

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

GIORDANO

GIORDANO INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)
(Stock Code: 709)

ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED DECEMBER 31, 2010

RESULTS

The board of directors (the “Board”) of Giordano International Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended December 31, 2010, together with comparative figures for the previous year, as follows:

Consolidated Income Statement

<i>(In HK\$ millions except earnings per share)</i>	<i>Note</i>	2010	2009
Turnover	2	4,731	4,233
Cost of sales		(2,000)	(2,058)
Gross profit		2,731	2,175
Other income		123	110
Distribution expense		(1,687)	(1,545)
Administrative expense		(200)	(169)
Other operating expense		(272)	(251)
Operating profit	3	695	320
Loss on disposal of a subsidiary		(13)	–
Finance expense		(2)	(1)
Share of profit of jointly controlled companies		56	38
Share of profit of an associate		12	6
Profit before taxation	2	748	363
Taxation	4	(181)	(64)
Profit for the year		567	299
Profit attributable to:			
Shareholders of the Company		537	288
Non-controlling interests		30	11
		567	299
Earnings per share for profit attributable to shareholders of the Company	5		
Basic (<i>HK cents</i>)		36.0	19.3
Diluted (<i>HK cents</i>)		35.9	19.3
Dividends	6	404	240

Consolidated Statement of Comprehensive Income

<i>(In HK\$ millions)</i>	2010	2009
Profit for the year	567	299
Other comprehensive income:		
Fair value gains on available-for-sale financial assets	2	2
Exchange adjustment on translation of overseas subsidiaries and branches	59	61
Deferred tax relating to the exchange movement	(3)	(5)
Realization of exchange reserve upon disposal of a subsidiary	15	–
Total comprehensive income for the year	640	357
Total comprehensive income attributable to:		
Shareholders of the Company	606	337
Non-controlling interests	34	20
	640	357

Consolidated Balance Sheet

<i>(In HK\$ millions)</i>	<i>Note</i>	2010	2009
ASSETS			
Non-current assets			
Property, plant and equipment		202	188
Investment property		77	79
Goodwill		5	–
Interest in jointly controlled companies		373	317
Interest in an associate		43	41
Available-for-sale financial assets		13	11
Financial assets at fair value through profit or loss		28	28
Leasehold land and rental prepayments		282	300
Rental deposits		164	250
Deferred tax assets		29	22
		1,216	1,236
Current assets			
Inventories		404	294
Leasehold land and rental prepayments		41	45
Trade and other receivables	7	597	411
Cash and bank balances		1,062	824
		2,104	1,574
Total assets		3,320	2,810
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital		75	75
Reserves		2,056	1,833
Proposed dividends		277	210
Equity attributable to shareholders of the Company		2,408	2,118
Non-controlling interests		85	68
Total equity		2,493	2,186
Non-current liabilities			
Deferred tax liabilities		108	82
Other payables	8	–	15
		108	97
Current liabilities			
Trade and other payables	8	548	419
Bank loans		84	74
Taxation		87	34
		719	527
Total liabilities		827	624
Total equity and liabilities		3,320	2,810

Notes:

1. Principal Accounting Policies

Basis of preparation

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”), Hong Kong Accounting Standards (“HKASs”) and interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The financial statements are prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial asset and financial asset at fair value through profit or loss.

In the current year, the Group has adopted the following revised standards, amendments and interpretations issued by HKICPA, which are relevant to the Group’s business and effective for the Group’s financial year beginning on or after January 1, 2010:

HKFRS 3 (Revised)	Business combinations (effective for annual periods beginning on or after July 1, 2009)
HKAS 27 (Revised)	Consolidated and separate financial statements (effective for annual periods beginning on or after July 1, 2009)
HK – INT 5	Presentation of financial statements – Classification by the borrower of a term loan that contains a repayment on demand clause
HK(IFRIC) – INT 17	Distributions of non-cash assets to owners (effective for annual periods beginning on or after July 1, 2009)
Annual Improvements 2009	(effective for annual periods beginning on or after January 1, 2010)

The adoption of the above revised standards, amendments and interpretations has no material impact to the financial statements except for certain presentation changes and additional disclosures.

The Group has not early adopted the following new or amended standards and interpretation in the financial statements for the year ended December 31, 2010.

HKAS 24 (Revised)	Related party disclosures (effective for annual periods beginning on or after January 1, 2011)
HKFRS 9	Financial instruments (effective for annual periods beginning on or after January 1, 2013)
HK(IFRIC) – INT 19	Extinguishing financial liabilities with equity instruments (effective for annual periods beginning on or after July 1, 2010)
Annual Improvements 2010	(effective for annual periods beginning on or after January 1, 2011)

2. Operating Segments

The Group determines its operating segments based on the reports reviewed by the chief operating decision-makers who make strategic decisions.

The chief operating decision-makers assess the business of the Retail and Distribution segment from both a geographic location and a brand perspective. From geographic perspective, the Retail and Distribution segment is further divided into six reportable operating sub-segments, namely China Mainland, Hong Kong and Macau, Taiwan, Singapore, Australia and Other markets. From brand perspective, the Retail and Distribution segment is sub-divided into *Giordano & Giordano Junior*, *Giordano Ladies*, *Concepts One* (renamed from *Giordano Concepts*), *BSX* and Others. Wholesale sales to overseas customers and the Group's licensing activities are grouped under the Export and Licensing business segment.

Following the disposal of the Group's principal garment manufacturing subsidiary in 2008, the Group's remaining garment manufacturing operations are small and engaged more or less exclusively in supplying products to other Group companies. In view of the cessation of the Group's manufacturing operations as a material net contributor to its results, it is no longer considered necessary nor appropriate to define a Manufacturing and Other segment as a reportable segment.

Segment profit represents the profit earned by each segment before finance cost, tax and share of profit of jointly controlled companies and associate. This is the measurement basis reported to the chief operating decision-makers for the purpose of resource allocation and assessment of segment performance.

An analysis of the Group's reportable segment turnover and operating profit/(loss) by geographical location is as follows:

<i>(In HK\$ millions)</i>	2010		2009	
	Turnover	Operating profit/(loss)	Turnover	Operating profit/(loss)
By principal markets:				
China Mainland	1,781	287	1,633	152
Hong Kong and Macau	841	125	775	64
Taiwan	606	92	555	27
Singapore	360	54	310	18
Australia	175	(5)	180	(28)
Other markets	574	130	460	44
Total Retail and Distribution	4,337	683	3,913	277
Export and licensing business	434	62	350	50
Inter-segment sales on export and licensing business	(40)	–	(30)	–
Total	4,731	745	4,233	327

Further analysis of the Retail and Distribution business by brand is as follows:

<i>(In HK\$ millions)</i>	2010	Operating profit/(loss)	2009	Operating profit/(loss)
	Turnover		Turnover	
By brand:				
<i>Giordano & Giordano Junior</i>	3,773	601	3,379	271
<i>Giordano Ladies</i>	288	56	250	28
<i>Concepts One</i> (renamed from <i>Giordano Concepts</i>)	68	(7)	106	(24)
<i>BSX</i>	182	30	158	–
Others	26	3	20	2
Total Retail and Distribution	4,337	683	3,913	277

The entity is domiciled in Hong Kong. The result of its revenue from external customers in Hong Kong is HK\$1,230 million (2009: HK\$1,082 million), China Mainland is HK\$1,781 million (2009: HK\$1,633 million) and the total of revenue from external customers from other countries is HK\$1,720 million (2009: HK\$1,518 million).

A reconciliation of operating profit for reportable segments to profit before income tax is provided as follows:

<i>(In HK\$ millions)</i>	2010	2009
Operating profit for reportable segments:	745	327
Manufacturing business	5	11
Other operating expenses	(55)	(18)
Loss on disposal of a subsidiary	(13)	–
Finance expense	(2)	(1)
Share of profit of jointly controlled companies	56	38
Share of profit of an associate	12	6
Profit before taxation	748	363

An analysis of the Group's reportable segment assets by geographical location is as follows:

<i>(In HK\$ millions)</i>	Segment assets	
	2010	2009
By principal markets:		
China Mainland	1,175	922
Hong Kong and Macau	685	678
Taiwan	236	173
Singapore	134	84
Australia	39	35
Other markets	353	283
Total Retail and Distribution	2,622	2,175
Export and licensing business	32	44
Segment assets	2,654	2,219
Manufacturing and others	175	172
Goodwill	5	–
Interest in jointly controlled companies	373	317
Interest in an associate	43	41
Available-for-sale financial assets	13	11
Financial assets at fair value through profit or loss	28	28
Deferred tax assets	29	22
Total assets	3,320	2,810

The total of non-current assets other than financial instruments and deferred tax assets (there are no employment benefit assets and rights arising under insurance contracts) located in Hong Kong is HK\$216 million (2009: HK\$329 million), located in China Mainland is HK\$301 million (2009: HK\$311 million) and the total of these non-current assets located in other countries is HK\$629 million (2009: HK\$535 million).

3. Operating profit

The operating profit is stated after charging:

<i>(In HK\$ millions)</i>	2010	2009
Amortization of leasehold land prepayments	9	9
Auditors' remuneration	5	5
Depreciation of property, plant and equipment	88	97
Depreciation of investment property	2	2
Impairment of property, plant and equipment	–	3
Net loss on disposal of property, plant and equipment	–	3
Operating lease rentals in respect of land and buildings		
– Minimum lease payments	662	658
– Contingent rent	228	195
Provision for obsolete stock and stock written off	21	3
Staff costs	757	661

4. Taxation

The provision for taxation of the Company and its Hong Kong subsidiaries is calculated by applying the current rate of taxation of 16.5% (2009: 16.5%) to the estimated assessable profits earned in or derived from Hong Kong during the year.

Taxation on the profits of other subsidiaries operating outside Hong Kong is calculated at the rates applicable in the respective jurisdictions.

The charge for taxation in the consolidated income statement represents:

<i>(In HK\$ millions)</i>	2010	2009
Income tax		
Current income tax		
– Hong Kong profits tax	23	13
– Outside Hong Kong	122	43
– Withholding tax on distribution from subsidiaries and a jointly controlled company	16	14
Deferred tax		
Relating to the origination and reversal of temporary differences	16	10
Effect of changes in tax rate	–	(12)
Under/(over) provision in previous year		
– Hong Kong profits tax	2	(1)
– Outside Hong Kong	2	(3)
Taxation charge	181	64

5. Earnings per share

The calculations of basic and diluted earnings per share are based on the consolidated profit attributable to shareholders for the year of HK\$537 million (2009: HK\$288 million).

The basic earnings per share is based on the weighted average of 1,492,600,776 shares (2009: 1,491,646,518 shares) in issue during the year.

The diluted earnings per share is based on 1,492,600,776 shares (2009: 1,491,646,518 shares) which is the weighted average number of shares in issue during the 2010 year ended plus the weighted average of 3,482,127 shares (2009: nil) deemed to be issued if all outstanding share options granted under the share option scheme of the Company had been exercised.

6. Dividends

(a) Dividends attributable to the year:

<i>(In HK\$ millions)</i>	2010	2009
Interim dividend declared and paid of 4.5 HK cents (2009: 2.0 HK cents) per share	67	30
Special interim dividend declared and paid of 4.0 HK cents (2009: nil) per share	60	–
	<u>127</u>	<u>30</u>
Final dividend proposed after the balance sheet date of 7.0 HK cents (2009: 7.0 HK cents) per share	105	105
Special final dividend proposed after the balance sheet date of 11.5 HK cents (2009: 7.0 HK cents) per share	172	105
	<u>277</u>	<u>210</u>
	<u>404</u>	<u>240</u>

At the board meeting held on March 24, 2011, the directors proposed final and special final dividends of 7.0 HK cents and 11.5 HK cents per share respectively. These proposed dividends have not been recognized as a liability at the balance sheet date.

(b) Dividends attributable to the previous year, approved and paid during the year:

<i>(In HK\$ millions)</i>	2010	2009
2009 final dividend approved and paid of 7.0 HK cents (2008: 3.0 HK cents) per share	105	45
2009 special final dividend approved and paid of 7.0 HK cents (2008: nil) per share	105	–
	<u>210</u>	<u>45</u>

7. Trade and other receivables

<i>(In HK\$ millions)</i>	2010	2009
Trade receivables	291	236
Less: Provision for impairment	(9)	(5)
Trade receivables – net	282	231
Other receivables, including deposits and prepayments	315	180
	<u>597</u>	<u>411</u>

Other than cash and credit card sales, the Group normally allows an average credit period of 60 days to its trade customers.

Despite some of the trade receivables being settled after the credit period, management expects that the balances are recoverable within one year; therefore, these balances are classified as current assets.

(a) Ageing analysis

As at the balance sheet date, the ageing analysis from the invoice date of trade receivables (net of allowance for doubtful debts) is as follows:

<i>(In HK\$ millions)</i>	2010	2009
0 – 30 days	185	175
31 – 60 days	60	35
61 – 90 days	29	13
Over 90 days	8	8
	282	231

The carrying amount of trade receivables are stated approximately at fair value. There is no concentration of credit risk with respect to trade receivables as the Group has a large number of internationally dispersed customers.

As at December 31, 2010, trade receivables of HK\$98 million (2009: HK\$32 million) were past due but not impaired. These related to a number of customers for whom there had been no recent history of default. The ageing analysis from the due date is as follows:

<i>(In HK\$ millions)</i>	2010	2009
0 – 30 days	36	13
Over 30 days	62	19
	98	32

(b) Impairment of trade receivables

Impairment loss in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly.

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

<i>(In HK\$ millions)</i>	2010	2009
At January 1	5	5
Provision for the year	4	–
At December 31	9	5

The individually impaired receivables relate to customers that are in financial difficulties and management assesses that only a portion of the receivables is expected to be recovered. Consequently, specific allowances for doubtful debts were recognized. The Group does not hold any collateral over these balances.

8. Trade and other payables

<i>(In HK\$ millions)</i>	2010	2009
Trade payables	163	181
Other payables and accrued expenses	385	253
	548	434
Long-term portion	–	(15)
Current portion	548	419

The ageing analysis of trade payables is as follows:

<i>(In HK\$ millions)</i>	2010	2009
0 – 30 days	153	138
31 – 60 days	9	41
61 – 90 days	1	2
	163	181

The carrying amount of trade payables are stated approximately at fair value.

9. Net current assets

The Group's net current assets, defined as current assets less current liabilities, amounted to HK\$1,385 million and HK\$1,047 million in 2010 and 2009 respectively.

10. Total assets less current liabilities

The Group's total assets less current liabilities amounted to HK\$2,601 million and HK\$2,283 million in 2010 and 2009 respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS OF GROUP OPERATIONS

Group Operations

	Full Year			Second Half			First Half		
	2010	2009	Increase (Decrease)	2010	2009	Increase (Decrease)	2010	2009	Increase (Decrease)
Turnover	4,731	4,233	11.8%	2,594	2,230	16.3%	2,137	2,003	6.7%
Gross profit	2,731	2,175	25.6%	1,494	1,210	23.5%	1,237	965	28.2%
Gross margin	57.7%	51.4%	6.3 pp	57.6%	54.3%	3.3 pp	57.9%	48.2%	9.7 pp
EBITDA	866	487	77.8%	525	350	50.0%	341	137	148.9%
EBITDA margin	18.3%	11.5%	6.8 pp	20.2%	15.7%	4.5 pp	16.0%	6.8%	9.2 pp
Operating profit	695	320	117.2%	424	254	66.9%	271	66	310.6%
Operating margin	14.7%	7.6%	7.1 pp	16.3%	11.4%	4.9 pp	12.7%	3.3%	9.4 pp
Profit attributable to shareholders	537	288	86.5%	335	240	39.6%	202	48	320.8%
Return on sales	11.4%	6.8%	4.6 pp	12.9%	10.8%	2.1 pp	9.5%	2.4%	7.1 pp

Group Operations Highlights (in HK\$ millions)

Turnover and Gross Profit

In the first half of 2010, the Group focused on reinforcing the margin gains that it made in the second half of 2009. On the supply side, the Group strengthened cooperation with strategic supply chain partners to lower product costs and fill the product pipeline with attractive new high volume and high margin merchandise. At the same time the Group rolled out new non-price-driven marketing and promotion programs. These initiatives helped to increase the Group's first half gross margin by 9.7 percentage points to 57.9% (1H09: 48.2%) and its gross profit by 28.2% with sales growth of 6.7% over the same period in 2009.

In the second half we turned our attention to driving faster sales growth. To capitalize on the recovery in consumer confidence and spending in the region, we followed up the 37.2% increase in advertising and promotion ("A&P") outlays during the first half with a further 69.4% increase in the second half, at the same time maintaining discipline on pricing and markdowns. Sales growth accelerated from 6.7% in the first half to 16.3% in the second half in response while gross margin remained steady at 57.6%, resulting in a 23.5% increase in gross profit in the second half of 2010. The strong performance is driven by faster growth in China Mainland which saw modest sales growth in the first half of 1.8% accelerating to 15.6% in the second half, resulting in a 9.1% year-on-year increase in Mainland sales for 2010 as a whole.

Overall, 2010 saw the Group increasing its sales by 11.8% to HK\$4,731 million (2009: HK\$4,233 million) and its gross profit by 25.6% to HK\$2,731 million. Full year gross margin was 57.7%, up by 6.3 percentage points against 2009.

Operating Expenses, Operating Profit and Earnings before Interest, Taxation, Depreciation and Amortization Expense (EBITDA)

To support its push for faster top line growth, the Group increased its A&P spending by 54.3% to HK\$83 million or 1.8% of 2010 sales (2009: 1.3% of sales). Otherwise, Management continued to tightly control other operating expenses: the Group's rental expense grew by 4.3% to HK\$890 million to account for 18.8% of 2010 sales (2009: HK\$853 million or 20.2% of sales) while staff cost (including director emoluments and employee share option charges) rose by 14.5% to HK\$757 million or 16.0% of 2010 sales (2009: HK\$661 million or 15.6% of sales). Depreciation expenses decreased by 10.8% to HK\$99 million (2009: HK\$111 million) as a result of the Group's tight controls on shop openings and renovations during the 2008-09 global financial crisis. Overall, the Group's operating expenses increased by 9.9% to HK\$2,159 million (2009: HK\$1,965 million).

Other income increased to HK\$123 million (2009: HK\$110 million) mainly due to an increase in exchange gain arising from the appreciation of the currencies in the region compared to the Hong Kong Dollar.

The combination of higher top line growth and effective controls on product and operating costs enabled the Group to achieve greater positive operating leverage. As a result, the Group managed to follow up on its strong first half performance by achieving a 50.0% increase in second half EBITDA to HK\$525 million (2009: HK\$350 million). Similarly, the Group's second half operating profit increased by 66.9% to HK\$424 million (2009: HK\$254 million), This is a particularly noteworthy achievement as the second half of 2009 marked the beginning of the Group's recovery, accounting for 79.4% of 2009 full year operating profit.

For the year as a whole, the Group's EBITDA rose by 77.8% to HK\$866 million (2009: HK\$487 million). Similarly, the Group's full year operating profit increased by HK\$375 million to HK\$695 million, more than double the HK\$320 million recorded in 2009. 2010 operating margin at 14.7% was 7.1 percentage points higher than last year.

Profit Attributable to Shareholders

The Group's 2010 profit attributable to shareholders was HK\$537 million, up by 86.5% compared to the previous year (2009: HK\$288 million). Basic and fully diluted earnings per share increased to 36.0 HK cents and 35.9 HK cents respectively (2009: basic and fully diluted EPS were the same at 19.3 HK cents).

After-tax profit contribution from the Group's South Korea joint venture increased by HK\$18 million to HK\$56 million (2009: HK\$38 million). After-tax profit contribution from our Middle East associate doubled to HK\$12 million (2009: HK\$6 million).

During the year the Group also completed its exit from Japan, incurring a HK\$13 million loss on disposal.

The Group's 2010 income taxation expense was HK\$181 million (2009: HK\$64 million), resulting in an effective tax rate¹ of 26.1% which is 6.0 percentage points higher than the same period last year (2009: 20.1%). The increase is attributable to a HK\$18 million one-off increase in deferred tax provision for withholding tax that would be payable on remittance of accumulated earnings of our subsidiaries in the Mainland. In the absence of such provisions, the Group's effective tax rate would have been 23.5%, with the increase arising from increased profit contribution from markets with higher tax regimes.

Cash Flow from Operations

In line with Group's improved operational performance, cash generated from operations increased by HK\$296 million to HK\$715 million (2009: HK\$419 million). Total taxes paid increased by HK\$67 million to HK\$103 million (2009: HK\$36 million). Net cash inflow from operating activities increased by HK\$228 million to HK\$610 million (2009: HK\$382 million) as a result.

With the resumption of our normal store opening and refurbishment programs, the Group's 2010 capital expenditure increased by HK\$32 million to HK\$91 million (2009: HK\$59 million). However, capital expenditure as a percentage of net cash inflow from operating activities stayed more or less unchanged at 14.9% (2009: 15.4%) during the period, reflecting Management's continued close monitoring. However, the increase in time deposits with terms longer than three months was HK\$128 million in 2010 compared to HK\$232 million in 2009, thus offsetting the increase in capital expenditure. As a result, the net cash outflow from investing activities actually decreased by HK\$45 million to HK\$223 million (2009: HK\$268 million).

The Group increased both its 2009 final and 2010 interim dividends. As such, dividends paid in 2010 totalled HK\$336 million, HK\$261 million more than the HK\$75 million paid in 2009, which largely explains the HK\$260 million increase in the Group's cash outflow from financing activities to HK\$341 million in 2010 (2009: HK\$81 million).

GROUP FINANCIAL POSITION

On December 31, 2010, the Group had total cash and bank balances of HK\$1,062 million (2009: HK\$824 million), of which HK\$374 million were on fixed term deposits with maturity over three months from the date of deposit. After offsetting against outstanding bank loans which totalled HK\$84 million (2009: HK\$74 million), year-end net cash and bank balances amounted to HK\$978 million (2009: HK\$750 million).

Management built up stocks in anticipation of a strong Chinese New Year, causing 2010 closing inventories to increase by HK\$110 million to HK\$404 million (2009: HK\$294 million) and inventory turnover on sales² to increase to 31 days (2009: 25 days). The Group's inventory turnover on sales ratio has since come back down to 22 days as at the end of February, well within the 30-day range considered prudent by Management. Trade and other receivables increased by HK\$186 million to HK\$597 million as at December 31, 2010 (2009: HK\$411 million), mainly due to the reclassification of HK\$100 million in rental deposits receivable related to the Causeway Bay flagship store from non-current to current assets.

Current liabilities rose by HK\$192 million to HK\$719 million (2009: HK\$527 million). The increase was attributable to a HK\$129 million increase in trade and other payables to HK\$548 million (2009: HK\$419 million) which included an increased provision for staff performance bonus and a HK\$53 million increase in taxation payable to HK\$87 million (2009: HK\$34 million) reflecting the recovery in business.

The Group had financing facilities totalling HK\$556 million at the end of the year (2009: HK\$581 million), of which HK\$66 million had been drawn down in the normal course of business and were outstanding as at year end (2009: HK\$57 million).

On December 31, 2010, the Group had total liabilities of HK\$827 million (2009: HK\$624 million), of which HK\$108 million consisted entirely of deferred tax liabilities that were non-current (2009: total non-current liabilities of HK\$97 million including deferred tax liabilities of HK\$82 million). Shareholders' equity was HK\$2,408 million (2009: HK\$2,118 million).

The Group's gearing³ remained unchanged at 3.5%, whereas its current and quick ratios decreased slightly to 2.9 times (2009: 3.0 times) and 2.4 times (2009: 2.4 times) respectively. With a cash surplus and a strong balance sheet, the Group is solidly placed to fund future growth and pay dividends to investors.

With the resumption of our normal store opening and refurbishment programs, the Group's 2010 capital expenditure increased by HK\$32 million to HK\$91 million (2009: HK\$59 million). Management estimates capital expenditure in 2011 to range between HK\$100 million and HK\$150 million as the Group intensify store expansion, especially in the Mainland.

OPERATIONS REVIEW

Retail & Distribution Segment

In light of the Group's strategic focus on growing its franchising operations in the Mainland, same store sales calculation has been changed to include franchised outlets in addition to self-operated stores. As such, same store sales growth figures for 2009 have been restated to facilitate comparison⁴. Sales per sq. ft. statistics for the Mainland have also been restated to be consistent with this approach⁵. We have also started to measure "Total Brand Sales" when analyzing our Mainland operations. This metric, which comprises retail sales in both self-operated and franchised outlets, is intended to provide a fuller and more accurate picture of the Group's performance and an improved alignment with our internal measurement of network growth.

Highlights

Management's continued focus on controlling sourcing costs and limiting markdowns resulted in the Retail & Distribution segment's gross margin increasing to 60.8% in 2010, up by 7.2 percentage points against last year (2009: 53.6%). Supported by increased marketing, sales growth accelerated from 6.9% in the first half to 14.3% in the second half. For the year as a whole, Retail & Distribution turnover grew by 10.8% to HK\$4,337 million (2009: HK\$3,913 million) while gross profit increased by 25.7% to HK\$2,635 million (2009: HK\$2,097 million). Continued restraint of operating expenses enabled the Retail & Distribution segment to increase its operating profit by 146.6% to HK\$683 million (2009: HK\$277 million) and its operating margin by 8.6 percentage points to 15.7% (2009: 7.1%) in 2010.

	Full Year			Second Half			First Half		
	2010	2009	Increase (Decrease)	2010	2009	Increase (Decrease)	2010	2009	Increase (Decrease)
Turnover	4,337	3,913	10.8%	2,377	2,080	14.3%	1,960	1,833	6.9%
Same store sales ⁴	5.5%	(4.5%)	N/A	6.4%	Flat	N/A	4.5%	(9.6%)	N/A
Gross profit	2,635	2,097	25.7%	1,441	1,179	22.2%	1,194	918	30.1%
Gross margin	60.8%	53.6%	7.2 pp	60.6%	56.7%	3.9 pp	60.9%	50.1%	10.8 pp
Operating profit	683	277	146.6%	413	251	64.5%	270	26	938.5%
Operating margin	15.7%	7.1%	8.6 pp	17.4%	12.1%	5.3 pp	13.8%	1.4%	12.4 pp

Retail & Distribution Segment Operations Highlights (in HK\$ millions)

Retail & Distribution Review by Market

China Mainland

	Full Year			Second Half			First Half		
	2010	2009	Increase (Decrease)	2010	2009	Increase (Decrease)	2010	2009	Increase (Decrease)
Total Brand Sales ⁶	2,116	1,950	8.5%	1,130	1,011	11.8%	986	939	5.0%
Turnover ⁷ , comprising:									
– Retail sales in self-operated stores	1,142	1,089	4.9%	621	560	10.9%	521	529	(1.5%)
– Wholesales sales to franchisees	639	544	17.5%	370	297	24.6%	269	247	8.9%
Total	1,781	1,633	9.1%	991	857	15.6%	790	776	1.8%
Same store sales ⁴	2.0%	(5.5%)	N/A	3.6%	(2.4%)	N/A	0.2%	(9.2%)	N/A
Operating profit	287	152	88.8%	163	119	37.0%	124	33	275.8%
Operating margin	16.1%	9.3%	6.8 pp	16.4%	13.9%	2.5 pp	15.7%	4.3%	11.4 pp
Number of outlets ⁸	1,188	1,017	171	1,188	1,017	171	1,101	912	189
Self-operated	448	420	28	448	420	28	443	401	42
Franchised	740	597	143	740	597	143	658	511	147

China Mainland Operations Highlights (in HK\$ millions)

The Group continued to accelerate store expansion in the Mainland by way of franchising, focusing on unsaturated second and lower tier cities to maximize growth potential. We added 143 franchised outlets and 28 self-operated ones during the year, bringing our total store network in the Mainland to 1,188 at the end of 2010. With faster expansion of franchised stores and increased marketing support, sales growth noticeably picked up in the second half. Overall, wholesale sales to franchisees increased by 17.5% and retail sales in self-operated outlets grew by 4.9%, causing the Group's total turnover in the Mainland to increase by 9.1% (7.5% in Renminbi terms) to HK\$1,781 million in 2010. Same store sales grew by 2.0% and total brand sales increased by 8.5% to HK\$2,116 million during the year. However, with more stores opening in lower tier cities sales per sq. ft. decreased to HK\$2,100 (2009: HK\$2,300 per sq. ft.).

Meanwhile, lower product cost and reduced discounting made possible a 7.6 percentage point gross margin gain to 55.4% (2009: 47.8%), enabling the Mainland to almost double its operating profit to HK\$287 million (2009: HK\$152 million). The Mainland accounted for 37.6% of the Group's sales and contributed 41.3% of its operating profit in 2010.

	2010	2009	2008	2007	2006
Turnover (in HK\$ millions) ⁷	1,781	1,633	1,689	1,349	1,090
Sales per sq. ft. (in HK\$) ⁵	2,100	2,300	3,100	2,900	2,400
Same store sales increase/(decrease) ⁴	2.0%	(5.5%)	6.1%	15.2%	8.5%
Retail floor area (square feet) ⁸	1,037,500	903,600	816,800	690,700	605,100
Number of outlets ⁸	1,188	1,017	909	820	729

China Mainland Five-Year Operations Highlights

The Group anticipates continuing growth in the Mainland, with a view to adding some 300 outlets in 2011. Franchised outlets will comprise the bulk of the new stores added, in line with Management's strategy to expand in second tier and smaller cities. Additional resources will be devoted to marketing to support our store expansion and sales growth plans in 2011.

Hong Kong & Macau

	Full Year			Second Half			First Half		
	2010	2009	Increase (Decrease)	2010	2009	Increase (Decrease)	2010	2009	Increase (Decrease)
Turnover ⁷	841	775	8.5%	449	409	9.8%	392	366	7.1%
Same store sales ⁴	9.4%	(3.2%)	N/A	8.2%	4.4%	N/A	10.5%	(10.9%)	N/A
Operating profit	125	64	95.3%	71	54	31.5%	54	10	440.0%
Operating margin	14.9%	8.3%	6.6 pp	15.8%	13.2%	2.6 pp	13.8%	2.7%	11.1 pp
Number of outlets ⁸	75	75	-	75	75	-	74	80	(6)

Hong Kong & Macau Operations Highlights (in HK\$ millions)

Increased marketing efforts helped Hong Kong to grow its turnover by 8.5% to HK\$841 million and same store sales by 9.4% during the year. Gross margin continued to improve, rising by 6.3 percentage points compared to 2009. Gross profit increased by 19.5% as a result. Along with effective operating expense controls, Hong Kong almost doubled its full year operating profit to HK\$125 million (2009: HK\$64 million). Hong Kong contributed 17.8% and 18.0% to the Group's 2010 sales and operating profit respectively.

	2010	2009	2008	2007	2006
Turnover (in HK\$ millions) ⁷	841	775	850	892	873
Sales per sq. ft. (in HK\$) ⁵	9,800	8,400	8,200	7,800	7,600
Same store sales increase/(decrease) ⁴	9.4%	(3.2%)	(1.7%)	8.1%	5.4%
Retail floor area (square feet) ⁸	83,500	87,100	98,700	110,900	117,300
Number of outlets ⁸	75	75	82	92	98

Hong Kong & Macau Five-Year Operations Highlights

Taiwan

	Full Year			Second Half			First Half		
	2010	2009	Increase (Decrease)	2010	2009	Increase (Decrease)	2010	2009	Increase (Decrease)
Turnover ⁷	606	555	9.2%	327	286	14.3%	279	269	3.7%
Same store sales ⁴	6.9%	(2.6%)	N/A	9.7%	3.8%	N/A	4.4%	(10.0%)	N/A
Operating profit (loss)	92	27	240.7%	61	31	96.8%	31	(4)	N/A
Operating margin	15.2%	4.9%	10.3 pp	18.7%	10.8%	7.9 pp	11.1%	(1.5%)	12.6 pp
Number of outlets ⁸	181	174	7	181	174	7	176	179	(3)

Taiwan Operations Highlights (in HK\$ millions)

Management's efforts to expand margins were also successful in Taiwan, with 2010 gross margin up by 7.2 percentage points over last year. With the economy strengthening, we added seven outlets during the year to grow our network to 181 locations at the end of 2010. Consequently, Taiwan's turnover grew by 9.2% (3.9% in local currency) to HK\$606 million and same store sales increased by 6.9% year-on-year. With its operating cost structure lower after restructuring, Taiwan experienced positive operating leverage and saw its operating margin rise by 10.3 percentage points to 15.2% and its operating profit more than triple to HK\$92 million (2009: HK\$27 million) in 2010. Taiwan accounted for 12.8% of the Group's sales and contributed 13.2% of its operating profit during the year.

	2010	2009	2008	2007	2006
Turnover (in HK\$ millions) ⁷	606	555	634	649	658
Sales per sq. ft. (in HK\$) ⁵	3,200	2,900	3,000	2,800	2,800
Same store sales increase/(decrease) ⁴	6.9%	(2.6%)	(3.2%)	(4.2%)	(9.1%)
Retail floor area (square feet) ⁸	191,300	185,700	204,900	218,700	235,800
Number of outlets ⁸	181	174	192	210	239

Taiwan Five-Year Operations Highlights

Singapore

	Full Year			Second Half			First Half		
	2010	2009	Increase (Decrease)	2010	2009	Increase (Decrease)	2010	2009	Increase (Decrease)
Turnover ⁷	360	310	16.1%	188	163	15.3%	172	147	17.0%
Same store sales ⁴	2.2%	(4.1%)	N/A	0.4%	(4.7%)	N/A	4.8%	(4.9%)	N/A
Operating profit (loss)	54	18	200.0%	31	21	47.6%	23	(3)	N/A
Operating margin	15.0%	5.8%	9.2 pp	16.5%	12.9%	3.6 pp	13.4%	(2.0%)	15.4 pp
Number of outlets ⁸	52	47	5	52	47	5	48	46	2

Singapore Operations Highlights (in HK\$ millions)

We continued to build on the turnaround in Singapore with new product and marketing programs. We also added five stores in 2010 to bring the total number of stores in Singapore to 52 at the end of the year. Turnover grew by 16.1% (8.6% in local currency) to HK\$360 million while same store sales increased by 2.2% in 2010 as a result. Full year gross margin posted a 9.3 percentage point gain compared to 2009, enabling Singapore to triple its operating profit to HK\$54 million (2009: HK\$18 million). Singapore contributed 7.6% and 7.8% to the Group's sales and operating profit in 2010 respectively.

	2010	2009	2008	2007	2006
Turnover (in HK\$ millions) ⁷	360	310	368	390	403
Sales per sq. ft. (in HK\$) ⁵	7,100	6,100	6,500	6,900	7,700
Same store sales increase/(decrease) ⁴	2.2%	(4.1%)	(7.7%)	(10.9%)	(11.9%)
Retail floor area (square feet) ⁸	50,800	51,300	54,300	57,300	55,100
Number of outlets ⁸	52	47	51	53	53

Singapore Five-Year Operations Highlights

Australia

	Full Year			Second Half			First Half		
	2010	2009	Increase (Decrease)	2010	2009	Increase (Decrease)	2010	2009	Increase (Decrease)
Turnover ⁷	175	180	(2.8%)	102	103	(1.0%)	73	77	(5.2%)
Same store sales ⁴	(1.2%)	(6.9%)	N/A	5.9%	(5.2%)	N/A	(8.7%)	(8.4%)	N/A
Operating profit (loss)	(5)	(28)	N/A	9	(12)	N/A	(14)	(16)	N/A
Operating margin	(2.9%)	(15.6%)	12.7 pp	8.8%	(11.7%)	20.5 pp	(19.2%)	(20.8%)	1.6 pp
Number of outlets ⁸	36	45	(9)	36	45	(9)	40	52	(12)

Australia Operations Highlights (in HK\$ millions)

The restructuring of our Australian operations began to show improved results. Lower product costs from supply chain improvements, appreciation of the Australian Dollar and reduced markdowns helped raise Australia's 2010 gross margin by 6.2 percentage points compared to 2009. We continued rationalizing our store base, closing an additional nine stores during the year on top of the 11 we closed in 2009 to consolidate the network to 36 stores at the end of 2010, significantly reducing operating costs in the process. Along with improved gross margins, this helped to swing Australia into the black in the second half of 2010. For the year as a whole, Australia's turnover decreased by 2.8% (down by 15.9% in local currency) to HK\$175 million while its operating losses narrowed to HK\$5 million (2009: operating loss of HK\$28 million).

Other Markets

	Full Year			Second Half			First Half		
	2010	2009	Increase (Decrease)	2010	2009	Increase (Decrease)	2010	2009	Increase (Decrease)
Turnover ⁷	574	460	24.8%	320	262	22.1%	254	198	28.3%
Operating profit	130	44	195.5%	78	38	105.3%	52	6	766.7%
Operating margin	22.6%	9.6%	13.0 pp	24.4%	14.5%	9.9 pp	20.5%	3.0%	17.5 pp
Number of outlets ⁸	268	259	9	268	259	9	257	259	(2)

Other Markets Operations Highlights (in HK\$ millions)

The Group's other markets comprise Indonesia, Malaysia and Thailand (the Group completed its exit from Japan in the first half of 2010, incurring a loss of HK\$13 million). Customers in Malaysia, Thailand and Indonesia responded well to the Group's renewed emphasis on "quality essentials" and "value". The resurgence in commodity prices last year and favourable exchange rates (especially a strong rebound of the Indonesian Rupiah) also contributed. As a result, Indonesia and Malaysia recorded turnover increases of 36.6% (19.8% in Indonesian Rupiah) and 26.1% (17.1% in Malaysian Ringgit) respectively in 2010. Thailand's performance was impacted by political unrest in the first half, but despite having a number of stores in Bangkok damaged and closed for several months, Thailand still posted sales growth of 16.4% (7.2% in Thai Baht) in 2010. Operating profits in all three markets rebounded strongly from improved sales and lower product and operating costs. Excluding Japan, these smaller markets together registered sales of HK\$571 million (2009: HK\$447 million) and an operating profit of HK\$129 million (2009: HK\$51 million), contributing 12.1% and 18.6% respectively to the Group's sales and operating profit in 2010.

	Indonesia			Malaysia			Thailand		
	2010	2009	Increase (Decrease)	2010	2009	Increase (Decrease)	2010	2009	Increase (Decrease)
Turnover ⁷	250	183	36.6%	179	142	26.1%	142	122	16.4%
Same store sales ⁴	17.8%	7.8%	N/A	16.7%	(11.7%)	N/A	12.2%	(4.4%)	N/A
Operating profit	70	36	94.4%	39	10	290.0%	20	5	300.0%
Operating margin	28.0%	19.7%	8.3 pp	21.8%	7.0%	14.8 pp	14.1%	4.1%	10.0 pp
Number of outlets ⁸	105	99	6	70	66	4	93	91	2

Indonesia, Malaysia and Thailand Operations Highlights (in HK\$ millions)

Retail & Distribution Review by Brand

Giordano & Giordano Junior

	Full Year			Second Half			First Half		
	2010	2009	Increase (Decrease)	2010	2009	Increase (Decrease)	2010	2009	Increase (Decrease)
Turnover ⁷	3,773	3,379	11.7%	2,071	1,810	14.4%	1,702	1,569	8.5%
Operating profit	601	271	121.8%	359	222	61.7%	242	49	393.9%
Operating margin	15.9%	8.0%	7.9 pp	17.3%	12.3%	5.0 pp	14.2%	3.1%	11.1 pp
Number of outlets ⁸	1,644	1,485	159	1,644	1,485	159	1,565	1,393	172

Giordano & Giordano Junior Operations Highlights (in HK\$ millions)

The Group continued playing to *Giordano's* strengths in 'quality essentials' and 'value' as increased advertising and promotion outlays helped push sales growth up from 8.5% in the first half to 14.4% in the second half. For 2010 as a whole, *Giordano* and *Giordano Junior's* sales grew by 11.7% to HK\$3,773 million (2009: HK\$3,379 million). Lower product costs and reduced discounting produced a 7.8 percentage point gross margin gain which, along with continued vigilance in controlling expenses, translated into an 7.9 percentage point increase in operating margin. 2010 operating profit increased by 121.8% to HK\$601 million (2009: HK\$271 million) as a result. During the year we added a total of 159 outlets, 147 of them in the Mainland, to bring the number of *Giordano* and *Giordano Junior* outlets under the Retail and Distribution segment to 1,644 as at December 31, 2010.

Giordano Ladies

	Full Year			Second Half			First Half		
	2010	2009	Increase (Decrease)	2010	2009	Increase (Decrease)	2010	2009	Increase (Decrease)
Turnover ⁷	288	250	15.2%	159	136	16.9%	129	114	13.2%
Operating profit	56	28	100.0%	35	27	29.6%	21	1	N/A
Operating margin	19.4%	11.2%	8.2 pp	22.0%	19.9%	2.1 pp	16.3%	0.9%	15.4 pp
Number of outlets ⁸	45	43	2	45	43	2	41	40	1

Giordano Ladies Operations Highlights (in HK\$ millions)

The premium *Giordano Ladies* line benefited from a general recovery in consumer confidence in 2010. Turnover increased by 15.2% to HK\$288 million while continued limits on markdowns boosted gross margin by 3.4 percentage points compared to last year. Accordingly, 2010 operating profit more than doubled to HK\$56 million (2009: HK\$28 million) and operating margin increased to 19.4%. During the year, we added two stores to bring the brand's network to 45 as at December 31, 2010.

Concepts One/Giordano Concepts

	Full Year			Second Half			First Half		
	2010	2009	Increase (Decrease)	2010	2009	Increase (Decrease)	2010	2009	Increase (Decrease)
Turnover ⁷	68	106	(35.8%)	32	42	(23.8%)	36	64	(43.8%)
Operating loss	(7)	(24)	N/A	(1)	(5)	N/A	(6)	(19)	N/A
Operating margin	(10.3%)	(22.6%)	12.3 pp	(3.1%)	(11.9%)	8.8 pp	(16.7%)	(29.7%)	13.0 pp
Number of outlets ⁸	24	22	2	24	22	2	20	24	(4)

Concepts One/Giordano Concepts Operations Highlights (in HK\$ millions)

2010 has been a transitional year for the *Concepts One/Giordano Concepts* brand. Following the restructuring in 2009 which saw the closure of almost one third of its stores and the repositioning of the brand to target the Mainland's high end menswear sector, 2010 saw addition in its retail network by two locations to 24. Although sales decreased by 35.8% gross margin rebounded by 10.0 percentage points during the year. Along with a significantly reduced cost base, the brand more or less broke even in the second half. For 2010 as a whole, *Concepts One/Giordano Concepts* had sales of HK\$68 million and cut its operating loss to HK\$7 million from a loss of HK\$24 million the year before.

BSX

	Full Year			Second Half			First Half		
	2010	2009	Increase (Decrease)	2010	2009	Increase (Decrease)	2010	2009	Increase (Decrease)
Turnover ⁷	182	158	15.2%	101	82	23.2%	81	76	6.6%
Operating profit (loss)	30	-	N/A	19	6	216.7%	11	(6)	N/A
Operating margin	16.5%	-	16.5 pp	18.8%	7.3%	11.5 pp	13.6%	(7.9%)	21.5 pp
Number of outlets ⁸	78	59	19	78	59	19	62	64	(2)

BSX Operations Highlights (in HK\$ millions)

BSX continues to build a following as a fun, youth-oriented urban brand. This, together with ongoing efforts to control its sourcing costs, enabled *BSX* to expand its gross margin by 6.6 percentage points in 2010. With its performance steadily improving, Management judged it the right time to begin expanding and added 19 outlets during the year, the first increase since 2007. This helped *BSX* to register a 15.2% increase in sales to HK\$182 million and an operating profit of HK\$30 million in 2010.

Export & Licensing Segment

	Full Year			Second Half			First Half		
	2010	2009	Increase (Decrease)	2010	2009	Increase (Decrease)	2010	2009	Increase (Decrease)
Turnover	434	350	24.0%	239	166	44.0%	195	184	6.0%
Operating profit	62	50	24.0%	35	17	105.9%	27	33	(18.2%)
Operating margin	14.3%	14.3%	Flat	14.6%	10.2%	4.4 pp	13.8%	17.9%	(4.1 pp)

Export & Licensing Segment Operations Highlights (in HK\$ millions)

With the steady recovery in demand from overseas markets, the Group's Export & Licensing business (which consists primarily of the Group's sales to its Korean and Middle East joint ventures and wholesale markets such as the Philippines) saw turnover growing by 24.0% to HK\$434 million in 2010, with the increase largely attributable to a strong recovery in shipments to the Middle East in the second half. Operating income increased by 24.0% to HK\$62 million in 2010 as a result.

Jointly controlled and Associated Companies

South Korea

	Full Year			Second Half			First Half		
	2010	2009	Increase (Decrease)	2010	2009	Increase (Decrease)	2010	2009	Increase (Decrease)
Turnover ⁷	1,286	905	42.1%	693	550	26.0%	593	355	67.0%
Same store sales ⁴	17.7%	16.5%	N/A	10.2%	29.8%	N/A	30.9%	0.7%	N/A
Number of outlets ⁸	214	191	23	214	191	23	208	169	39

South Korea Operations Highlights (in HK\$ millions)

On the back of a renewed store expansion program and same store sales growth of 17.7%, our South Korean jointly controlled company increased sales by 42.1% (30.8% in local currency) to HK\$1,286 million in 2010. With its gross margin remaining steady and expense growth under tight control, Korea increased its after-tax profit contribution to Group profit by 47.4% to HK\$56 million (2009: HK\$38 million). Twenty-three outlets were added in the period to bring the total store count to 214 at the end of 2010. The Group held 48.5% in its South Korean jointly controlled company as at December 31, 2010.

	2010	2009	2008	2007	2006
Turnover (in HK\$ millions) ⁷	1,286	905	835	982	1,014
Sales per sq. ft. (in HK\$) ⁵	7,300	5,900	6,200	6,700	7,500
Same store sales increase/(decrease) ⁴	17.7%	16.5%	(4.1%)	(8.6%)	(6.5%)
Retail floor area (square feet) ⁸	180,000	164,100	133,700	145,600	135,600
Number of outlets ⁸	214	191	167	173	148

South Korea Five-Year Operations Highlights

Middle East

	Full Year			Second Half			First Half		
	2010	2009	Increase (Decrease)	2010	2009	Increase (Decrease)	2010	2009	Increase (Decrease)
Turnover ⁷	506	477	6.1%	299	252	18.7%	207	225	(8.0%)
Same store sales ⁴	5.2%	(13.2%)	N/A	20.8%	(14.5%)	N/A	(8.5%)	(11.4%)	N/A
Number of outlets ⁸	190	175	15	190	175	15	176	172	4

Middle East Operations Highlights (in HK\$ millions)

The business of our associated company in the Middle East started off sluggish in the first half, but picked up in the second half with the recovery in oil prices. Overall, turnover increased by 6.1% to HK\$506 million in 2010 (2009: HK\$477 million). Meanwhile, lower product costs and reduced discounting produced a 4.5 percentage point gross margin gain which, along with stringent expense controls, made possible a doubling of the Middle East's after-tax profit contribution to HK\$12 million in 2010 (2009: HK\$6 million). The Group held a 20.0% stake in its Middle East associate on December 31, 2010.

Notes:

- 1 *Income taxation expense divided by operating profit (net of finance expense).*
- 2 *Inventory held at period end divided by turnover and multiplied by number of days in the period.*
- 3 *Total bank loans outstanding divided by shareholders' equity.*
- 4 *Under the old method, only directly operated stores are included in same store sales calculations. A store ceases to be comparable if (i) it is closed for 15 days or more for renovation; (ii) there is a change in the brand being carried; or (iii) its selling area changes by over 15%. Under the new method, both directly operated and franchised are included in same store sales calculations. A store is not comparable only if the number of trading days in the two periods under comparison differs by more than 10%. Same store sales are calculated in local currency terms under both methods. Same store sales growth figures for 2009 have been restated to facilitate comparison. Same store sales growth statistics for 2008 and before have not been restated.*
- 5 *Sales per sq. ft. figure calculated on a weighted average basis for self-operated stores (plus franchised stores in the case of China Mainland). 2009 sales per sq. ft. figures for China Mainland have been restated to facilitate comparison. Sales per sq. ft. statistics for 2008 and before have not been restated. Sales per sq. ft. calculations for other markets have not been affected.*
- 6 *Total retail sales in both self-operated and franchised stores.*
- 7 *Retail sales in self-operated stores (plus wholesale sales to franchisees in the case of China Mainland).*
- 8 *Total directly managed stores (plus franchised stores in the case of China Mainland) at period end.*

OUTLOOK

Looking ahead, 2011 offers both challenges and opportunities.

Our challenge in 2011 is to sustain the margin gains we achieved in 2010 in the face of rising inflationary cost pressure in our supply chain. The Group's brands all posted good gross margin gains in 2010. This was achieved in part through close collaboration with our strategic supply chain partners to lower product costs. 2011 will see continued cultivation of supply chain relationships to limit the impact of rising raw material and other input costs.

Well-conceived and executed merchandising and marketing programs also contributed to our strong performance last year. Consumers responded favourably to *Giordano* and *Giordano Junior's* renewed emphasis on "quality essentials" and "value", enabling a 7.8 percentage point increase in gross margin to 60.4% in 2010. *BSX* also gained acceptance as a fun, youth-oriented urban brand and saw its gross margin rise by 6.6 percentage points. Increased investment in marketing underpinned the Group's 16.3% top line growth in the second half. 2011 will see the Group continue investing in product design and development to keep its pipeline filled with attractive and innovative merchandise that can command a premium in the market. The new product initiatives will be supported by increased marketing, focusing especially on non-price promotional campaigns, to reinforce brand equity and pricing power, with a view to broadly maintain gross margins at 2010 levels.

Faster sales growth on the back of robust margins enabled the Group to deliver a strong set of results in the second half of 2010, and 2011 offers the opportunity for the Group to achieve greater positive operating leverage by driving higher revenue growth, especially in the Mainland. With incomes continuing to rise in China, the Mainland remains the Group's strongest growth engine. In 2010 the Group added 171 stores and saw sales increasing by 15.6% in the second half and 9.1% for the year as a whole. In 2011 our objective is to ramp up new store openings to 300, with the bulk coming from increased franchising activity in second tier and smaller cities. The expansion will be supported by solid management and financial resources and undertaken with close attention on the bottom line. The Group will also devote more resources into marketing to support store expansion and boost top line growth.

We will continue to pursue profitable growth opportunities in other Asian markets. In Hong Kong, the influx of Mainland tourists helped lift turnover but also fuelled the escalation in retail rentals. This will necessitate some repositioning of our stores in Hong Kong to sustain operating margins. For this reason, Management has decided against renewing the lease on the Causeway Bay flagship store which accounted for 6.9% of Hong Kong's 2010 sales. The store will close in the third quarter this year but we plan to add up to a dozen smaller stores in less prime locations to make up for the reduction in sales area and expect this to enable Hong Kong to continue delivering sales and profit growth in 2011.

Both Taiwan and Singapore are expected to see steady, profitable growth. With the restructuring of their respective operations more or less complete and local market conditions improving, we resumed cautious expansion and plan to add a total of about a dozen shops in these two markets this year. Indonesia, Malaysia and Thailand together are expected to see a similar number of store additions in 2011.

Finally, the Group has made considerable headway in restructuring its Australian operations. Australia posted a profit in the second half and a much reduced annual loss for the full year. The first two months of 2011 saw continued improvements and we expect the Australian business to return to profitability in 2011.

In summary, Management sees positive trends going into 2011 despite challenges arising from inflationary cost pressure in the supply chain and rising rental costs. Sales and gross profit trends held steady going into 2011. A strong Chinese New Year helped our Mainland business record double digit year-on-year sales and gross profit gains in January and February, indicating that our expansion effort is gaining traction. The Group's markets outside the Mainland also posted double digit sales and gross profit growth. Overall, the Group achieved year-on-year sales and gross profit gains in the mid-to-high teens during the first two months of 2011.

HUMAN RESOURCES

The recruitment, retention, development and motivation of outstanding employees have always been the foundation of our success. The Company offers competitive remuneration packages and generous, goal-oriented bonuses to different levels of staff. Senior managers are also offered generous incentive bonus schemes and share options as a means to reward and retain a high caliber management team.

Although a competitive remuneration package is important, numerous studies and experience have shown that ethical business values, fairness and opportunities for further professional and personal development are equally important drivers for high achievers. As such, the Group invests heavily not only in comprehensive staff training and development programs in sales and service, but also in management, planning and leadership programs addressing our people's professional and personal development needs. The Company also has an Employee Self Learning Program to foster individual initiative and responsibility for development. Fulfilment of the programmes requirements is an important consideration in evaluating an employee's total performance for compensation and career advancement.

On December 31, 2010, the Group had 7,400 employees (2009: 7,300). Total staff cost (excluding director emoluments but including employee share option charges) amounted to HK\$730 million (2009: HK\$644 million). The Group granted a total of 40 million share options to its employees in 2010 (2009: nil).

DIVIDENDS

It is the Company's intention to return surplus cash to its shareholders through payment of dividends. In line with its dividend policy, the Company has been paying a substantial portion of its earnings as an ordinary dividend plus a special dividend. The amount of which may vary depending on cash on hand, future investment requirements and working capital considerations. The Group had net cash and bank balances of HK\$978 million at December 31, 2010, of which HK\$526 million was in RMB. Markets outside the Mainland are expected to generate positive operating cash inflow to sustain their respective working capital and capital expenditure requirements.

As such, the Board has resolved to recommend to shareholders the payment of a final dividend of 7.0 HK cents (2009: 7.0 HK cents) per share and a special final dividend of 11.5 HK cents (2009: 7.0 HK cents) per share for the year ended December 31, 2010. Together with the interim dividend of 4.5 HK cents (2009: 2.0 HK cents) per share and special interim dividend of 4.0 HK cents (2009: nil) per share paid on September 24, 2010, total 2010 dividend would amount to 27.0 HK cents (2009: 16.0 HK cents) per share, representing a payout of 75.0% of 2010 per share earnings (2009: 82.9%). Subject to the approval of the shareholders at the forthcoming Annual General Meeting, the final and special final dividends will be payable on or about Friday, June 24, 2011 to shareholders whose names appear on the register of members of the Company on Thursday, June 9, 2011.

ANNUAL GENERAL MEETING

It is proposed that the Annual General Meeting of the Company will be held on Thursday, June 9, 2011. For details of the Annual General Meeting, please refer to the Notice of Annual General Meeting, which is expected to be published on or about Thursday, April 21, 2011.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Tuesday, June 7, 2011 to Thursday, June 9, 2011, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final and special final dividends, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrars in Hong Kong, Tricor Abacus Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Friday, June 3, 2011.

CORPORATE GOVERNANCE

The Company has complied with all the code provisions as set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the year ended December 31, 2010, except that (i) the roles of the Chairman and Chief Executive are vested in the same person (Code Provision A.2.1); and (ii) the Chairman and the Managing Director are not subject to retirement by rotation (Code Provision A.4.2). Currently, Dr. LAU Kwok Kuen, Peter ("Dr. Lau") holds the positions of Chairman and Chief Executive. In view of Dr. Lau's extensive experience in the industry and deep

understanding of the Group's businesses, the Board believes that vesting the roles of both Chairman and Chief Executive in Dr. Lau provides the Group with strong and consistent leadership, allows for more effective planning and execution of long term business strategies and enhances efficiency in decision-making. Further information will be provided in the "Corporate Governance Report" of the 2010 Annual Report.

REVIEW OF FINANCIAL STATEMENTS AND PRELIMINARY RESULTS ANNOUNCEMENT

The Group's audited consolidated financial statements for the year ended December 31, 2010 including the accounting principles and practices adopted have been reviewed by the Audit Committee in conjunction with the Company's external auditor.

The figures in respect of the preliminary announcement of the Group's results for the year ended December 31, 2010 have been agreed by the Group's auditor, PwC Hong Kong, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PwC Hong Kong did not constitute an assurance engagement and consequently no assurance has been expressed by PwC Hong Kong on the preliminary announcement.

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

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

By Order of the Board
LAU Kwok Kuen, Peter
Chairman

Hong Kong, March 24, 2011

As at the date of this announcement, the directors of the Company are:

Executive directors: Dr. LAU Kwok Kuen, Peter and Mr. MAH Chuck On, Bernard; and

Independent non-executive directors: Mr. Barry John BUTTIFANT, Mr. KWONG Ki Chi and Dr. LEE Peng Fei, Allen and Professor LEUNG Kwok.