GIORDANO

GIORDANO INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 709)

ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED DECEMBER 31, 2005

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, 2005, together with comparative figures for the previous year, as follows:

Consolidated Profit and Loss Account

(In HK$ millions except earnings per share)	*Note*	**2005**	(Restated) 2004
Turnover	2	**4,413**	4,003
Cost of sales		**(2,170)**	(1,968)
Gross profit		**2,243**	2,035
Other revenue		**100**	90
Distribution expense		**(1,349)**	(1,194)
Administrative expense		**(167)**	(172)
Other operating expense		**(309)**	(268)
Operating profit	2, 3	**518**	491
Finance expense		**(1)**	–
Share of profit of jointly controlled companies		**20**	23
Share of profit of an associate		**11**	10
Profit before taxation		**548**	524
Taxation	4	**(117)**	(106)
Profit after taxation		**431**	418
Attributable to:			
Shareholders of the Company		**406**	387
Minority interests		**25**	31
		431	418

(In HK$ millions except earnings per share)	*Note*	**2005**	(Restated) 2004
Dividends	*5*	**395**	334
Earnings per share	*6*		
Basic		**27.5¢**	26.7¢
Diluted		**27.4¢**	26.4¢

Consolidated Balance Sheet

(In HK$ millions)	*Note*	**2005**	(Restated) 2004
ASSETS			
Non-current assets			
Property, plant and equipment		**256**	346
Investment property		**88**	–
Interest in jointly controlled companies		**316**	287
Interest in an associate		**30**	25
Leasehold land and rental prepayments		**313**	329
Rental deposits		**251**	256
Deferred tax assets		**24**	18
		1,278	1,261
Current assets			
Inventories		**369**	331
Leasehold land and rental prepayments		**13**	13
Trade and other receivables	*7*	**407**	360
Cash and bank balances		**903**	752
		1,692	1,456
Total assets		**2,970**	2,717

(In HK$ millions)	*Note*	**2005**	(Restated) 2004
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital		**74**	73
Reserves		**1,750**	1,627
Proposed dividends	*5*	**298**	254
Equity attributable to shareholders of the Company		**2,122**	1,954
Minority interests		**93**	79
Total equity		**2,215**	2,033
Non-current liabilities			
Deferred tax liabilities		**92**	89
Current liabilities			
Trade and other payables	*8*	**515**	474
Bank loans and overdrafts		**76**	63
Taxation		**72**	58
		663	595
Total liabilities		**755**	684
Total equity and liabilities		**2,970**	2,717

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.

The accounting policies and methods of computation used in the preparation of these financial statements are consistent with those used in 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 years 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 adoption of new HKFRSs and HKASs did not result in substantial changes to the Group's accounting policies unless otherwise highlighted below:

HKAS 1	Presentation of Financial Statements
HKAS 17	Leases
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 39	Financial Instruments: Recognition and Measurement
HKFRS 2	Share-based Payments

(i) The adoption of HKAS 1 "Presentation of Financial Statements" has affected the presentation of minority interests and share of after-tax results of associates and jointly controlled companies and other disclosures.

Minority interests are presented in the consolidated balance sheet within equity, and minority interests in the consolidated profit and loss account are presented as an allocation of the total profits for the period between the minority interests and the shareholders of the Company.

The share of profit of associates and jointly controlled companies are presented after netting off taxation in the consolidated profit and loss account.

(ii) The adoption of revised HKAS 17 "Leases" has resulted in a change in the accounting policy relating to the classification of leasehold land and land use rights. 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 building is stated at cost less accumulated depreciation and impairment losses.

(iii) 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 and 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 re-measured at their fair value. Changes in fair value of the derivatives are recognized immediately in the profit and loss account.

(iv) 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.

As a transitional provision, the cost of share options granted after November 7, 2002 and had not yet vested on January 1, 2005 was expensed retrospectively in the profit and loss account of the respective periods.

(v) All changes in the accounting policies have been made in accordance with the transitional provisions in the respective standards, wherever applicable. All standards adopted by the Group require retrospective application other than:

- HKAS 39: does not permit to recognize, derecognize and measure financial assets and liabilities in accordance with this standard on a retrospective basis;
- HKAS-Interpretation 15: does not require the recognition of incentives for leases beginning before January 1, 2005;
- HKFRS 2: only retrospective application for all share options granted after November 7, 2002 and not vested at January 1, 2005; and
- HKFRS 3: prospectively after January 1, 2005.

(vi) Effect of adopting HKFRS 2 on the consolidated profit and loss account is as follows:

(In HK$ millions, except earnings per share)	**2005**	2004
Increase in administrative expenses *(Note 1(iv))*	**4**	6
Decrease in profit attributable to shareholders of the Company	**4**	6
Decrease in basic and diluted earnings per share	**0.3¢**	0.5¢

(vii) Effect of changes in the accounting policies on the consolidated balance sheet is as follows:

At December 31, 2005

(In HK$ millions)	HKFRS 2	HKAS 17	Total
Increase/(decrease) in non-current assets			
Property, plant and equipment *(Note 1(ii))*	**–**	**(250)**	**(250)**
Leasehold land and rental prepayments *(Note 1(ii))*	**–**	**242**	**242**
	–	**(8)**	**(8)**
Increase in current assets			
Leasehold land and rental prepayments *(Note 1(ii))*	**–**	**8**	**8**
Increase/(decrease) in equity			
Share options reserve *(Note 1(iv))*	**10**	**–**	**10**
Retained profits *(Note 1(iv))*	**(10)**	**–**	**(10)**
	–	**–**	**–**

At December 31, 2004

(In HK$ millions)	HKFRS 2	HKAS 17	Total
Increase/(decrease) in non-current assets			
Property, plant and equipment *(Note 1(ii))*	–	(263)	(263)
Leasehold land and rental prepayments *(Note 1(ii))*	–	255	255
	–	(8)	(8)
Increase in current assets			
Leasehold land and rental prepayments *(Note 1(ii))*	–	8	8
Increase/(decrease) in equity			
Share options reserve *(Note 1(iv))*			
– at January 1, 2004	1	–	1
– for the year ended December 31, 2004	6	–	6
	7	–	7
Retained profits *(Note 1(iv))*	(7)	–	(7)
	–	–	–

(viii) Certain new standards, amendments and interpretations to existing standards have been published that are relevant to the Group's business and are mandatory for the Group's accounting periods beginning on or after January 1, 2006 or later periods. The Group has not adopted these new standards, amendments and interpretations for the year ended December 31, 2005.

2. Turnover and segment information

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

			(Restated)	
	2005		2004	
(In HK$ millions)	**Turnover**	**Operating profit**	Turnover	Operating profit
Retail and Distribution	**4,002**	**460**	3,739	437
Garment Trading and Manufacturing	**1,043**	**58**	824	51
Less: Inter-segment sales	**(632)**	**–**	(560)	3
	4,413	**518**	4,003	491

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

(In HK$ millions)	**2005**	2004
Mainland China	**1,014**	958
Hong Kong	**949**	838
Taiwan	**782**	707
Singapore	**410**	395
Australia	**248**	213
Japan	**184**	189
Korea	**166**	134
Other territories	**660**	569
	4,413	4,003

There is no major disparity in the ratios between turnover and profit in relation to the above geographical locations, hence no analysis was presented on profit contributions from the above geographical locations.

3. Operating profit

The operating profit is stated after charging:

(In HK$ millions)	**2005**	(Restated) 2004
Amortization of leasehold land prepayments	**8**	9
Depreciation of property, plant and equipment	**113**	103
Depreciation of investment property	**2**	–
Net loss on disposal of property, plant and equipment	**2**	5
Provision for obsolete stock and stock written off	**10**	11

4. Taxation

Hong Kong profits tax is calculated at the rate of 17.5 percent (2004: 17.5 percent) on the estimated assessable profits during the year. Overseas taxation is calculated at the rates applicable in the respective jurisdictions.

The charge for taxation in the consolidated profit and loss account represents:

(In HK$ millions)	**2005**	(Restated) 2004
Company and subsidiaries:		
Income tax		
Current income tax		
– Hong Kong profits tax	**33**	31
– Overseas taxation	**83**	62
(Over)/under provision in previous year		
– Hong Kong profits tax	**–**	1
– Overseas taxation	**(2)**	(1)
	114	93
Withholding tax	**3**	3
Deferred tax		
Relating to the origination and reversal of temporary differences	**–**	10
Taxation charge	**117**	106

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) Dividends attributable to the year:

(In HK$ millions)	**2005**	2004
Interim dividend declared and paid of 4.5 HK cents (2004: 4.0 HK cents) per share	**67**	58
Special interim dividend declared and paid of 2.0 HK cents (2004: 1.5 HK cents) per share	**30**	22
	97	80
Final dividend proposed after balance sheet date of 5.0 HK cents (2004: 4.5 HK cents) per share	**75**	65
Special final dividend proposed after balance sheet date of 15.0 HK cents (2004: 13.0 HK cents) per share	**223**	189
	298	254
	395	334

At the board meeting held on March 21, 2006, the directors proposed final and special final dividends of 5.0 HK cents and 15.0 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:

(In HK$ millions)	**2005**	2004
2004 final dividend approved and paid of 4.5 HK cents (2003: 4.5 HK cents) per share	**67**	65
2004 special final dividend approved and paid of 13.0 HK cents (2003: 12.0 HK cents) per share	**193**	173
	260	238

6. 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$406 million (2004: HK$387 million (restated)).

The basic earnings per share is based on the weighted average of 1,477,470,066 shares (2004: 1,447,184,708 shares) in issue during the year.

The diluted earnings per share is based on 1,477,470,066 shares (2004: 1,447,184,708 shares) which is the weighted average number of shares in issue during the year plus the weighted average of 5,349,946 shares (2004: 17,211,366 shares) deemed to be issued if all outstanding share options granted under the share option schemes of the Company had been exercised.

7. Trade and other receivables

(In HK$ millions)	**2005**	2004
Trade receivables	**273**	223
Less: Provision for impairment of trade receivables	**(10)**	(10)
Trade receivables – net	**263**	213
Other receivables, deposits and prepayments	**144**	147
	407	360

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

The ageing analysis of trade receivables is as follows:

(In HK$ millions)	**2005**	2004
0 – 30 days	**202**	147
31 – 60 days	**36**	50
61 – 90 days	**14**	10
Over 90 days	**11**	6
Total	**263**	213

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

8. Trade and other payables

(In HK$ millions)	**2005**	2004
Trade payables	**246**	230
Other payables and accrued expenses	**269**	244
	515	474

The ageing analysis of trade payables is as follows:

(In HK$ millions)	**2005**	2004
0 – 30 days	**192**	190
31 – 60 days	**40**	24
61 – 90 days	**8**	9
Over 90 days	**6**	7
Total	**246**	230

MANAGEMENT'S DISCUSSION AND ANALYSIS

RESULTS OF GROUP OPERATIONS

Turnover

The Group achieved a total turnover for the year of HK$4,413 million (2004: HK$4,003 million), an increase of 10.2 percent year-on-year; or a 9.7 percent increase if foreign exchange gains were excluded. We had a strong start in 2005, delivering a 15.8 percent year-on-year turnover growth in the first half. This solid growth was overshadowed in the second half of 2005 by the adverse impact on sales of the unusually warm weather in the fourth quarter in Greater China. Meanwhile our Southeast Asian markets were challenged by lowered consumer sentiments and spending due to higher interest rates, fuel and transportation costs.

The Garment Trading & Manufacturing Division recorded a 26.6 percent year-on-year turnover growth to HK$1,043 million (2004: HK$824 million) before the elimination of inter-segment transactions. After the elimination of inter-segment transactions, sales of the Garment Trading & Manufacturing Division grew by 55.7 percent to HK$411 million (2004: HK$264 million).

Sales of the Retail & Distribution Division grew by 7.0 percent year-on-year to HK$4,002 million (2004: HK$3,739 million). While comparable store sales declined slightly by 0.5 percent, comparable store gross profit grew by 0.9 percent. The Retail & Distribution Division accounted for 90.7 percent of the Group's total turnover, down from 93.4 percent in 2004.

Gross Profit

Despite a more difficult second half, overall gross margin for 2005 stayed steady at 50.8 percent due to efficient sourcing and cost management. Gross profit grew by 10.2 percent to HK$2,243 million (2004: HK$2,035 million).

Operating Expenses

Growth in operating expenses slowed in the second half, partly because of the slowdown in sales growth, but also because of the swift and decisive action that the Group took to control expenses. Operating expenses for 2005 as a whole grew by 11.7% to HK$1,825 million (2004: HK$1,634 million). Distribution expense rose by 13.0 percent, to HK$1,349 million (2004: HK$1,194 million), attributed mainly to a 14.4 percent increase in operating lease rental and a 12.2 percent increase in staff cost. Administrative expense declined 2.9 percent to HK$167 million (2004: HK$172 million). Other operating expense increased by 15.3 percent to HK$309 million (2004: HK$268 million). The increase was mainly attributable to a 35.1 percent increase in advertising and promotion expenses.

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

The Group's 2005 operating profit was HK$518 million, up 5.5 percent from the HK$491 million recorded in 2004. Operating margin was 11.7 percent, down 0.6 percentage point compared to 2004.

The Garment Trading & Manufacturing Division saw its operating profit increasing to HK$58 million, up 13.7 percent year-on-year. Meanwhile, operating profit from the Retail & Distribution Division totaled HK$460 million (2004: HK$437 million), representing 88.8 percent (2004: 89.0 percent) of the Group's operating profit. Operating margin for the Retail & Distribution Division in 2005 declined by 0.2 percentage point to 11.5 percent.

The Group's 2005 EBITDA amounted to HK$672 million (2004: HK$636 million), up 5.7 percent year-on-year. EBITDA margin declined by 0.7 percentage point to 15.2 percent (2004: 15.9 percent).

Profit Attributable to Shareholders

Profit attributable to shareholders, totaling HK$406 million (2004: HK$387 million), represented a 4.9 percent increase year-on-year. Share of after tax profits of jointly controlled companies and an associate decreased by 6.1 percent to HK$31 million (2004: HK$33 million) due to a reduction in the profits contributed by our South Korean operation.

The Group's effective tax rate increased by 1 percentage point in 2005 due to the change in composition of profits contribution from the Group's various markets.

Cash Flow

Cash inflow from operating activities increased to HK$489 million (2004: HK$327 million), due mainly to a much smaller growth in inventories in 2005 of HK$38 million (2004: HK$109 million). In addition, after showing a decrease in 2004, there was an increase in trade and other payables in 2005 and this had a net effect of increasing cash flow by HK$56 million.

Cash outflow from investing activities, amounting to HK$89 million, was lower than the HK$118 million recorded in 2004. This is largely due to a HK$23 million decrease in capital expenditure.

At HK$254 million, cash outflow from financing activities was HK$63 million below the level of HK$317 million as recorded in 2004 despite an increase in dividend payment by HK$39 million which was offset by a HK$90 million increase in cash proceeds received from the exercise of share options by management staff.

GROUP FINANCIAL POSITION

At December 31, 2005, the Group had cash and bank deposits of HK$903 million (2004: HK$752 million). The increase is partly explained by cash receipts related to the exercise of management options in 2005.

At December 31, 2005, the Group's working capital was HK$1,029 million, up from HK$861 million at the end of 2004. Current ratio was 2.6 times, a slight increase from the 2.4 times at the end of 2004.

At the end of the year, the Group's inventories totaled HK$369 million, up from the HK$331 million recorded in 2004. In 2005, inventory turnover on sales was 31 days (2004: 30 days), within the Group's target range of 28 to 32 days.

At December 31, 2005, total liabilities were HK$755 million, up 10.4 percent from the HK$684 million at the end of 2004. Shareholders' equity was HK$2,122 million, a 8.6 percent increase over the HK$1,954 million at the end of 2004. The Group's gearing was 3.6 percent (2004: 3.2 percent) based on shareholders' equity.

Capital expenditure during the year was HK$120 million (2004: HK$143 million), representing 24.5 percent (2004: 43.7 percent) of net cash inflow from operating activities. Management foresees 2006 capital expenditure to increase to about HK$150 million.

The Group had financing facilities totaling HK$389 million at the end of the year (2004: HK$389 million), of which HK$76 million revolving loan facilities had been drawn and were outstanding. As at December 31, 2005, the Group had contingent liabilities of HK$9 million (2004: HK$9 million) incurred in the normal course of business.

DIVISIONAL OPERATIONS HIGHLIGHTS

Garment Trading & Manufacturing Division

The Garment Trading & Manufacturing Division's turnover, including inter-segment sales, amounted to HK$1,043 million (2004: HK$824 million), a 26.6 percent increase over the previous year. The Division's continued activities in broadening its client base further reduced its reliance on the rest of the Group, with inter-segment sales in 2005 amounting to 60.6 percent of the Division's turnover (2004: 68.0 percent). The Division also achieved further geographic diversification to reduce its reliance on the Japanese market. In 2005, business with non-Japanese third parties accounted for about 27 percent of turnover more than double that of Japan's 12 percent share.

As a result, the Division's operating profit increased 13.7 percent to HK$58 million (2004: HK$51 million) though operating margins declined by 0.6 percentage point to 5.6 percent (2004: 6.2 percent) due to increased price competition. Management believes that the best way to address this challenge is to discard the OEM (Original Equipment Manufacturer) model of the past and move up the value chain to adopt an ODM (Original Design Manufacturer) model. By offering a one-stop solution covering design, product development, global sourcing, production and supply chain management, Management believes that it will help build long-term partnerships with more external clients and enable us to re-build margins.

Retail & Distribution Division

Turnover from the Retail & Distribution Division totaled HK$4,002 million (2004: HK$3,739 million), 7.0 percent higher than that of 2004. The Group added 109 outlets world-wide in 2005.

During the year, comparable store sales declined by 0.5 percent while comparable store gross profit increased by 0.9 percent year-on-year.

Turnover of *Giordano core-line* was 6.8 percent higher than that of the previous year. Among our markets, Japan saw the best sales growth in 2005, followed by Australia and Indonesia. Meanwhile, gross margins improved by 1.1 percentage points, with China seeing the best gross margin improvement during the year. The Group added 87 *Giordano core-line* outlets in 2005, bringing the total store count to 1,527 worldwide.

Turnover of *Giordano Ladies* increased 13.1 percent while gross margin rose by 1.0 percentage point when compared to that of 2004. All markets except Taiwan posted good sales and gross profit growth during the year. In Taiwan's case, high sales staff turnover affected sales in the first half but due to swift action to address the issues the situation has stabilized and sales are back on a growth track. The Group added three *Giordano Ladies* stores in 2005 and has plans to add one store each in Shanghai, Hong Kong and Singapore in 2006.

Bluestar Exchange's turnover increased by 5.8 percent year-on-year and gross margin widened by 1.9 percentage points. The Group opened its first *Bluestar Exchange* in Australia and the store has performed to expectations. Overall, we added 19 *Bluestar Exchange* outlets to bring the total store count to 140 by the end of 2005.

The Group entered a region-wide product license agreement with The Walt Disney Company (Asia Pacific) Limited ("Walt Disney"). Pursuant to the agreement, Walt Disney granted Giordano the license to design, manufacture and market adult and children's T-shirts and sweatshirts featuring Disney characters. The license includes the full range of Disney characters and covers the entire Asia Pacific region. The products, marketed under the label "*Disney Collection by Giordano*", were launched in Hong Kong in July 2005 and in our other Asia Pacific markets in the following months.

RETAIL & DISTRIBUTION DIVISION – GEOGRAPHIC HIGHLIGHTS

Retail & Distribution sales in the Group's key markets posted strong year-on-year turnover increases during the first half, with overall sales growth of 12.3 percent year-on-year. However, this favorable showing was overshadowed in the second half of 2005 by the adverse impact on sales caused by unusually warm weather in Greater China during the fourth quarter, the region's peak selling period. Second half growth slowed to 2.5 percent year-on-year and full year growth came in at 7.0 percent.

Mainland China

Turnover in China grew by 10.6 percent year-on-year in the first half, but the trend reversed itself in the second half when turnover declined by 1.7 percent year-on-year due to the late arrival of cold weather which adversely affected sales and caused us to take earlier markdowns in December. As a result, turnover for the full year grew by 3.7 percent to HK$987 million (2004: HK$952 million).

During the year, there was a net increase of 35 outlets, of which 29 were *Giordano core-line*, two were *Giordano Ladies*, three *Bluestar Exchange* and one *Giordano Junior*. Retail sales per square foot held steady at HK$2,400 and comparable store sales increased by 6.0 percent. Management remains committed to achieving sustainable and profitable growth and in this respect will focus on long-term profit potential when committing to new locations and renewing old leases. Plans are to add about 30 *Giordano core-line* and 10 *Bluestar Exchange* outlets in 2006.

Hong Kong

Consumer confidence in Hong Kong continued to improve in line with gains in the stock and property markets. As a result, we saw steady year-on-year growth through most of 2005 until the unfavorable weather in the fourth quarter slowed down the pace. Disneyland Hong Kong also delivered a much smaller boost to tourist arrivals than originally anticipated. Nevertheless, in 2005 turnover grew 7.0 percent to HK$867 million (2004: HK$810 million), with *Giordano Ladies* achieving the best growth. Full year per-square-foot sales and comparable store sales both increased by about 4.0 percent.

We added nine outlets during the year, of which two were *Giordano core-line* and seven were *Bluestar Exchange*, bringing the total number of outlets to 101 at the end of 2005. We saw a rapid escalation of rentals in the run-up to Disneyland Hong Kong's opening but fortunately the effect on the group has been mitigated by the fact that our two flagship stores are secured by long-term leases.

Taiwan

Despite a strong start, with sales growth of 14.6 percent year-on-year in the first half, sharply weakening consumer confidence in Taiwan resulted in second half sales declining by 6.8 percent year-on-year, so that turnover for the year grew by 3.5 percent only to HK$732 million (2004: HK$707 million). Sales per square foot managed a marginal increase while comparable store sales declined by 6.0 percent. Despite the challenging trading environment, we continued to focus on prudently managing our discount and markdowns so that gross margins actually widened by 2.0 percentage points during the year. We closed two *Giordano* and added three *Bluestar Exchange* outlets during the year.

Singapore

Turnover increased 3.1 percent to HK$403 million (2004: HK$391 million). Comparable store sales and per-square-foot sales declined by 1.2 percent and 4.6 percent respectively. Gross margin remained essentially unchanged. We added one *Giordano core-line* outlet in 2005.

Other Markets

During the year, the Group's other markets all achieved strong year-on-year sales. Taken together, this group accounted for 16.0 percent of the Group's total 2005 retail and distribution turnover, compared to 15.2 percent in 2004.

(In HK$ millions)	**Australia**	**Malaysia**	**Indonesia**	**Thailand**	**Japan**	**Total**
2005	**222**	**126**	**139**	**91**	**63**	**641**
2004	188	126	119	84	53	570
Year-on-year increase	18%	–	17%	8%	19%	12%

Australia

Australia continued to deliver good growth after a strong 2004. In 2005, sales advanced 18.1 percent to HK$222 million (2004: HK$188 million). If foreign exchange gains were excluded, sales would still have grown by 14.6 percent over the previous year. Nine *Giordano core-line* stores were added in 2005 as we continued with our expansion out of New South Wales and Victoria into the rest of the eastern seaboard. We opened our first *Bluestar Exchange* store in 2005 and thus far it has performed to our expectations. Together, the total store count has increased to 52 at the end of 2005.

Malaysia, Thailand and Indonesia

Growth in all three markets were negatively impacted by interest rate increases and fuel price hikes which took their toll on consumer confidence. As a result, Malaysia ended the year with flat turnover growth while Indonesia and Thailand saw turnover increasing by 16.8 percent and 8.3 percent respectively, mainly due to new store openings. We added four stores in Malaysia, eleven in Thailand and seventeen in Indonesia so that at the end of 2005 the total store counts in these three markets stand at 53, 57 and 62 respectively.

Japan

Sales grew 18.9 percent year-on-year, or 21.7 percent when negative foreign exchange impact was excluded. During the year, we completed our exit from the Tokyo region thereby resulting in a net reduction of three outlets, taking total store count to 21 as at December 31, 2005. Sales per square foot rose by 9.1 percent. Japan further narrowed its loss in 2005 and Management aims to achieve breakeven in 2006.

Joint Ventures

South Korea

Turnover of our South Korean jointly controlled company increased by 11.2 percent year-on-year to HK$995 million (2004: HK$895 million) due to the appreciation of the South Korean Won. In local currency terms, sales declined by 0.9 percent year-on-year, due in part to the fact that there has been a net reduction of four locations in 2005 which brought the total store count down to 168. This represents a significant improvement over the 13.4 percent and 27.4 percent local currency turnover declines that we suffered in 2004 and 2003 respectively. Gross margin continued to improve owing to lower sourcing costs and continued discipline on pricing and discounts. After tax profit in 2005 was lower at HK$38 million compared to the HK$46 million recorded in 2004, due mainly to the fact that there was a favorable one-off tax adjustment that year. At December 31, 2005, the Group held 49.5 percent in its South Korean jointly controlled company.

Middle East

Buoyed by rising oil prices, consumer confidence continued to improve and we capitalized on the trend by adding 18 new locations in the region, bringing the total store count in the region to 107 as at December 31, 2005. As a result, turnover of our associate company in the Middle East grew by 15.3 percent to HK$332 million (2004: HK$288 million), and after tax profit grew by 12.2 percent to HK$55 million (2004: HK$49 million). However, competition has heated up significantly as more brands are attracted to the region. We plan to add about 12 outlets in the region in 2006. At December 31, 2005, we held 20.0 percent in our Middle East associate.

HUMAN RESOURCES

On December 31, 2005, the Group had approximately 11,000 employees. The Group offers incentive bonus schemes to certain senior managers as a means to reward and retain a high caliber management team. Competitive remuneration packages and goal-oriented bonuses are also paid to different levels of staff.

OUTLOOK

The general economic outlook for 2006 is clouded by continuing concerns about high oil prices, rising interest rates and the possible outbreak of avian flu. At the same time, competition continues to intensify in markets everywhere. Erratic weather has further compounded these factors so that performance to date did not meet Management's expectations, with the Group posting a high single digit year-on-year turnover decline for the first two months of 2006. Performance has improved in March and inventory levels remain healthy.

In 2006, we will focus our attention on addressing the merchandizing and customer care issues that we have identified following a thorough review of our 2005 performance. On the merchandizing side, we have embarked on a bottom-up review of our network of outlets to gain a more detailed understanding of each one's customer profile. This would allow us to better target our merchandize offering to meet local customer needs, thus driving better comparable store growth. We will also push ahead with the global launch of the World Without Strangers/Customer Relationship Management (CRM) program. The system, developed over the last two years, is seamlessly integrated into our global IT system and will allow us to leverage on our existing local privilege card programs to build a strong global CRM program. We expect these two initiatives to help us cement brand loyalty and enhance sales growth.

We also plan to add approximately 70 stores to its global network in 2006. These will include additions in our existing markets as well as new markets like India that we are launching this year. Overall, despite a challenging first quarter, we remain cautiously optimistic about 2006 prospects and target to achieve steady growth for the Group.

1. Mainland China

Mainland China will continue to be an important source of growth for the Group. One of the main initiatives this year is to recapture wholesale sales momentum. To this end, we have revamped our merchandizing processes and systems to better position our product offerings to match local customer needs. We expect this initiative to help not only with improving wholesale sales but also in raising productivity of our own retail outlets. Growth will be augmented by a balanced and managed store roll-out program that targets sustained profitability in an expanding but increasingly complex and competitive market. We plan to add 40 outlets in China in 2006.

2. Hong Kong

Although consumer confidence continues to be buoyed by gains in the property and stock markets, the optimistic outlook is clouded by concerns about rising interest rates and avian flu. Management believes that rentals have peaked in Hong Kong and should begin to abate in the second half. However, seeing that Hong Kong is one of the Group's most mature and saturated markets, Management is not planning significant additions to its network. Instead, Management plans to take advantage of this opportunity to adjust its portfolio of stores and to enhance sales and profits growth through more targeted merchandizing.

3. **Taiwan**

With negative household income growth and a gathering consumer credit crunch, Taiwanese consumer confidence experienced new lows in 2005. Furthermore, the increased strain in cross-straits ties makes Taiwan's outlook for 2006 the most challenging among all our markets. Our focus will be on improved merchandizing to drive comparable store sales growth as well as tighter inventory and cost controls.

4. **Singapore**

Like Hong Kong, Singapore is another highly saturated and mature market for *Giordano* so the focus for Management is to drive comparable store sales growth through better execution in areas such as merchandizing, cost and inventory controls, in-store visual display and staff development. Following on the success of our first *Giordano Ladies* store, we will be opening a second store in Raffles City in the second half of 2006.

5. **South Korea**

Prospects for a recovery in the South Korean apparel retail sector are still uncertain and the sector remains highly competitive, especially in the youth market which has traditionally been our strength. In 2006, Management will focus on leveraging the gains we have made in improved product development, sourcing, inventory management and pricing discipline to drive sustained sales growth and margin improvement. The growth is expected to come partly from comparable store sales improvements, and partly from new store openings. To that end, we plan to add ten locations in South Korea in 2006.

6. **Japan**

Management will stay the course in Japan and continue building on the base we have established in Kansai, with a view to achieving breakeven in Japan this year.

7. **New Markets**

We will open our first *Giordano* store in India in Chennai in the second quarter of 2006. More store sites have been identified and we expect to open two or three stores in 2006 and a similar number in 2007.

DIVIDENDS

The Board has resolved to recommend to shareholders the payment of a final dividend of 5.0 HK cents (2004: 4.5 HK cents) per share and a special final dividend of 15.0 HK cents (2004: 13.0 HK cents) per share which, together with the interim dividend of 4.5 HK cents (2004: 4.0 HK cents) per share and the special interim dividend of 2.0 HK cents (2004: 1.5 HK cents) per share paid on September 15, 2005, make a total dividend of 26.5 HK cents (2004: 23.0 HK cents) per share for the year ended December 31, 2005. 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 Monday, May 15, 2006 to shareholders whose names appear on the register of members of the Company on Tuesday, May 9, 2006.

ANNUAL GENERAL MEETING

It is proposed that the Annual General Meeting of the Company will be held on Tuesday, May 9, 2006. 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 Monday, April 3, 2006.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Thursday, May 4, 2006 to Tuesday, May 9, 2006, 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, Abacus Share Registrars Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Wednesday, May 3, 2006.

CORPORATE GOVERNANCE

The Company has complied with all the code provisions in effect as set out in the Code on Corporate Governance Practices 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, 2005 except for the deviations as mentioned in the section "Corporate Governance" contained in the 2005 Interim Report. Further information will also be included in the 2005 Annual Report.

During the year, the Company fixed the term of all Independent Non-executive Directors as one year. In order to follow certain of the code provisions and comply with the amendment of the Listing Rules on the provision governing the removal of directors in the Company's Bye-Laws, the Board has proposed to amend the Company's Bye-Laws at the forthcoming Annual General Meeting and details of the proposed amendments will be contained in the Notice convening the Annual General Meeting.

REVIEW OF ACCOUNTS

The Group's audited consolidated financial statements for the year ended December 31, 2005 including the accounting principles and practices adopted have been reviewed by the Audit Committee in conjunction with the Company's external auditors. Also, this preliminary results announcement has been agreed 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 year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

By order of the Board
LAU KWOK KUEN, PETER
Chairman

Hong Kong, March 21, 2006

As at the date of this announcement, the Board of the Company comprises four independent non-executive directors, namely, Mr. Au Man Chu, Milton, Mr. Barry John Buttifant, Mr. Kwong Ki Chi and Dr. 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.

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