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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 SEPTEMBER 30, 2017**

The board of directors (the “Board”) of Giordano International Limited (the “Company”) presents the unaudited operations update of the Company and its subsidiaries (the “Group”) for the three months ended September 30, 2017. 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 advised to exercise caution when dealing in the shares of the Company.

OVERVIEW

- The Group is an international apparel retailer operating *Giordano* and *Giordano Junior*, *Giordano Ladies*, *BSX* and other owned and licensed brands.
- The Group’s distribution network comprised 2,370 stores (or 2,279,000 sq. ft. of retail floor space) in over 30 countries as at September 30, 2017, approximately half of which were standalone stores. The majority of stores were in Greater China, South Korea, South East Asia and the Middle East.
- Group sales for the third quarter rose by 3.6% to HK\$1,240 million (2016: HK\$1,197 million). Group gross profit increased by 3.0% on improved Group sales, partially offset by a 0.3 percentage point decline in gross margin due in part to the change in channel mix and selective sales promotion activities. Group comparable store sales (“CSS”) and comparable store gross profit (“CSGP”) for the quarter grew by 2.3% and 1.5%, respectively.

Table 1: Store portfolio

	Store numbers at Sep 30		Retail floor space (sq. ft. in thousands) at Sep 30	
	2017	2016	2017	2016
Retail and Distribution				
Mainland China				
Franchised stores	576	546	450	441
Directly operated stores (“DOS”)	326	358	265	301
The rest of Asia Pacific	587	583	610	571
Taiwan	196	206	192	202
The Middle East	192	195	230	227
Hong Kong and Macau	76	68	85	79
Overseas franchisees	417	432	447	472
Total	2,370	2,388	2,279	2,293

Total stores decreased by 18, largely accounted for by the closure of 29 non-performing stores in India where the Group is currently restructuring its business.

RESULTS OF OPERATIONS

Table 2: Group results of operations

(In HK\$ million)	Three months ended Sep 30					Nine months ended Sep 30				
	2017	% to sales	2016	% to sales	Change	2017	% to sales	2016	% to sales	Change
The rest of Asia Pacific	355	28.6%	334	27.9%	6.3%	1,060	27.5%	992	26.6%	6.9%
Mainland China	281	22.7%	270	22.6%	4.1%	886	23.0%	907	24.3%	(2.3%)
Hong Kong and Macau	224	18.1%	217	18.1%	3.2%	697	18.1%	674	18.1%	3.4%
The Middle East	153	12.3%	159	13.3%	(3.8%)	505	13.1%	474	12.7%	6.5%
Taiwan	146	11.8%	135	11.3%	8.1%	450	11.6%	458	12.3%	(1.7%)
Wholesales to overseas franchisees	81	6.5%	82	6.8%	(1.2%)	260	6.7%	224	6.0%	16.1%
Group sales ¹	1,240	100.0%	1,197	100.0%	3.6%	3,858	100.0%	3,729	100.0%	3.5%
Gross profit	719	58.0%	698	58.3%	3.0%	2,285	59.2%	2,206	59.2%	3.6%
Global brand sales ²	1,488		1,481		0.5%	4,871		4,784		1.8%
Global brand gross profit ²	921		914		0.8%	3,019		2,914		3.6%
Group CSS ³ growth	2.3%		(2.9%)			3.9%		(1.2%)		
Group CSGP ³ growth	1.5%		(1.8%)			5.0%		(0.3%)		
Net cash and bank balances at period end						986		1,026		(3.9%)
Inventories at period end						527		424		24.3%
Inventory turnover on cost (“ITOC”) (days) ⁴						92		76		16

¹ Group sales refer to consolidated sales and include retail sales from DOS and wholesale sales to all franchisees.

² Global brand sales/gross profit are at 2017 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.

³ 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.

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

Table 3: Gross profit variance analysis by region

<i>(In HK\$ million)</i>	Three months ended Sep 30, 2016 gross profit	Product costs	Selling price	Volume	Vietnam acquisition	Translational exchange impact	Miscellaneous	Three months ended Sep 30, 2017 gross profit
The rest of Asia Pacific	203	(1)	(5)	3	12	2	(3)	211
Hong Kong & Macau	147	4	(23)	21	–	–	(1)	148
Mainland China	140	2	(11)	9	–	2	2	144
The Middle East	103	3	(18)	14	–	–	(5)	97
Taiwan	81	3	(5)	6	–	4	–	89
Market mix	–	4	(5)	1	–	–	–	–
Retail and distribution	674	15	(67)	54	12	8	(7)	689
Wholesales to overseas franchisees/subsidiaries	24							30
Group	698							719

The following commentaries refer to year-on-year (“YOY”) comparison of operations for the three months ended September 30, 2017 and 2016 unless otherwise stated.

ANALYSIS BY MARKET

Market-specific comments by management are in local currencies or, if in HKD, 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 4: Mainland China

<i>(In RMB million)</i>	Three months ended Sep 30			Nine months ended Sep 30		
	2017	2016	Change	2017	2016	Change
DOS	118	121	(2.5%)	400	426	(6.1%)
Wholesale to franchisees	81	78	3.8%	224	226	(0.9%)
E-business	40	34	17.6%	148	120	23.3%
Total sales	239	233	2.6%	772	772	Flat
Gross profit	122	120	1.7%	418	414	1.0%
Gross margin	51.0%	51.5%	(0.5pp)	54.1%	53.6%	0.5pp
DOS	118	121	(2.5%)	400	426	(6.1%)
Franchised stores	111	104	6.7%	385	383	0.5%
E-business	40	34	17.6%	148	120	23.3%
Total brand sales	269	259	3.9%	933	929	0.4%
CSS growth	7.9%	(5.7%)		5.7%	(3.4%)	
CSGP growth	8.7%	(6.2%)		7.2%	(2.1%)	
DOS	326	358	(32)			
Franchised stores	576	546	30			
Number of stores at period end	902	904	(2)			

Mainland China sales grew by 2.6% during the quarter, with e-business and wholesales business reporting increases of 17.6% and 3.8%, respectively. There was a decrease in DOS sales of 2.5% due to the closure of 32 non-performing stores. DOS’s CSS had increased by 8.4%. Decline in gross margin by 0.5 percentage points was due to change in channel mix as the contribution from our lower margin e-business and wholesale business significantly increased during the quarter when compared with the same period in 2016.

Hong Kong and Macau

Table 5: Hong Kong and Macau

<i>(In HK\$ million)</i>	Three months ended Sep 30			Nine months ended Sep 30		
	2017	2016	Change	2017	2016	Change
Total sales	224	217	3.2%	697	674	3.4%
Gross profit	148	147	0.7%	478	460	3.9%
Gross margin	66.1%	67.7%	(1.6pp)	68.6%	68.2%	0.4pp
CSS growth	5.2%	2.8%		5.1%	0.7%	
CSGP growth	2.7%	5.2%		5.2%	2.4%	
Number of stores at period end	76	68	8			

In Hong Kong and Macau, sales for the third quarter recorded an increase of 3.2%. Gross margin dropped by 1.6 percentage points due to selective sales promotion activities to counter an unusually hot and rainy summer as well as a late autumn. These promotions pushed up the sales volume by 13.8% while reducing the average selling price by 9.2%.

Taiwan

Table 6: Taiwan

<i>(In NTD million)</i>	Three months ended Sep 30			Nine months ended Sep 30		
	2017	2016	Change	2017	2016	Change
Total sales	569	553	2.9%	1,770	1,920	(7.8%)
Gross profit	346	330	4.8%	1,082	1,116	(3.0%)
Gross margin	60.8%	59.7%	1.1pp	61.1%	58.1%	3.0pp
CSS growth	5.6%	(5.0%)		(3.5%)	(4.0%)	
CSGP growth	8.5%	(3.2%)		1.1%	(4.1%)	
Number of stores at period end	196	206	(10)			

In Taiwan, sales and gross margin were up by 2.9% and 1.1 percentage points, respectively. Taiwan CSGP has rebounded since the second quarter. Management considers the improvements sustainable for the remainder of the year. Improvement in gross margin also benefited from lower product costs on a strong New Taiwanese Dollar (“NTD”) against Renminbi.

The rest of Asia Pacific

Table 7: The rest of Asia Pacific

<i>(In HK\$ million, translated at constant exchange rates)</i>	Three months ended Sep 30			Nine months ended Sep 30		
	2017	2016	Change	2017	2016	Change
Total sales	352	334	5.4%	1,059	992	6.8%
Gross profit	210	203	3.4%	636	591	7.6%
Gross margin	59.7%	60.8%	(1.1pp)	60.1%	59.6%	0.5pp
CSS growth	(1.2%)	(0.7%)		4.4%	3.3%	
CSGP growth	(1.5%)	(0.2%)		5.4%	2.7%	
Number of stores at period end	587	583	4			

Table 8: The rest of Asia Pacific – total sales by market

<i>(In HK\$ million, translated at constant exchange rates)</i>	Three months ended Sep 30			Nine months ended Sep 30		
	2017	2016	Change	2017	2016	Change
Indonesia	132.4	127.9	3.5%	401.0	359.9	11.4%
Singapore	73.3	74.1	(1.1%)	225.1	228.5	(1.5%)
Thailand	69.7	70.9	(1.7%)	220.5	213.3	3.4%
Malaysia	39.0	37.4	4.3%	138.5	123.9	11.8%
Australia	17.7	19.0	(6.8%)	50.1	52.4	(4.4%)
Vietnam*	17.8	–	N/A	17.8	–	N/A
Cambodia	2.1	1.6	31.3%	6.4	4.8	33.3%
India	–	3.2	(100.0%)	–	9.4	(100.0%)
Total	352.0	334.1	5.4%	1,059.4	992.2	6.8%

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

Table 9: The rest of Asia Pacific – CSS and CSGP growth by market

	Three months ended Sep 30				Nine months ended Sep 30			
	CSS		CSGP		CSS		CSGP	
	2017	2016	2017	2016	2017	2016	2017	2016
Indonesia	(4.1%)	(5.1%)	(1.8%)	(6.4%)	8.6%	3.4%	10.9%	1.5%
Singapore	(0.1%)	(2.7%)	(0.5%)	(0.8%)	(0.2%)	0.8%	2.3%	(0.1%)
Thailand	(4.9%)	15.9%	(6.3%)	17.2%	(0.5%)	15.3%	(2.1%)	15.4%
Malaysia	2.6%	(8.4%)	(1.4%)	(5.0%)	10.6%	(2.5%)	10.3%	0.3%
Australia	13.0%	(7.9%)	15.1%	(14.3%)	9.1%	(11.2%)	14.2%	(15.7%)
Cambodia	34.3%	46.4%	39.5%	44.7%	33.8%	36.4%	40.0%	32.1%
India	N/A	(28.8%)	N/A	(35.3%)	N/A	(41.3%)	N/A	(41.0%)
Total	(1.2%)	(0.7%)	(1.5%)	(0.2%)	4.4%	3.3%	5.4%	2.7%

Table 10: Store numbers by market in the rest of Asia Pacific

	At	
	Sep 30 2017	Sep 30 2016
Indonesia	248	235
Thailand	155	154
Malaysia	90	88
Singapore	43	48
Vietnam	28	–
Australia	16	22
India	6	35
Cambodia	1	1
Total	587	583

In the rest of Asia Pacific, sales increased by 5.4% at constant exchange rates. Acquisition of the Vietnam operations since July 2017 contributed to 5.1% of the sales from this region. The unusually strong sales from Thailand in 2016 had resulted in an unfavorable YOY comparison.

Indonesia sales were up by 3.5% as a result of shop expansion during the period. Although CSS and CSGP decreased by 4.1% and 1.8%, respectively, due to different timing of 2017 and 2016 Ramadan, CSS from June to September of 2017 had increased by 9.7% against the same period in 2016.

During the quarter, Malaysia sales increased by 4.3%. CSS increased by 2.6% and CSGP decreased by 1.4%. Similarly, early Ramadan also affected Malaysia for the reporting quarter. Malaysia's CSS for June to September had increased by 20.4% compared with the same four-month period in 2016.

Thailand CSS and CSGP dropped by 4.9% and 6.3%, respectively, against an unusually high base of 2016. Australia reported growth in both CSS and CSGP by 13.0% and 15.1%, respectively, due to strict pricing discipline and better product mix.

The Middle East

Table 11: The Middle East

<i>(In HK\$ million, translated at constant exchange rates)</i>	Three months ended Sep 30			Nine months ended Sep 30		
	2017	2016	Change	2017	2016	Change
Total sales	153	159	(3.8%)	505	474	6.5%
Gross profit	97	103	(5.8%)	326	314	3.8%
Gross margin	63.4%	64.8%	(1.4pp)	64.6%	66.2%	(1.6pp)
CSS growth	(7.3%)	(8.0%)		5.1%	(4.8%)	
CSGP growth	(9.4%)	(7.2%)		3.6%	(3.1%)	
Number of stores at period end	192	195	(3)			

Neutralizing the different Ramadan dates this year compared to the last, the Middle East's CSS and CSGP during June to September were up by 2.6% and 0.6%, respectively. Gross margin dropped by 1.4 percentage points on selective sales promotions during the regional festivals. Management expects that both gross margin and average selling price will return to normal early next year.

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

Table 12: South Korea

<i>(In KRW million)</i>	Three months ended Sep 30			Nine months ended Sep 30		
	2017	2016	Change	2017	2016	Change
Total sales	44,151	45,812	(3.6%)	146,496	147,331	(0.6%)
Gross profit	26,789	27,508	(2.6%)	85,939	83,878	2.5%
Gross margin	60.7%	60.0%	0.7pp	58.7%	56.9%	1.8pp
CSS growth	(10.2%)	(8.0%)		(7.1%)	(3.8%)	
CSGP growth	(8.3%)	(4.0%)		(4.3%)	(1.1%)	
Number of stores at period end	195	195	–			

South Korea sales dropped by 3.6% while gross margin improved by 0.7 percentage points. Sales dropped mainly due to the clearance of summer items at season end and the unusually hot weather in September adversely affecting the sale of Fall/Winter merchandise which normally should start to sell in August.

Wholesales to overseas franchisees

Table 13: Store numbers of overseas franchisees

By market	At	
	Sep 30 2017	Sep 30 2016
South Korea	195	195
Myanmar	127	114
Philippines	81	81
Japan	8	11
Other markets	6	5
Vietnam	–	26
Total number of stores	417	432

Wholesale sales to overseas franchisees decreased slightly to HK\$81 million (2016: HK\$82 million) primarily due to the consolidation of Vietnam from July 1, 2017. Vietnam was accounted for as a wholesale market prior to consolidation. Sales during the period would have improved by 6.0% if the sales in Vietnam were not recorded under wholesale sales for the corresponding period in 2016.

FINANCIAL CONDITION

Inventories

Group inventories at quarter-end were up by 24.3% to HK\$527 million (September 30, 2016: HK\$424 million). ITOC increased by 16 days to 92 days. Due to persistent hot weather in Mainland China, the Group prepared extra merchandise for various seasons as a contingent plan for the Golden week and for Singles' Day events of the e-business. We had a good start in the fourth quarter with double-digit sales growth in Golden week.

System inventories had increased by 26.2% YOY. Inventories held by franchisees in Mainland China are expected to be higher as the number of franchisee shops has increased by 30. Finished goods at suppliers largely consisted of moveable or core items in anticipation of the launch of Fall/Winter collection. Management is unconcerned of the temporarily higher stock levels.

The month of September was the top four hottest Septembers since Hong Kong's forecasters began collecting data in 1884. A number of South East Asian markets and Greater China were also affected by the unusually high number of typhoons this year.

Table 14: System inventories

<i>(In HK\$ million)</i>	At		
	Sep 30 2017	Dec 31 2016	Sep 30 2016
Inventories held by the Group	527	447	424
Inventories held by 48.5% South Korea joint venture	200	141	203
Inventories held by franchisees in Mainland China	103	88	79
Finished goods at suppliers (not yet shipped)	89	20	22
Total system inventories	919	696	728

Net cash and bank balances

At September 30, 2017, the cash and bank balances net of bank loans were lower by HK\$40 million to HK\$986 million (September 30, 2016: HK\$1,026 million) mainly due to the increase in interim dividend payment and the ongoing share repurchase arrangement. Management considers the current net cash and bank balances 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, November 9, 2017

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, Adrian 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).