

TEAM
FAMILY
GIORDANO
LIGHTEN Ü UP
Lightweight Windbreakers



GIORDANO

2017 Annual Results Announcement | 8 March 2018

Highlights

- Consolidated sales +5.2%; Group comparable store sales +5.2% and comparable store gross profit +5.0%.
- Consolidated gross profit +5.4%, driven by volume increase of 7.9%. Gross margin +0.1pp to 59.5%.
- PATS +15.2% to HK\$500m; net margin +0.8pp to 9.2%. EPS +14.8% to 31.8 HK cents.
- Net cash and bank balances HK\$1,167m (2016: HK\$1,095m).
- Inventory turnover days on cost +9 days to 87 days (ITOC at Feb 2018: 73 days).
- Final dividend at 20.0 HK cents (2016: 15.0 HK cents) per share, an increase of 33.3%. Total dividend 35.0 HK cents (2016: HK27.5 HK cents) per share.
- From Jun 20, 2017 to the announcement date, the Company repurchased and cancelled 7,442,000 shares.

Group Sales by Region

China franchising increase despite CNY timing.

(In HK\$ million)	2017	2016	% change at	
			current exchange rates	constant exchange rates
Rest of Asia Pacific	1,502	1,388	8.2%	7.1%
Mainland China	1,307	1,285	1.7%	2.4%
DOS	644	687	(6.3%)	(5.8%)
Wholesales to franchisees	374	371	0.8%	1.6%
E-business	289	227	27.3%	28.2%
Hong Kong & Macau	969	927	4.5%	4.5%
Middle East	673	626	7.5%	7.5%
DOS	630	586	7.5%	7.5%
Wholesales to franchisees	43	40	7.5%	7.5%
Taiwan	642	615	4.4%	(2.1%)
Other wholesales to overseas franchisees	319	304	4.9%	4.9%
Total	5,412	5,145	5.2%	4.3%

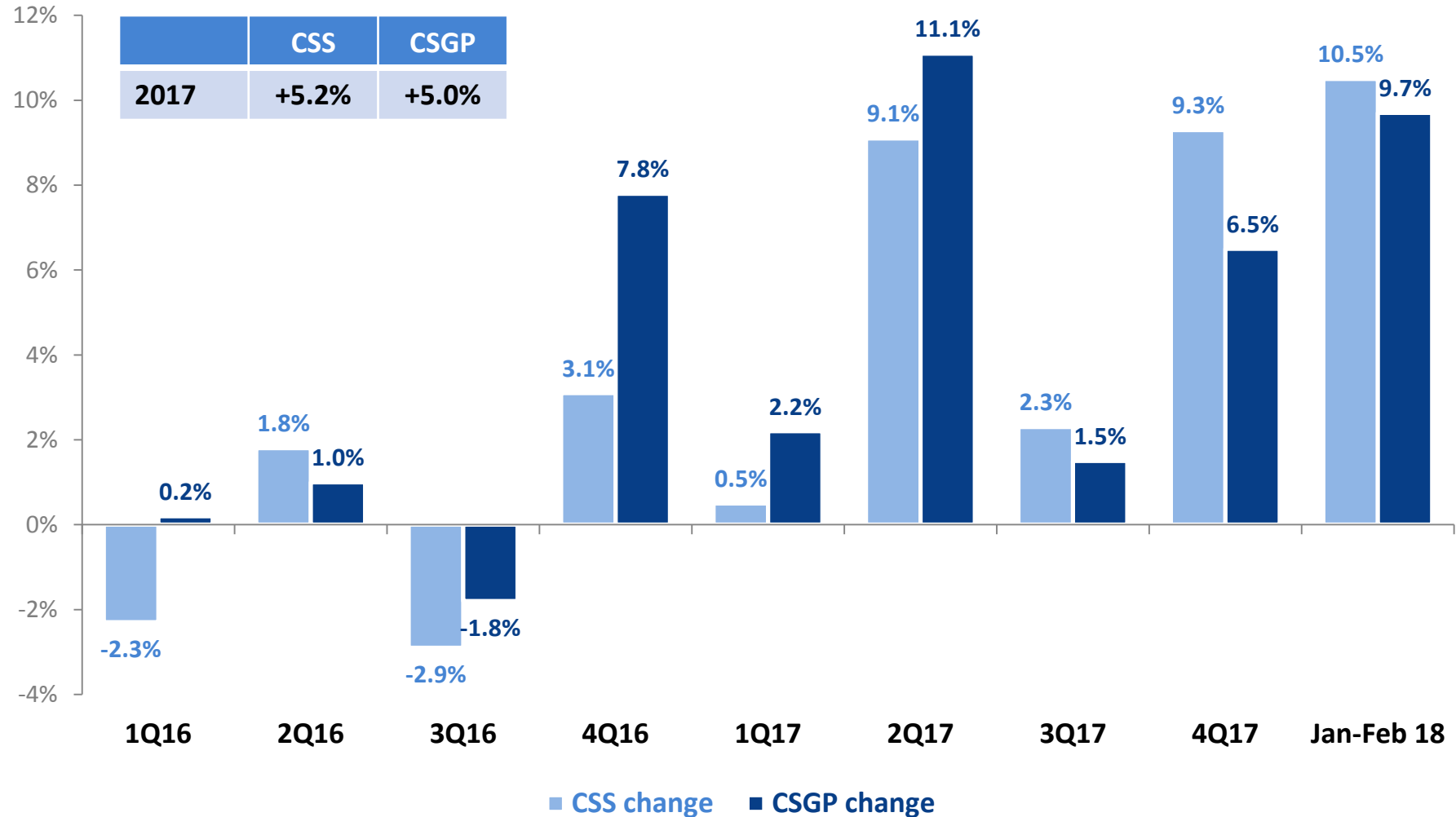
Group Sales by Channel

Sales from e-business +31.4%.

(In HK\$ million)	2017	Contribution	2016	Contribution	% change
Physical stores	4,366	80.7%	4,194	81.5%	4.1%
E-business	310	5.7%	236	4.6%	31.4%
Wholesales to franchisees	736	13.6%	715	13.9%	2.9%
Group sales	5,412	100.0%	5,145	100.0%	5.2%

Quarterly Group CSS and CSGP Change

CSS and CSGP disparity closing in 2018.



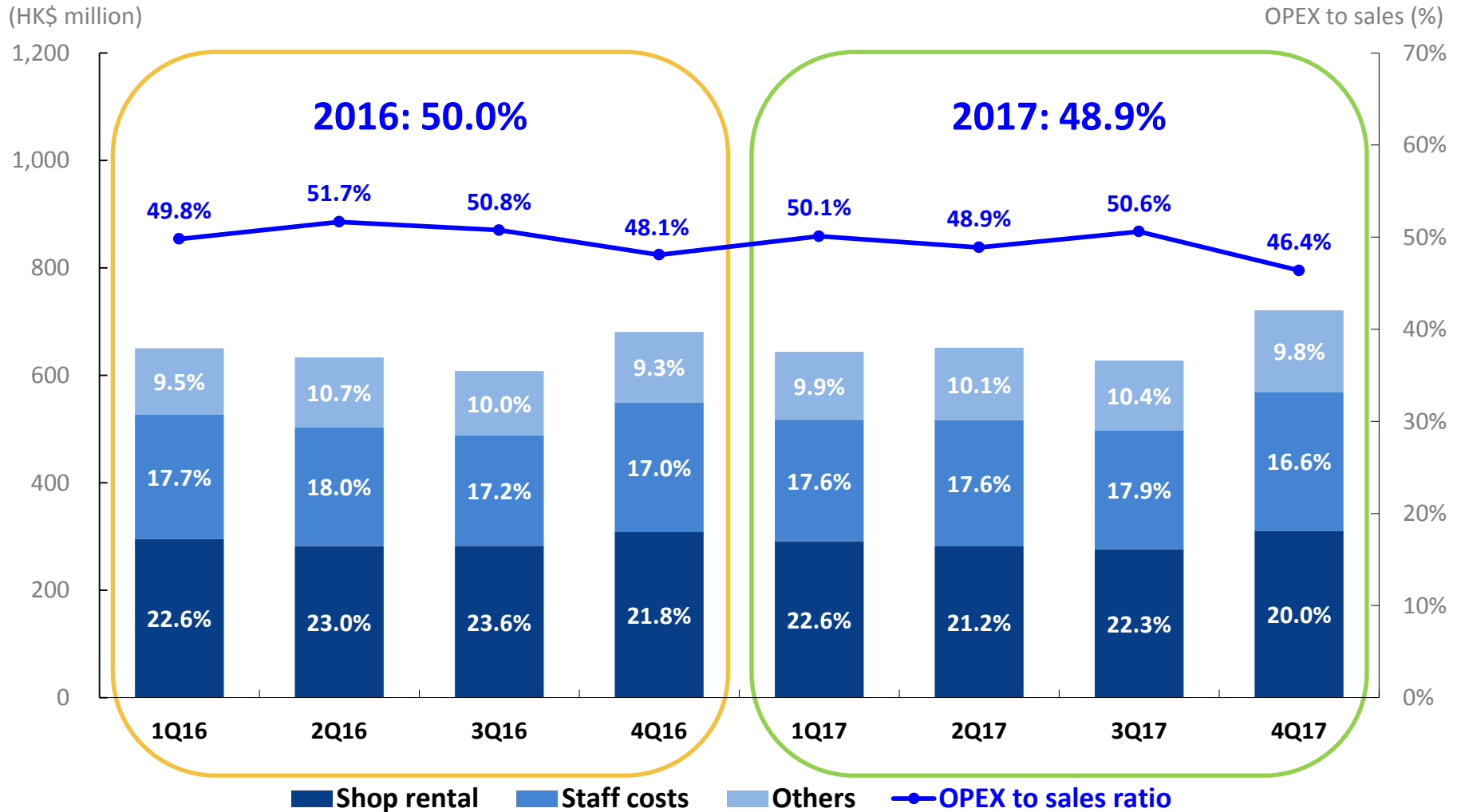
Gross Profit Variance Analysis by Region

Driven by volume increase.

(In HK\$ million)	2016 Gross profit	Average product costs	Average selling prices	Volume	Vietnam acquisition	Translational exchange impact	Misc.	2017 Gross profit
Rest of Asia Pacific	829	(11)	35	14	27	10	(4)	900
Mainland China	698	22	(43)	39	–	(4)	(4)	708
HK & Macau	640	11	(57)	69	–	–	1	664
Middle East	413	14	(72)	82	–	–	(6)	431
Taiwan	362	10	9	(13)	–	25	1	394
Market mix	–	(2)	20	(18)	–	–	–	–
Retail & distribution	2,942	44	(108)	173	27	31	(12)	3,097
Wholesales to overseas franchisees/ subsidiaries	113	<ul style="list-style-type: none"> ■ <i>Average product costs -4.0%</i> largely due to RMB depreciation. ■ <i>Average selling price -4.1%</i> and <i>Volume +7.9%</i> mainly due to smart discounting in Middle East and Hong Kong as well as change in channel mix in Mainland China. 						124
Group	3,055							3,221

Group OPEX trend

OPEX to sales ratio -1.1 pp.



Group Operating Profit by Region

Forex impact insignificant.

	Operating profit		Increase/(decrease) translated at		Operating margin	
	2017	2016	current exchange rates	constant exchange rates	2017	2016
(In HK\$ million)						
Rest of Asia Pacific	204	164	40	38	13.7%	11.9%
Wholesales to overseas franchisees/ subsidiaries	122	113	9	9	N/A	N/A
Middle East	121	108	13	12	17.8%	17.3%
Mainland China	118	102	16	17	9.0%	7.9%
Hong Kong & Macau	95	87	8	8	9.8%	9.4%
Taiwan	64	39	25	22	9.9%	6.3%
Headquarter expense, net of other income & gains	(35)	(45)	10	10	N/A	N/A
Total	689	568	121	116	12.7%	11.0%

Analysis of Change in PATS

PATS +15.2% with net margin +0.8pp to 9.2%.

(In HK\$ million)

Reported 2016 PATS	434
Rest of Asia Pacific	38
Taiwan	22
Mainland China	17
South Korea (a 48.5% joint venture)	15
Middle East	12
Wholesales to overseas franchisees/subsidiaries	9
Hong Kong & Macau	8
Income taxes, non-controlling interests, finance expense and headquarter expense	(61)
2017 PATS without currency translation difference	494
Currency translation difference	6
Reported 2017 PATS	500

System Inventories

ITOC +9 days to 87 days mainly due to non-operational factors. ITOC down to 73 days by end of Feb 18 (2016: 67 days).

(In HK\$ million)	As at Dec 31, 2017		As at Dec 31, 2016	% change at constant rates
	At current rates	At constant rates		
Inventories held by the Group	524	499	447	11.6%
Inventories held by 48.5% South Korea joint venture	175	154	141	9.2%
Inventories held by franchisees in Mainland China	91	84	88	(4.5%)
Finished goods at suppliers (not yet shipped)	54	50	20	150.0%
Total system inventories	844	787	696	13.1%

- *Group ITOC +9 days mainly due to foreign exchange translational differences (+4 days) and Vietnam acquisition (+2 days).*
- *Increase in finished goods at suppliers mainly for CNY orders*

Analysis of Change in Net Cash and Bank Balances

Healthy cash position.

(In HK\$ million)	2017	2016
Net cash and bank balances at January 1	1,095	1,076
Free cash flow from operations	558	505
Dividends paid to shareholders and non-controlling interests	(502)	(477)
Proceeds from issuance of new shares	25	2
Share repurchase	(32)	–
Acquisition of Vietnam operations	(4)	–
Exchange differences	27	(11)
Net cash and bank balances at December 31	1,167	1,095

Outlook

1. Group sales for Jan-Feb 2018 +16.4% YOY.

- Strong momentum in Greater China; and challenges in Middle East due to VAT introduction and new economic policies in UAE and Saudi Arabia.

2. Gross margin

- 2018 will see margin recovery from DOS.

3. Channel development

- E-business: continues to expand not only in Mainland China, but also elsewhere
- Franchising in China: progress on track with net addition of 43 stores in 2017
- New wholesale markets: development of India and Pakistan in progress; allowing local sourcing by franchisees to enhance their flexibility and cost efficiency

4. Brand development

- Sustain *Giordano Junior* growth (2017 sales weighting +0.8pp to 5.2%)
- Further improve *Beau Monde* profitability through wholesaling and franchising

5. Sourcing flexibility

- Speed up offshore sourcing to enjoy preferential international trade agreements related to import duties

Summary of Group Sales, CSS and CSGP Growth

(HK\$ million)	Total Sales			CSS Growth		CSGP Growth	
	2017	2016	% change	2017	2016	2017	2016
Rest of Asia Pacific	1,487	1,388	7.1%	2.2%	4.6%	3.1%	5.6%
Indonesia	555	491	13.0%	8.1%	5.3%	10.3%	4.4%
Thailand	309	319	(3.1%)	(6.4%)	19.7%	(7.5%)	21.3%
Singapore	308	311	(1.0%)	0.2%	(1.3%)	2.3%	(0.8%)
Malaysia	192	173	11.0%	8.8%	(2.8%)	7.7%	2.3%
Australia	73	78	(6.4%)	7.2%	(8.0%)	10.8%	(9.4%)
Vietnam*	41	–	N/A	N/A	N/A	N/A	N/A
Cambodia	9	7	28.6%	29.8%	41.6%	34.9%	41.2%
India (will franchise out)	–	9	(100.0%)	N/A	(39.2%)	N/A	(39.2%)
Mainland China	1,315	1,285	2.4%	8.9%	(1.6%)	8.9%	0.4%
Hong Kong & Macau	969	927	4.5%	5.7%	0.1%	4.7%	3.5%
Middle East	673	626	7.5%	6.2%	(3.1%)	2.9%	(1.5%)
Taiwan	602	615	(2.1%)	1.1%	(3.4%)	5.2%	(2.5%)
Retail & Distribution	5,046	4,841	4.2%	5.2%	(0.2%)	5.0%	1.8%
Wholesales to other overseas franchisees	319	304	4.9%				
Total at constant exchange rates	5,365	5,145	4.3%				
Currency translation difference	47	–					
Total at current exchange rates	5,412	5,145	5.2%				

* Vietnam operations were acquired on Jul 1, 2017 and its results have been consolidated since the acquisition date.

Store Portfolio

At December 31,	Store numbers		Retail floor space (sq. ft. in thousand)	
	2017	2016	2017	2016
Retail & Distribution				
Mainland China				
Franchised stores	605	562	471	453
DOS	324	357	268	300
Rest of Asia Pacific				
Indonesia	252	237	306	299
Thailand	162	159	114	107
Malaysia	92	90	80	74
Singapore	44	45	48	55
Vietnam	29	–	40	–
Australia	16	20	25	30
India (will franchise out)	6	29	3	10
Cambodia	1	1	3	3
Taiwan	200	203	195	197
Middle East				
DOS	148	150	182	181
Franchised stores	41	41	44	43
Hong Kong & Macau	75	73	86	82
Other overseas franchisees	419	430	447	485
Total	2,414	2,397	2,312	2,319