GIORDANO

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Giordano Releases First Quarter 2013 Operations Update

Highlights

- Sales for the quarter ended March 31, 2013 increased by 6% over the same period last year.
- Gross profit for the quarter increased by 11% over the same period last year.
- Brand sales and comparable store sales decreased by 2% compared to the same period last year. These two measures include sales from our own stores and those of our franchisees and so were not impacted by the acquisition of our Middle East franchisee in 2012.
- Sales continue to decline in Mainland China and Taiwan markets with sales growth continuing in Hong Kong and South East Asia.
- Excluding the additional gross profit from the Middle East acquisition, gross profit was at the same level as last year.
- Gross margin for the quarter increased by 2.8 percentage points to 59.8% from 57.0% in the same period last year reflecting product and market mix, and lower input costs.
- Inventory at March 31, 2013 reduced by 11 days during the quarter to 63 days and compares to 67 days at March 31, 2012.
- Operating cash flow was strong with net cash and bank balances increasing by HK$130 million to HK$1,303 million during the quarter despite HK$97 million having been paid out in the quarter as dividends to non-controlling interests of the Indonesian and Middle East businesses.
- The Group continues to re-shape its footprint: in Mainland China the number of stores reduced by 36 as a result of closing loss making stores. Outside Mainland China, the number of stores increased by 12, mainly in Middle East, India and South East Asia.
- The Group's global network as of March 31, 2013 was 2,624 outlets.

May 14, 2013, Hong Kong

Giordano International Limited (the "Group" or the "Company") released its 2013 first quarter operations update today. Sales increased by 6% to HK$1,514 million from HK$1,432 million in the same period last year.

Sales in Mainland China decreased by 5% compared to the same period last year as growth in demand for fashion apparel continues to weaken. Management is working to improve:

- Brand positioning through marketing and store portfolio development
- Merchandising through new product development
- Franchising operations through strengthening partnerships with key franchisees
- Organizational effectiveness through the increased empowerment of staff

In Taiwan sales decreased by 15% compared to the same period last year. The combination of a high base in 2012 (where the first quarter was 15% higher than the first quarter of 2011) and the general weakness of the Taiwan economy resulted in this decline. We are implementing a number of marketing programs to return Taiwan to sales growth this year.

Sales in Hong Kong increased by 4% with strong marketing and merchandising generating modest growth in this highly competitive market. Sales in other Asia Pacific markets, mainly Singapore, Malaysia, Indonesia and Thailand, increased by 12% compared to the same period last year. We will continue to open new stores in these markets as appropriate.

The Group's gross margin increased by 2.8 percentage points year on year to 59.8% and the Group's gross profit increased by HK$89 million, or 11%, to HK$905 million from HK$816 million in first quarter of 2012.

- Average costs decreased by 3% due to lower input costs.
- Average price increased by 6% due to relatively higher price and quality products sold compared to last year.
- New product development is helping to differentiate the brand and improve average selling prices and gross margin.
- Volume reduced by 9%. This reflects a continuing slowdown in sales and market growth particularly in Mainland China and Taiwan.
- The acquisition of the Middle East contributed an additional HK$88 million gross profit during the quarter, broadly in line with expectations.

Group inventory reduced from HK$476 million at December 31, 2012 to HK$427 million after the Chinese New Year. Inventory at March 31, 2013 reduced by 11 days to 63 days of supply from the 74 days held at December 31, 2012 and compares with 67 days at March 31, 2012.

Net cash and bank balances increased by HK$130 million to HK$1,303 million during the quarter. Dividends to the non-controlling interests in Middle East and Indonesia reduced cash balances by HK$97 million. Strong operating cash flow has been maintained with and as a result 90% of operating earnings was converted to free cash flow.

"Our performance in 2013 has so far been very much a continuation of that in 2012, with weakening markets in Mainland China and Taiwan offset by robust performance in Hong Kong and South East Asian markets" remarked Dr. Lau Kwok Kuen, Peter, Chairman and Chief Executive of Giordano.

"Mainland China markets remained weak during the Chinese New Year period. Along with our franchisee partners we continue to reshape our footprint in Mainland China, closing unprofitable stores and focusing on enhancing the quality of our operations where we open stores. We continue to control inventory, pricing and costs and have negotiated product cost reductions in the first quarter. These disciplines, which help generate strong cash flow, will continue and we will also step up our efforts to improve our brand position and merchandising in this key market." added Dr. Lau.

"Mainland China remains the key market for the Group's growth strategy. We will introduce new store formats this year, particularly aimed at women, and have developed new products particularly with this market in mind. Outside Mainland China we will continue to develop our operations across a wide geographic range, ensuring that the strong growth that we have in many of these markets will continue. We will open shops in markets with strong growth potential, such as in South East Asia and Saudi Arabia and new markets like Japan, South Africa and South America. In mature markets such as Hong Kong, Taiwan and Singapore, we will invest in programs to strengthen the brand. These will be marketing initiatives, such as those developed in Hong Kong and Taiwan and store development projects. Later this year we will open a large store in Suntec City in Singapore that will be a showcase for the Giordano brand." he continued.

Dr. Lau concluded, "These are challenging times for many of our employees who are responding to these challenges with energy and innovation. They are motivated and far from complacent, and look to maintain excellent profitability and growth through sensible and appropriate investments in store ambience, product development and portfolio growth. 2013 will prove to be a key year for the development of the Company."

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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, Concepts One* and *BSX*. Established in 1981, Giordano now operates over 2,600 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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