from greater contributions from higher tax markets.

Profit after income taxes attributable to shareholders of the Company

PATS increased by 15.2% to HK$500 million (2016: HK$434 million), as shown in Table 6. Net margin advanced by 0.8 percentage point from 8.4% to 9.2%, for reasons cited in the preceding commentaries.

Table 6: **Analysis of change in PATS**

(In HK$ million)

Reported 2016 PATS	**434**
The rest of Asia Pacific	**38**
Taiwan	**22**
Mainland China	**17**
South Korea	**15**
The Middle East	**12**
Wholesales to overseas franchisees/subsidiaries	**9**
Hong Kong and Macau	**8**
Income taxes, non-controlling interests, finance expense and headquarter expense	**(61)**
2017 PATS without currency translation difference	**494**
Currency translation difference	**6**
Reported 2017 PATS	**500**

ANALYSIS BY MARKET

The following 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 impacts on imported product costs contracted at non-local currencies, if any.

Mainland China

Table 7: Mainland China

(In Renminbi million)	**2017**	**% to sales**	2016	% to sales	**Change**
DOS	**556**	**49.3%**	590	53.5%	**(5.8%)**
Wholesales to franchisees	**323**	**28.6%**	318	28.8%	**1.6%**
E-business	**250**	**22.1%**	195	17.7%	**28.2%**
Total sales	**1,129**	**100.0%**	1,103	100.0%	**2.4%**
Gross profit	**612**	**54.2%**	599	54.3%	**2.2%**
Operating expense	**(522)**	**(46.2%)**	(526)	(47.7%)	**(0.8%)**
Operating profit	**102**	**9.0%**	87	7.9%	**17.2%**
DOS	**556**		586		**(5.1%)**
Franchised stores	**546**		525		**4.0%**
E-business	**250**		199		**25.6%**
Total brand sales	**1,352**		1,310		**3.2%**
CSS growth	**8.9%**		(1.6%)		
CSGP growth	**8.9%**		0.4%		
DOS	**324**		357		**(33)**
Franchised stores	**605**		562		**43**
Stores at year end	**929**		919		**10**

Our Mainland China business continued to progress at a solid pace despite the highly competitive environment last year. The two strategic channels of e-business and franchising achieved milestone successes and will continue to be our key drivers in the medium term.

Hong Kong and Macau

Table 8: Hong Kong and Macau

(In HK$ million)	**2017**	**% to sales**	2016	% to sales	**Change**
Total sales	**969**	**100.0%**	927	100.0%	**4.5%**
Gross profit	**664**	**68.5%**	640	69.0%	**3.8%**
Operating expense	**(567)**	**(58.5%)**	(562)	(60.6%)	**0.9%**
Operating profit	**95**	**9.8%**	87	9.4%	**9.2%**
CSS growth	**5.7%**		0.1%		
CSGP growth	**4.7%**		3.5%		
Stores at year end	**75**		73		**2**

In Hong Kong and Macau, well executed marketing programs, smart promotional activities and stringent cost control contributed to overall positive results. Marketing programs and store refitting aimed at upgrading brand image is continuing.

Taiwan

Table 9: Taiwan

(In New Taiwanese Dollar million)	**2017**	**% to sales**	2016	% to sales	**Change**
Total sales	**2,516**	**100.0%**	2,571	100.0%	**(2.1%)**
Gross profit	**1,543**	**61.3%**	1,514	58.9%	**1.9%**
Operating expense	**(1,316)**	**(52.3%)**	(1,354)	(52.7%)	**(2.8%)**
Operating profit	**249**	**9.9%**	162	6.3%	**53.7%**
CSS growth	**1.1%**		(3.4%)		
CSGP growth	**5.2%**		(2.5%)		
Stores at year end	**200**		203		**(3)**

Taiwan's overall performance rebounded since the second quarter of 2017, owing to closure of non-performing stores, cost control, lower product costs from New Taiwanese Dollar appreciation against Renminbi, and most importantly, relentless branding efforts to increase average selling price. Management expects that the growth momentum will continue in 2018.

The rest of Asia Pacific

Table 10: The rest of Asia Pacific region

(In HK$ million, translated at constant exchange rates)	**2017**	**% to sales**	2016	% to sales	**Change**
Total sales	**1,487**	**100.0%**	1,388	100.0%	**7.1%**
Gross profit	**890**	**59.9%**	829	59.7%	**7.4%**
Operating expense	**(701)**	**(47.1%)**	(670)	(48.3%)	**4.6%**
Operating profit	**203**	**13.7%**	165	11.9%	**23.0%**
CSS growth	**2.2%**		4.6%		
CSGP growth	**3.1%**		5.6%		
Stores at year end	**602**		581		**21**

In the rest of Asia Pacific, acquisition of the Vietnam operations since July 2017 contributed to 2.8% of the sales from this region. Operating profit from the region recorded strong double-digit growth, particularly in Indonesia, Malaysia and Singapore.

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

	Sales			CSS growth		CSGP growth		Stores at year end	
(In HK$ million, translated at constant exchange rates)	**2017**	2016	**Change**	**2017**	2016	**2017**	2016	**2017**	2016
Indonesia	**555**	491	**13.0%**	**8.1%**	5.3%	**10.3%**	4.4%	**252**	237
Thailand	**309**	319	**(3.1%)**	**(6.4%)**	19.7%	**(7.5%)**	21.3%	**162**	159
Singapore	**308**	311	**(1.0%)**	**0.2%**	(1.3%)	**2.3%**	(0.8%)	**44**	45
Malaysia	**192**	173	**11.0%**	**8.8%**	(2.8%)	**7.7%**	2.3%	**92**	90
Australia	**73**	78	**(6.4%)**	**7.2%**	(8.0%)	**10.8%**	(9.4%)	**16**	20
Vietnam*	**41**	–	**N/A**	**N/A**	N/A	**N/A**	N/A	**29**	–
Cambodia	**9**	7	**28.6%**	**29.8%**	41.6%	**34.9%**	41.2%	**1**	1
India	**–**	9	**(100.0%)**	**N/A**	(39.2%)	**N/A**	(39.2%)	**6**	29
Total	**1,487**	1,388	**7.1%**	**2.2%**	4.6%	**3.1%**	5.6%	**602**	581

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

Due to improved merchandise assortment, Indonesia and Malaysia delivered good results in key Muslim festival promotions during the year. Operating profit increased by 18.6% and 26.0% for Indonesia and Malaysia, respectively. In Singapore, operating profit increased by 31.2%, attributable mainly to the improvement of gross margin by 1.7 percentage points from 62.0% to 63.7%, even though the market still suffered from a stagnant economy and low tourist traffic. The unusually strong sales from Thailand in 2016 resulted in an unfavorable YOY comparison. Operating profit declined by 20.1% in local currency terms, but there were no fundamental concerns. In Australia, closure of non-performing stores helped turn operating loss in 2016 into profit in 2017.

The Middle East

Table 12: The Middle East

(In HK$ million, translated at constant exchange rates)	**2017**	**% to sales**	2016	% to sales	**Change**
Total sales	**673**	**100.0%**	626	100.0%	**7.5%**
Gross profit	**431**	**64.0%**	413	66.0%	**4.4%**
Operating expense	**(313)**	**(46.5%)**	(306)	(48.9%)	**2.3%**
Operating profit	**120**	**17.8%**	108	17.3%	**11.1%**
CSS growth	**6.2%**		(3.1%)		
CSGP growth	**2.9%**		(1.5%)		
Stores at year end	**189**		191		**(2)**

Like Indonesia and Malaysia, successful merchandise, strong marketing programs during the key Muslim festival and cost control contributed to the positive operating results in the Middle East. Operating margin improvement was mainly attributable to strict cost control offset by the decrease in gross margin, reflecting industry-wide sales promotions in the region.

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

Table 13: South Korea

(In Korean Won million)	**2017**	**% to sales**	2016	% to sales	**Change**
Total sales	**214,696**	**100.0%**	215,037	100.0%	**(0.2%)**
Gross profit	**125,096**	**58.3%**	119,822	55.7%	**4.4%**
Net profit	**17,371**	**8.1%**	12,641	5.9%	**37.4%**
Share of profit	**8,425**		6,131		**37.4%**
CSS growth	**(5.4%)**		(4.3%)		
CSGP growth	**(1.9%)**		(1.2%)		
Stores at year end	**193**		200		**(7)**

South Korea's net profit surge resulted from better cost control, closure of non-performing stores and enhancement in gross margin. Inventory rationalization for South Korea was near completion. CSGP growth returned to positive in the fourth quarter after declines in the first three quarters in 2017. Inventory rationalization and lower product costs due to shared sourcing have contributed to a substantial gross margin improvement.

Wholesales to overseas franchisees

Table 14: Store numbers of overseas franchisees

	At December 31	
By market	**2017**	2016
South Korea	**193**	200
Southeast Asia	**212**	217
Other markets	**14**	13
Total stores	**419**	430

Wholesale sales to overseas franchisees rose by 4.9% to HK$319 million (2016: HK$304 million). The South Korea joint venture has begun to replenish inventories normally along with gradual clearance of slow moving items. Wholesale sales to South Korea increased by 14.2% in 2017.

The Philippines registered sustainable CSS growth, while other overseas franchisees' CSS remain stable. Vietnam was accounted for as a wholesale market prior to consolidation in July 2017. Sales during the period would have improved by 8.0% if the sales in Vietnam were not recorded under wholesale sales for both years 2017 and 2016. Management is actively expanding franchise/ wholesale footprints outside of Asia Pacific. Though initially small, these newly developed markets will pay off in the medium and long run.

FINANCIAL POSITION

Liquidity and financial resources

As usual, the Group's financial position is very sound. At December 31, 2017, the cash and bank balances, net of bank loans, reached HK$1,167 million (2016: HK$1,095 million) representing an increase of 6.6% YOY. The increase was mainly attributable to (i) HK$650 million cash inflow from operating activities, partially offset by: (i) HK$104 million investment in capital expenditure; and (ii) HK$502 million dividend payment to shareholders and non-controlling interests.

The short-term bank borrowings, denominated in HK$, amounted to HK$298 million (2016: HK$298 million). This 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 shareholders of the Company was -0.4 (2016: -0.4). As at December 31, 2017, the Group's current ratio was 2.5 based on current assets of HK$2,574 million and current liabilities of HK$1,048 million (2016: 2.4).

Property, plant and equipment

During the year, we incurred capital expenditure of HK$104 million (2016: HK$104 million) on the back of additional stores and 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 arose 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 2017 financial year.

Interests in joint ventures

The balance mainly represents our 48.5% interest in the South Korea joint venture. The increase by HK$83 million during the year was the result of our share of profit of HK$59 million and currency translation difference, offset by dividends received.

Inventories

Group inventories at December 31, 2017 increased by HK$77 million or 17.2% to HK$524 million (2016: HK$447 million). ITOC increased by 9 days to 87 days. This was mainly due to non-operational factors such as foreign exchange translational differences, which contributed 4 days, and as a result of the acquisition of our Vietnam operations in July 2017, which contributed an additional 2 days.

Inventories at suppliers and franchisees are not our legal liabilities although the Group tracks this information to ensure that we do not build up excessive off-balance sheet inventories. Our system inventories had increased by 21.3% YOY which largely consisted of movable or core items in anticipation of the launch of CNY collection and spring merchandise. Management does not consider the current system inventory levels excessive and does not anticipate large scale clearance programs.

Table 15: **System inventories**

	At Decmeber 31	
(In HK$ million)	**2017**	2016
Inventories held by the Group	**524**	447
Inventories held by 48.5% South Korea joint venture	**175**	141
Inventories held by franchisees in Mainland China	**91**	88
Finished goods at suppliers (not yet shipped)	**54**	20
Total system inventories	**844**	696

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, 2017 was 55 days, increased by 1 day compared to last year. Trade payables turnover days decreased by 13 days to 24 days during the year. This is in line with the credit period granted by our suppliers.

Pledge of assets

No assets were pledged as at December 31, 2017 and 2016.

Contingent liabilities

There were no contingent liabilities as at December 31, 2017 and 2016.

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 entities 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

It is the Company's policy to return surplus cash to its shareholders through the payment of dividends and share repurchase. 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 recommended a final dividend of 20.0 HK cents per share (2016: 15.0 HK cents per share) for the year ended December 31, 2017. Together with the interim dividend of 15.0 HK cents per share (2016: 12.5 HK cents per share) paid on September 22, 2017, total 2017 dividends would amount to 35.0 HK cents per share (2016: 27.5 HK cents per share), representing a payout of 110.1% of 2017 per share earnings (2016: 99.3%). Subject to the approval of shareholders at the forthcoming annual general meeting of the Company, the final dividend will be payable on Friday, June 22, 2018 to shareholders whose names appear on the register of members of the Company on Friday, June 8, 2018.

OUTLOOK

Geographically, the Group's main thrust remains with Mainland China's two-pronged expansion programme, namely e-business and franchising. Both are on track and the outlook for 2018 remains optimistic. Development of new markets is progressing. To adapt to local operating environments, we are prepared to be flexible entering more creative arrangements such as allowing local franchisees to manufacture for local sales under licensing agreements. This approach would allow us to provide value-for-money merchandise to local consumers.

In terms of channels, while continuing to upgrade the Group's directly-operated physical stores, management is earnest in fast-tracking e-business in all markets, leveraging our Mainland China's proven model. During 2017, we saw substantial headways in Taiwan and Thailand and management expects the momentum to accelerate in 2018.

With concerted efforts, our childerenswear made significant advances during 2017 and will continue to grow in the next few years. The *G-motion* line took shape in 2017 and will maintain its momentum in 2018. *Beau Monde*, marketed entirely through wholesaling and franchising, also made substantial improvements during 2017 and we expect this momentum to continue into 2018. We will continue to create and nurture new and innovative products and lines towards building future sales for the Group.

Our supply chain is flexible as we do not own production facilities. We have been sourcing offshore for the appropriate markets enjoying various preferential international trade agreements and will speed up this initiative in 2018.

The Group's inventory remains healthy with ITOC now down to 73 days in February 2018. Group consolidated sales recorded for the first two months of 2018 increased by 16.4% as compared to the same period last year, Markets in Greater China continue its momentum in 2018. However, we are facing some challenges in the Middle East due to the implementation of Value-Added Tax and new economic policies in United Arab Emirates and Saudi Arabia.

OTHER INFORMATION

HUMAN RESOURCES

At December 31, 2017, the Group had approximately 8,300 employees (December 31, 2016: 8,000). The Group offers competitive remuneration packages and generous, goal-oriented bonuses to different levels of staff. We offer senior management performance-based bonus schemes and share options to reward and retain a high calibre 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 25, 2018 (the "2018 AGM"). A notice convening the 2018 AGM, which constitutes part of the circular to shareholders, will be sent to the shareholders together with the 2017 annual report of the Company. The notice of the 2018 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 2018 AGM, the register of members of the Company will be closed from Friday, May 18, 2018 to Friday, May 25, 2018 (both dates inclusive), during which period no share transfers will be registered. In order to be eligible to attend and vote at the 2018 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 Thursday, May 17, 2018.

Final Dividend

For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from Wednesday, June 6, 2018 to Friday, June 8, 2018 (both dates 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 Tuesday, June 5, 2018.

CORPORATE GOVERNANCE CODE

During the year ended December 31, 2017, 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 (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (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 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.

Code provision A.6.7

Under code provision A.6.7, independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders.

Professor WONG Yuk (alias HUANG Xu), an Independent Non-executive Director, could not attend the annual general meeting of the Company held on May 26, 2017 (the "2017 AGM") due to his other business engagements. However, at the 2017 AGM, Executive Directors and other Non-executive Directors were present to enable the Board to develop a balanced understanding of the views of the shareholders of the Company.

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, 2017.

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

During the year ended December 31, 2017, a total of 7,442,000 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 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**	**Lowest price per share**	**Aggregate purchase price (before expenses)**
		HK$	*HK$*	*HK$*
June	1,318,000	4.46	4.20	5,698,360
July	4,094,000	4.52	4.29	17,839,500
August	416,000	4.63	4.36	1,875,580
September	694,000	4.60	4.46	3,148,780
November	652,000	4.44	4.14	2,781,200
December	268,000	4.16	4.05	1,097,620

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, 2017.

REVIEW OF FINANCIAL INFORMATION

The Group's audited consolidated financial statements for the year ended December 31, 2017 including the accounting principles and practices adopted have been reviewed by the Audit Committee in conjunction with the Company's 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, 2017 as set out in the preliminary announcement have been agreed by the Company's 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 Hong Kong Institute of Certified Public Accountants 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 8, 2018

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, Adrian 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).

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[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 directly operated stores and franchised stores that have been fully operating in the same prior period.*

[3] *Global brand sales/gross profit are at 2017 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.*