



# GIORDANO

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2017 Interim Results Announcement | 10 August 2017

# Highlights

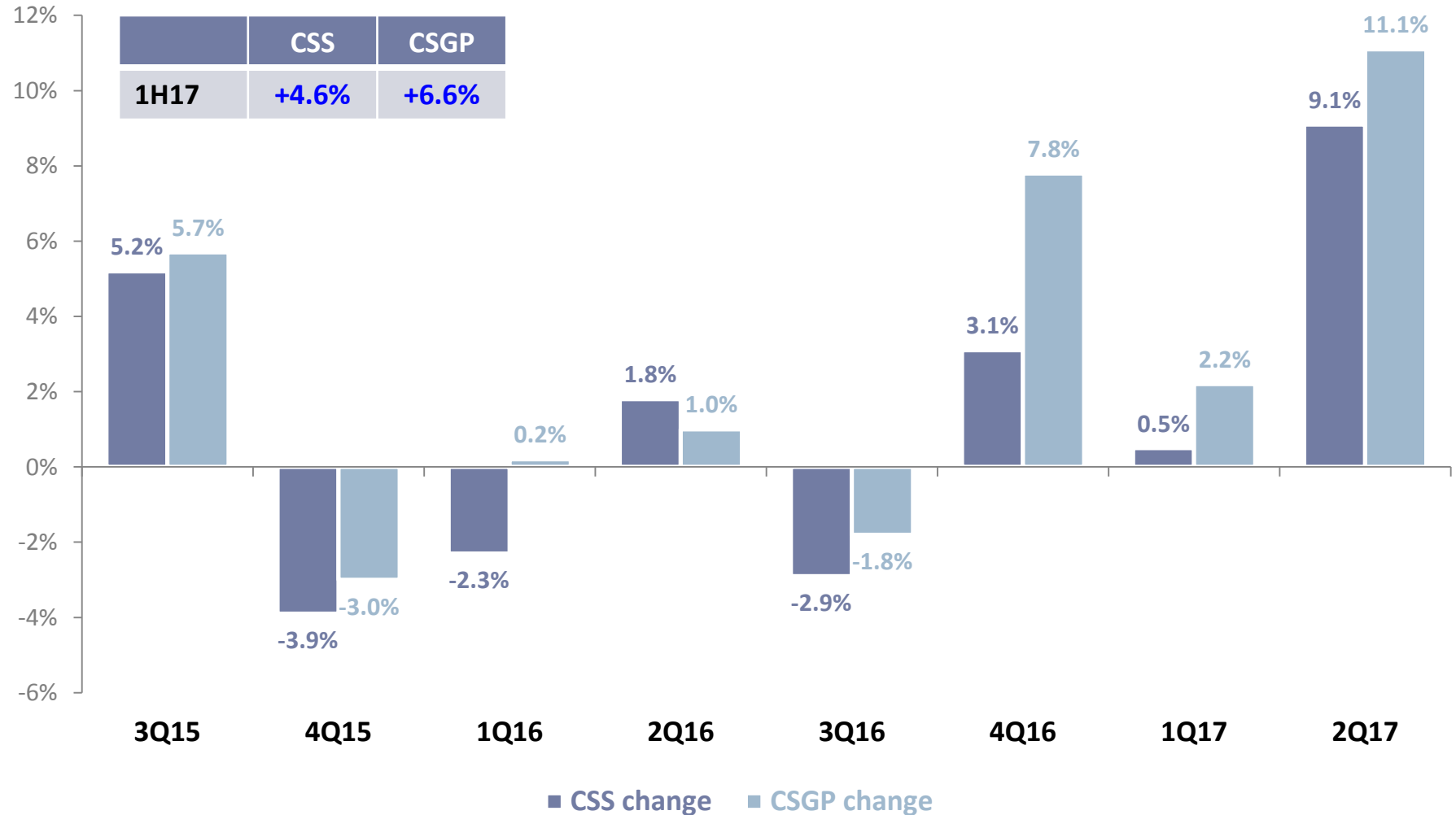
- Group sales +3.4%; gross profit +3.8%, positive growth since Q2.
- Group Comparable store sales +4.6%; Comparable stores gross profit +6.6%, improved merchandise mix, early Ramadan; China e-commerce.
- Gross margin +0.2pp to 59.8%.
- PATS +20.1% to HK\$245m; net margin +1.3pp to 9.4%.
- Net cash and bank balances HK\$1,233m. Cash conversion 116.9%.
- Inventory turnover days on cost +9 days to 79 days YOY.
- Interim dividend @ 15.0 HKcents (2016: 12.5 HK cents) per share.
- From Jun 20, 2017 to the announcement date, the Company repurchased and cancelled 5,412,000 shares. We will continue to repurchase subsequent to the announcement date.

## Group Sales by Region

(In HK\$ million)	1H17	1H16	% change at	
			current exchange rates	constant exchange rates
Rest of Asia Pacific	705	658	7.1%	7.4%
Mainland China	605	637	(5.0%)	(1.1%)
Hong Kong & Macau	473	457	3.5%	3.5%
Middle East	352	315	11.7%	11.7%
Taiwan	304	323	(5.9%)	(12.1%)
Wholesales to overseas franchisees	179	142	26.1%	26.1%
<b>Total</b>	<b>2,618</b>	<b>2,532</b>	<b>3.4%</b>	<b>3.7%</b>

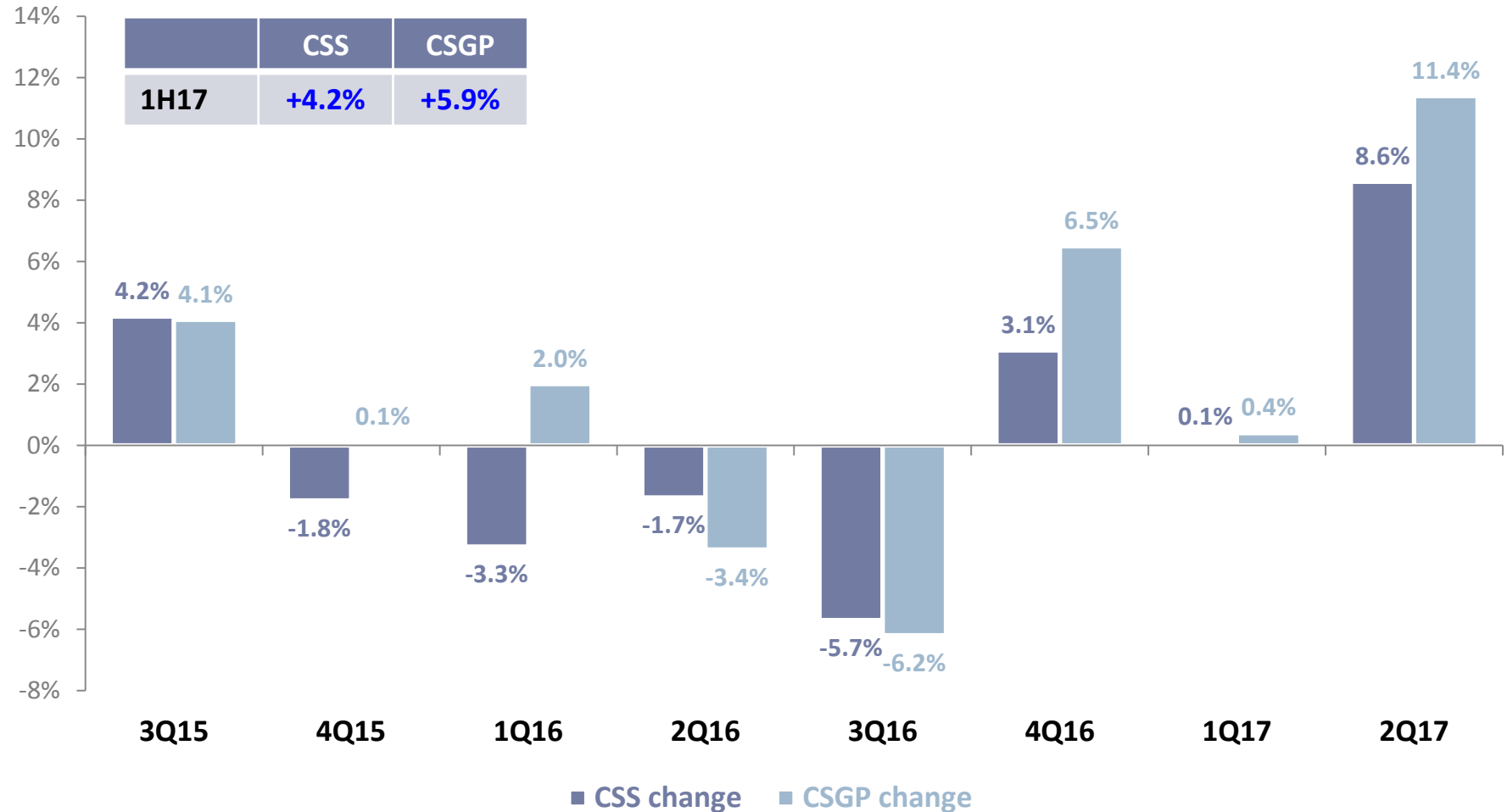
## Quarterly Group CSS and CSGP Change

Stable CSS growth. Q1 CSS +0.5%; Apr and May CSS +6.3%; June CSS +14.1%



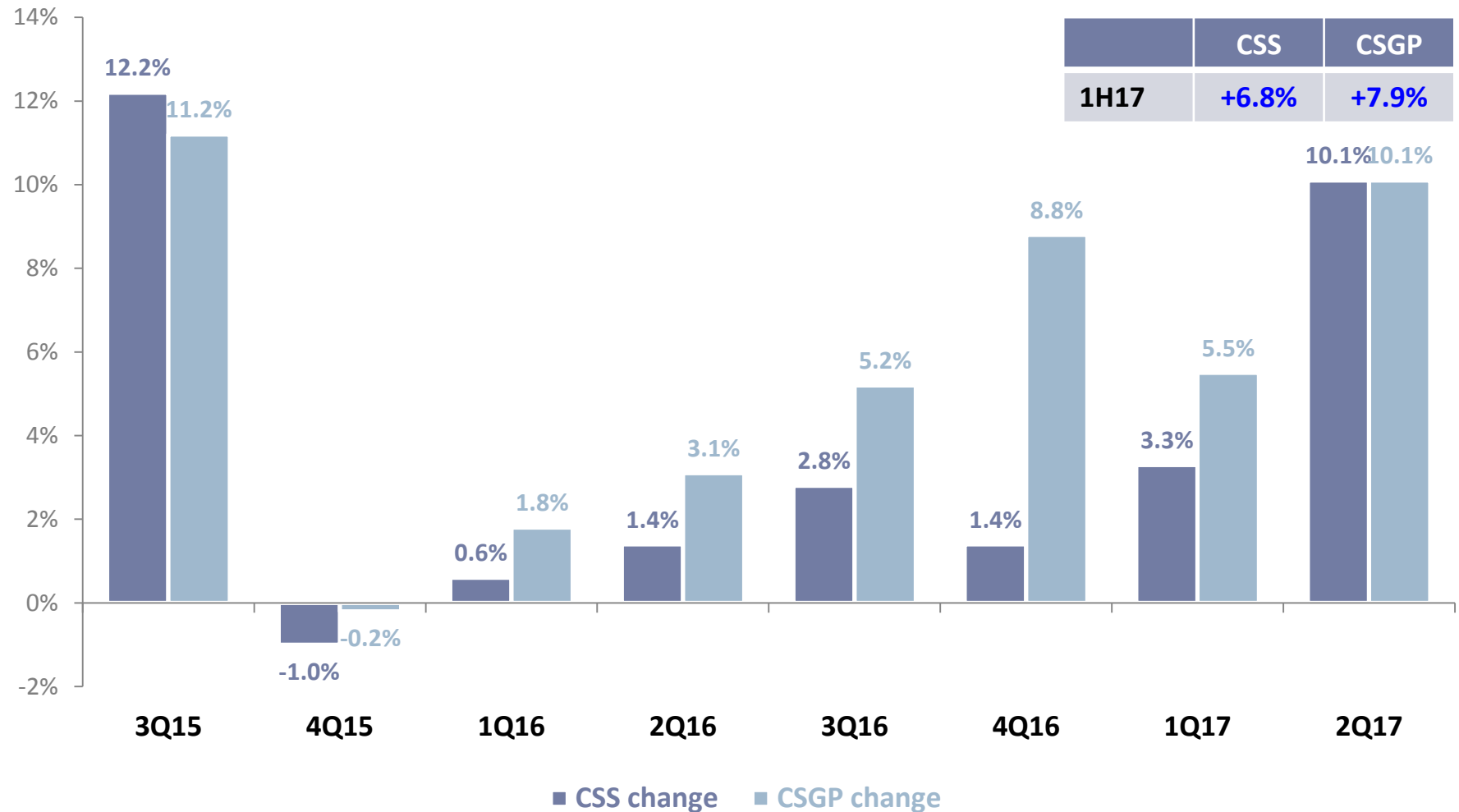
# Mainland China quarterly CSS and CSGP change

*Net +17 stores in the past 12 months, 31 were franchised stores; Increased e-business sales by 26.6%.*



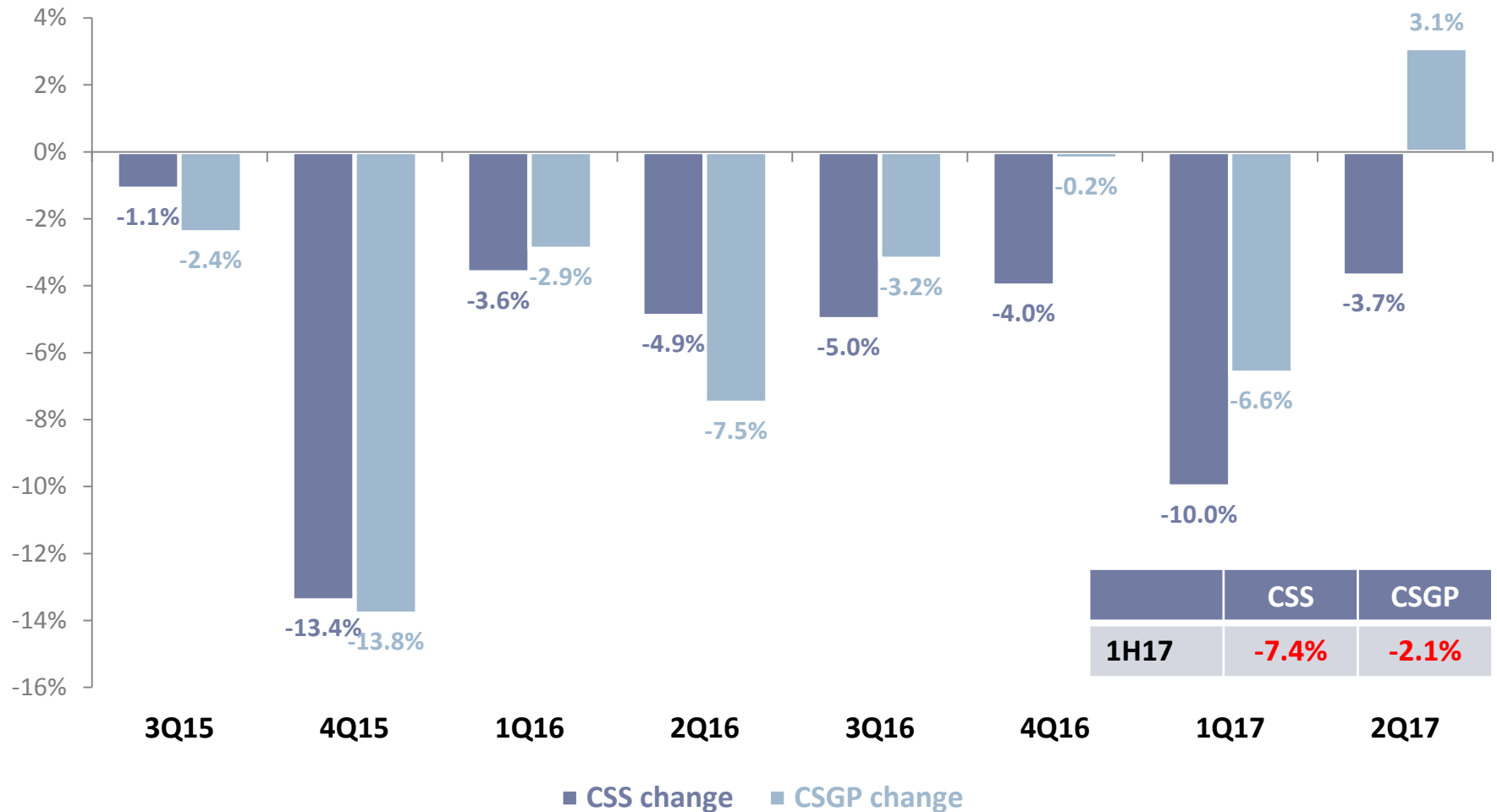
# Hong Kong and Macau Quarterly CSS and CSGP Change

*Well executed marketing programs and enhanced brand image.*



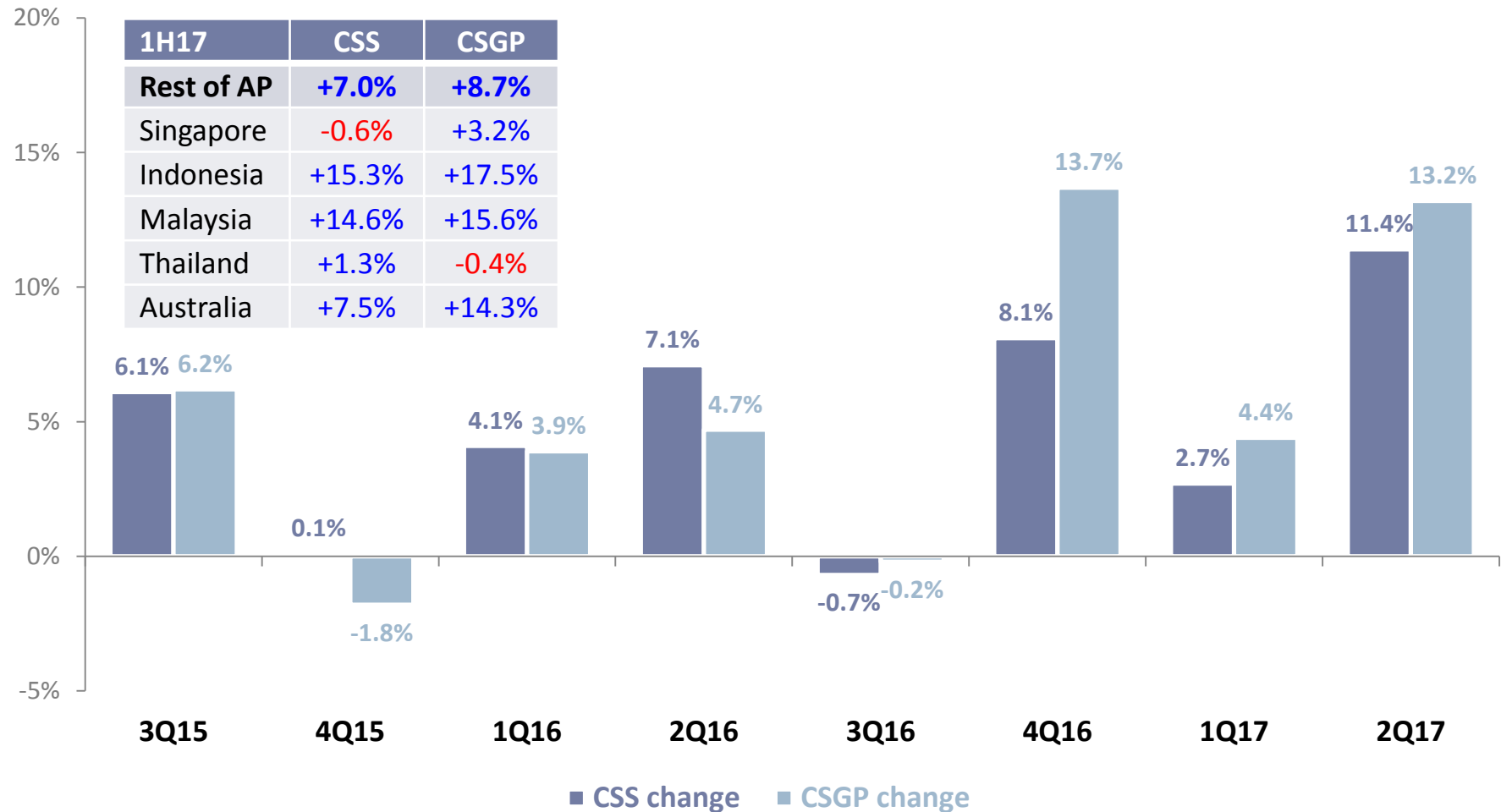
## Taiwan Quarterly CSS and CSGP Change

*Chinese tourist arrivals yet to recover; Appreciation of NTD against RMB lowered product costs.*



## Rest of Asia Pacific Quarterly CSS and CSGP Change

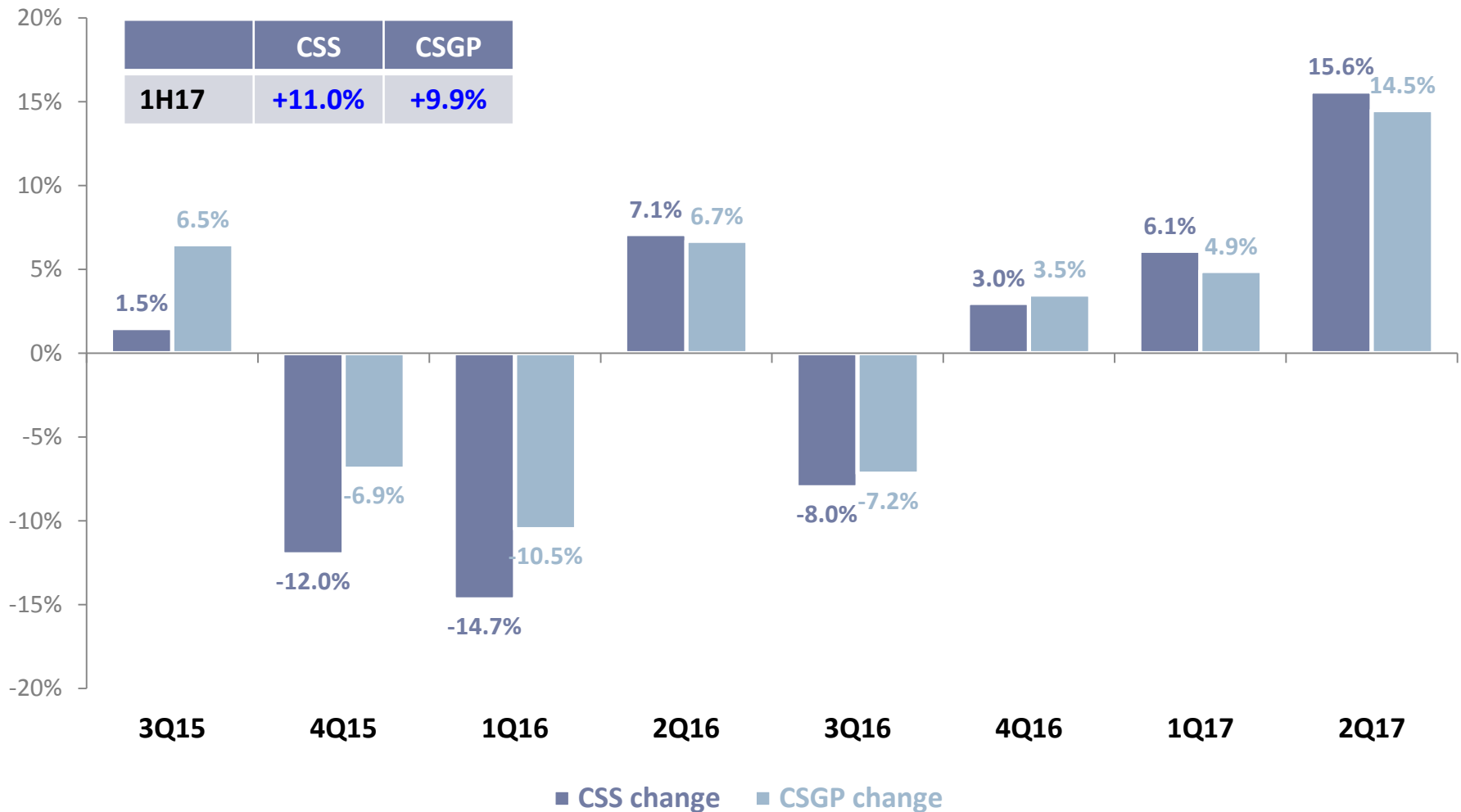
*Indonesia and Malaysia benefited from early Ramadan; Thailand sales growth slowed down from high base; Australia turnaround.*





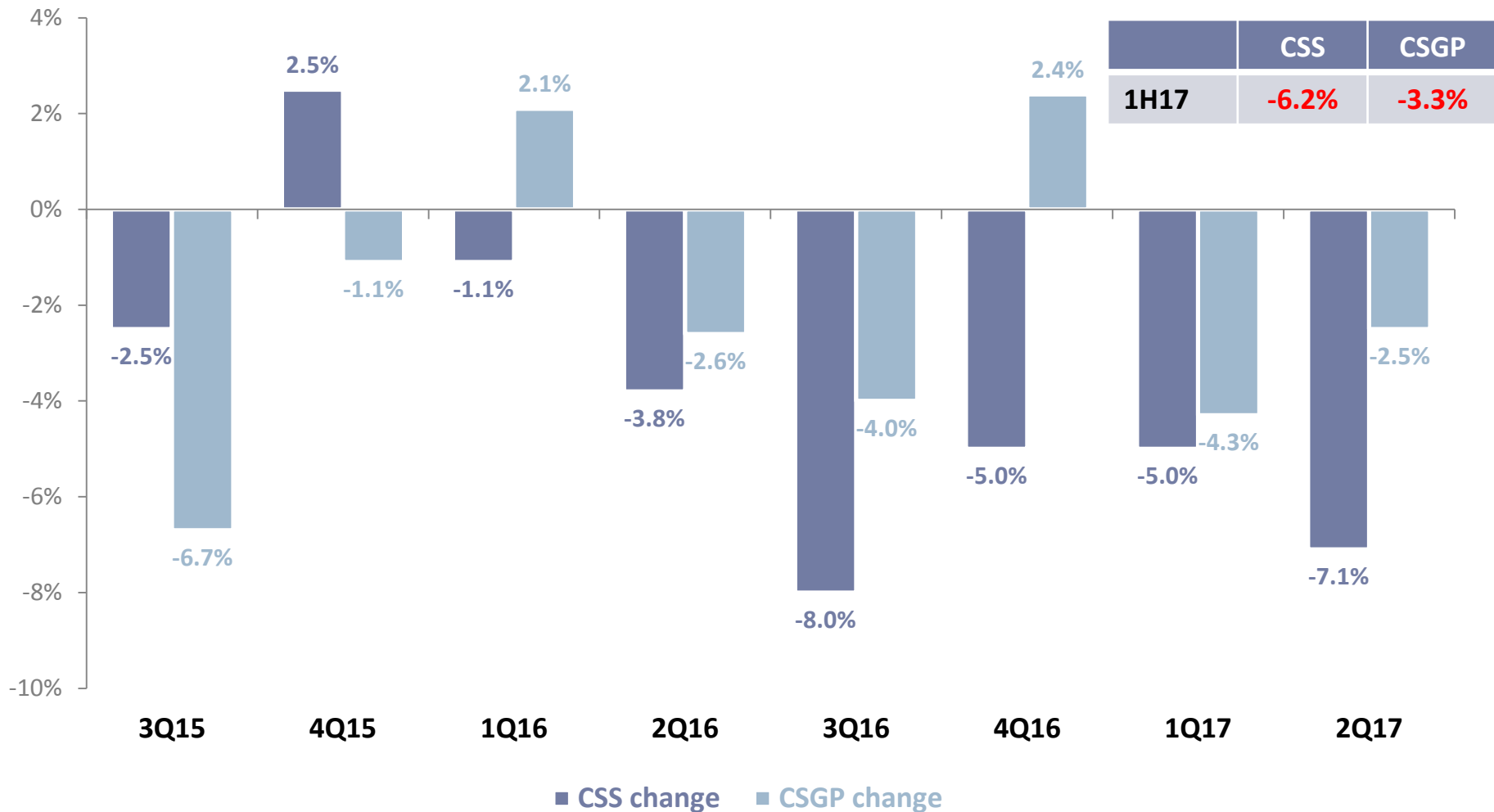
# Middle East Quarterly CSS and CSGP Change

*Early Ramadan coupled with successful promotion.*



# South Korea Quarterly CSS and CSGP Change

*Chinese tourists arrivals -20% in 1H.*



## Gross Profit Variance Analysis by Region

(In HK\$ million)	1H16 Gross profit	Product costs	Selling prices	Volume	Translational exchange impact	Misc.	1H17 Gross profit
Rest of Asia Pacific	388	2	15	20	(1)	1	425
Mainland China	348	13	(7)	–	(14)	(4)	336
HK & Macau	313	11	(19)	23	–	2	330
Middle East	213	13	(39)	41	–	1	229
Taiwan	185	8	7	(26)	12	–	186
Market mix	–	(4)	22	(18)	–	–	–
<b>Retail &amp; distribution</b>	<b>1,447</b>	<b>43</b>	<b>(21)</b>	<b>40</b>	<b>(3)</b>	<b>–</b>	<b>1,506</b>
Wholesales to overseas franchisees/ subsidiaries	61						60
<b>Group</b>	<b>1,508</b>						<b>1,566</b>

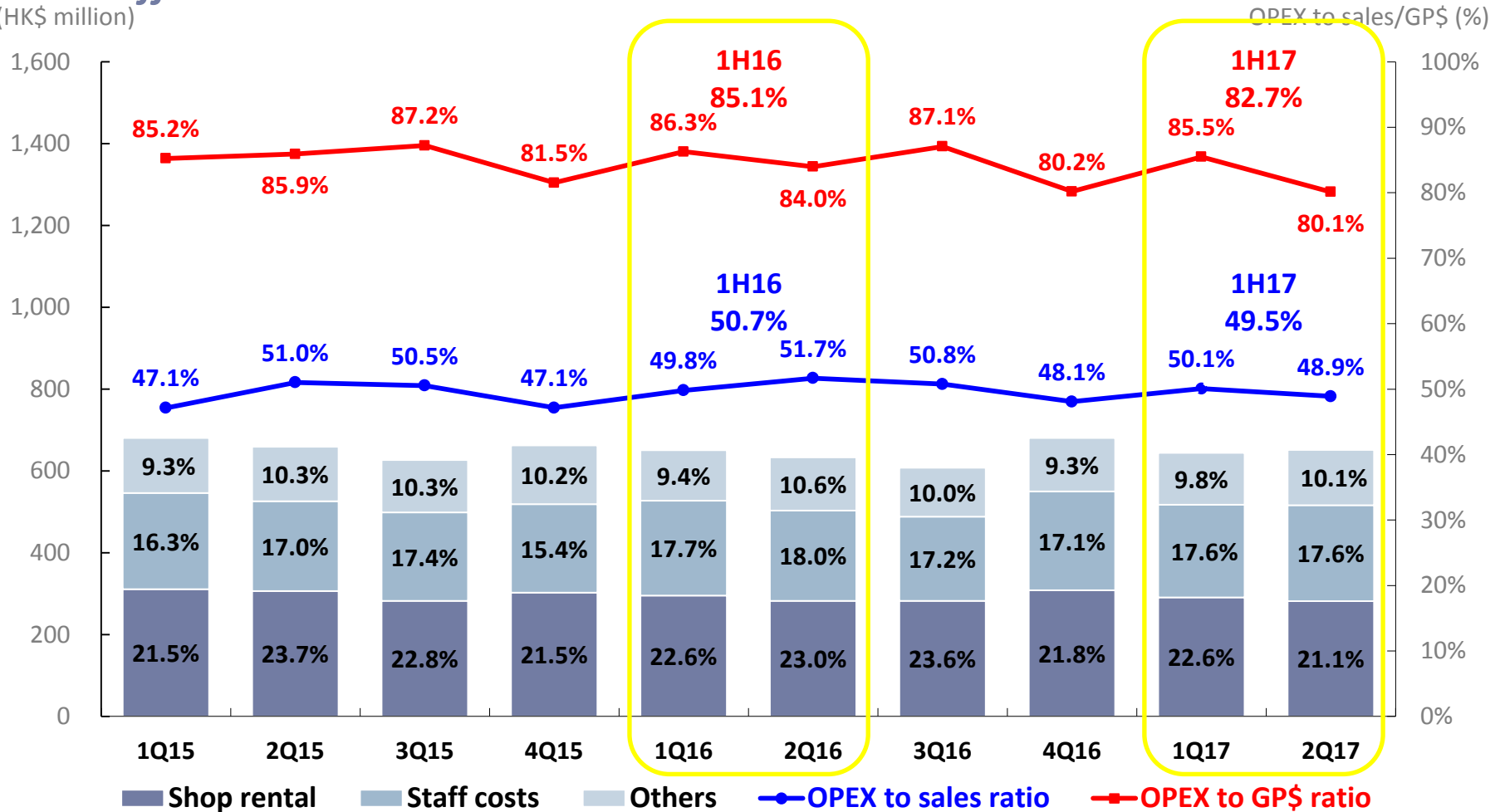
### Retail & distribution

- **Average product costs** -4.3% mainly due to depreciation of RMB.
- **ASP** -0.8% mainly due to decrease in ASP from Middle East due to Ramadan promotion.

## Group OPEX trend

*OPEX to sales -1.2pp due to higher CSS improving leveraging, esp. in shop rental and staff costs.*

(HK\$ million)



## Group Operating Profit by Region

	Operating profit		Increase/(decrease) translated at		Operating margin	
	1H17	1H16	current exchange rates	constant exchange rates	1H17	1H16
(In HK\$ million)						
Rest of Asia Pacific	<b>89</b>	66	23	23	<b>12.6%</b>	10.0%
Middle East	<b>71</b>	59	12	12	<b>20.2%</b>	18.7%
Mainland China	<b>48</b>	48	–	2	<b>7.9%</b>	7.4%
Hong Kong & Macau	<b>45</b>	38	7	7	<b>9.5%</b>	8.3%
Wholesales to overseas subsidiaries	<b>38</b>	40	(2)	(2)	<b>N/A</b>	N/A
Wholesales to overseas franchisees	<b>29</b>	24	5	5	<b>16.2%</b>	17.2%
Taiwan	<b>27</b>	22	5	3	<b>9.1%</b>	6.9%
Headquarter expense, net of other income & gains	<b>(16)</b>	(30)	14	14	<b>N/A</b>	N/A
<b>Total</b>	<b>331</b>	267	<b>64</b>	64	<b>12.6%</b>	10.5%

## Changes in Net Cash and Bank Balances

(In HK\$ million)	1H17	1H16
<b>Net cash and bank balances at Jan 1</b>	<b>1,095</b>	<b>1,076</b>
Dividends paid to shareholders of the Company	(236)	(228)
Dividends paid to non-controlling interests	(13)	(27)
Share repurchase	(6)	–
Proceeds from issuance of new shares	6	–
Exchange difference on cash and cash equivalents	18	4
Free cash flow from operations	369	259
<b>Net cash and bank balances at Jun 30</b>	<b>1,233</b>	<b>1,084</b>

## Free Cash Flow from Operations

(In HK\$ million)

	1H17	1H16
<b>Profit before income taxes and finance expense</b>	<b>361</b>	<b>290</b>
Depreciation and amortization	54	63
Changes in working capital	14	(19)
Decrease in rental deposits and prepayments less amortization	13	7
Share of pre-tax profit of JVs (net of dividends)	11	10
Proceeds from disposal of an available-for-sale financial asset	8	–
Others	6	3
Disposals of property, plant and equipment	–	2
Capital expenditure	(45)	(46)
Income taxes paid	(53)	(51)
<b>Free cash flow from operations</b>	<b>369</b>	<b>259</b>
<b>Cash conversion rate (free cash flow before taxes paid to EBIT)</b>	<b>116.9%</b>	<b>106.9%</b>

## Working Capital Management

(In HK\$ million)

	1H17	<i>Comments</i>
Increase in trade & other payables	25	AP turnover days +4 YOY to 36 days
Decrease in trade & other receivables	3	AR turnover days -2 YOY to 43 days
Increase in inventories	(14)	ITOC +9 YOY to 79 days
<b>Changes in working capital</b>	<b>14</b>	



# System Inventories

	As at			YOY change
	Jun 30 2017	Dec 31 2016	Jun 30 2016	
(In HK\$ million)				
Inventories held by the Group	461	447	392	17.6%
Inventories held by Korea JV	161	141	181	(11.0%)
Inventories held by China franchisees	81	88	66	22.7%
Finished goods at suppliers (not yet shipped)	43	20	52	(17.3%)
<b>Total system inventories</b>	<b>746</b>	<b>696</b>	<b>691</b>	<b>8.0%</b>
<b>Global brand sales</b>	<b>3,367</b>		<b>3,291</b>	<b>2.3%</b>

# Outlook

- Invest in marketing supported by healthy inventory and gross margin.
- Refurbish stores to upgrade store ambience.
- Giordano Junior as a key development programme.
- Improve Mainland China franchisees' operating margin
- Increase investment in e-commerce.
- Geographical expansion outside of the Asia Pacific.
- Continue to repurchase shares to return surplus cash to our shareholders.

## Summary of Group Sales, CSS and CSGP Growth

(HK\$ million)	Total Sales			CSS		CSGP	
	1H17	1H16	% change	1H17	1H16	1H17	1H16
<b>Rest of Asia Pacific</b>	<b>707</b>	658	<b>7.4%</b>	<b>7.0%</b>	5.2%	<b>8.7%</b>	4.0%
Singapore	<b>152</b>	155	<b>(1.9%)</b>	<b>(0.6%)</b>	1.9%	<b>3.2%</b>	(0.3%)
Indonesia	<b>268</b>	232	<b>15.5%</b>	<b>15.3%</b>	8.3%	<b>17.5%</b>	6.2%
Malaysia	<b>100</b>	87	<b>14.9%</b>	<b>14.6%</b>	0.2%	<b>15.6%</b>	2.3%
Thailand	<b>151</b>	142	<b>6.3%</b>	<b>1.3%</b>	15.3%	<b>(0.4%)</b>	14.9%
Australia	<b>32</b>	33	<b>(3.0%)</b>	<b>7.5%</b>	(13.0%)	<b>14.3%</b>	(16.5%)
India (will franchise out)	–	6	<b>(100%)</b>	<b>N/A</b>	(38.1%)	<b>N/A</b>	(35.8%)
Cambodia	<b>4</b>	3	<b>33.3%</b>	<b>33.6%</b>	32.1%	<b>40.2%</b>	26.6%
<b>Mainland China</b>	<b>630</b>	637	<b>(1.1%)</b>	<b>4.2%</b>	(2.7%)	<b>5.9%</b>	(0.7%)
<b>Hong Kong &amp; Macau</b>	<b>473</b>	457	<b>3.5%</b>	<b>6.8%</b>	0.6%	<b>7.9%</b>	2.1%
<b>Middle East</b>	<b>352</b>	315	<b>11.7%</b>	<b>11.0%</b>	(3.6%)	<b>9.9%</b>	(1.4%)
<b>Taiwan</b>	<b>284</b>	323	<b>(12.1%)</b>	<b>(7.4%)</b>	(4.1%)	<b>(2.1%)</b>	(5.1%)
<b>Retail &amp; Distribution</b>	<b>2,446</b>	2,390	<b>2.3%</b>	<b>4.6%</b>	(0.5%)	<b>6.6%</b>	0.4%
Wholesales to overseas franchisees	<b>179</b>	142	<b>26.1%</b>				
<b>Total at constant exchange rates</b>	<b>2,625</b>	2,532	<b>3.7%</b>				
Currency translation difference	<b>(7)</b>	–	<b>N/A</b>				
<b>Total at current exchange rates</b>	<b>2,618</b>	2,532	<b>3.4%</b>				

## Store Portfolio at June 30

	Store numbers		Retail floor space (sq. ft. in thousand)	
	2017	2016	2017	2016
<b>Retail &amp; Distribution</b>				
Mainland China				
Franchised stores	<b>567</b>	536	<b>446</b>	436
Directly operated stores	<b>346</b>	360	<b>283</b>	302
Rest of Asia Pacific				
Indonesia	<b>246</b>	231	<b>306</b>	293
Thailand	<b>156</b>	151	<b>107</b>	98
Malaysia	<b>88</b>	91	<b>73</b>	74
Singapore	<b>43</b>	48	<b>53</b>	54
Australia	<b>16</b>	22	<b>25</b>	34
India (will franchise out)	<b>5</b>	38	<b>3</b>	12
Cambodia	<b>1</b>	1	<b>3</b>	3
Taiwan	<b>197</b>	211	<b>192</b>	208
Middle East	<b>193</b>	196	<b>230</b>	227
Hong Kong & Macau	<b>78</b>	70	<b>88</b>	84
<b>Overseas franchisees</b>	<b>435</b>	432	<b>483</b>	467
<b>Total</b>	<b>2,371</b>	2,387	<b>2,292</b>	2,292