

Giordano Announces 2016 Interim Results

August 11, 2016, Hong Kong

Giordano International Limited (“Giordano” or the “Group”) announces its 2016 interim results today.

- Group sales were down by 7% in the first half of 2016 to HK\$2,532 million compared with the same period last year. On a constant currency basis, sales were down by 5%. Global brand sales (sales to end customers) decreased by 2% and comparable store sales (“CSS”) were down by 1%.
- The Group recorded CSS growth in Hong Kong, Singapore, Indonesia and more significantly in Thailand. In South East Asia, growth was restrained by weak exchange rates against the Hong Kong dollars.
- Group gross profit was down by 4% to HK\$1,508 million when compared with the same period last year. Gross profit margin rose by 2.4 percentage points from 57.2% to 59.6%, mainly due to the renewed emphasis on simpler product designs which enable the Group to hold the price and offer fewer markdowns.
- Profit Attributable to Shareholders (PATS) was down by 2% to HK\$204 million when compared with the same period last year. This was attributed to improved gross profit margin, but partially offset by increased operating expense ratio. Adverse changes in foreign currency exchange rates against Hong Kong dollars negatively affected PATS by HK\$6 million in this period.
- Free cash flow from operations of HK\$259 million in the period decreased by 27% compared to last year. This is mainly due to the net decrease in working capital that resulted from timing differences in settling trade payable.
- Net cash and bank balances at June 30, 2016 were HK\$1,084 million, an increase of 5% when compared with HK\$1,029 million at June 30, 2015. After due consideration of the economic outlook, the Group’s financial condition, its future expansion plans and other factors, the board has declared an interim dividend of 12.5 HK cents per share (12.5 HK cents in 2015). It is the Group’s ongoing policy to pay a substantial portion of its earnings as an ordinary dividend to shareholders.

“In the first half of 2016, we saw global economic uncertainty and currency fluctuation.” remarked Dr. Peter Lau, Chairman and Chief Executive of Giordano. “Although sales decreased by 7% as compared to last year, PATS was only down by 2%. Sales would have been down by only 5% if translated at constant exchange rates. Southeast Asia recorded an increase in sales, attributable to regional CSS growth and net store gains. Reported sales were only up by 3% due to weakened currencies against Hong Kong dollars. We expect sustained sales growth in this region. Slower economic growth, an unreasonably cool spring, and closure of non-performing stores contributed to the reduction of reported sales by 10% in Greater China. Management believes that proactive supply chain management, heightened marketing efforts, and simpler product designs will help improve sales going forward. In particular, sales growth in our e-business has continued to out-perform physical stores. A strong second quarter followed a disappointing first quarter in the Middle East, and an early Ramadan and merchandise adjustments boosted second quarter sales. We also

expect revamped merchandise to support ongoing sales improvement in this region. As a result, PATS was slightly down by 2%; and free cash flow down by 27%, mainly due to the decrease in working capital that resulted from timing differences in settling trade payable. Our cash position remains healthy and on this basis the Board has declared an interim dividend of 12.5 HK cents per share, equal to the interim dividend paid in 2015.”

“In mainland China, the number of directly operated stores (“DOS”) decreased by 75 were mainly street stores, whereas the number of franchised stores increased by 43. This is consistent with our ongoing initiative to exit non-performing high-rent stores, DOS expansion in department store channels and strategic focus to the expansion of our franchise network to third- and fourth-tier cities. Management’s outlook on mainland China is cautiously optimistic, as consumers seem to have adapted to a slower yet sizable economic growth. To continue franchise expansion with healthier margins, management expects that CSS and CSGP, in particular those relating to the e-business, will be better than the Group’s average. In Hong Kong, despite a slight decrease in the number of stores and sales, operating profit improved by 19%, primarily due to rental savings and increased operational efficiency. In Taiwan, although the average underlying product costs were down by 2%, the weakened NTD adversely affected landed product costs. Its prices and product mix are under review for the second half of the year.”

“In the Asia Pacific region, some countries; namely, Indonesia and Thailand have recorded improved sales growth. Thailand reported growth of 15% in both CSS and CSGP. Operating profit translated at constant exchange rate also surged by 26%. This market tends to be resilient and our team there manages its merchandising extremely well. We anticipate sustainable profit growth despite depreciation of the Thai Baht. In Indonesia, Giordano brand CSS was up by 8% attributable to improved merchandise assortment, but licensed brands recorded a double-digit decline due to upward adjustments of licensor-directed retail prices and delayed shipments of merchandise. The licensor has since revised its pricing guideline. The depreciation of the Indonesian Rupiah had also severely increased product costs.”

“We are of the view that the regional economic environments are not conducive to profitable large-scale expansion in the medium term. We will focus on improving efficiency through operational improvements and prudent investment in operating system. We are also looking for new markets where the Group brands do not yet have a presence.” Dr. Lau concluded.

(Attachment: Condensed Consolidated Income Statement for the six months ended June 30, 2016)

About Giordano:

Giordano is a leading international retailer of men’s, women’s and children’s apparel under the brand names *Giordano & Giordano Junior, Giordano Ladies, BSX and Beau Monde*. Established in 1981, Giordano now operates over 2,300 stores and counters in Greater China, South Korea, South East 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 six months ended June 30, 2016

(Unaudited)**Six months ended June 30***(In HK\$ million, except earnings per share)*

	2016	2015
Sales	2,532	2,736
Cost of sales	(1,024)	(1,170)
Gross profit	1,508	1,566
Other income and other gains, net	43	48
Operating expenses	(1,284)	(1,339)
Operating profit	267	275
Share of profit of joint ventures	18	19
Profit before taxation	285	294
Taxation	(57)	(60)
Profit for the period	228	234
Attributable to:		
Shareholders of the Company	204	208
Non-controlling interests	24	26
	228	234
Earnings per share attributable to shareholders of the Company		
Basic and Diluted (HK cents)	13.0	13.2