

# GIORDANO

## GIORDANO INTERNATIONAL LIMITED

*(Incorporated in Bermuda with limited liability)*

(Stock Code : 709)

### ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED JUNE 30, 2005

#### UNAUDITED INTERIM RESULTS

The board of directors (the “Board”) of Giordano International Limited (the “Company”) is pleased to announce the unaudited interim results of the Company and its subsidiaries (the “Group”) for the six months ended June 30, 2005, together with comparative figures for the corresponding period and selected explanatory notes are as follows:

#### Condensed Consolidated Profit and Loss Account

<i>(In HK\$ millions, except earnings per share)</i>	<i>Note</i>	<b>Six months ended June 30</b>	
		<b>2005</b>	<b>(Restated) 2004</b>
Turnover	2	<b>\$ 2,152</b>	\$1,858
Cost of sales		<b>(1,056)</b>	(929)
Gross profit		<b>1,096</b>	929
Other revenue		<b>45</b>	44
Distribution, administrative and other operating expenses		<b>(895)</b>	(740)
Operating profit	2,3	<b>246</b>	233
Share of profits of jointly controlled entities		<b>10</b>	3
Share of profits of associated companies		<b>5</b>	4
Profit before taxation		<b>261</b>	240
Taxation	4	<b>(58)</b>	(51)
Profit after taxation		<b>\$ 203</b>	\$ 189

<i>(In HK\$ millions, except earnings per share)</i>	<i>Note</i>	<b>Six months ended June 30</b>	
		<b>2005</b>	<b>(Restated) 2004</b>
Attributable to:			
Shareholders of the Company		\$ 187	\$ 169
Minority interests		16	20
Profit after taxation		<b>\$ 203</b>	<b>\$ 189</b>
Dividends	5(a)	<b>\$ 97</b>	<b>\$ 80</b>
Earnings per share	6		
Basic		<b>12.8¢</b>	11.7¢
Diluted		<b>12.7¢</b>	11.6¢

## **Condensed Consolidated Balance Sheet**

<i>(In HK\$ millions)</i>	<b>June 30 2005 (Unaudited)</b>	<b>December 31 2004 (Restated) (Audited)</b>
<b>ASSETS</b>		
<b>Non-current assets</b>		
Fixed assets	\$ 250	\$ 361
Investment properties	104	–
Interests in jointly controlled entities	302	287
Interests in associated companies	24	25
Leasehold land and rental prepayments	308	318
Rental deposits	253	256
Deferred tax assets	16	18
	<b>1,257</b>	<b>1,265</b>
<b>Current assets</b>		
Inventories	357	331
Trade receivables	194	213
Other receivables, deposits and prepayments	224	156
Cash and bank balances	727	752
	<b>1,502</b>	<b>1,452</b>
<b>Total assets</b>	<b>\$2,759</b>	<b>\$2,717</b>

<i>(In HK\$ millions)</i>	<b>June 30 2005</b>	December 31 2004 (Restated) (Audited)
	<b>(Unaudited)</b>	
<b>EQUITY AND LIABILITIES</b>		
<b>Capital and reserves</b>		
Share capital	\$ 74	\$ 73
Reserves	1,830	1,627
Proposed dividends	97	254
Equity attributable to shareholders of the Company	<b>2,001</b>	1,954
Minority interests	<b>84</b>	79
<b>Total equity</b>	<b>2,085</b>	2,033
<b>Non-current liabilities</b>		
Deferred tax liabilities	<b>88</b>	89
<b>Current liabilities</b>		
Trade payables	<b>221</b>	230
Other payables and accruals	<b>231</b>	244
Bank loans	<b>80</b>	63
Taxation	<b>54</b>	58
	<b>586</b>	595
<b>Total liabilities</b>	<b>674</b>	684
<b>Total equity and liabilities</b>	<b>\$2,759</b>	\$2,717

*Notes:*

**1. Principal accounting policies**

These unaudited condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” and other relevant HKASs and Interpretations, the Hong Kong Financial Reporting Standards (“HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), and the applicable requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

These condensed interim financial statements should be read in conjunction with the 2004 annual financial statements.

The accounting policies and methods of computation used in the preparation of these condensed interim financial statements are consistent with those used in the annual financial statements for the year ended December 31, 2004 except that the Group has changed certain of its accounting policies following its adoption of new and revised HKFRSs and HKASs which are effective for accounting periods beginning on or after January 1, 2005.

The Group has adopted the HKFRSs and HKASs that are applicable to its operations. The comparative figures have been amended as required. The relevant new and revised HKFRSs, HKASs together with their interpretations are highlighted below:

- (a) The adoption of HKAS 1 “Presentation of Financial Statements” has affected the presentation of minority interests and share of after-tax results of associated companies and jointly controlled entities.
- (b) The adoption of revised HKAS 17 “Leases” has resulted in a change in the accounting policy relating to the classification of leasehold land. In accordance with HKAS 17, a lease of land and building should be split into a lease of land and a lease of building in proportion to the relative fair values of the leasehold interests in the land element and the building element of the lease at the inception of the lease. The up-front prepayment for land is stated at cost and amortized over the period of the lease whereas the leasehold building is stated at cost less accumulated depreciation and impairment losses.
- (c) The adoption of HKAS 32 “Financial Instruments: Disclosure and Presentation” and HKAS 39 “Financial Instruments: Recognition and Measurement” has resulted in a change in the accounting policy relating to the treatment of financial assets at fair value through profit or loss account. These have also resulted in a change in the recognition, measurement and classification of derivative financial instruments.

Certain derivatives, which include foreign exchange contracts, which do not qualify for hedge accounting, are initially recognized at fair value on the date on which a derivative contract is entered into and subsequently remeasured at their fair value. Changes in fair value of the derivatives are recognized immediately in the profit and loss account.

- (d) The adoption of HKFRS 2 “Share-based Payment” has resulted in a change in the accounting policy for share options. In prior years, the provision of share options did not result in a charge to the profit and loss account. Following the adoption of HKFRS 2, fair value of share options at the grant date is amortized over the relevant vesting periods to the profit and loss account.
- (e) Effect of adopting HKFRS 2, HKAS 32 and 39 on the condensed consolidated profit and loss account are as follows:

<i>(In HK\$ millions, except earnings per share)</i>	<b>Six months ended June 30</b>	
	<b>2005</b>	<b>2004</b>
Increase in other revenue ( <i>Note 1(c)</i> )	\$ 1	\$ –
Increase in administrative expenses ( <i>Note 1(d)</i> )	(2)	(2)
Decrease in profit attributable to shareholders of the Company	\$(1)	\$(2)
Decrease in basic and diluted earnings per share	<b>0.1¢</b>	0.1¢

- (f) Effect of changes in the accounting policies on the condensed consolidated balance sheet are as follows:

At June 30, 2005 (In HK\$ millions)	HKFRS 2	HKAS 17	HKAS 32 & 39	Total
<b>Increase/(decrease) in non-current assets</b>				
Fixed assets (Note 1(b))	\$-	\$(239)	\$-	\$(239)
Leasehold land and rental prepayments (Note 1(b))	-	231	-	231
	\$-	\$ (8)	\$-	\$ (8)
<b>Increase in current assets</b>				
Other receivables, deposits and prepayments (Note 1(b) & 1(c))	\$-	\$ 8	\$1	\$ 9
<b>Increase/(decrease) in equity</b>				
Share options reserve (Note 1(d))	\$9	\$ -	\$-	\$ 9
Retained profits (Note 1(c) & 1(d))	(9)	-	1	(8)
	\$-	\$ -	\$1	\$ 1
<b>At December 31, 2004 (In HK\$ millions)</b>				
<b>Increase/(decrease) in non-current assets</b>				
Fixed assets (Note 1(b))	\$-	\$(248)	\$-	\$(248)
Leasehold land and rental prepayments (Note 1(b))	-	240	-	240
	\$-	\$ (8)	\$-	\$ (8)
<b>Increase in current assets</b>				
Other receivables, deposits and prepayments (Note 1(b))	\$-	\$ 8	\$-	\$ 8
<b>Increase/(decrease) in equity</b>				
Share options reserve (Note 1(d))				
– at January 1, 2004	\$1	\$ -	\$-	\$ 1
– for the six months ended June 30, 2004	2	-	-	2
– for the six months ended December 31, 2004	4	-	-	4
	7	-	-	7
Retained profits (Note 1(d))	(7)	-	-	(7)
	\$-	\$ -	\$-	\$ -

## 2. Turnover and segment information

An analysis of the Group's turnover and operating profit by business segments is as follows:

<i>(In HK\$ millions)</i>	<b>Six months ended June 30</b>			
	<b>2005</b>		<b>2004</b>	
	<b>Turnover</b>	<b>Operating profit</b>	Turnover	(Restated) Operating profit
Retail and distribution	<b>\$1,953</b>	<b>\$214</b>	\$1,739	\$199
Garment trading and manufacturing	<b>520</b>	<b>32</b>	405	34
Less: Inter-segment sales	<b>(321)</b>	<b>–</b>	(286)	–
	<b>\$2,152</b>	<b>\$246</b>	\$1,858	\$233

The geographical segments of the Group's turnover are as follows:

<i>(In HK\$ millions)</i>	<b>Six months ended June 30</b>	
	<b>2005</b>	<b>2004</b>
Mainland China	<b>\$ 474</b>	\$ 424
Hong Kong	<b>462</b>	396
Taiwan	<b>391</b>	341
Singapore	<b>208</b>	197
Australia	<b>112</b>	82
Japan	<b>96</b>	85
Korea	<b>90</b>	73
Other territories	<b>319</b>	260
	<b>\$2,152</b>	\$1,858

## 3. Operating profit

The operating profit is stated after charging/(crediting):

<i>(In HK\$ millions)</i>	<b>Six months ended June 30</b>	
	<b>2005</b>	<b>2004</b>
Amortization of leasehold land prepayments	<b>\$ 4</b>	\$ 4
Depreciation of owned fixed assets	<b>58</b>	48
Depreciation of investment properties	<b>1</b>	–
Fair value gain on forward foreign exchange contracts	<b>(1)</b>	–
Net loss on disposal of fixed assets	<b>–</b>	1
Provision for obsolete stock and stock (write back)/write-offs	<b>(1)</b>	2

#### 4. Taxation

Hong Kong profits tax is calculated at the rate of 17.5 percent (2004: 17.5 percent) on the estimated assessable profits for the six months ended June 30, 2005. Overseas taxation is calculated at the rates applicable in the respective jurisdictions.

<i>(In HK\$ millions)</i>	<b>Six months ended June 30</b>	
	<b>2005</b>	<b>(Restated) 2004</b>
<b>Company and subsidiaries:</b>		
<b>Income tax</b>		
Current income tax		
– Hong Kong profits tax	<b>\$15</b>	\$15
– Overseas taxation	<b>40</b>	31
(Over)/under provision in previous period		
– Hong Kong profits tax	<b>(2)</b>	(1)
– Overseas taxation	<b>(1)</b>	1
	<b>52</b>	46
<b>Withholding tax</b>	<b>4</b>	2
<b>Deferred tax</b>		
Relating to the origination and reversal of temporary differences	<b>2</b>	3
<b>Taxation charge</b>	<b>\$58</b>	\$51

Share of jointly controlled entities' Hong Kong and overseas taxation for the six months ended June 30, 2005 of HK\$1 million (2004: Nil) and HK\$3 million (2004: HK\$1 million) respectively are included in the share of profits of jointly controlled entities.

No profits tax has been made in the accounts of associated companies for the six months ended June 30, 2005 and 2004.

The Group has a dispute with the tax authority in Taiwan with respect to tax treatment on certain of the Group's sales in Taiwan. The dispute is not expected to have any material impact on the financial position of the Group.

#### 5. Dividends

(a) Interim dividends attributable to the period are as follows:

<i>(In HK\$ millions)</i>	<b>Six months ended June 30</b>	
	<b>2005</b>	<b>2004</b>
Interim dividend declared		
after balance sheet date of 4.5 HK cents (2004: 4.0 HK cents) per share	<b>\$67</b>	\$58
Special interim dividend declared		
after balance sheet date of 2.0 HK cents (2004: 1.5 HK cents) per share	<b>30</b>	22
	<b>\$97</b>	\$80

These 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 period were as follows:

<i>(In HK\$ millions)</i>	<b>Six months ended June 30</b>	
	<b>2005</b>	<b>2004</b>
2004 final dividend approved and paid of 4.5 HK cents (2003: 4.5 HK cents) per share	<b>\$ 67</b>	\$ 65
2004 special final dividend approved and paid of 13.0 HK cents (2003: 12.0 HK cents) per share	<b>193</b>	173
	<b>\$260</b>	\$238

## 6. Earnings per share

The calculations of basic and diluted earnings per share are based on the consolidated profit attributable to shareholders of the Company for the period of HK\$187 million (2004: HK\$169 million, as restated).

The basic earnings per share is based on the weighted average of 1,465,341,927 shares (2004: 1,444,910,875 shares) in issue during the six months ended June 30, 2005.

The diluted earnings per share is based on 1,465,341,927 shares (2004: 1,444,910,875 shares) which is the weighted average number of shares in issue during the six months ended June 30, 2005 plus the weighted average of 6,450,417 shares (2004: 18,929,741 shares) deemed to be issued if all outstanding share options granted under the share option scheme of the Company had been exercised.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### RESULTS OF GROUP OPERATIONS

#### Turnover

The Group's total turnover for the first six months of the year was HK\$2,152 million (2004: HK\$1,858 million), an increase of 15.8 percent year-on-year.

During the period, turnover of the Retail and Distribution Division amounted to HK\$1,953 million (2004: HK\$1,739 million), increasing by 12.3 percent year-on-year. While comparable store sales declined slightly by 0.3 percent, comparable store gross profit grew by 2.5 percent over the same period last year.

The following table shows the Group's Retail and Distribution turnover by region. Sales in Mainland China, Hong Kong and Taiwan were all affected by the unseasonably cold weather in March and April. However, this was partly offset by strong growth in our smaller markets, particularly Australia, Thailand and Japan.

#### *Retail and Distribution Division*

Turnover (In HK\$ millions)	Six months ended June 30		Percentage change
	2005	2004	
Mainland China	\$ 464	\$ 420	10.5%
Hong Kong	412	384	7.3%
Taiwan	391	341	14.7%
Singapore	205	195	5.1%
Other Markets & Distribution Sales	481	399	20.6%
<b>Total</b>	<b>\$1,953</b>	<b>\$1,739</b>	<b>12.3%</b>

Turnover in Mainland China increased 10.5 percent year-on-year to HK\$464 million (2004: HK\$420 million). Competitive pressure intensified significantly, with both domestic and foreign brands stepping up their efforts on all fronts. This has put tremendous stress on the smaller local retail operators, and we expect the Chinese retail sector to undergo massive consolidation in the coming years. While we continue to believe enhancement of gross margins is important, we will re-evaluate our expansion strategy to capitalize on the expected wave of consolidation. Although it is not possible to quantify the exact number of new shops in the next few months with certainty, we will vigorously look at expansion possibilities.

Retail sales in Hong Kong rose 7.3 percent year-on-year to HK\$412 million (2004: HK\$384 million). This is generally in line with the overall economic trend, which saw GDP growing by 6.0 percent during the first quarter and retail sales growing by 7.9 percent in the first half of 2005. However, as a result of the general perception of the recovery in the retail sector, we have experienced a rapid escalation of rentals that has substantially out-paced both economic and retail sales growth. Management is of the view that the present rental environment is unreasonable and will not be sustained.

Taiwan's retail sales increased by 14.7 percent to HK\$391 million (2004: HK\$341 million), partly on the strength of the New Taiwan Dollar. In local currency terms, sales in the period rose by 8.0 percent year-on-year, attributable partly to the marketing and internal re-engineering efforts that we had made during 2004, and partly to continued moderate economic growth, which saw the Taiwan economy growing by 2.5 percent year-on-year in the first quarter.

Growth of the Singapore economy slowed in the first quarter but the pace picked up in the second quarter so that the economy grew by 4.0 percent in the first half overall. Consumer sentiment and retail sales exhibited a similar trend. The Group's retail sales in Singapore grew to HK\$205 million, up 5.1 percent year-on-year from HK\$195 million in the first half of 2004.

Sales growth in Australia, Malaysia, Indonesia, Thailand and Japan remained strong. In particular, Australia, Thailand and Japan all saw double-digit sales growth. Sales in these five markets together increased by 15.3 percent year-on-year.

Business of all lines improved on the back of continued business recovery throughout the Asia Pacific region. Retail and wholesale turnover of *Giordano* core line and *Giordano Junior* amounted to HK\$1,698 million, up 12.2 percent from last period's HK\$1,513 million. Turnover of *Giordano Ladies* grew 13.5 percent to HK\$84 million (2004: HK\$74 million). *Bluestar Exchange's* turnover grew 12.5 percent to HK\$171 million, compared to HK\$152 million in 2004.

Retail sales in Korea grew to HK\$478 million, up 13.5 percent year-on-year from HK\$421 million in the first half of 2004 on the strength of the Korean Won. Although sales in the first half actually declined by 2.4 percent year-on-year in local currency terms, gross margins improved by 5.3 percentage points. Korea's profits contribution rose from HK\$3 million in the first half of 2004 to HK\$9 million in the first half of 2005. As a result of the adoption of Hong Kong Accounting Standard 31 "Interest in Joint Venture", our Korean operations became eligible for

proportionate consolidation, but in the interest of consistency, we opted to continue using the equity method.

### ***Trading and Manufacturing Division***

Turnover of the Trading and Manufacturing Division, including intra-group sales, jumped 28.4 percent to HK\$520 million (2004: HK\$405 million). Third-party sales were HK\$199 million (2004: HK\$119 million), up 67.2 percent year-on-year due to shipments to new clients signed up in 2004. Third-party sales accounted for 38.3 percent (2004: 29.4 percent) while sales to Group companies accounted for 61.7 percent of divisional sales (2004: 70.6 percent). The Trading and Manufacturing Division in turn supplied 31.3 percent of the Group's merchandize requirements (2004: 29.1 percent) during the period. It contributed HK\$32 million (2004: HK\$34 million) to the Group's operating profit, representing 13.0 percent (2004: 14.6 percent) of the Group's consolidated operating profit.

### **Gross Margins**

During the first half of the year, the Group achieved gross margin of 50.9 percent, up 0.9 percentage point compared with 50.0 percent in the same period in 2004. On the back of sales and gross margin advancement, gross profits for the first six months of the year rose 18.0 percent to HK\$1,096 million (2004: HK\$929 million).

During the period, gross margin of the Retail and Distribution Division improved by 2.1 percentage points year-on-year; while that of the Trading and Manufacturing Division declined by 1.9 percentage points from last year's level owing to stiff competition arising from the global excess in textile and garment production capacity. Improvement in Retail and Distribution Division's gross margin reflected a favorable response to the Group's continued branding efforts, as well as prudent inventory management.

### **Operating Expenses**

Operating expenses increased 20.9 percent year-on-year to HK\$895 million (2004: HK\$740 million), largely due to increases in rental and shop staff costs. The increase is partly attributable to new store openings, which saw the number of outlets rising by 11.2 percent from 1,447 outlets as at June 30, 2004 to 1,609 outlets as at June 30, 2005. In addition, perceived economic recovery in the region has also subjected rentals and shop staff costs to increasing upward pressure, especially in Hong Kong.

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

The gains that we made in turnover growth and gross margin expansion were partially offset by the increase in operating expenses, especially in rental expenses and staff costs. As a result, operating profit increased only by 5.6 percent to HK\$246 million (2004: HK\$233 million) while operating margin declined to 11.4 percent in the first half of 2005 from 12.5 percent in 2004. EBITDA margin also showed year-on-year decline from 15.8 percent recorded in the first half of 2004 to 15.2 percent this year.

## **Profit Attributable to Shareholders**

Profit attributable to shareholders amounted to HK\$187 million, growing 10.7 percent from HK\$169 million reported for the same period in 2004. Share of profits of jointly controlled entities amounted to HK\$10 million, attributable largely to the recovery in our Korean operations, while good growth in our Middle East operations accounted for the HK\$5 million in profits from associated companies.

The effective tax rate increased to 23.6 percent (2004: 21.9 percent), reflecting increased profit contribution from markets with higher corporate tax rates.

## **Cash Flows**

Net cash generated from operating activities remained at last year's level of HK\$148 million. Net cash used for investing activities was HK\$27 million, a decrease of HK\$16 million over the same period in 2004. Interest received from banks and dividends received from associated companies amounted to HK\$19 million. Capital expenditure during the period accounted for HK\$48 million of the use of cash for investing activities.

Net cash used for financing activities decreased to HK\$160 million, from HK\$234 million in the first half of 2004, a net decrease of HK\$74 million. In the first half of the year, HK\$260 million of dividends were paid to shareholders, compared to HK\$238 million paid in the previous same period. During the period, proceeds from the issue of shares upon the exercise of rights attached to share options were HK\$110 million, compared to HK\$15 million in the first half of 2004.

## **Liquidity and Capital Resources**

As at June 30, 2005, total cash and bank balances amounted to HK\$727 million (December 31, 2004: HK\$752 million), and total liabilities were HK\$674 million (December 31, 2004: HK\$684 million). At the end of the reporting period, shareholders' equity was HK\$2,001 million (December 31, 2004: HK\$1,954 million).

As at June 30, 2005, the Group had trade finance and revolving loan facilities amounting to HK\$389 million, unchanged from December 31, 2004, of which HK\$80 million under revolving loan facility had been drawn and was outstanding. The Group also had contingent liabilities on bank guarantees and guarantee notes issued of HK\$68 million (December 31, 2004: HK\$52 million), which had all been incurred in the normal course of business.

## **HUMAN RESOURCES**

As of June 30, 2005, the Group had approximately 10,000 employees (December 31, 2004: 9,000 employees). Besides offering incentive bonus schemes to certain senior executives as a means to reward and retain a high caliber management team, the Group also provides competitive remuneration packages and goal-oriented bonuses to different level of staff. Discretionary bonuses and share options may also be granted to the eligible employees based on the Group's and the individual's performance.

## **OUTLOOK**

Management remains optimistic about the outlook for the balance of 2005. The general increase in rentals and staff costs poses a significant challenge for the Group. Management holds the view that the present rental environment cannot be sustained and believes that rental increases will abate in the middle of 2006. We will maintain our focus on executing our traditional areas of strength like product innovation and quality, superior customer service, information technology and cost and inventory controls. Both Taiwan and Korea have benefited from the re-engineering efforts we made during 2004, and Management is confident that such efforts will continue to yield positive results in these two markets, where continued recovery in exports is expected to help revive consumer confidence and retail sales in the second half of 2005. The opening of Hong Kong Disneyland is expected to boost tourist traffic and lift consumer sentiments, and the government is forecasting overall economic growth of about 5.0 percent for 2005 overall. Meanwhile, the economic outlook in Singapore for the second half has improved and the government is forecasting 2005 GDP growth of about 4.0 percent. Finally, while competition has significantly intensified in Mainland China, the fact remains that the country continues to grow at over 9.0 percent year-on-year. In view of the above, Management is confident that our key markets will see improved sales growth in the second half of the year.

The Group has entered into a region-wide product license agreement with The Walt Disney Company (Asia Pacific) Limited in June 2005. This marks the first licensing agreement that *Giordano* has entered into with another brand. Pursuant to the agreement, Walt Disney grants the Group the license to design, manufacture and to market specified classes of “*Disney collection by Giordano*” apparel featuring the full range of Disney characters in 12 countries in the Asia Pacific region.

## **DIVIDENDS**

The Board declared an interim dividend of 4.5 HK cents (2004: 4.0 HK cents) per share and a special interim dividend of 2.0 HK cents (2004: 1.5 HK cents) per share for the year ending December 31, 2005 payable on or about Thursday, September 15, 2005 to shareholders whose names appear on the register of members of the Company on Monday, September 12, 2005.

## **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from Friday, September 9, 2005 to Monday, September 12, 2005, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim and special interim dividends, all transfer documents accompanied by the relevant share certificates must be lodged with the Company’s branch share registrars in Hong Kong, Abacus Share Registrars Limited, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration no later than 4:00 p.m. on Thursday, September 8, 2005.

## **CORPORATE GOVERNANCE**

The primary role of the Board is to oversee how management serves the interests of shareholders and other stakeholders. To do this, the Board has adopted corporate governance principles aimed at ensuring that the Board is independent and fully informed on the key strategic issues facing our Group. The Board comprises four Independent Non-executive Directors and three Executive Directors.

The Compensation Committee, composed of two Independent Non-executive Directors, an independent Board Advisor and the Chairman, reviews and approves the remunerations of Directors and senior management.

The Audit Committee, composed of all four Independent Non-executive Directors, held meetings to review the final results for the year ended December 31, 2004 and the interim accounts for the period ended June 30, 2005 with the external auditors and the activities of the Group’s internal audit function. It has also reviewed the Company’s progress in

implementing the corporate governance requirements set out in Appendix 14 – Code on Corporate Governance Practices of the Listing Rules.

The Company has complied with all the code provisions in effect during the six months ended June 30, 2005, except for the deviations as mentioned below.

Code Provision A.2.1 stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. The Company does not have a separate Chairman and Chief Executive and Mr. Lau Kwok Kuen, Peter currently holds both positions. The Board believes that vesting the roles of both Chairman and Chief Executive in the same person provides the Group with strong and consistent leadership and allows for more effective planning and execution of long term business strategies. The Board also believes that the Company already has a strong corporate governance structure with mechanisms such as “whistle-blowing” in place to ensure effective oversight of management. The present structure is considered to be appropriate under the circumstances. Please refer to the section headed “Chairman and Chief Executive” in the “Corporate Governance Report” as contained in the 2004 Annual Report for more details.

Code Provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election and Code Provision A.4.2 (last sentence) stipulates that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. Non-executive Directors of the Company do not have a specific term of appointment. In accordance with the provisions of the Bye-Laws of the Company, new Directors appointed by the Board during the year shall retire and submit themselves for re-election at the first annual general meeting immediately following his/her appointment. Further, at each annual general meeting, one-third of the Directors for the time being, or, if their number is not a multiple of three, then the number nearest to but not exceeding one-third shall retire from office save any Director holding office as Chairman or Managing Director of the Company who shall not be taken into account in determining the number of Directors to retire in each year.

With respect to Code Provision C.2 on internal controls, which came into effect from the accounting period starting from July 1, 2005, the Company already has an Internal Audit Department in place since 2000. The Department, reporting directly to the Chairman, plays a major role in monitoring the internal governance of the Group. It also conducts special audits of areas of concern identified by Management or the Audit Committee. The Audit Committee has direct access to the Head of the

Internal Audit Department freely without reference to the Chairman or Management.

## **REVIEW OF ACCOUNTS**

The Audit Committee has reviewed with Management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters related to the preparation of the unaudited condensed financial statements for the six months ended June 30, 2005. It has also reviewed the said financial statements in conjunction with the Company's external auditors.

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

The Company has not redeemed any of its shares during the six months ended June 30, 2005. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the period.

By order of the Board  
**LAU KWOK KUEN, PETER**  
*Chairman*

Hong Kong, August 24, 2005

As at the date of this announcement, the Board comprises four Independent Non-executive Directors, namely, Mr. Au Man Chu, Milton, Mr. Barry John Buttifant, Mr. Kwong Ki Chi and Mr. Lee Peng Fei, Allen; and three Executive Directors, namely, Mr. Lau Kwok Kuen, Peter, Mr. Fung Wing Cheong, Charles and Mr. Mah Chuck On, Bernard.

*This announcement can also be accessed through Internet at the Company's website [www.giordano.com.hk](http://www.giordano.com.hk).*

Please also refer to the published version of this announcement in The Standard.