GIORDANO

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Giordano Announces 2015 Annual Results

March 3, 2016, Hong Kong

Giordano International Limited ("Giordano" or the "Group") announces its 2015 annual results today.

- *Consolidated sales declined by 3%, and increased by 1% on a constant currency basis. Global brand sales reduced by 1% in the year but comparable same store sales increased by 3%. Brand sales in the first half of the year grew by 1% as a strong Chinese New Year offset the impact of store closures. In the second half of the year, brand sales declined by 3% as unseasonably warm weather depressed cold weather merchandise sales in Greater China markets.*
- *Gross Profit Margin declined by 0.4pp from 58.0% to 57.6%. Higher purchasing costs caused by a strong US dollar have resulted in margin erosion in South East Asia and Taiwan.*
- *Weak consumer demand in many markets has led to fierce competitive pressure on selling prices. Nevertheless in the second half of the year, improved purchasing and merchandising has resulted in gross margin improving from 57.4% to 57.9%.*
- *Profit Attributable to Shareholders (PATS) was HK$426 million, an increase of 4%. Profit improvement in Mainland China was offset by profit decline in Hong Kong and Korea and from the adverse impact of the translation of foreign earnings into Hong Kong dollars.*
- *During the year, the Group acquired control of its franchisees in Kuwait and Qatar which increased sales by HK$27 million and PATS by HK$3 million.*
- *During the year, the number of outlets declined by 81 from 2,452 to 2,371 as the Group rationalized its shop portfolio and exited loss making operations. Closure of loss making shops improved earnings by HK$57 million.*
- *Inventory decreased by 4% year on year. Overall "system inventory", including goods held at suppliers and at China franchisees, increased year on year by HK$16 million which reflects merchandise held at suppliers as unseasonal weather impacted the fourth quarter's sales. Inventory turnover days on cost were 78 days, 2 days less than last year.*
- *Free Cash Flow from operations at HK$644 million (HK$399 million in 2014) increased by 61% due to reductions in working capital, lower income tax paid and reduced levels of capital expenditure in the year.*
- *Dividend payout at 27.0 HK cents per share (25.0 HK cents in 2014). This represents 99% of Profit Attributable to Shareholders and reflects a strong cash position and the Board's policy of returning excess cash to shareholders.*

"2015 has been a challenging year for Giordano" remarked Dr. Peter Lau, Chairman and Chief Executive of Giordano. "In the first half of the year, we saw a strong performance in key markets such as Mainland China, Hong Kong and Taiwan but in the second half as unseasonal weather conditions in the fourth quarter depressed demand in these key markets. Additionally, weak currencies in Taiwan, South Korea and South East Asia have reduced revenues and profits when results are translated into Hong Kong dollars, and increased cost locally of merchandise manufactured in Mainland China. General economic sentiment in the Middle East, Taiwan and South Korea has also been weak with cost inflation in key markets like Indonesia also impacting results. Despite these challenges, we have made progress in developing our business processes and the strength of our teams, particularly in the areas of inventory control, merchandise selection and pricing. Strong actions to control costs, both in our head office operations and by closing non-performing shops, have contributed to profit attributable to shareholders and free cash flow which have improved by 4% and 61% respectively. Our cash position remains strong and on this basis the Board has recommended an dividend of 27.0 HK cents per share, an 8% increase from 2014 which includes a 14.5 HK cents per share final dividend, the same as the final dividend paid last year."

"In Mainland China, operating profit has increased significantly as we have closed loss making shops. Despite weak consumer demand we have increased our physical store same store sales by 4% and sales through online channels by 19% and have increased the number of franchisee outlets from 489 to 517 stores after several years of decline. In Hong Kong, we have also closed loss-making stores to preserve profitability and are starting to see rents stabilize and reduce. By focusing on core products we have improved same store sales and the profitability of our underlying portfolio. Taiwan, where the economy slowed in the second half of the year also increased same store sales marginally and maintained a respectable operating margin. In South East Asia, more accurate merchandising decisions have led to improved performance in Singapore and in most markets have generated same store sales growth in local currencies. Higher landed costs caused by weak local currencies and high cost inflation have depressed profitability here but our operating margin is still in double digits as we have raised selling price to partly compensate for these cost increases. In the Middle East, consumer sentiment has been weakened by low oil prices and political instability; nonetheless we have significantly improved gross margins to protect our profitability in this region. In South Korea, after a weak first half, a MERS scare instantly dampened consumer sentiment and reduced tourist numbers, we have seen a slight recovery towards the end of the year but the outlook here remains uncertain."

Dr. Lau added, "Going forward we will continue to focus on merchandising improvement to deliver smart pricing and improved gross margins. We will develop sourcing to achieve reduced purchasing costs and greater vendor flexibility and are looking to suppliers in new geographic regions to leverage our buying power. Our operational teams across all markets grow stronger all the time in understanding and satisfying customers' needs. Our first batch of fast track management trainees will graduate from an intense two year training program in 2016 to take up roles which will strengthen our global organization. Giordano people are tough and resilient and will face the challenges of the future with courage and determination" Dr. Lau concluded.

(Attachment: Unaudited consolidated results for the year ended December 31, 2015)

About Giordano:
Giordano is a leading international retailer of men's, women's and children's apparel under the brand names *Giordano, Giordano Ladies, Giordano Junior, Beau Monde* and *BSX*. Established in 1981, Giordano now operates over 2,300 stores and counters in Greater China, South Korea, Southeast Asia, Australia, India and the Middle East. Giordano is listed on the main board of Hong Kong Stock Exchange under the code 709.

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Attachment:

Condensed Consolidated Income Statement for the year ended December 31, 2015

(In HK$ millions, except earnings per share)	**2015**	2014
Sales	**5,381**	5,545
Cost of sales	**(2,284)**	(2,331)
Gross profit	**3,097**	3,214
Other income and other gains	**89**	77
Distribution, administrative and other operating expenses	**(2,630)**	(2,749)
Operating profit	**556**	542
Finance expense	**–**	(1)
Share of profit of joint ventures	**42**	54
Share of profit of an associate	**–**	1
Profit before taxation	**598**	596
Taxation	**(118)**	(130)
Profit for the year	**480**	466
Profit attributable to:		
Shareholders of the Company	**426**	408
Non-controlling interests	**54**	58
	480	466
Earnings per share for profit attributable to shareholders of the Company		
Basic *(HK cents)*	**27.1**	26.0
Diluted *(HK cents)*	**27.1**	25.9