

Giordano Releases First Quarter 2016 Operations Update

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Giordano International Limited (“Giordano” or the “Group”) releases its 2016 first quarter operations update today.

- Compared with the same quarter last year, gross margin increased by 2.5 percentage points to 57.7%, but gross profit decreased by 6% to HK\$754 million (2015: HK\$798 million) due to lower sales.
- Group sales for the quarter recorded a decrease of 10%, year on year (“YOY”), to HK\$1,306 million (2015: HK\$1,445 million). Weak currencies in South East Asian markets accounted for about 3% of the 10% decrease. Global brand sales registered a smaller decrease of 4%, attributed to improvements in franchisee performance in mainland China.
- Comparable store gross profit (“CSGP”) was up by 1%, despite a decrease of 2% in comparable store sales (“CSS”), due to improved gross margin.
- Inventory turnover days on cost (“ITOC”) came down from 78 days at year-end to 72 days at quarter-end (2015: 63 days). An unseasonably cooler March had delayed the sales of spring merchandise.
- At quarter-end, net cash and bank balances were HK\$1,192 million, an increase of HK\$116 million from year-end, primarily attributed to cash flow from operations.
- During the quarter, there was virtually no net change in the number of outlets which was 2,372 at quarter-end.

“The first quarter of 2016 has been challenging for Giordano, although our earlier anticipation of the adverse global market conditions and the strategic preparations that ensued have helped us to curb the impact and means we are still in a position to improve our performance to a satisfactory level later on in the year” remarked Dr. Peter Lau, Chairman and Chief Executive of Giordano.

“Sales for the quarter decreased 10% although we only saw single-digit decreases in sales on a constant currency basis while comparable store gross profit grew by 1%. Of the various challenges we face, the ripple-effect caused by the slowdown in the Chinese economy and the strong US Dollar against the South-East Asian currencies continue to create the largest impact; that said, this has been somewhat contained by our ‘gross profit-over-sales’ global strategy, our operational discipline as well as stringent cost controls. This stems mainly from improved merchandising through buying deep and placing more focus on core items. In particular, there has been a concerted effort to reduce sourcing costs through increased sourcing options and a renewed emphasis on simplicity of our merchandise” continued Dr. Lau.

“We also began to see the fruits of our franchise expansion strategy in mainland China, where the number of franchised stores increased by 10 during the quarter. Our mainland China management team has been working closely with our existing authorized distributors on the expansion of our retail network for various Group brands while at the same time identifying new potential franchisees to expand our reach, particularly into third and fourth-tier cities. We will continue to pursue this strategy and I remain confident that it can deliver further growth”.

Dr. Lau added: “We constantly strive to achieve a strong cash flow position, although our performance during this quarter has fallen short of our expectations. This was, however, somewhat exacerbated by the concentration of payments to suppliers during the quarter for goods delivered in the previous quarter in preparation for an earlier Chinese New Year”.

“Going forward we will continue to pursue our gross margin strategy and continue to aim for operational excellence. We will continue our sourcing initiative to achieve reduced purchasing costs and greater vendor flexibility. At the same time, we will continue to focus on our strategic markets of mainland China, the Middle East and other emerging markets to seek growth opportunities in a steadfast, yet prudent manner. Giordano people have proven time and again that they are tough and resilient, and will react positively to the challenges to deliver improved performances in the second quarter of the year and beyond” Dr. Lau concluded.

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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 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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