GIORDANO

GIORDANO INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 709)

ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED JUNE 30, 2018

UNAUDITED INTERIM RESULTS

HIGHLIGHTS

- Group sales for the first half of 2018 were HK$2,860 million (2017: HK$2,618 million), an increase of 9.2%. Group comparable store sales and comparable store gross profit were up by 5.1% and 3.1%, respectively.
- Group gross profit grew by 8.2% to HK$1,694 million (2017: HK$1,566 million) on improved sales, partially offset by a 0.6 percentage point decline in gross margin due in part to changes in channel mix and longer promotion periods during the late Chinese New Year and other festivals.
- Profit after income taxes attributable to shareholders of the Company was HK$254 million, an increase of 3.7%, while net profit margin was 8.9%, a slight decrease of 0.5 percentage point.
- At June 30, 2018, the cash and bank balances recorded, net of bank loans, was HK$1,224 million (June 30, 2017: HK$1,233 million).
- Inventory turnover on costs decreased by 2 days to 77 days year-on-year.
- The board of directors of the Company has declared an interim dividend of 17.0 HK cents per share (2017: 15.0 HK cents per share) for the six months ended June 30, 2018.

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The board of directors (the "Board") of Giordano International Limited (the "Company") presents the following unaudited interim results of the Company and its subsidiaries (the "Group") for the six months ended June 30, 2018 along with comparative figures and explanatory notes.

Consolidated Income Statement

(In HK$ million, except earnings per share)	**Unaudited Six months ended June 30 2018**	2017
Sales (Note 3)	**2,860**	2,618
Cost of sales (Note 5)	**(1,166)**	(1,052)
Gross profit	**1,694**	1,566
Other income and other gains, net (Note 4)	**36**	60
Distribution expense (Note 5)	**(1,242)**	(1,146)
Administrative expense (Note 5)	**(140)**	(149)
Operating profit	**348**	331
Finance expense	**(2)**	(2)
Share of profit of joint ventures	**29**	23
Profit before income taxes	**375**	352
Income taxes (Note 6)	**(84)**	(74)
Profit after income taxes for the period	**291**	278
Attributable to:		
Shareholders of the Company	**254**	245
Non-controlling interests	**37**	33
	291	278
Earnings per share for profit attributable to shareholders of the Company (Note 7)		
Basic (HK cents)	**16.2**	15.6
Diluted (HK cents)	**16.1**	15.6

Consolidated Statement of Comprehensive Income

(In HK$ million)	**Unaudited Six months ended June 30 2018**	2017
Profit after income taxes for the period	**291**	278
Other comprehensive income:		
Items that may be reclassified to profit or loss:		
Fair value change on financial asset at fair value through other comprehensive income	**(3)**	—
Disposal of available-for-sale financial asset	**—**	(6)
Exchange adjustments on translation of overseas subsidiaries, joint ventures and branches	**(39)**	63
Total comprehensive income for the period	**249**	335
Attributable to:		
Shareholders of the Company	**219**	301
Non-controlling interests	**30**	34
	249	335

Consolidated Balance Sheet

(In HK$ million)	**(Unaudited) June 30 2018**	(Audited) December 31 2017
Assets		
Non-current assets		
Property, plant and equipment	**218**	234
Investment properties	**27**	28
Goodwill	**546**	546
Interest in joint ventures	**519**	563
Available-for-sale financial asset	**—**	16
Financial asset at fair value through other comprehensive income	**13**	—
Financial asset at fair value through profit or loss	**28**	28
Leasehold land and rental prepayments	**143**	147
Rental deposits	**123**	135
Deferred tax assets	**49**	51
	1,666	1,748
Current assets		
Inventories	**499**	524
Leasehold land and rental prepayments	**58**	58
Trade and other receivables (Note 9)	**508**	527
Cash and bank balances	**1,522**	1,465
	2,587	2,574
Total assets	**4,253**	4,322
Equity and liabilities		
Capital and reserves		
Share capital	**79**	79
Reserves	**2,508**	2,528
Proposed dividends (Note 8)	**268**	314
Equity attributable to shareholders of the Company	**2,855**	2,921
Non-controlling interests	**206**	220
Total equity	**3,061**	3,141
Non-current liabilities		
Put option liabilities	**6**	6
Deferred tax liabilities	**118**	127
	124	133
Current liabilities		
Trade and other payables (Note 10)	**505**	484
Put option liabilities	**121**	121
Bank loans	**298**	298
Income tax payables	**144**	145
	1,068	1,048
Total liabilities	**1,192**	1,181
Total equity and liabilities	**4,253**	4,322
Net current assets	**1,519**	1,526
Total assets less current liabilities	**3,185**	3,274

Notes to the unaudited condensed consolidated interim financial statements

1. Basis of preparation

The unaudited condensed consolidated interim financial information (the "unaudited interim results") for the six months ended June 30, 2018 has been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. Readers should read the unaudited interim results in conjunction with the audited annual financial statements for the year ended December 31, 2017, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

The unaudited interim results are in millions of Hong Kong dollars ("HK$ million"), unless otherwise stated. The accounting policies and methods of computation used in the preparation of the unaudited interim results are consistent with those used in the annual financial statements for the year ended December 31, 2017.

Amendments to HKFRS effective for the financial year ending December 31, 2018 do not have a material financial impact on the Group. There are no other amended standards or interpretations effective for the first time for this interim period that would have a material impact on these unaudited interim results.

These unaudited interim results accrue income taxes on taxable income using tax rates that would be applicable to expected total annual taxable income.

The Board approved the unaudited interim results for issue on August 9, 2018.

2 Principal accounting policies

(a) Impact of new and amended standards

The Group has applied the following standards and amendments which are effective for the Group's financial year beginning on or after January 1, 2018:

- HKFRS 9 Financial Instruments; and
- HKFRS 15 Revenue from Contracts with Customers.

(i) HKFRS 9 Financial Instruments — Impact of adoption

HKFRS 9 sets out the requirements for recognizing and measuring financial assets, financial liabilities, impairment of financial assets and hedge accounting. Upon adoption of HKFRS 9, the Group's available-for-sale financial asset have been reclassified to financial asset at fair value through other comprehensive income ("FVOCI"). The accounting for FVOCI remains largely the same, except that gains or losses realized upon the disposal of financial asset at FVOCI will no longer be transferred to profit or loss on disposal, but instead reclassified below the line from the FVOCI reserve to retained earnings. For the Group's financial liabilities, there will be no impact, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities.

2 Principal accounting policies (continued)

(a) *Impact of new and amended standards (continued)*

(i) *HKFRS 9 Financial Instruments — Impact of adoption (continued)*

The total impact on the Group's unaudited interim results as at January 1, 2018 is as follows:

Impact on the Group's unaudited condensed consolidated interim financial statements

The following tables show the impact on each individual line item. Line items that were not affected by the changes have not been included.

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

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

(ii) *HKFRS 15 Revenue from Contracts with Customers — Impact of adoption*

HKFRS 15 replaces HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer.

The Group has adopted HKFRS 15 Revenue from Contracts with Customers from January 1, 2018. The adoption on HKFRS 15 has no significant impact on the Group.

2 Principal accounting policies (continued)

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

HKFRS 16 Leases

HKFRS 16 will result in almost all leases being recognized on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change. The standard will affect primarily the accounting for Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of HK$1,443 million. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows. The new standard is mandatory for financial years commencing on or after January 1, 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

3. Operating segments

The Group determines its operating segments based on its development strategies and operational control. There are two major operating segments: Retail and Distribution and Wholesale sales to Overseas Franchisees. Management manages the Retail and Distribution operating segment geographically and by brand.

Geographically, the Retail and Distribution operating segment in Mainland China and the Middle East comprise directly operated stores ("DOS") and franchised stores. Hong Kong and Macau, Taiwan and the rest of Asia Pacific do not have material local franchised stores. Group stores span most of Asia Pacific and the Middle East.

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

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

3. Operating segments (continued)

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

	Six months ended June 30			
	2018		2017	
(In HK$ million)	**Sales**	**Operating profit**	Sales	Operating profit
Retail and Distribution				
Mainland China	**680**	**53**	605	48
Hong Kong and Macau	**478**	**47**	473	45
Taiwan	**355**	**39**	304	27
The rest of Asia Pacific	**838**	**124**	705	89
The Middle East	**336**	**50**	352	71
	2,687	**313**	2,439	280
Wholesale sales to overseas franchisees	**173**	**21**	179	29
Segment results	**2,860**	**334**	2,618	309
Corporate functions		**14**		22
Finance expense		**(2)**		(2)
Share of profit of joint ventures		**29**		23
Profit before income taxes		**375**		352

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

	Six months ended June 30			
	2018		2017	
(In HK$ million)	**Sales**	**Operating profit**	Sales	Operating profit
Retail and Distribution				
Giordano and *Giordano Junior*	**2,284**	**266**	2,080	247
Giordano Ladies	**223**	**38**	203	28
BSX	**68**	**3**	67	3
Others	**112**	**6**	89	2
	2,687	**313**	2,439	280

The Company has its domicile in Hong Kong. Sales to external customers recorded in Hong Kong and Macau are HK$651 million (2017: HK$652 million), Mainland China HK$680 million (2017: HK$605 million) and external customers from other markets HK$1,529 million (2017: HK$1,361 million). Inter-segment sales of HK$641 million (2017: HK$556 million) has been eliminated upon consolidation.

4. Other income and other gains, net

(In HK$ million)	Six months ended June 30 **2018**	 2017
Royalty income	**15**	19
Net exchange gain	—	9
Interest income	**10**	8
Rental income	**7**	7
Gain on disposal of available-for-sale financial asset	—	6
Net loss on disposal of property, plant and equipment	**(1)**	(1)
Others	**5**	12
	36	60

5. Operating profit

(In HK$ million)	Six months ended June 30 **2018**	 2017
Cost of sales		
Cost of inventories sold	**1,158**	1,047
Provision for obsolete stock and stock written off	**8**	5
	1,166	1,052
Distribution expense		
Operating lease rentals in respect of land and building		
— Minimum lease payments	**411**	415
— Contingent rent	**126**	108
Staff cost	**415**	368
Advertising, promotion and incentives	**67**	56
Building management fee, government rates and utilities	**66**	60
Depreciation of property, plant and equipment	**50**	47
Packaging and deliveries	**28**	24
Bank and credit card charges	**18**	16
Amortization of leasehold land prepayments	**3**	3
Others	**58**	49
	1,242	1,146
Administrative expense		
Staff cost	**88**	93
Legal and professional fee	**13**	11
Operating lease rentals in respect of land and building		
— Minimum lease payments	**8**	8
Computer and telecommunication	**4**	5
Depreciation of property, plant and equipment and investment properties	**4**	3
Travelling	**3**	3
Auditor's remuneration	**3**	3
Business and other taxes	**1**	2
Amortization of leasehold land prepayments	—	1
Others	**16**	20
	140	149

6. **Income taxes**

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

(In HK$ million)	**Six months ended June 30** **2018**	2017
Current income taxes		
Hong Kong	**16**	11
Outside Hong Kong	**50**	49
Withholding taxes	**22**	19
	88	79
Deferred income taxes		
Origination and reversal of temporary differences	**(4)**	(5)
	84	74

This charge excludes the share of joint ventures' income taxes for the period of HK$8 million (2017: HK$7 million). The share of profit of joint ventures in the consolidated income statement is after income taxes accrued in the appropriate income tax jurisdictions.

7. **Earnings per share**

The calculations of basic and diluted earnings per share are based on the profit after income taxes attributable to shareholders of the Company ("PATS") for the period of HK$254 million (2017: HK$245 million).

The basic earnings per share is based on the weighted average of 1,572,298,198 shares (2017: 1,571,522,993 shares) in issue during the six months ended June 30, 2018.

The diluted earnings per share is calculated by adjusting the weighted average of 1,572,298,198 shares (2017: 1,571,522,993 shares) in issue during the period by the weighted average of 7,353,029 shares (2017: 2,402,199 shares) deemed to be issued if all outstanding share options granted under the share option schemes of the Company had been exercised.

8. **Dividends**

(In HK$ million)	**Six months ended June 30** **2018**	2017
Interim dividend declared of 17.0 HK cents per share (2017: 15.0 HK cents per share)	**268**	235
2017 final dividend paid of 20.0 HK cents per share (2016: 15.0 HK cents per share)	**315**	236

The payment for 2017 final dividend was based on the total number of issued shares of the Company on June 8, 2018.

At the Board meeting on August 9, 2018, the Board declared an interim dividend of 17.0 HK cents per share (2017: 15.0 HK cents per share). The interim dividend has not been recognized as a liability at the balance sheet date.

9. Trade and other receivables

(In HK$ million)	**June 30 2018**	December 31 2017
Trade receivables	**263**	301
Less: Provision for impairment	**(7)**	(7)
Trade receivables, net	**256**	294
Aging analysis from the invoice date net of provision for impairment is as follows:		
0–30 days	**182**	211
31–60 days	**29**	44
61–90 days	**21**	20
Over 90 days	**24**	19
	256	294
Other receivables, including deposits and prepayments	**252**	233
	508	527

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

10. Trade and other payables

(In HK$ million)	**June 30 2018**	December 31 2017
Trade payables	**143**	90
Aging analysis is as follows:		
0–30 days	**87**	66
31–60 days	**31**	6
61–90 days	**14**	5
Over 90 days	**11**	13
	143	90
Other payables and accrued expenses	**362**	394
	505	484

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

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

The following commentaries refer to the year-on-year ("YOY") comparison of the six months ended June 30, 2018 and 2017, unless otherwise stated.

OVERVIEW

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

- We offer high-quality, value-for-money and easy-to-wear apparel through a network of 2,444 stores (or 2,331,000 sq. ft. of retail floor space) as at June 30, 2018, of which 1,293 were standalone stores. The majority of stores were in Greater China, South Korea, Southeast Asia and the Middle East. We manage our stores by geographic regions and by distribution channels. Net increase in stores during the period was 73, as shown in Table 1.

- Group sales[1] for the six months ended June 30, 2018 were HK$2,860 million at a gross margin of 59.2%. The Group's comparable store gross profit ("Group CSGP")[2] was up by 3.1%, with comparable store sales ("Group CSS")[2] up by 5.1%. Table 2 provides details by major markets.

- PATS was HK$254 million, an increase of 3.7% over 2017.

- Cash and bank balances, net of bank loans, were HK$1,224 million at June 30, 2018.

Table 1: Store portfolio

	Store numbers at June 30		Retail floor space (sq. ft. in thousands) at June 30	
	2018	2017	**2018**	2017
Retail and Distribution				
Mainland China				
Franchised stores	**612**	567	**473**	446
DOS	**326**	346	**271**	283
The rest of Asia Pacific	**603**	555	**625**	570
Taiwan	**205**	197	**198**	192
The Middle East				
Franchised stores	**40**	41	**42**	44
DOS	**147**	152	**181**	186
Hong Kong and Macau	**77**	78	**89**	88
Overseas franchisees	**434**	435	**452**	483
Total	**2,444**	2,371	**2,331**	2,292

RESULTS OF OPERATIONS

Table 2: Group results of operations

(In HK$ million)	Six months ended June 30				
	2018	**% to sales**	2017	% to sales	**Change**
The rest of Asia Pacific	**838**	**29.3%**	705	26.9%	**18.9%**
Mainland China	**680**	**23.8%**	605	23.1%	**12.4%**
Hong Kong and Macau	**478**	**16.7%**	473	18.1%	**1.1%**
Taiwan	**355**	**12.4%**	304	11.6%	**16.8%**
The Middle East	**336**	**11.7%**	352	13.5%	**(4.5%)**
Wholesale sales to overseas franchisees	**173**	**6.1%**	179	6.8%	**(3.4%)**
Group sales	**2,860**	**100.0%**	2,618	100.0%	**9.2%**
Gross profit	**1,694**	**59.2%**	1,566	59.8%	**8.2%**
Operating expense	**(1,382)**	**(48.3%)**	(1,295)	(49.5%)	**6.7%**
Operating profit	**348**	**12.2%**	331	12.6%	**5.1%**
EBITDA	**442**	**15.5%**	415	15.9%	**6.5%**
PATS	**254**	**8.9%**	245	9.4%	**3.7%**
Global brand sales[3]	**3,582**		3,514		**1.9%**
Global brand gross profit[3]	**2,196**		2,174		**1.0%**
Group CSS growth	**5.1%**		4.6%		
Group CSGP growth	**3.1%**		6.6%		
Net cash and bank balances at period end	**1,224**		1,233		**(0.7%)**
Inventories at period end	**499**		461		**8.2%**
Inventory turnover on costs ("ITOC") (days)[4]	**77**		79		**(2)**

Sales and gross profit

Group sales increased by 9.2%, or by 5.5% if translated at constant exchange rates. Group CSS were up by 5.1% and CSGP improved by 3.1%. The increase was primarily due to merchandising mix and increase in average selling price.

The Group's e-business generated HK$163 million in revenue at a 22.6% growth rate (see Table 3). Accounting for 89.6% of the Group's e-business sales, our e-business in Mainland China recorded a 19.7% increase in sales.

Sales from physical stores recorded a stable growth of 8.8%. Wholesale sales to franchisees grew by 6.9%, primarily from Mainland China, the wholesale sales of which increased by 19.6%.

Core Giordano lines constituted 86.1% of total brand sales. Our core womenswear sustained its growth momentum from last year and recorded growth of CSS by 8.2% and CSGP of 6.9%. The integrated marketing approach of our childrenswear continues to be effective and the brand delivered strong growth with CSS and CSGP increased by 14.7% and 12.4%, respectively. Our premium womenswear brand, *Giordano Ladies*, posted a stable CSS growth of 5.4% while CSGP improved by 7.3%.

Table 3: Sales by channel

(In HK$ million)	Six months ended June 30				
	2018	**Contribution**	2017	Contribution	**Change**
Physical stores	**2,308**	**80.7%**	2,121	81.0%	**8.8%**
E-business	**163**	**5.7%**	133	5.1%	**22.6%**
Retail sales	**2,471**	**86.4%**	2,254	86.1%	**9.6%**
Wholesale sales to franchisees	**389**	**13.6%**	364	13.9%	**6.9%**
Group sales	**2,860**	**100.0%**	2,618	100.0%	**9.2%**

Group gross profit grew by 8.2% to HK$1,694 million (2017: HK$1,566 million), driven mainly by an increase in average selling price of 9.5%, offset by an increase in average product cost by 12.4% and volume decrease by 5.2%. Average product cost was higher due largely to the appreciation of Renminbi as majority of products were sourced from Mainland China. However, the impact will diminish as Renminbi has started to depreciate since June 2018. Group gross margin was down by 0.6 percentage points due in part to changes in channel mix and longer promotion periods during the late Chinese New Year and other festivals. An analysis of change in Group gross profit is provided in Table 4.

Table 4: Gross profit variance analysis by region

(In HK$ million)	Six months ended June 30, 2017 gross profit	Product costs	Selling price	Volume	Vietnam acquisition	Translational exchange impact	Miscellaneous	Six months ended June 30, 2018 gross profit
The rest of Asia Pacific	425	(23)	38	12	31	19	(1)	**501**
Mainland China	336	(23)	29	(3)	—	28	—	**367**
Hong Kong & Macau	330	(25)	69	(45)	—	—	(2)	**327**
Taiwan	186	(11)	37	—	—	9	—	**221**
The Middle East	229	(16)	—	(13)	—	1	4	**205**
Market mix	—	(6)	4	2	—	—	—	**—**
Retail and distribution	**1,506**	**(104)**	**177**	**(47)**	**31**	**57**	**1**	**1,621**
Wholesale sales to overseas franchisees/subsidiaries	60							**73**
Group	**1,566**							**1,694**

Other income and other gains, net

Other income and other gains comprised royalty income, rental income, gain from disposal of assets and interest income, which decreased by HK$24 million to HK$36 million.

Operating expense

Operating expense ratio decreased by 1.2 percentage points from 49.5% to 48.3%, largely due to higher Group sales. Shop occupancy charges to sales were lowered to 20.7% (2017: 21.9%) due to the closure of non-performing DOS and the opening of stores in more reasonably-priced locations, particularly in Greater China. Although staff expense increased due to manpower shortage in the industry, total staff expense to sales was flat at 17.6%. This was due to a 9.2% increase in Group sales and a better human resources management process.

Operating profit

Operating profit was HK$348 million, an increase of 5.1%. The uplift in the Group's revenue and gross profit were the primary factors that contributed towards the growth in operating profit. The increase in magnitude of the growth in operating profit is slightly less than the growth in gross profit due to the fact that there was a one-off gain on disposal of available-for-sale financial asset last year.

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

	Contribution by region	
Six months ended June 30, 2018	**Sales**	**Operating profit**
The rest of Asia Pacific	29.3%	35.6%
Mainland China	23.8%	15.2%
Hong Kong and Macau	16.7%	13.5%
Taiwan	12.4%	11.2%
The Middle East	11.7%	14.4%
Wholesale sales to overseas franchisees	6.1%	6.0%
Wholesale sales to overseas subsidiaries	—	11.5%
Headquarter expense, net of other income and gains	—	(7.4%)
	100.0%	100.0%

Income taxes

Income taxes amounted to HK$84 million (2017: HK$74 million), representing an effective tax rate of 22.4% (2017: 21.0%). The increase in effective tax rate is mainly attributable to the increase in withholding taxes paid for dividend received during the period.

Profit after income taxes attributable to shareholders of the Company

PATS increased by 3.7% to HK$254 million (2017: HK$245 million), as shown in Table 6. Net margin was 8.9%, a decrease of 0.5 percentage points, for reasons cited in the preceding commentaries.

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

(In HK$ million)

Reported 2017 PATS for the six months ended June 30, 2017	**245**
The rest of Asia Pacific	**32**
Taiwan	**9**
South Korea	**5**
Hong Kong and Macau	**2**
Wholesale sales to overseas subsidiaries	**2**
Mainland China	**1**
Wholesale sales to overseas franchisees	**(8)**
The Middle East	**(22)**
Income taxes, non-controlling interests, finance expense and headquarter expense	**(22)**
PATS for the six months ended June 30, 2018 without currency translation difference	**244**
Currency translation difference	**10**
Reported PATS for the six months ended June 30, 2018	**254**

ANALYSIS BY MARKET

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

Mainland China

Table 7: Mainland China

(In Renminbi million)	Six months ended June 30				
	2018	**% to sales**	2017	% to sales	**Change**
DOS	**276**	**49.9%**	281	52.7%	**(1.8%)**
Wholesale sales to franchisees	**158**	**28.6%**	144	27.0%	**9.7%**
E-business	**119**	**21.5%**	108	20.3%	**10.2%**
Total sales	**553**	**100.0%**	533	100.0%	**3.8%**
Gross profit	**299**	**54.1%**	296	55.5%	**1.0%**
Operating expense	**(261)**	**(47.2%)**	(260)	(48.8%)	**0.4%**
Operating profit	**43**	**7.8%**	42	7.9%	**2.4%**
DOS	**276**		281		**(1.8%)**
Franchised stores	**293**		274		**6.9%**
E-business	**119**		108		**10.2%**
Total brand sales	**688**		663		**3.8%**
CSS growth	**7.3%**		4.2%		
CSGP growth	**5.8%**		5.9%		
DOS	**326**		346		**(20)**
Franchised stores	**612**		567		**45**
Stores at period end	**938**		913		**25**

Our Mainland China business progressed at a solid pace despite the fierce competitive retail environment. The two strategic channels of e-business and franchising contributed towards the stable growth and will continue to be our key drivers in the medium term.

Hong Kong and Macau

Table 8: Hong Kong and Macau

(In HK$ million)	Six months ended June 30				
	2018	**% to sales**	2017	% to sales	**Change**
Total sales	**478**	**100.0%**	473	100.0%	**1.1%**
Gross profit	**327**	**68.4%**	330	69.8%	**(0.9%)**
Operating expense	**(280)**	**(58.6%)**	(285)	(60.3%)	**(1.8%)**
Operating profit	**47**	**9.8%**	45	9.5%	**4.4%**
CSS growth	**5.6%**		6.8%		
CSGP growth	**3.9%**		7.9%		
Stores at period end	**77**		78		**(1)**

After a robust Chinese New Year, sales in the second quarter slowed down. CSS increase was achieved through well-executed marketing programs and promotional activities.

Taiwan

Table 9: Taiwan

	Six months ended June 30				
(In New Taiwanese Dollar million)	**2018**	**% to sales**	2017	% to sales	**Change**
Total sales	**1,347**	**100.0%**	1,201	100.0%	**12.2%**
Gross profit	**838**	**62.2%**	736	61.3%	**13.9%**
Operating expense	**(693)**	**(51.4%)**	(640)	(53.3%)	**8.3%**
Operating profit	**147**	**10.9%**	109	9.1%	**34.9%**
CSS growth	**11.3%**		(7.4%)		
CSGP growth	**13.4%**		(2.1%)		
Stores at period end	**205**		197		**8**

Taiwan's performance had rebounded since the second quarter of 2017 and continued into the first half of 2018. Effective merchandising, well-executed marketing programs and strong e-business growth on top of the recovery of the local retail market boosted CSS and CSGP to grow by 11.3% and 13.4%, respectively. The improvement in gross margin was largely due to the improvement in average selling price.

The rest of Asia Pacific

Table 10: The rest of Asia Pacific region

	Six months ended June 30				
(In HK$ million, translated at constant exchange rates)	**2018**	**% to sales**	2017	% to sales	**Change**
Total sales	**809**	**100.0%**	705	100.0%	**14.8%**
Gross profit	**482**	**59.6%**	425	60.3%	**13.4%**
Operating expense	**(364)**	**(45.0%)**	(343)	(48.7%)	**6.1%**
Operating profit	**121**	**15.0%**	89	12.6%	**36.0%**
CSS growth	**3.6%**		7.0%		
CSGP growth	**3.0%**		8.7%		
Stores at period end	**603**		555		**48**

In the rest of Asia Pacific, the acquired Vietnam operations contributed to 5.8% of the sales for this region. Operating profit from this region recorded strong double-digit growth, particularly from Singapore, Indonesia and Thailand. This was attributable largely to the improvement in gross profit and expense control.

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

(In HK$ million, translated at constant exchange rates)	Six months ended June 30								
	Sales			**CSS growth**		**CSGP growth**		**Stores at period end**	
	2018	2017	**Change**	**2018**	2017	**2018**	2017	**2018**	2017
Indonesia	**311**	271	**14.8%**	**5.4%**	15.3%	**2.9%**	17.5%	**257**	246
Singapore	**152**	150	**1.3%**	**1.1%**	(0.6%)	**(1.4%)**	3.2%	**43**	43
Thailand	**165**	155	**6.5%**	**4.1%**	1.3%	**7.0%**	(0.4%)	**164**	156
Malaysia	**95**	92	**3.3%**	**0.9%**	14.6%	**1.8%**	15.6%	**92**	88
Australia	**33**	33	**Flat**	**12.7%**	7.5%	**9.3%**	14.3%	**13**	16
Vietnam*	**47**	—	**N/A**	**N/A**	N/A	**N/A**	N/A	**32**	—
Cambodia	**6**	4	**50.0%**	**17.2%**	33.6%	**17.4%**	40.2%	**2**	1
India	**—**	—	**N/A**	**N/A**	N/A	**N/A**	N/A	**—**	5
Total	**809**	705	**14.8%**	**3.6%**	7.0%	**3.0%**	8.7%	**603**	555

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

During the Ramadan period, Indonesia stood out with CSS and CSGP growth of 11.2% and 10.7%, respectively. Overall, markets that celebrate Ramadan delivered CSS and CSGP growth of 3.7% and 4.3%, respectively. Operating profit of Indonesia and Thailand increased by 19.8% and 17.3%, respectively, and these markets are continuing to deliver sustainable and significant growth. In Singapore, operating profit increased by 29.8%, due largely to an improved cost position from the closure of non-performing stores.

The Middle East

Table 12: The Middle East

(In HK$ million, translated at constant exchange rates)	Six months ended June 30				
	2018	**% to sales**	2017	% to sales	**Change**
Total sales	**333**	**100.0%**	352	100.0%	**(5.4%)**
Gross profit	**203**	**61.0%**	229	65.1%	**(11.4%)**
Operating expense	**(154)**	**(46.2%)**	(160)	(45.5%)	**(3.8%)**
Operating profit	**49**	**14.7%**	71	20.2%	**(31.0%)**
CSS growth	**(3.7%)**		11.0%		
CSGP growth	**(12.2%)**		9.9%		
Stores at period end	**187**		193		**(6)**

In the Middle East, we are facing challenges. In the first quarter, CSS of the region dropped by 7.3%. The magnitude of the decrease in CSS reduced to 1.5% for the second quarter, resulting in an overall decrease of CSS by 3.7%. During the period of Ramadan, attractive promotional activities and sales discounts were launched to improve the situation. Management believes that the Company can weather the temporary setback and its performance will rebound once the economic environment improves.

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

Table 13: South Korea

(In Korean Won million)	Six months ended June 30 2018	% to sales	2017	% to sales	Change
Total sales	**97,668**	**100.0%**	102,345	100.0%	**(4.6%)**
Gross profit	**57,272**	**58.6%**	59,150	57.8%	**(3.2%)**
Net profit	**8,233**	**8.4%**	7,006	6.8%	**17.5%**
Share of profit	**3,996**		3,401		**17.5%**
CSS growth	**(3.2%)**		(6.2%)		
CSGP growth	**(1.5%)**		(3.3%)		
Stores at period end	**191**		196		**(5)**

South Korea reported a net profit increase of 17.5%, attributable to better cost control, closure of non-performing stores and enhanced gross margin. Inventory rationalization and lower product costs due to shared sourcing have also contributed to substantial gross margin improvement.

Wholesale sales to overseas franchisees

Table 14: Store numbers of overseas franchisees

By market	At June 30 **2018**	2017
South Korea	**191**	196
Southeast Asia	**225**	227
Other markets	**18**	12
Total stores	**434**	435

Wholesale sales to overseas franchisees decreased by 3.4% to HK$173 million (2017: HK$179 million). Wholesale sales would have improved by 4.2% if the wholesales to Vietnam were not taken into account last year. The results from this market have been consolidated during the period. The growth in wholesale sales in South Korea increased by 2.4%. Management remains focused on expanding our franchise and wholesale footprints outside of our core markets. Though initially small, these newly developed markets will pay off in the medium and long run.

FINANCIAL POSITION

Liquidity and financial resources

The Group's financial position is sound. At June 30, 2018, the cash and bank balances, net of bank loans, was HK$1,224 million (2017: HK$1,233 million).

The short-term bank borrowings were denominated in Hong Kong dollars and amounted to HK$298 million (2017: HK$298 million). The Group's gearing ratio, defined as the ratio of total borrowings less cash and bank balances to equity attributable to shareholders of the Company was -0.4 (2017: -0.4). As at June 30, 2018, the Group's current ratio was 2.4 based on currents assets of HK$2,587 million and current liabilities of HK$1,068 million (2017: 2.5).

Property, plant and equipment

During the first half of 2018, capital expenditure was HK$40 million (2017: HK$45 million). It is noteworthy that there has been an increase in both the number of stores and store upgrades. Management will continue to invest in our shop ambiance to strengthen our brand image.

Goodwill and put option liabilities

The goodwill and put option liabilities arose from the acquisition of the Middle East operations in the years of 2012 and 2015. We have carried out impairment tests and management is of the view that there is no impairment on goodwill for the period.

Interests in joint ventures

The balance stated in the interests in joint ventures of the balance sheet mainly represents our 48.5% interest in the South Korea joint venture. The decrease by HK$44 million during the period reflected the dividends paid out of HK$54 million and currency translation difference of HK$19 million, which offset our share of profit of HK$29 million.

Inventories

Group inventories at June 30, 2018 increased by HK$38 million, or 8.2%, to HK$499 million (June 30, 2017: HK$461 million). ITOC decreased by 2 days to 77 days because of higher sales.

Inventories at suppliers and franchisees are not our legal liabilities. The Group tracks this information to ensure that we do not build up excessive off-balance sheet inventories. Our system inventories have decreased by 4.5% as compared to 2017 year-end balance. Management considers this inventory level to be healthy and adequate in relation to our projected sales.

Table 15: System inventories

(In HK$ million)	At June 30 2018	At Dec 31 2017	At June 30 2017
Inventories held by the Group	**499**	524	461
Inventories held by 48.5% South Korea joint venture	**166**	175	161
Inventories held by franchisees in Mainland China	**92**	91	81
Finished goods at suppliers (not yet shipped)	**49**	54	43
Total system inventories	**806**	844	746

Trade receivables and payables

The Group monitors the recoverability of trade receivables to mitigate bad debt risk. Trade receivables turnover for the period was 44 days, which increased by 1 day compared to the same period last year. Trade payables turnover decreased by 17 days to 19 days during the period, in line with the credit period granted by our suppliers.

OUTLOOK

While the full brunt of the burgeoning trade war between the world's two largest economic powers has yet to be felt, it has nonetheless started to affect market sentiment in many regions. The overall operating environment will become increasingly challenging. We are making preparations in advance to tackle and weather the possible adversity.

We will continue to strengthen our core competencies, while at the same time focus on reviewing our impending product orders as well as seek out further opportunities to reduce product costs and operating expenses.

Our aim of becoming the leading easy-to-wear fashion provider of high quality apparel at reasonable prices remains unwavering.

Although current inventory levels are healthy, we remain steadfast in reducing the same to further strengthen our gross margin. We also remain cautiously optimistic on our store network expansion, although we will take a disciplined approach towards marketing investment and the refurbishment of our existing stores so as to strengthen the brand and provide a better shopping experience to our customers.

The childrenswear line is continuing to perform well under the integrated marketing approach and the womenswear line also made significant advances in 2018. The former will continue to be one of our key development programs and as previously conveyed, additional resources have been and will be allocated for its ongoing expansion.

Outlook on Mainland China remains optimistic. Performance in the first half of 2018 has been flat and there is some degree of uncertainty surrounding the impact of the Sino-US trade war in the imminent future. That said, our E-commerce business in China continues to perform better than the Group's average and there has also been an improvement in the performance of both our franchisees and our DOS. We anticipate that our store network will continue to expand, but we will monitor the pace and scale in view of the macro economic conditions.

Hong Kong and Macau is one of the Group's key markets. While it has experienced some growth thus far in 2018, this is becoming increasingly sluggish. Inclement weather and fierce competition have hindered performance so far, but we are confident the experienced local management team will continue to reduce costs and devise creative campaigns to outperform our competitors. This market will also continue to serve as a new idea incubator and talent development centre.

The Middle East has underperformed with a largely poor first half including poor sales, decreased volume and increased product costs. Despite the weak first half, we are confident that the seasoned local management team can weather the storm by aggressively negotiating lower rents, reducing costs and expenses as well as rolling-out disciplined promotional activities. This resolve should also be supported by the growth in tourism levels and what appears to be a rebound in oil prices.

The South Korea joint venture shows continuing signs of recovery. Although sales marginally decreased in the second quarter, the net profit for the half increased on the back of strengthened average selling prices, improved merchandising and sustained, strong brand positioning. We are confident this momentum can be maintained, although there will be some headwinds in the second half.

Thus far in 2018, we have seen substantial improvement in Taiwan, Thailand and Indonesia. The retail sector in Taiwan as a whole has experienced healthy improvement and the local management team has also been disciplined in controlling their costs while strengthening their average selling prices through improved marketing and better product selection. Thailand has also experienced significant growth as the nation continues to emerge from the official mourning period of the late, revered king. Indonesia had a strong first half, buoyed by a strong Ramadan and overall improvement in private consumption and supported by lower credit costs, increased employment and expansion of social welfare. With a number of nation-wide, themed campaigns planned for the rest of the year, management expects the momentum to continue in 2018, although it will also closely monitor currency-related matters.

Management is allocating resources to expand into markets where the Group does not have a presence yet, from which the Group will benefit in the medium to long term. With the opening of our first franchised store in Paris, France and the execution of a new franchise agreement for India, we expect to open stores and secure new franchisees in two to three new markets in the next six months.

The Board believes in returning surplus cash to its shareholders. In addition to dividend distribution, the Company commenced a share repurchase initiative on June 20, 2017, and will continue to repurchase shares in accordance with the Company's announcement dated June 20, 2017 and will cancel the repurchased shares subsequently pursuant to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Under the general mandate granted by the shareholders of the Company to the Board, the Company may repurchase up to 157,382,651 shares of the Company, being 10% of the total number of issued shares of the Company as at the date of the Company's 2018 annual general meeting held on May 25, 2018. For details of the share repurchase, please refer to the Company's announcement dated June 20, 2017.

HUMAN RESOURCES

As at June 30, 2018, the Group had approximately 8,200 employees (December 31, 2017: 8,000). The Group offers competitive remuneration packages and generous, goal-oriented bonuses targeted to different levels of staff. We offer senior management performance-based bonus schemes and share options to reward and retain a high caliber leadership team. We also invest heavily in training in sales and customer service, management, planning and leadership development to retain a skilled and motivated workforce.

OTHER INFORMATION

Interim Dividend

It is the Company's intention to return surplus cash to its shareholders through the payment of dividends and share repurchase. In line with its dividend policy, the Company has been paying a substantial portion of its earnings as an ordinary dividend, the amount of which may vary depending on cash on hand, future investment requirements and working capital considerations.

After due consideration of the economic outlook, the Group's financial position, its future expansion plans and other factors, the Board has declared an interim dividend of 17.0 HK cents per share (2017: 15.0 HK cents per share) for the six months ended June 30, 2018. The dividend is payable on Friday, September 21, 2018 to shareholders whose names appear on the register of members of the Company on Thursday, September 13, 2018.

Closure of Register of Members

For determining the entitlement to the interim dividend, the register of members of the Company will be closed from Tuesday, September 11, 2018 to Thursday, September 13, 2018 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all completed transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Abacus Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Monday, September 10, 2018.

Corporate Governance

A corporate governance report has been published and included in the Company's 2017 annual report, in which the Company reported the adoption of the code provisions (the "Code Provisions") as stated in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Listing Rules as the corporate governance code of the Company.

During the period under review, the Company has complied with all applicable Code Provisions under the CG Code, except for the following deviations:

Code Provision A.2.1

Code Provision A.2.1 provides that the roles of the chairman and the chief executive should be separate and should not be performed by the same individual.

Currently, Dr. LAU Kwok Kuen, Peter holds the positions of Chairman and Chief Executive. In view of Dr. LAU's extensive experience in the industry and deep understanding of the Group's businesses, the Board believes that vesting the roles of both Chairman and Chief Executive in Dr. LAU provides the Group with strong leadership, allowing for more effective planning and execution of long term business strategies and enhances efficiency in decision-making. The Board also believes that the Company already has a strong corporate governance structure appropriate for its circumstances in place to ensure effective oversight of Management.

Code Provision A.4.2

Code Provision A.4.2 provides that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

According to the Bye-Laws of the Company, one-third of the directors, with the exception of Chairman or Managing Director, shall retire from office by rotation at each annual general meeting. In the opinion of the Board, stability and continuation are key factors to the successful implementation of business plans. The Board believes that it is beneficial to the Group that there is continuity in the role of the Chairman and, therefore, the Board is of the view that the Chairman should be exempt from this arrangement at the present time.

Save as disclosed above, the corporate governance practices adopted by the Company during the period under review are in line with those practices set out in the Company's 2017 annual report.

Securities Transactions by Directors

The Company has adopted its own Code of Conduct for Securities Transactions by Directors (the "Code of Conduct for Securities Transactions"). This is on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules, and has been updated from time-to-time. Having made specific enquiries to all directors of the Company, all directors of the Company confirmed that they had complied with the required standards set out in the Model Code and the Code of Conduct for Securities Transactions throughout the six months ended June 30, 2018.

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 six months ended June 30, 2018.

Review of Interim Results

The unaudited condensed consolidated interim financial information of the Group for the six months ended June 30, 2018 have been reviewed by PricewaterhouseCoopers, the external auditor of the Group, in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and has fully discussed auditing, risk management and internal control systems and financial reporting matters. The Audit Committee has also reviewed the unaudited interim results of the Group for the six months ended June 30, 2018 with Management.

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

Hong Kong, August 9, 2018

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

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

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

[3] *Global brand sales/gross profit are at 2018 exchange rates, and are greater than Group sales/gross profit to include the total of Giordano retail sales/gross profit, in DOS, franchised stores and stores operated by a joint venture.*

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