GIORDANO INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 709)

ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED JUNE 30, 2019

HIGHLIGHTS

- Group sales for the first half of 2019 were HK$2,542 million (2018: HK$2,860 million), a decrease of 11.1%. Group comparable store sales and Group comparable store gross profit were down by 8.6% and 8.9%, respectively. The Sino-US trade dispute and unseasonably warm winter have adversely affected Group sales throughout the reporting period.

- Gross margin remained virtually unchanged at 59.3%.

- Profit after income taxes attributable to shareholders of the Company ("PATS") was HK$161 million, a decrease of 36.6% and attributable primarily to the decline in Group sales and an additional accounting charge of HK$22 million on the adoption of Hong Kong Financial Reporting Standard ("HKFRS") 16 Leases. If applying the previous accounting standard, the Company would have reported 2019 PATS of HK$183 million, or 28.0% lower than the comparative period in 2018. The Group has adopted HKFRS 16 for financial periods only commencing on January 1, 2019. As permitted under the transitional provisions in the standard, the Company has not restated PATS for the 2018 corresponding period using HKFRS 16.

- At June 30, 2019, the cash and bank balances, net of bank loans, were HK$1,026 million (June 30, 2018: HK$1,224 million).

- Inventory turnover on costs increased by 15 days to 92 days year-on-year due to the decline in sales and higher winter stock carried forward. These are basic styles which will be relaunched in the coming winter season.

- Basic and diluted earnings per share were 10.2 HK cents (2018: 16.2 HK cents) and 10.2 HK cents (2018: 16.1 HK cents), respectively.

- The board of directors of the Company has declared an interim dividend of 10.2 HK cents per share (2018: 17.0 HK cents per share) for the six months ended June 30, 2019.

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, 2019 along with comparative figures and explanatory notes.

Consolidated Income Statement

(In HK$ million, except earnings per share)	**Note**	**Unaudited Six months ended June 30 2019**	2018
Sales	3	**2,542**	2,860
Cost of sales	5	**(1,034)**	(1,166)
Gross profit		**1,508**	1,694
Other income and other gains, net	4	**38**	36
Distribution expense	5	**(1,164)**	(1,242)
Administrative expense	5	**(123)**	(140)
Operating profit		**259**	348
Finance expense	6	**(29)**	(2)
Share of profit of joint ventures		**24**	29
Profit before income taxes		**254**	375
Income taxes	7	**(58)**	(84)
Profit after income taxes for the period		**196**	291
Attributable to:			
Shareholders of the Company		**161**	254
Non-controlling interests		**35**	37
		196	291
Earnings per share attributable to shareholders of the Company	8		
Basic *(HK cents)*		**10.2**	16.2
Diluted *(HK cents)*		**10.2**	16.1

Consolidated Statement of Comprehensive Income

(In HK$ million)	**Unaudited Six months ended June 30 2019**	2018
Profit after income taxes for the period	**196**	291
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)
Exchange adjustments on translation of overseas subsidiaries, joint ventures and branches	**(13)**	(39)
Total comprehensive income for the period	**183**	249
Attributable to:		
Shareholders of the Company	**145**	219
Non-controlling interests	**38**	30
	183	249

Consolidated Balance Sheet

(In HK$ million)	Note	Unaudited June 30 2019	Audited December 31 2018
ASSETS			
Non-current assets			
Property, plant and equipment		**189**	207
Right-of-use assets		**1,325**	–
Investment properties		**24**	25
Goodwill		**546**	546
Interest in joint ventures		**500**	552
Financial asset at fair value through other comprehensive income		**6**	6
Financial asset at fair value through profit or loss		**28**	28
Leasehold land and rental prepayments		**13**	134
Rental deposits		**159**	122
Deferred tax assets		**46**	47
		2,836	1,667
Current assets			
Inventories		**526**	552
Leasehold land and rental prepayments		**14**	62
Trade and other receivables	10	**400**	528
Cash and bank balances		**1,324**	1,315
		2,264	2,457
Total assets		**5,100**	4,124
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital		**79**	79
Reserves		**2,454**	2,450
Proposed dividends	9	**161**	260
Equity attributable to shareholders of the Company		**2,694**	2,789
Non-controlling interests		**214**	220
Total equity		**2,908**	3,009
Non-current liabilities			
Lease liabilities		**597**	–
Deferred tax liabilities		**109**	123
		706	123
Current liabilities			
Trade and other payables	11	**434**	476
Lease liabilities		**519**	–
Put option liabilities		**121**	121
Bank loans		**298**	298
Income tax payables		**114**	97
		1,486	992
Total liabilities		**2,192**	1,115
Total equity and liabilities		**5,100**	4,124
Net current assets		**778**	1,465
Total assets less current liabilities		**3,614**	3,132

Notes to the unaudited condensed consolidated interim financial statements

1. Basis of preparation

The unaudited condensed consolidated interim financial statements (the "unaudited interim results") for the six months ended June 30, 2019 have been prepared in accordance with the applicable disclosures required by the Rules Governing the Listing of Securities (the "Listing Rules") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting", issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Readers should read the unaudited interim results in conjunction with the audited annual financial statements for the year ended December 31, 2018, which have been prepared in accordance with HKFRS.

The unaudited interim results are in million 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, 2018, except for the adoption of the new standard set out in Note 2(a).

These unaudited interim results accrue income taxes on taxable income using tax rates applicable in the respective jurisdictions.

The Board approved the unaudited interim results for issue on August 8, 2019.

2. Principal accounting policies

(a) Impact of new standard

The Group has applied the following new HKFRS issued by the HKICPA which was effective for the Group's financial year beginning on or after January 1, 2019:

- HKFRS 16 Leases.

The Group had to change its accounting policy and make certain retrospective adjustments following the adoption of HKFRS 16. Changes in principal accounting policy are set out in Note 2(c) below.

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

The Group has not early applied the new and amended standards and interpretations that have been issued but not yet effective. The adoption of these are not expected to have a material impact on the unaudited interim results of the Group.

2. **Principal accounting policies (continued)**

(c) Changes in principal accounting policy

The Group has initially adopted HKFRS 16 Leases from January 1, 2019, which resulted in changes in accounting policy and adjustments to the amounts recognized in the unaudited interim results. In accordance with the transitional provisions in HKFRS 16, the Group has elected to apply the new standard using the modified retrospective approach where the cumulative effects of initially applying HKFRS 16 is recognized as an adjustment to the opening balance of retained profits and comparative figures are not restated.

The total impact on the Group's unaudited interim results as at January 1, 2019 is as follows:

(In HK$ million)	**As at December 31, 2018 As originally presented**	**Impact on initial adoption of HKFRS 16**	**As at January 1, 2019 Restated**
Consolidated Balance Sheet (extract)			
Non-current assets			
Property, plant and equipment	207	(6)	201
Right-of-use assets	–	1,247	1,247
Leasehold land and rental prepayments	134	(119)	15
Current assets			
Leasehold land and rental prepayments	62	(46)	16
Trade and other receivables	528	(71)	457
Total assets*	4,124	1,005	5,129
Capital and reserves			
Reserves	2,450	19	2,469
Total equity*	3,009	19	3,028
Non-current liabilities			
Lease liabilities	–	608	608
Current liabilities			
Trade and other payables	476	7	483
Lease liabilities	–	371	371
Total liabilities*	1,115	986	2,101
Total equity and liabilities*	4,124	1,005	5,129
Net current assets*	1,465	(495)	970
Total assets less current liabilities*	3,132	627	3,759

* The above table shows the impact on each individual line item. Line items were not affected by the changes that have not been included.

2. Principal accounting policies (continued)

(c) Changes in principal accounting policy (continued)

Before the adoption of HKFRS 16, commitments under operating leases for future periods were not recognized by the Group as liabilities. Operating lease rental expenses were recognized in the consolidated income statement over the lease period on a straight-line basis.

On adoption of HKFRS 16, the Group recognized the lease liabilities in relation to leases which had previously been classified as "operating leases" according to the principles of HKAS 17 if they meet certain criteria set out in HKFRS 16. These liabilities were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate. The difference between the present value and the total remaining lease payments represents the cost of financing. Such finance cost will be charged to the consolidated income statement in the period in which it is incurred using the effective interest method.

(In HK$ million)	
Operating lease commitments disclosed as at December 31, 2018	1,247
Discounted using the Group's incremental borrowing rate of 1.4 - 8%	(104)
Less: Short-term leases recognized on a straight-line basis as expenses	(180)
Add: Adjustments relating to changes in the lease payments	16
Lease liabilities recognized as at January 1, 2019	979

Leases are initially recognized as a right-of-use asset and the corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the consolidated income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The associated right-of-use assets are measured at the amount equal to the initial measurement of lease liabilities, adjusted by certain items as set out below. The right-of-use assets were recognized in the consolidated balance sheet and are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets leased by the Group and the corresponding liabilities are initially measured on a present value basis. Lease liabilities include the net present value of the lease payments, as follows:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate; and
- payments of penalties for terminating the lease, if the lease term reflects the Group, as a lessee, exercising an option to terminate the lease.

2. Principal accounting policies (continued)

(c) Changes in principal accounting policy (continued)

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the Group's incremental borrowing rate.

Right-of-use assets are measured at cost comprising the following:

– the amount of the initial measurement of lease liabilities;

– any lease payment made at or before the commencement date, less any lease incentive received;

– any initial direct cost; and

– restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in the consolidated income statement. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise equipment and small items of office furniture.

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 Wholesales to Overseas Franchisees. Management manages the Retail and Distribution operating segment geographically and by brand.

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

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

Segment operating profit is before finance expense, share of profit of joint ventures and income taxes. This is the measurement basis reported to management and the senior decision-makers for the purpose of resources 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			
	2019		2018	
(In HK$ million)	**Sales**	**Operating profit**	Sales	Operating profit
Retail and Distribution				
Mainland China	**529**	**3**	680	53
Hong Kong and Macau	**421**	**24**	478	47
Taiwan	**301**	**25**	355	39
The rest of Asia Pacific	**807**	**115**	838	124
The Middle East	**344**	**68**	336	50
	2,402	**235**	2,687	313
Wholesales to Overseas Franchisees	**140**	**17**	173	21
Segment results	**2,542**	**252**	2,860	334
Corporate functions		**7**		14
Finance expense		**(29)**		(2)
Share of profit of joint ventures		**24**		29
Profit before income taxes		**254**		375

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

	Six months ended June 30			
	2019		2018	
(In HK$ million)	**Sales**	**Operating profit**	Sales	Operating profit
Retail and Distribution				
Giordano and *Giordano Junior*	**2,002**	**195**	2,284	266
Giordano Ladies	**217**	**27**	223	38
BSX	**56**	**1**	68	3
Others	**127**	**12**	112	6
	2,402	**235**	2,687	313

The Company has its domicile in Hong Kong. Sales to external customers recorded in Hong Kong and Macau (including retail and wholesale sales) are HK$561 million (2018: HK$651 million), Mainland China HK$529 million (2018: HK$680 million) and external customers from other markets HK$1,452 million (2018: HK$1,529 million).

Inter-segment sales of HK$599 million (2018: HK$641 million) have been eliminated upon consolidation.

4. Other income and other gains, net

(In HK$ million)	Six months ended June 30 2019	2018
Royalty income	**15**	15
Interest income	**11**	10
Rental income	**7**	7
Net loss on disposal of property, plant and equipment	**–**	(1)
Others	**5**	5
	38	36

5. Operating profit

(In HK$ million)	Six months ended June 30 2019	2018
Cost of sales		
Cost of inventories sold	**1,031**	1,158
Provision for obsolete stock and stock written off	**3**	8
	1,034	1,166
Distribution expense		
Staff cost	**395**	415
Depreciation of right-of-use-assets	**269**	—
Operating lease rentals in respect of land and building		
— Minimum lease payments	**130**	411
— Contingent rent	**101**	126
Building management fee, government rates and utilities	**61**	66
Advertising, promotion and incentives	**56**	67
Depreciation of property, plant and equipment	**46**	50
Packaging and deliveries	**28**	28
Bank and credit card charges	**17**	18
Amortization of leasehold land prepayments	**—**	3
Others	**61**	58
	1,164	1,242
Administrative expense		
Staff cost	**81**	88
Depreciation of right-of-use-assets	**9**	—
Legal and professional fee	**7**	13
Depreciation of property, plant and equipment and investment properties	**4**	4
Auditor's remuneration	**3**	3
Computer and telecommunication	**3**	4
Operating lease rentals in respect of land and building		
— Minimum lease payments	**2**	8
Travelling	**2**	3
Business and other taxes	**—**	1
Others	**12**	16
	123	140

6. Finance expense

(In HK$ million)	Six months ended June 30 **2019**	 2018
Interest on lease liabilities	**26**	—
Interest on bank loans	**3**	2
	29	2

7. Income taxes

Hong Kong profits tax is calculated at the rate of 16.5% (2018: 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 **2019**	 2018
Current income taxes		
Hong Kong	**10**	16
Outside Hong Kong	**36**	50
Withholding taxes	**22**	22
	68	88
Deferred income taxes		
Origination and reversal of temporary differences	**(10)**	(4)
	58	84

This charge excludes the share of joint ventures' income taxes of HK$7 million (2018: HK$8 million) for the period. The share of profit of joint ventures in the consolidated income statement is after income taxes accrued in the appropriate income tax jurisdictions.

8. Earnings per share

The calculations of basic and diluted earnings per share are based on the profit after income taxes attributable to shareholders of the Company for the period of HK$161 million (2018: HK$254 million).

The basic earnings per share is based on the weighted average of 1,578,500,518 shares (2018: 1,572,298,198 shares) in issue during the six months ended June 30, 2019.

The diluted earnings per share is calculated by adjusting the weighted average of 1,578,500,518 shares (2018: 1,572,298,198 shares) in issue during the period by the weighted average of 305,358 shares (2018: 7,353,029 shares) deemed to be issued if all outstanding share options granted under the share option schemes of the Company had been exercised.

9. Dividends

(In HK$ million)	**Six months ended June 30** **2019**	2018
Interim dividend declared of 10.2 HK cents per share (2018: 17.0 HK cents per share)	**161**	268
2018 final dividend paid of 16.5 HK cents per share (2017: 20.0 HK cents per share)	**260**	315

The payment for 2018 final dividend was based on the total number of issued shares of the Company on June 6, 2019.

At the Board meeting on August 8, 2019, the Board declared an interim dividend of 10.2 HK cents per share (2018: 17.0 HK cents per share). The interim dividend has not been recognized as a liability at the balance sheet date.

10. Trade and other receivables

(In HK$ million)	**June 30 2019**	December 31 2018
Trade receivables	**250**	330
Less: Loss allowance	**(14)**	(14)
Trade receivables, net	**236**	316
Ageing analysis from the invoice date net of loss allowance is as follows:		
0 - 30 days	**163**	203
31 - 60 days	**12**	66
61 - 90 days	**18**	28
Over 90 days	**43**	19
	236	316
Other receivables, including deposits and prepayments	**164**	212
	400	528

Trade receivables mainly comprise amounts due from franchisees, licensees and retail proceeds due from department stores. The Group normally allows a credit period of 30–90 days. The carrying amounts of trade and other receivables are stated approximately at their fair values.

11. Trade and other payables

(In HK$ million)	**June 30 2019**	December 31 2018
Trade payables	**113**	124
The ageing analysis of trade payables is as follows:		
0 - 30 days	**71**	93
31 - 60 days	**22**	17
61 - 90 days	**8**	4
Over 90 days	**12**	10
	113	124
Other payables and accrued expense	**321**	352
	434	476

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 year-on-year ("YOY") comparison of the Group for the six months ended June 30, 2019 and 2018, 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 2,424 stores (or 2,320,000 sq. ft. of retail floor space) as at June 30, 2019, of which 1,316 were standalone stores. The majority of our 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 decrease in stores during the period was 20, as shown in Table 1.

- Group sales[1] for the six months ended June 30, 2019 were HK$2,542 million at a gross margin of 59.3%. The Group's comparable store gross profit ("CSGP")[2] was down by 8.9%, with comparable store sales ("CSS")[2] down by 8.6%. Table 2 provides details by major markets.

- PATS was HK$161 million, a decrease of 36.6% as compared to 2018. Without the adoption of HKFRS 16, the PATS would have been HK$183 million, 28.0% lower than 2018.

- Cash and bank balances, net of bank loans, were HK$1,026 million at June 30, 2019.

Table 1: Store portfolio

	Store numbers at June 30		Retail floor space (sq. ft. in thousands) at June 30	
	2019	2018	**2019**	2018
Retail and Distribution				
Mainland China				
Franchised stores	**636**	612	**481**	473
DOS	**281**	326	**238**	271
The rest of Asia Pacific	**613**	603	**643**	625
Taiwan	**204**	205	**201**	198
The Middle East				
Franchised stores	**42**	40	**39**	42
DOS	**146**	147	**177**	181
Hong Kong and Macau	**75**	77	**86**	89
Overseas franchisees	**427**	434	**455**	452
Total	**2,424**	2,444	**2,320**	2,331

RESULTS OF OPERATIONS

Table 2: Group results of operations

	Six months ended June 30						
	As published					For reference only	
	2019		2018			2019	
(In HK$ million)	**Reported under HKFRS 16***	**% to sales**	Reported under HKAS 17*	% to sales	**Change**	As if Reported under HKAS 17*	**Change**
The rest of Asia Pacific	**807**	**31.8%**	838	29.3%	**(3.7%)**	807	**(3.7%)**
Mainland China	**529**	**20.8%**	680	23.8%	**(22.2%)**	529	**(22.2%)**
Hong Kong and Macau	**421**	**16.6%**	478	16.7%	**(11.9%)**	421	**(11.9%)**
The Middle East	**344**	**13.5%**	336	11.7%	**2.4%**	344	**2.4%**
Taiwan	**301**	**11.8%**	355	12.4%	**(15.2%)**	301	**(15.2%)**
Wholesale sales to overseas franchisees	**140**	**5.5%**	173	6.1%	**(19.1%)**	140	**(19.1%)**
Group sales	**2,542**	**100.0%**	2,860	100.0%	**(11.1%)**	2,542	**(11.1%)**
Gross profit	**1,508**	**59.3%**	1,694	59.2%	**(11.0%)**	1,508	**(11.0%)**
Operating expense	**(1,287)**	**(50.6%)**	(1,382)	(48.3%)	**(6.9%)**	(1,288)	**(6.8%)**
Operating profit	**259**	**10.2%**	348	12.2%	**(25.6%)**	258	**(25.9%)**
Finance expense	**(29)**	**(1.1%)**	(2)	(0.1%)	**1350.0%**	(3)	**50.0%**
EBITDA	**618**	**24.3%**	442	15.5%	**39.8%**	342	**(22.6%)**
PATS	**161**	**6.3%**	254	8.9%	**(36.6%)**	183	**(28.0%)**
Global brand sales[3]	**3,173**		3,441		**(7.8%)**		
Global brand gross profit[3]	**1,946**		2,111		**(7.8%)**		
Group CSS growth	**(8.6%)**		5.1%				
Group CSGP growth	**(8.9%)**		3.1%				
Net cash and bank balances at period end	**1,026**		1,224		**(16.2%)**		
Inventories at period end	**526**		499		**5.4%**		
Inventory turnover on costs ("ITOC") (days)[4]	**92**		77		**15**		

* *Following the adoption of HKFRS 16 on January 1, 2019, the Group's statutory results for six months ended June 30, 2019 are on a HKFRS 16 basis ("Reported under HKFRS 16"), whereas the statutory results for the corresponding six months ended June 30, 2018 are on a HKAS 17 basis ("Reported under HKAS 17") as previously reported. Hence, any comparison between the two bases of reporting would not be meaningful. The Group believes that the HKAS 17 based report, which is not intended to be a substitute for, or superior to, Reported under HKFRS 16, allows a like-with-like comparison with the prior period results. As a result, the Group has provided, for reference only, an alternative presentation of the Group's financial performance prepared as if Reported under HKAS 17 relating to the accounting for leases for the first six months of 2019.*

Sales and gross profit

Group sales decreased by 11.1%, or by 9.1% if translated at constant exchange rates. The unsatisfactory performance was largely attributable to the Sino-US trade dispute and an unseasonably warm winter. These factors particularly affected the Greater China region, where sales dropped by 17.3%. Group CSS and Group CSGP were down by 8.6% and 8.9%, respectively.

The Group's e-business generated HK$132 million in revenue, representing a decrease of 19.0% (see Table 3). Our e-business accounted for 5.2% of the Group's sales. Online competition was fierce, especially on third-party platforms, exacerbated by increasing operating costs. Management remains determined towards reinforcing our e-commerce business by improving the product mix as well as to continue expanding our e-business in the rest of Asia Pacific markets.

Sales from physical stores recorded a decline of 8.9%. Wholesale sales to franchisees receded by 20.8%, partly due to the weakening economic conditions in those markets and partly due to the tightening of our credit policy during these trying times.

Core Giordano lines constituted 85.2% of total brand sales. All lines experienced different levels of sales decrease amidst turbulent macroeconomic conditions. Our premium womenswear brand, *Giordano Ladies*, saw a mild decrease in sales of 2.7%, mainly in the Greater China region. Sales growth was recorded in the rest of Asia Pacific region and we will continue our expansion in this region.

Table 3: Sales by channels

	Six months ended June 30				
(In HK$ million)	**2019**	**Contribution**	2018	Contribution	**Change**
Physical stores	**2,102**	**82.7%**	2,308	80.7%	**(8.9%)**
E-business	**132**	**5.2%**	163	5.7%	**(19.0%)**
Retail sales	**2,234**	**87.9%**	2,471	86.4%	**(9.6%)**
Wholesale sales to franchisees	**308**	**12.1%**	389	13.6%	**(20.8%)**
Group sales	**2,542**	**100.0%**	2,860	100.0%	**(11.1%)**

With the onset of intense price competition and discounting, the Group maintained strong margin through pricing discipline, careful selection of promotion programs, improved product mix and quality, as well as continuing efforts to strengthen our brand image. Gross margin was almost flat at 59.3%. Group gross profit was down by 11.0% to HK$1,508 million (2018: HK$1,694 million), driven mainly by volume decrease of 9.3%, in spite of an increase in average selling price and a decrease in average product cost. 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, 2018 gross profit**	**Product costs**	**Selling price**	**Volume**	**Translational exchange impact**	**Miscellaneous**	**Six months ended June 30, 2019 gross profit**
The rest of Asia Pacific	501	(26)	65	(49)	(8)	2	**485**
Hong Kong and Macau	327	10	(35)	(15)	—	1	**288**
Mainland China	367	—	(34)	(46)	(17)	(2)	**268**
The Middle East	205	37	(15)	(4)	1	(1)	**223**
Taiwan	221	(8)	14	(34)	(8)	—	**185**
Market mix	—	(3)	7	(5)	1	—	**—**
Retail and distribution	**1,621**	**10**	**2**	**(153)**	**(31)**	—	**1,449**
Wholesale sales to overseas franchisees/subsidiaries	73						**59**
Group	**1,694**						**1,508**

Other income and other gains, net

Other income and other gains, which comprise royalty and licensing income, interest income and rental income, slightly increased as compared to the same period last year.

Operating expense and operating profit

Operating expense to sales ratio increased by 2.3 percentage points to 50.6%, largely due to the decrease in Group sales. Although operating expense shrunk by HK$95 million, or 6.9%, it was not enough to maintain the same operating expense ratio as last year. The reduction was also insufficient to outweigh the negative impact from the decline in gross profit, resulting in a decrease in operating profit of 25.6% to HK$259 million. The Group will further reduce its fixed operating expense and overheads to improve leverage.

Table 5: Sales and operating profit contribution by region

	Contribution by region	
Six months ended June 30, 2019	**Sales**	**Operating profit**
The rest of Asia Pacific	31.8%	44.4%
Mainland China	20.8%	1.1%
Hong Kong and Macau	16.6%	9.3%
The Middle East	13.5%	26.3%
Taiwan	11.8%	9.6%
Wholesale sales to overseas franchisees	5.5%	6.6%
Wholesale sales to overseas subsidiaries	—	12.0%
Headquarter expense, net of other income and gains	—	(9.3%)
	100.0%	100.0%

Finance expense

Finance expense was HK$29 million (2018: HK$2 million), which comprised of bank interest expense and interest on lease liabilities. It should be noted that the increase in interest on lease liabilities of HK$26 million was due to the adoption of HKFRS 16, where the Group as a lessee is required to recognize interest expense accrued on the outstanding balance of the lease liabilities. If the impact of HKFRS 16 was excluded, the expense would have been HK$3 million.

EBITDA

EBITDA was HK$618 million (2018: HK$442 million), an improvement of 39.8%, due to the adoption of the HKFRS 16. On the adoption of HKFRS 16, the operating lease expenses previously recorded in the consolidated income statement are now replaced by depreciation on the right-of-use assets and interest expense on lease liabilities. If the impact of HKFRS 16 were to be excluded, EBITDA would have decreased by 22.6%.

Income taxes

Income taxes amounted to HK$58 million (2018: HK$84 million), representing an effective tax rate of 22.8% (2018: 22.4%). If excluding the impact on the adoption of HKFRS 16, the effective tax rate would be 20.8%. The decrease in effective tax rate is mainly due to the lower profit contribution of our Mainland China business where the tax rate is generally higher.

Profit after income taxes attributable to shareholders of the Company

PATS decreased by 36.6% to HK$161 million (2018: HK$254 million), as shown in Table 6. Net margin was 6.3%, a decrease of 2.6 percentage points, but would have been down by 1.7 percentage points if the impact of HKFRS 16 was not taken into account, for reasons cited in the preceding commentaries.

Table 6: Analysis of change in PATS

(In HK$ million)

Reported 2018 PATS for the six months ended June 30, 2018	**254**
The Middle East	**18**
South Korea	**(4)**
The rest of Asia Pacific	**(8)**
Taiwan	**(13)**
Wholesale sales to overseas franchisees/subsidiaries	**(13)**
Hong Kong and Macau	**(23)**
Mainland China	**(50)**
Income taxes, non-controlling interests, finance expense and headquarter expense	**3**
PATS for the six months ended June 30, 2019 without currency translation difference	**164**
Currency translation difference	**(3)**
Reported PATS for the six months ended June 30, 2019	**161**

ANALYSIS BY MARKET

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

Greater China

Table 7: Greater China region

	Six months ended June 30						
	As published					For reference only	
	2019		2018			2019	
(In HK$ million, translated at constant exchange rates)	**Reported under HKFRS 16**	**% to sales**	Reported under HKAS 17	% to sales	**Change**	As if Reported under HKAS 17	**Change**
Total sales	**1,297**	**100.0%**	1,513	100.0%	**(14.3%)**	1,297	**(14.3%)**
Gross profit	**766**	**59.1%**	915	60.5%	**(16.3%)**	766	**(16.3%)**
Operating expense	**(725)**	**(55.9%)**	(784)	(51.8%)	**(7.5%)**	(721)	**(8.0%)**
Operating profit	**54**	**4.2%**	139	9.2%	**(61.2%)**	56	**(59.7%)**
Finance expense	**(9)**	**(0.7%)**	—	0.0%	**N/A**	—	**N/A**
Profit before income tax	**45**	**3.5%**	139	9.2%	**(67.6%)**	56	**(59.7%)**
CSS growth	**(12.6%)**		7.6%				
CSGP growth	**(13.8%)**		6.7%				
Stores at period end	**1,196**		1,220		**(24)**		

Our Greater China business has been significantly affected by the Sino-US trade dispute, which has further diminished economic growth and negatively impacted domestic retail. In this connection, the region recorded CSS decrease of 12.6%. Promotional activities were intensified to curtail the sales drop and clear slow-moving stock, resulting in a decrease of gross profit margin by 1.4 percentage points. We shall continue to manage our supply chain tightly and remain vigilant in controlling operating expense. A series of marketing programs and smart promotional activities have been launched to galvanize customer traffic. For Mainland China, the franchise business continues to be our focus of development. YOY net growth of franchised stores was 24.

Table 8: Greater China 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**	
	2019	2018	**Change**	**2019**	2018	**2019**	2018	**2019**	2018
Mainland China	**562**	680	**(17.4%)**	**(15.4%)**	7.3%	**(19.2%)**	5.8%	**917**	938
Hong Kong	**421**	478	**(11.9%)**	**(7.6%)**	5.6%	**(7.2%)**	3.9%	**75**	77
Taiwan	**314**	355	**(11.5%)**	**(13.4%)**	11.3%	**(13.8%)**	13.4%	**204**	205
Total	**1,297**	1,513	**(14.3%)**	**(12.6%)**	7.6%	**(13.8%)**	6.7%	**1,196**	1,220

The rest of Asia Pacific

Table 9: The rest of Asia Pacific region

(In HK$ million, translated at constant exchange rates)	Six months ended June 30						
	As published					For reference only	
	2019		2018			2019	
	Reported under HKFRS 16	**% to sales**	Reported under HKAS 17	% to sales	**Change**	As if Reported under HKAS 17	**Change**
Total sales	**821**	**100.0%**	838	100.0%	**(2.0%)**	821	**(2.0%)**
Gross profit	**493**	**60.0%**	501	59.8%	**(1.6%)**	493	**(1.6%)**
Operating expense	**(383)**	**(46.7%)**	(379)	(45.2%)	**1.1%**	(384)	**1.3%**
Operating profit	**116**	**14.1%**	124	14.8%	**(6.5%)**	115	**(7.3%)**
Finance expense	**(12)**	**(1.5%)**	—	0.0%	**N/A**	—	**N/A**
Profit before income tax	**104**	**12.7%**	124	14.8%	**(16.1%)**	115	**(7.3%)**
CSS growth	**(5.6%)**		3.6%				
CSGP growth	**(4.6%)**		3.0%				
Stores at period end	**613**		603		**10**		

In the rest of Asia Pacific, the performance was mixed. Indonesia stood out with an overall CSS and CSGP growth of 2.8% and 1.1%, respectively for both Giordano and non-Giordano brands, and with operating profit increasing by 6.0%. Thailand continued to achieve stable growth, with operating profit advancing by 9.1%, attributable mainly to sales growth and improvement of gross margin by 1.5 percentage points from 63.7% to 65.2%. Sales in Singapore and Malaysia declined by 13.0% and 8.4%, respectively, due to weak consumer sentiment and slow economic growth.

Table 10: 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**	
	2019	2018	**Change**	**2019**	2018	**2019**	2018	**2019**	2018
Indonesia	**319**	302	**5.6%**	**(1.1%)**	5.4%	**(0.3%)**	2.9%	**253**	257
Thailand	**187**	182	**2.7%**	**(0.4%)**	4.1%	**1.6%**	7.0%	**170**	164
Singapore	**140**	161	**(13.0%)**	**(11.3%)**	1.1%	**(11.0%)**	(1.4%)	**43**	43
Malaysia	**98**	107	**(8.4%)**	**(14.2%)**	0.9%	**(12.5%)**	1.8%	**96**	92
Vietnam	**46**	47	**(2.1%)**	**(10.5%)**	N/A	**(9.0%)**	N/A	**39**	32
Australia	**25**	33	**(24.2%)**	**4.0%**	12.7%	**1.3%**	9.3%	**10**	13
Cambodia	**6**	6	**Flat**	**N/A**	17.2%	**N/A**	17.4%	**2**	2
Total	**821**	838	**(2.0%)**	**(5.6%)**	3.6%	**(4.6%)**	3.0%	**613**	603

The Middle East

Table 11: The Middle East

(In HK$ million, translated at constant exchange rates)	Six months ended June 30						
	As published					For reference only	
	2019		2018			2019	
	Reported under HKFRS 16	**% to sales**	Reported under HKAS 17	% to sales	**Change**	As if Reported under HKAS 17	**Change**
Total sales	**343**	**100.0%**	336	100.0%	**2.1%**	343	**2.1%**
Gross profit	**222**	**64.7%**	205	61.0%	**8.3%**	222	**8.3%**
Operating expense	**(155)**	**(45.2%)**	(155)	(46.1%)	**Flat**	(157)	**1.3%**
Operating profit	**68**	**19.8%**	50	14.9%	**36.0%**	66	**32.0%**
Finance expense	**(5)**	**(1.5%)**	—	0.0%	**N/A**	—	**N/A**
Profit before income tax	**63**	**18.4%**	50	14.9%	**26.0%**	66	**32.0%**
CSS growth	**4.0%**		(3.7%)				
CSGP growth	**4.1%**		(12.2%)				
Stores at period end	**188**		187		**1**		

The Middle East business stabilized and rebounded, with operating profit improving by 36.0%. Gross profit increased by 8.3% with gross margin improving by 3.7 percentage points. Due to the changes in the merchandising mix and alternative supply sources, the average product cost decreased by 23.4%. During the Ramadan period, promotional activities and sales discounts were launched to galvanize customer traffic, with volume increase of 6.6%.

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

Table 12: South Korea

(In Korean Won million)	Six months ended June 30 **2019**	**% to sales**	2018	% to sales	**Change**
Total sales	**95,993**	**100.0%**	97,668	100.0%	**(1.7%)**
Gross profit	**57,060**	**59.4%**	57,272	58.6%	**(0.4%)**
Net profit	**7,379**	**7.7%**	8,233	8.4%	**(10.4%)**
Share of profit	**3,582**		3,996		**(10.4%)**
CSS growth	**(1.0%)**		(3.2%)		
CSGP growth	**(0.3%)**		(1.5%)		
Stores at period end	**179**		191		**(12)**

South Korea reported a slight decrease in sales, while its gross profit was almost flat. The improvement in gross margin resulted from inventory rationalization and lower product costs by sharing the Group's sourcing capacity. Net profit declined due primarily to the increase in marketing and logistic expenses.

Wholesale sales to overseas franchisees

Table 13: Store numbers of overseas franchisees

By market	At June 30 **2019**	2018
South Korea	**179**	191
Southeast Asia	**228**	225
Other markets	**20**	18
Total stores	**427**	434

Wholesale sales to overseas franchisees decreased by 19.1% to HK$140 million (2018: HK$173 million). Uncertainties in the global market have affected the sales of our franchisees in various regions, which in turn have affected our wholesales performance. The tightening of our credit policy towards franchisees has also led to lower wholesale sales. That said, management remains focused on expanding our franchise and wholesales footprint outside of our core markets. Though initially small, these newly developed markets will pay off in the medium to long run.

FINANCIAL POSITION

Liquidity and financial resources

At June 30, 2019, the cash and bank balances, net of bank loans were HK$1,026 million (June 30, 2018: HK$1,224 million), a decrease of 16.2%.

The short-term bank borrowings, denominated in Hong Kong dollars, amounted to HK$298 million (2018: 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 (2018: -0.4). At June 30, 2019, the Group's current ratio was 1.5 based on current assets of HK$2,264 million and current liabilities of HK$1,486 million (2018: 2.4). On the adoption of HKFRS 16, the Group recognized the commitments under operating leases for future periods as lease liabilities, whereas, under the previous accounting standard, no such liabilities were required to be recorded. In this connection, the recorded net current assets will be lower.

Property, plant and equipment

During the first half of 2019, capital expenditure was HK$37 million (2018: HK$40 million) mainly due to 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 mainly represents our 48.5% interest in the South Korea joint venture. The decrease of HK$52 million during the period derived from our share of profit, offset by dividends received and currency translation difference.

Inventories

Group inventories at June 30, 2019 increased by HK$27 million, or 5.4%, to HK$526 million (June 30, 2018: HK$499 million). The increase primarily consists of winter stock, which will be relaunched later this year. ITOC increased by 15 days to 92 days due to sales decrease.

Inventories at suppliers and franchisees are not our legal liabilities. In spite of this, the Group responsibly tracks their levels to ensure that we do not build up excessive off-balance sheet inventories. Increase in inventories in South Korea was to meet the expected sales in the second half of the year. Our system inventories remained healthy and our finished goods at suppliers were lower than last year. Management will closely monitor the inventory levels to avoid an inventory glut, which would invariably affect future gross profit.

Table 14: System inventories

	At		
(In HK$ million)	**June 30 2019**	Dec 31 2018	June 30 2018
Inventories held by the Group	**526**	552	499
Inventories held by 48.5% South Korea joint venture	**218**	200	166
Inventories held by franchisees in Mainland China	**82**	94	92
Finished goods at suppliers (not yet shipped)	**42**	27	49
Total system inventories	**868**	873	806

Trade receivables and payables

The Group monitors the recoverability of trade receivables to mitigate bad debt risk. Trade receivables turnover days for the period was 42 days, which decreased by 2 days compared to the same period last year. The Group exercises careful monitoring of outstanding credit balances, particularly overdue amounts, restricting and stopping shipments where appropriate. Trade payables turnover days increased by 1 day to 20 days during the period. This is in line with the credit period granted by our suppliers.

OUTLOOK

As we move into the second half of 2019, the brunt of the trade war between the world's two largest economies is now being felt globally and is taking its toll on Greater China consumer sentiment. In addition, Hong Kong weakening retail sector continues to be exacerbated by social unrest. The global economic environment is becoming more uncertain, with signs of economic slowdown in many different parts of the world.

Singapore is proving challenging, although management has already taken steps to shake up the local management team and remains confident that the business can be improved. Malaysia and Taiwan failed to meet expectations in the first half, although the local teams have stabilized their businesses and are showing signs of turnaround through effective cost control and improved product mix and localized campaigns. Our Middle East business is showing positive signs of recovery while our Southeast Asian markets, in particular Indonesia and Thailand, have performed positively and will continue its momentum into the second half of 2019.

Our initiative to develop local e-commerce businesses within our existing markets will also continue, so as to offer our customers a more comprehensive shopping experience and allow us to serve a wider local customer base. This will require resilience and determination in the face of growing competition in this online domain, but we have sowed the seeds and will continue to pursue the opportunities that lie in this realm.

That being said, cost pressures remain within the industry as a result of increasing production costs in a number of traditional manufacturing hubs in the region, as well as increasing costs of front-line shop staff in a number of the markets we operate.

As always, however, management remains steadfast in weathering the storm and continues to take the approach that where there are challenges, there are also opportunities. We remain unwavering in our pursuance of operational excellence and the strengthening of our core competencies to seek out further opportunities to reduce product costs and operating expenses. At the same time, we continue our expansion into new markets, while enhancing our initiative 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.

HUMAN RESOURCES

As at June 30, 2019, the Group had approximately 7,900 employees (December 31, 2018: 8,200). The Group offers competitive remuneration packages and generous, goal-oriented bonuses targeted to different levels of staff. We offer senior managers 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 10.2 HK cents per share (2018: 17.0 HK cents per share) for the six months ended June 30, 2019. The dividend is payable on Friday, September 20, 2019 to shareholders whose names appear on the register of members of the Company on Thursday, September 12, 2019.

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 10, 2019 to Thursday, September 12, 2019 (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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Monday, September 9, 2019.

Corporate Governance Code

A corporate governance report has been published and included in the Company's 2018 annual report, in which the Company reported the adoption of 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 2018 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, 2019.

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, 2019.

Review of Interim Results

The unaudited condensed consolidated interim financial information of the Group for the six months ended June 30, 2019 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 HKICPA.

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, 2019 with Management.

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

Hong Kong, August 8, 2019

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 four independent non-executive directors; namely, Dr. Barry John BUTTIFANT, Mr. KWONG Ki Chi, Professor WONG Yuk (alias, HUANG Xu) and Dr. Alison Elizabeth LLOYD.

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[1] *Group sales refer to consolidated sales and include retail sales from DOS and wholesale 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 2019 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.*