

GIORDANO INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code : 709)

INTERIM RESULTS FOR THE SIX MONTHS ENDED JUNE 30, 2004

UNAUDITED INTERIM RESULTS

The board of directors of Giordano International Limited (the “Company”) is pleased to announce that the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended June 30, 2004 along with comparative figures for the corresponding period and selected explanatory notes are as follows:

Unaudited Condensed Consolidated Profit and Loss Account

<i>(In HK\$ millions, except earnings per share)</i>	Note	Six months ended June 30	
		2004	2003
Turnover	2	\$1,858	\$1,527
Cost of sales		(929)	(817)
Gross profit		929	710
Other revenue		44	40
Distribution, administrative and other operating expenses		(738)	(658)
Operating profit	3	235	92
Finance expense	4	–	(2)
Share of profits of associated companies		8	19
Profit before taxation		243	109
Taxation	5	(52)	(36)

<i>(In HK\$ millions, except earnings per share)</i>	Note	Six months ended June 30	
		2004	2003
Profit after taxation		191	73
Minority interests		(20)	(10)
Profit attributable to shareholders		\$ 171	\$ 63
Dividends	6(a)	\$ 80	\$ 65
Earnings per share	7		
Basic		11.8 ¢	4.4 ¢
Diluted		11.7 ¢	4.4 ¢

Notes:

1. Principal accounting policies

These unaudited condensed consolidated interim financial statements are prepared in accordance with Hong Kong Statement of Standard Accounting Practice 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants.

These condensed interim financial statements should be read in conjunction with the 2003 annual financial statements.

The accounting policies and methods of computation used in the preparation of these condensed interim financial statements are consistent with those used in the annual financial statements for the year ended December 31, 2003.

2. Turnover and segment information

An analysis of the Group's turnover and operating profit by business segments is as follows:

<i>(In HK\$ millions)</i>	Six months ended June 30			
	2004	Operating profit	2003	Operating profit
	Turnover		Turnover	
Retail and Distribution	\$1,739	\$200	\$1,452	\$64
Manufacturing	405	34	301	26
Other operation	–	1	–	2
Less: Inter-segment sales	(286)	–	(226)	–
	\$1,858	\$235	\$1,527	\$92

The geographical segments of the Group's turnover are as follows:

<i>(In HK\$ millions)</i>	Six months ended June 30	
	2004	2003
Mainland China	\$ 424	\$ 365
Hong Kong	396	316
Taiwan	341	281
Singapore	197	155
Japan	85	70
Korea	73	92
Other territories	342	248
	\$1,858	\$1,527

3. Operating profit

The operating profit is stated after charging:

<i>(In HK\$ millions)</i>	Six months ended June 30	
	2004	2003
Depreciation of owned fixed assets	\$52	\$51
Depreciation of fixed assets held under finance leases	–	2
Net loss on disposal of fixed assets	1	3

4. Finance expense

<i>(In HK\$ millions)</i>	Six months ended June 30	
	2004	2003
Interest element of finance leases	\$–	\$2

5. Taxation

Hong Kong profits tax is calculated at the rate of 17.5 percent (2003: 17.5 percent) on the estimated assessable profits for the six months ended June 30, 2004. Overseas taxation is calculated at the rates applicable in the respective jurisdictions.

<i>(In HK\$ millions)</i>	Six months ended June 30	
	2004	2003
Company and subsidiaries:		
Income tax		
Current income tax		
– Hong Kong profits tax	\$15	\$ 6
– Overseas taxation	31	16
Under/(over) provision in previous period		
– Hong Kong profits tax	(1)	(1)
– Overseas taxation	1	2
	46	23
Withholding tax	2	3
Deferred tax		
Relating to the origination and reversal of temporary differences	3	4
Associated companies:		
Overseas taxation	1	6
Taxation charge	\$52	\$36

The Group has a dispute with the tax authority in Taiwan with respect to tax treatment on certain of the Group's sales in Taiwan. The dispute is not expected to have any material impact on the financial position of the Group.

6. Dividends

- (a) Interim dividends declared after the balance sheet date of the interim period:

<i>(In HK\$ millions)</i>	Six months ended June 30	
	2004	2003
2004 interim dividend of 4.0 HK cents (2003: 1.5 HK cents) per share	\$58	\$22
2004 interim special dividend of 1.5 HK cents (2003: 3.0 HK cents) per share	22	43
	\$80	\$65

The dividends declared after the balance sheet date have not been recognized as a liability at the balance sheet date.

- (b) Final dividends in respect of the previous financial year, approved and paid during the interim period:

<i>(In HK\$ millions)</i>	Six months ended June 30	
	2004	2003
2003 final dividend, paid, of 4.5 HK cents (2002: 4.5 HK cents) per share	\$ 65	\$ 65
2003 final special dividend, paid, of 12.0 HK cents (2002: 10.0 HK cents) per share	173	144
	\$238	\$209

7. Earnings per share

The calculation of basic and diluted earnings per share are based on the unaudited consolidated profit attributable to shareholders for the period of HK\$171 million (2003: HK\$63 million).

The basic earnings per share is based on the weighted average of 1,444,910,875 shares (2003: 1,440,670,002 shares) in issue during the six months ended June 30, 2004.

The diluted earnings per share is based on 1,444,910,875 shares (2003: 1,440,670,002 shares) which is the weighted average number of shares in issue during the six months ended June 30, 2004 plus the weighted average of 18,929,741 shares (2003: 2,889,287 shares) deemed to be issued if all outstanding share options granted under the share option schemes of the Company had been exercised.

MANAGEMENT'S DISCUSSION AND ANALYSIS

RESULTS OF OPERATIONS

Turnover

The Group's total turnover for the first six months of the year was HK\$1.86 billion (2003: HK\$1.53 billion), an increase of 21.7 percent year-on-year.

During the period, turnover of the Retail and Distribution Division amounted to HK\$1.74 billion (2003: HK\$1.45 billion), surging 19.8 percent year-on-year. Comparable store sales rose 15.3 percent, while comparable store gross profit grew 20.5 percent over the previous same period. The Group's inventory turnover on sales was 23 days (2003: 20 days).

The following table shows the Group's Retail and Distribution turnover by region. All key markets, namely Mainland China, Hong Kong, Taiwan and Singapore, registered double-digit year-on-year turnover growth due to low comparison bases resulted from the outbreak of the Severe Acute Respiratory Syndrome ("SARS") in the second quarter of 2003.

Retail and Distribution Division

Turnover <i>(In HK\$ millions)</i>	Six months ended June 30		Percentage change
	2004	2003	
Mainland China	420	363	15.7
Hong Kong	384	316	21.5
Taiwan	341	281	21.4
Singapore	195	155	25.8
Other Markets & Distribution Sales	399	337	18.4
Total	1,739	1,452	19.8

Turnover in Mainland China increased 15.7 percent year-on-year to HK\$420 million (2003: HK\$363 million). Competition remained intense. The Group will continue building brand image and better distinguishing our brands in the marketplace. Our 18,000-square feet Shanghai flagship store re-opened in late April after two months of refurbishment. Performance of the flagship store is in line with Management's expectation.

Retail sales in Hong Kong rose 21.5 percent year-on-year to HK\$384 million (2003: HK\$316 million). Sales improvement was largely helped by recovery of consumer sentiment with the return of tourists after the SARS outbreak and the relaxed individual travel scheme for the Mainland Chinese tourists. However, direct benefit from higher tourist arrival from the Mainland is still mild at this stage.

Taiwan's retail sales amounted to HK\$341 million, increased 21.4 percent from HK\$281 million recorded in the previous same period. Performance recovery seen in the second half of fiscal year 2003 was sustainable. Despite a brief disruption in consumer sentiment after the presidential election in late March and early April, sales momentum resumed quickly in May.

Retail sales in Singapore increased to HK\$195 million, from HK\$155 million in the first half of 2003, up 25.8 percent year-on-year. Besides the low-base effect due to SARS in 2003, sales improved on the back of better merchandizing and inventory control.

Sales growth in Australia, Malaysia, Indonesia, Thailand and Japan remained strong. Aggregate sales soared 35.9 percent year-on-year.

Business of all Lines improved mainly on the back of recovered business environment from the SARS outbreak. Retail and wholesale turnover of *Giordano* core line and *Giordano Junior* amounted to HK\$1.51 billion, up 17.1 percent from last period's HK\$1.29 billion. Turnover of *Giordano Ladies* escalated 34.5 percent to HK\$74 million (2003: HK\$55 million). *Bluestar Exchange's* turnover surged 40.7 percent to HK\$152 million, compared to HK\$108 million in 2003.

Manufacturing Division

Turnover of the Manufacturing Division, including intra-group sales, jumped 34.6 percent to HK\$405 million (2003: HK\$301 million). Sales to outsiders were HK\$119 million, up 58.7 percent from HK\$75 million recorded in 2003. Sales to Group companies constituted 70.6 percent of divisional sales (2003: 75.1 percent). In a bid to diversify its customer base, a number of new clients from the United States and Europe were secured in the first half of the year. The broadened customer base also reduces its reliance on the Japanese market. The Manufacturing Division contributed HK\$34 million (2003: HK\$26 million) to the Group's operating profit, representing 14.5 percent (2003: 28.3 percent) of the Group's consolidated operating profit.

Gross Margins

During the first half of the year, the Group achieved gross margin of 50.0 percent, up 3.5 percentage points compared to 46.5 percent in the same period in 2003. On the back of sales and gross margin advancement, gross profits for the first six months of the year rose 30.8 percent to HK\$929 million (2003: HK\$710 million).

During the period, gross margin of the Retail and Distribution Division improved 4.5 percentage points year-on-year; while that of the Manufacturing Division edged up slightly by 0.7 percentage point from last year's level. Improvement in Retail and Distribution Division's gross margin reflected a favorable response to the Group's continued repositioning efforts, as well as prudent inventory management.

Operating Expenses

Operating expenses increased 12.2 percent year-on-year to HK\$738 million (2003: HK\$658 million). Higher operating expenses were largely due to increase in rental and shop staff costs; mainly resulted from retail space expansion and higher turnover based rents. In addition, certain one-off cost-cutting measures in 2003 were not repeated in 2004.

Operating Profit and Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA)

Operating profit increased by 155.4 percent to HK\$235 million (2003: HK\$92 million) as sales recovered and margin expanded. Operating margin improved to 12.6 percent in the first half of 2004 from 6.0 percent in 2003. During the same period, EBITDA margin improved to 15.9 percent from 10.7 percent.

Profit Attributable to Shareholders

Profit attributable to shareholders amounted to HK\$171 million, growing 171.4 percent from HK\$63 million reported for the same period in 2003. Share of profits of associated companies fell sharply by 57.9 percent year-on-year, reflecting the unstable recovery of the Korea retail market. Early signs of improvements have been, however, emerging in Korea since late June. Management expects the Korean market to turnaround in 2005.

Effective tax rate normalized from 33.0 percent in 2003 to 21.4 percent due to increased profit contribution from markets with lower corporate tax rates. The higher than normal effective tax rate recorded in the first half of 2003 was due to proportionately lower contribution from markets with lower tax regimes; which were highly affected by SARS.

Cash Flows

Net cash inflow from operating activities remained at last year's level of HK\$148 million. Of the HK\$134 million increase in profit before tax, HK\$17 million was applied to finance higher levels of inventory, contrasted to HK\$87 million decrease in inventory in the same period last year.

Net cash outflow for investing activities was HK\$43 million, an increase of HK\$35 million over the same period in 2003. Interests received from banks and dividends received from associated companies amounted to HK\$9 million. Capital expenditure during the period accounted for HK\$53 million of the use of cash for investing activities.

Net cash outflow for financing activities increased to HK\$234 million, from HK\$220 million in the first half of 2003, a net increase of HK\$14 million. In the first half of the year, HK\$238 million of dividends were paid to shareholders, compared to HK\$209 million paid in the previous same period. During the period, proceeds from the issue of shares was HK\$15 million, contrasted to HK\$0.5 million in the first half of 2003.

FINANCIAL CONDITION

Liquidity and Capital Resources

As at June 30, 2004, cash and bank balances amounted to HK\$714 million (December 31, 2003: HK\$850 million), and total liabilities were HK\$604 million (December 31, 2003: HK\$685 million). At the end of the reporting period, the Group's gearing was 3.8 percent (December 31, 2003: 3.7 percent), based on shareholders' equity of HK\$1.75 billion (December 31, 2003: HK\$1.80 billion).

As at June 30, 2004, the Group had trade finance and revolving loan facilities amounting to HK\$421 million, unchanged from December 31, 2003, of which HK\$66 million under revolving loan facility had been drawn and was outstanding. The Group also had contingent liabilities on bank guarantees and guarantee notes issued of HK\$51 million (December 31, 2003: HK\$43 million), which had all been incurred in the normal course of business.

HUMAN RESOURCES

As of June 30, 2004, the Group had approximately 8,400 employees (December 31, 2003: 7,900 employees). Besides offering competitive remuneration packages to the employees, discretionary bonuses and share options may also be granted to the eligible employees based on the Group's and the individual's performance.

During the six months ended June 30, 2004, the Group granted to eligible employees under the share option scheme options to subscribe for 4,600,000 shares. In the same period, 5,082,000 shares were issued upon the exercise of options previously granted.

OUTLOOK

All major markets have fully recovered from the difficult business environment brought about by the SARS epidemic. Comparable period in 2003 was severely affected by SARS. It is worth noting that consolidated turnover and gross profits in the first half of 2004 rose by 5.6 percent and 11.5 percent respectively, when compared against the same period in 2002. With an improved macro environment and consumer sentiment, Management is optimistic with the outlook for the rest of the year.

Management believes the improvement trend in Taiwan is sustainable with more disciplined merchandizing and more responsive inventory management. For the rest of the year, Management will focus on recapturing market share in Taiwan.

Performance is gradually picking up in Korea since the latter part of the second quarter. Judging from its recent recovery trend, Management projects major turnaround in business in 2005.

Store roll-out plan is continuing, in the Kansai area, in Japan. Performance is in-line with expectation. Management is confident that business will turn profitable in 2005, after three years of operating losses.

Refurbishment programs for the existing stores are carrying on. Hence, capital expenditure will remain at a progressive level in the second half of the year.

Last but not least, the Company continues relentlessly to impress customers with its higher quality products season after season, instead of adopting price-cutting strategy common in the industry.

DIVIDENDS

The directors have declared an interim dividend of 4.0 HK cents (2003: 1.5 HK cents) per share and an interim special dividend of 1.5 HK cents (2003: 3.0 HK cents) per share for the year ending December 31, 2004 payable to shareholders on the Register of Members of the Company at the close of business on September 3, 2004. The relevant dividend warrants will be despatched to shareholders on September 10, 2004.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from September 1, 2004 to September 3, 2004, both days inclusive, during which period no transfer of shares will be registered. To qualify for the interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrars in Hong Kong, Abacus Share Registrars Limited, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, for registration not later than 4:00 p.m. on August 31, 2004.

CORPORATE GOVERNANCE

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not during the six months ended June 30, 2004, in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) (the “Listing Rules”) except in relation to guideline 7: as non-executive directors of the Company are appointed for a term expiring upon their retirement as required by the Company’s Bye-Laws; and guideline 11: as a matter of Company policy, remuneration of directors is dealt with by the Compensation Committee appointed by the board of directors of the Company, which comprises an executive director, two independent non-executive directors and an independent board advisor.

AUDIT COMMITTEE

The Audit Committee has reviewed with directors the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters related to the preparation of the unaudited condensed financial statements for the six months ended June 30, 2004.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

The Company has not redeemed any of its shares during the six months ended June 30, 2004. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company’s shares during the same period.

DETAILED RESULTS ANNOUNCEMENT ON STOCK EXCHANGE’S WEBSITE

A detailed results announcement containing all the information required by paragraphs 46(1) to 46(6) of Appendix 16 of the Listing Rules which were in force prior to March 31, 2004 will be subsequently published on the website of the Stock Exchange in due course.

BOARD OF DIRECTORS

As at the date of this announcement, the board of directors of the Company comprises three executive directors, namely, Messrs. Lau Kwok Kuen, Peter, Fung Wing Cheong, Charles and Mah Chuck On, Bernard, and four independent non-executive directors, namely, Messrs. Au Man Chu, Milton, Barry John Buttifant, Kwong Ki Chi and Lee Peng Fei, Allen.

By order of the Board
LAU KWOK KUEN, PETER
Chairman

Hong Kong, August 11, 2004

This announcement can also be accessed through the Internet at the Company's website www.giordano.com.hk.

Please also refer to the published version of this announcement in The Standard.