GIORDANO

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Giordano Announces 2016 Final Results

March 9, 2017, Hong Kong

Giordano International Limited (the "Company") and its subsidiaries ("Giordano" or the "Group") announced its 2016 final results today:

- Consolidated sales in 2016 were HK$5,145 million (2015: HK$5,381 million), a decrease of 4%, mainly due to closure of non-performing stores in Greater China and weakened Renminbi reducing the translated sales from Mainland China.
- Consolidated gross profit registered a minor decrease of 1%, supported by an improved gross margin of 1.8 percentage points to 59.4% (2015: 57.6%), due to pricing discipline and increased sales contribution from regions with higher margin.
- Comparable store gross profit was up by 2% against flat comparable store sales.
- Profit attributable to shareholders of the Company increased by 2% year-on-year to HK$434 million (2015: HK$426 million), while net profit margin rose to 8.4% from 7.9% in 2015.
- Inventory turnover days on costs were flat year-on-year at 78 days.
- At year-end, net cash and bank balances were HK$1,095 million (December 31, 2015: HK$1,076 million). Conversion rate of free cash flow from operations before tax to EBIT was 100% (2015: 120%).
- The board of directors has recommended the payment of a final dividend of 15.0 HK cents per share (2015: 14.5 HK cents).
- Both basic and diluted earnings per share increased to 27.7 HK cents (2015: 27.1 HK cents).

"In 2016 we were steadfast in building core competences, such as supply chain management, quality assurance and the execution of our strategies. These efforts have helped us successfully counteract the adverse market conditions." remarked Dr. Peter Lau, Chairman and Chief Executive of Giordano. "Although consolidated sales decreased by 4% as compared to last year, consolidated gross profit registered a minor decrease of 1% supported by an improved gross profit margin of 1.8 percentage points. The gross profit margin uplift was the result of disciplined pricing, better sales mix with higher margin regions and as a result of the depreciation of Renminbi. Comparable store gross profit ("CSGP") increased by 2% against flat comparable store sales ("CSS"). PATS was up by 2% from HK$426 million to HK$434 million, a combined results of margin discipline and cautious spending. Inventory management remains a core competence of the Group. Group inventories at year-end dropped by HK$44 million or 9% to HK$447 million. During the year, inventory turnover days on cost of sales closed at 78 days, same as last year. The Group continued to deliver strong free cash flow from operations. Our cash position remains healthy and on this basis the Board has recommended a final dividend of 15.0 HK cents per share. Both basic and diluted earnings per share increased to 27.7 HK cents from 27.1 HK cents in 2015."

Dr. Lau added, "In Mainland China, the steady cooling of the Chinese economy, closure of non-performing stores and depreciation of the Renminbi contributed to the reduction of reported sales by 11%. CSGP was flat despite of a 2% decrease in CSS due to increase in gross profit margin of 0.8 percentage points to 54.3%. With the support of a flexible supply chain, we were able to "under-buy" and stock less, reducing the pressure of season-end markdowns. Profit drivers from this region include the expansion of our franchise network in third- and fourth-tier cities and our e-business. Sales from e-business rose by 13% during the year under review. Management will strive to advance its partnership status with major third-party platforms. We net increased 45 franchised stores in Mainland China during the year; this expansion will also continue into 2017. We will complete the merger of our two existing warehouses in southern China into one facility, which will improve operating efficiencies and allow us to further reinforce our inventory control. In Hong Kong, our resilient team continued to weather the adverse retail environment and stabilize CSS, improving profitability by 24% to HK$87 million. They will strive to maintain the momentum in rental savings, focused renovation of its retail outlets, the expansion of its retail network as well as carefully selected marketing campaigns. The stagnant economy in Taiwan, coupled with the reduction in tourists, continued to pose a great challenge to us. Despite narrowing the CSGP drop to 1% in the second half of the year, full-year CSGP still dropped by 3% and operating profit shrank by 19%. Management will carefully evaluate its expansion plans and non-performing stores, especially in the absence of any imminent signs of a rebound in the economy. "

"In the rest of Asia Pacific region, the depreciation of the Renminbi, especially in the second half of the financial year, benefited the import costs from this region as most production orders were settled in Renminbi. Gross profit margin enhanced by 1.1 percentage points. CSS and CSGP in this region was up by 5% and 6%, respectively. Thailand reported an overwhelmingly strong performance in the year under review, with CSS and CSGP surging by 20% and 21%, respectively. Operating profit in local currency terms also shot up by 64%. Other major markets in this region recorded low single digit growth in CSGP. The rest of Asia

Pacific region will continue improving its merchandising and marketing. We do not see any imminent threats in this region."

Dr. Lau added, "In the Middle East, the unsettled regional economies have not been conducive to consumer spending. Efforts to stimulate the economies through infrastructure and tourism projects continue to be stymied by the effects of plunging oil prices, which fell to below US$50 per barrel for the first time since 2009, and government austerity measures. Regional CSS plummeted 15% in the first quarter. We reacted by revamping the merchandise assortment and promotion strategies that together helped narrow down regional CSS decline to 3% for the full year. Our local management team will strive to maintain this momentum into 2017. That said, uncertainties and challenges remain in the region. While oil price is slowly recovering, sustainability remains an issue. As interest in imminent world-class events such as the 2020 Expo in Dubai and the football world cup in 2022 begins to gather pace, more visitors may be attracted to the Emirates, but this remains to be seen. Management will continue to enforce strict discipline in both costs and merchandising control."

"We will strive to continue generating healthy cash flow and creating value for our shareholders. While there continues to be widespread uncertainty over the global economy, there remains a feeling of cautious optimism within the Company. Through the execution of our inventory management, we will continue to improve the acceptance and consistency of our overall product range across all brands. This will also serve as the bedrock of our branding strategy – strong fundamentals will serve as a foundation for quality marketing. We will continue our initiatives to introduce lines with higher quality and price points fitting the more discerning customers while keeping our core items at competitive prices. We will roll-out quality marketing campaigns in various regions to reinforce our global brand position while at the same time continue to improve the shopping experience we offer to our customers." Dr. Lau concluded.

(Attachment: Consolidated income statement for the year ended December 31, 2016)

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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 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 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:
Audited Consolidated Income Statement for the year ended December 31, 2016

Consolidated Income Statement

(In HK$ million, except earnings per share)	**2016**	2015
Sales	**5,145**	5,381
Cost of sales	**(2,090)**	(2,284)
Gross profit	**3,055**	3,097
Other income and other gains, net	**85**	89
Distribution expense	**(2,299)**	(2,242)
Administrative expense	**(273)**	(388)
Operating profit	**568**	556
Finance expense	**(1)**	–
Share of profit of joint ventures	**43**	42
Profit before taxation	**610**	598
Taxation	**(122)**	(118)
Profit for the year	**488**	480
Attributable to:		
Shareholders of the Company	**434**	426
Non-controlling interests	**54**	54
	488	480
Earnings per share for profit attributable to shareholders of the Company		
Basic and Diluted (HK cents)	**27.7**	27.1