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**GIORDANO**  
**GIORDANO INTERNATIONAL LIMITED**  
*(Incorporated in Bermuda with limited liability)*  
**(Stock Code: 709)**

**UNAUDITED OPERATIONS UPDATE FOR  
THE THREE MONTHS ENDED MARCH 31, 2018**

The board of directors (the “Board”) of Giordano International Limited (the “Company”) presents the unaudited first quarter update of the Company and its subsidiaries (the “Group”) for the three months ended March 31, 2018. This announcement is made pursuant to Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) and Rule 13.09 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

**Shareholders and potential shareholders of the Company are cautioned not to unduly rely on such information when dealing in the shares of the Company.**

**OVERVIEW**

- Group sales for the first quarter rose by 13.4% to HK\$1,457 million. Group gross profit increased by 12.5% on improved Group sales, partially offset by a 0.5 percentage point decline in gross margin due in part to the change in channel mix and a late Chinese New Year (“CNY”), leading to a longer promotion period. Group comparable store sales (“CSS”) and comparable store gross profit (“CSGP”) for the quarter increased by 9.5% and 8.7%, respectively.
- As at March 31, 2018, the Group operated through a network of 2,414 stores (or 2,307,300 sq. ft. of retail floor space), of which 1,271 were standalone stores. Net increase of stores compared with March 31, 2017 was 40, shown in Table 1.
- Inventory turnover on costs (“ITOC”) increased by 3 days to 75 days, partly due to the consolidation of the Group’s Vietnam operation since July 1, 2017.
- At quarter-end, the cash and bank balances, net of bank loans, reached HK\$1,374 million (March 31, 2017: HK\$1,218 million), representing an increase of 12.8% year-on-year (“YOY”). Approximately HK\$314 million has been earmarked for paying out the proposed final dividend for fiscal year 2017.

**Table 1: Store portfolio**

	Store numbers at March 31		Retail floor space (sq. ft. in thousands) at March 31	
	2018	2017	2018	2017
<b>Retail and Distribution</b>				
Mainland China				
Directly operated stores (“DOS”)	321	351	266	293
Franchised stores	604	566	471	452
The rest of Asia Pacific	598	566	621	577
Taiwan	199	199	193	193
The Middle East				
DOS	146	148	180	180
Franchised stores	40	40	43	42
Hong Kong and Macau	77	75	88	86
<b>Overseas franchisees</b>	<b>429</b>	429	<b>445</b>	484
<b>Total</b>	<b>2,414</b>	2,374	<b>2,307</b>	2,307

The following commentaries refer to YOY comparison of the Group, for the three months ended March 31, 2018 and 2017 unless otherwise indicated.

## SUMMARY OF OPERATIONS UPDATE

**Table 2: Overview of Group operations**

<i>(In HK\$ million)</i>	Three months ended March 31				
	2018	% to sales	2017	% to sales	Change
The rest of Asia Pacific	422	29.0%	347	27.0%	21.6%
Mainland China	378	25.9%	315	24.5%	20.0%
Hong Kong and Macau	248	17.0%	239	18.6%	3.8%
Taiwan	201	13.8%	158	12.3%	27.2%
The Middle East	134	9.2%	147	11.4%	(8.8%)
Wholesale sales to overseas franchisees	74	5.1%	79	6.2%	(6.3%)
Group sales <sup>1</sup>	1,457	100.0%	1,285	100.0%	13.4%
Gross profit	847	58.1%	753	58.6%	12.5%
Global brand sales <sup>2</sup>	1,843		1,741		5.9%
Global brand gross profit <sup>2</sup>	1,103		1,038		6.3%
Group CSS growth <sup>3</sup>	9.5%		0.5%		
Group CSGP growth <sup>3</sup>	8.7%		2.2%		
Net cash and bank balances at period end	1,374		1,218		12.8%
Inventories at period end	507		428		18.5%
ITOC (days) <sup>4</sup>	75		72		

Group sales increased by 13.4%, or by 7.9% if translated at constant exchange rates. Group CSS and CSGP were up by 9.5% and 8.7%, respectively. Group’s e-business generated HK\$81 million in revenue representing a YOY increase of 44.6% (see Table 3). E-business in Mainland China accounted for 87.9% of Group’s e-business sales and recorded a sales growth of 28.9%. Wholesale sales to both onshore and offshore franchisees grew by 7.3% primarily from Mainland China, the wholesale sales of which increased by 7.6%.

**Table 3: Sales by channel**

<i>(In HK\$ million)</i>	Three months ended March 31				
	2018	Contribution	2017	Contribution	Change
Physical stores	1,184	81.3%	1,050	81.7%	12.8%
E-business	81	5.5%	56	4.4%	44.6%
Retail sales	1,265	86.8%	1,106	86.1%	14.4%
Wholesale sales to franchisees	192	13.2%	179	13.9%	7.3%
<b>Group sales</b>	<b>1,457</b>	<b>100.0%</b>	<b>1,285</b>	<b>100.0%</b>	<b>13.4%</b>

Core Giordano lines constituted 86.5% of total brand sales. The performance of our core womenswear sustained the growth momentum from the second half of 2017 and recorded a CSS growth of 15.1% in the first quarter of 2018. The integrated marketing approach of our childrenswear was effective and the brand continued to deliver a strong CSS growth of 26.9%. Our premium womenswear brand, *Giordano Ladies*, posted a stable CSS growth of 6.3% with the brand's gross margin having improved by 2.3 percentage points resulting in a stronger CSGP growth of 9.7%. The brand had 83 stores by the end of March and will continue to expand.

Group gross margin was down by 0.5 percentage points while average selling price and average product costs were up by 10.4% and 11.6%, respectively. An analysis of change in Group gross profit is provided in Table 4.

**Table 4: Gross profit variance analysis by region**

<i>(In HK\$ million)</i>	Three months ended March 31, 2017							Three months ended March 31, 2018
	gross profit	Product costs	Selling price	Volume	Vietnam acquisition	Translational exchange impact	Miscellaneous	gross profit
The rest of Asia Pacific	210	(9)	17	7	15	14	(2)	252
Mainland China	162	(23)	40	(6)	—	17	(1)	189
Hong Kong & Macau	162	(10)	30	(14)	—	—	(2)	166
Taiwan	94	(6)	29	1	—	8	(1)	125
The Middle East	94	(6)	7	(13)	—	—	—	82
Market mix	—	(1)	—	1	—	—	—	—
<b>Retail and distribution</b>	<b>722</b>	<b>(55)</b>	<b>123</b>	<b>(24)</b>	<b>15</b>	<b>39</b>	<b>(6)</b>	<b>814</b>
Wholesales to overseas franchisees/subsidiaries	31							33
<b>Group</b>	<b>753</b>							<b>847</b>

## ANALYSIS BY MARKET

The following 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 impacts on imported product costs contracted at non-local currencies, if any.

### Mainland China

**Table 5: Mainland China**

<i>(In Renminbi million)</i>	Three months ended		Change
	March 31		
	2018	2017	
DOS	161	155	3.9%
Wholesale sales to franchisees	85	79	7.6%
E-business	58	45	28.9%
Total sales	304	279	9.0%
Gross profit	152	143	6.3%
Gross margin	50.0%	51.3%	(1.3pp)
DOS	161	155	3.9%
Franchised stores	172	151	13.9%
E-business	58	45	28.9%
Total brand sales	391	351	11.4%
CSS growth	16.2%	0.1%	
CSGP growth	15.1%	0.4%	

For Mainland China, the growth momentum continued in the first quarter of 2018. The development of the two strategic channels of e-business and franchising were on track and will continue to be our growth drivers in the medium term. CSS for DOS were up by 16.7% despite the closure of 30 non-performing stores in the past twelve months. Decline in gross margin by 1.3 percentage points can be attributed to greater sales contribution from our e-business which has a lower margin relative to DOS and longer promotion period for late CNY.

### Hong Kong and Macau

**Table 6: Hong Kong and Macau**

<i>(In HK\$ million)</i>	Three months ended		Change
	March 31		
	2018	2017	
Total sales	248	239	3.8%
Gross profit	166	162	2.5%
Gross margin	66.9%	67.8%	(0.9pp)
CSS growth	9.0%	3.3%	
CSGP growth	8.3%	5.5%	

In Hong Kong and Macau, sales for the first quarter increased by 3.8% resulting from a CSS growth of 9.0% partly offset by closure of a major non-performing store. Gross margin was down by 0.9 percentage points resulting from longer promotion period for late CNY.

## Taiwan

**Table 7: Taiwan**

<i>(In New Taiwanese Dollar million)</i>	Three months ended March 31		Change
	2018	2017	
Total sales	754	631	19.5%
Gross profit	468	377	24.1%
Gross margin	62.1%	59.7%	2.4pp
CSS growth	19.6%	(10.0%)	
CSGP growth	25.1%	(6.6%)	

Taiwan's performance had rebounded since the second quarter of 2017. Adequate merchandising, well executed marketing programs and high e-business growth in addition to the recovery of retail market boosted CSS and CSGP to grow by 19.6% and 25.1%, respectively. The improvement of gross margin was largely due to less clearance activities compared with last year.

## The rest of Asia Pacific

**Table 8: The rest of Asia Pacific region**

<i>(In HK\$ million, translated at constant exchange rates)</i>	Three months ended March 31		Change
	2018	2017	
Total sales	399	347	15.0%
Gross profit	238	210	13.3%
Gross margin	59.6%	60.5%	(0.9pp)
CSS growth	3.6%	2.7%	
CSGP growth	4.1%	4.4%	

In the rest of Asia Pacific region, sales increase was mainly derived from the store expansion in Indonesia and the acquisition of Vietnam operations since July 2017, which contributed to 5.9% of the sales of this region. Other Southeast Asia markets delivered stable sales growth even under a tough macro environment. Excluding the Vietnam acquisition, gross margin would have dropped by 1.0 percentage point. Average selling price and average product cost grew by 4.9% and 6.4%, respectively.

**Table 9: The rest of Asia Pacific region (by market)**

<i>(In HK\$ million, translated at constant exchange rates)</i>	Three months ended March 31								
	Sales			CSS growth		CSGP growth		Stores at period end	
	2018	2017	Change	2018	2017	2018	2017	2018	2017
Indonesia	140.0	120.8	15.9%	3.4%	7.0%	0.7%	9.7%	248	239
Singapore	84.7	81.4	4.1%	6.0%	(4.6%)	5.9%	(1.0%)	43	45
Thailand	81.7	80.1	2.0%	(2.4%)	5.4%	1.7%	4.3%	162	158
Malaysia	49.6	45.8	8.3%	7.7%	1.3%	8.2%	1.8%	92	90
Vietnam*	23.6	—	N/A	N/A	N/A	N/A	N/A	30	—
Australia	17.0	17.3	(1.7%)	8.5%	8.0%	7.3%	12.6%	16	17
Cambodia	2.5	2.0	25.0%	24.1%	25.6%	22.7%	32.1%	1	1
India	0.3	—	N/A	N/A	(19.5%)	N/A	(18.9%)	6	16
<b>Total</b>	<b>399.4</b>	<b>347.4</b>	<b>15.0%</b>	<b>3.6%</b>	<b>2.7%</b>	<b>4.1%</b>	<b>4.4%</b>	<b>598</b>	<b>566</b>

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

## The Middle East

**Table 10: The Middle East**

<i>(In HK\$ million, translated at constant exchange rates)</i>	Three months ended March 31		Change
	2018	2017	
Total sales	134	147	(8.8%)
Gross profit	82	94	(12.8%)
Gross margin	61.2%	63.9%	(2.7pp)
CSS growth	(7.3%)	6.1%	
CSGP growth	(12.2%)	4.9%	

In the Middle East, we are facing some challenges due to the implementation of Value-Added Tax and new economic policies in the United Arab Emirates and Saudi Arabia. In the first quarter, CSS of the region dropped by 7.3% while gross margin declined by 2.7 percentage points. The temporary setback is expected to dissipate with the arrival of the forthcoming Muslim festival.

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

**Table 11: South Korea**

<i>(In Korean Won million)</i>	Three months ended March 31		Change
	2018	2017	
Total sales	46,630	46,687	(0.1%)
Gross profit	26,155	25,110	4.2%
Gross margin	56.1%	53.8%	2.3pp
CSS growth	0.5%	(5.0%)	
CSGP growth	4.9%	(4.3%)	
Stores at period end	192	199	(7)

South Korea continued to deliver positive CSGP growth since the fourth quarter of 2017. Inventory rationalization and lower product costs due to shared sourcing have contributed to a substantial gross margin improvement.

### Wholesale sales to overseas franchisees

Wholesale sales to overseas franchisees decreased by 6.3% to HK\$74 million (2017: HK\$79 million). The performance of wholesale sales during the period would have actually improved by 2.2% if the sales in Vietnam were not recorded under wholesale sales for the corresponding period in 2017. Management is actively expanding franchise/wholesale footprints outside of Asia Pacific. Though initially small, these newly developed markets will pay off in the medium and long run.

### Inventories

Group inventories at quarter-end were up by 18.5% to HK\$507 million (March 31, 2017: HK\$428 million). ITOC increased by 3 days to 75 days. If excluding the impact from Vietnam acquisition, ITOC would be up by 1 day.

Inventories at suppliers and franchisees are not our legal liabilities although the Group tracks this information to ensure that we do not build up excessive off-balance sheet inventories. Our system inventories had increased by 19.2% YOY. Management considers our inventory level to be healthy and adequate in view of our recent sales.

**Table 12: System inventories**

<i>(In HK\$ million)</i>	At		
	Mar 31 2018	Dec 31 2017	Mar 31 2017
Inventories held by the Group	507	524	428
Inventories held by 48.5% South Korea joint venture	169	175	148
Inventories held by franchisees in Mainland China	81	91	79
Finished goods at suppliers (not yet shipped)	50	54	22
<b>Total system inventories</b>	<b>807</b>	<b>844</b>	<b>677</b>

### Net cash and bank balances

At March 31, 2018, the cash and bank balances, net of bank loans, increased by HK\$156 million to HK\$1,374 million (March 31, 2017: HK\$1,218 million), representing an increase of 12.8% YOY. The increase was mainly due to improved cash inflows from operations. There will be no large cash outlays in the near future except for 2017 proposed final dividend of HK\$314 million in June this year. Management considers that the current net cash and bank balances are sufficient to support our business operations and fund our immediate term growth and initiatives.

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

Hong Kong, May 17, 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).*

<sup>1</sup> *Group sales refer to consolidated sales and include retail sales from DOS and sales to all overseas/non-consolidated franchisees.*

<sup>2</sup> *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.*

<sup>3</sup> *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.*

<sup>4</sup> *ITOC refers to inventories held at period end divided by cost of sales and multiplied by number of days in the period.*