

## Giordano Announces 2013 Interim Results

**August 13, 2013, Hong Kong**

Giordano International Limited (“Giordano” or the “Group”) announced its 2013 interim results today.

- Profit Attributable to Shareholders (PATS) increased by 10% compared to last year excluding non-recurring disposal gains in 2012. Reported PATS of HK\$340 million decreased by 3% during the period (2012: HK\$352 million).
- An interim dividend of 16.0 HK cents per share (15.0 HK cents in 2012) was declared by the Board, a 7% increase over the interim dividend paid last year. At 73% of the interim basic earnings per share, this reflects the underlying increase in the Group’s profitability.
- During 2012, we acquired a controlling interest in the Company’s Middle East franchise operations. In the first half of 2013, this acquisition added HK\$35 million to PATS.
- Net Sales, which now consolidates sales from Middle East entities, increased by 5%. Global brand sales (sales to end customers through own stores and franchise stores) decreased by 2%. This decline is mainly due to the Group’s current approach to close underperforming stores and end subsidies to poorly performing franchise operations, in order to protect profitability.
- Despite declining brand sales, strong pricing and cost discipline have protected profitability, particularly in Mainland China where profits were broadly in line with last year.
- Sales decreased by 7% in Mainland China as the Group focuses on repositioning the brand in these markets. Nevertheless, strong control of pricing and costs resulted in EBIT in Mainland China declining by only 4%, or HK\$3 million; EBIT margin increased slightly from 8.5% to 8.8%. EBIT in Mainland China now represents 18% of the Group’s EBIT.
- Sales continue to grow strongly in emerging markets in Thailand, Malaysia and Indonesia. Despite increasing costs with rising wages and rentals, EBIT in South East Asia increased by 6% or HK\$8 million. These are key markets for us where the brand is well positioned and our operations are strong. EBIT in South East Asia now represents 32% of the Group’s EBIT.
- EBIT in Hong Kong declined by 14% or HK\$12 million mainly due to strong double digit rent increases in the market and other cost pressures. Hong Kong is expecting to roll out a number of strong marketing programs in the second half of the year to strengthen profitability.

- Inventory at HK\$518 million was HK\$143 million higher than last year, HK\$100 million of which is due to consolidation of Middle East inventory following the acquisition. Comparable inventory on hand increased by HK\$43 million but this is offset by inventory held at suppliers which declined by HK\$40 million. The inventory level overall is healthy and comprises a higher proportion of current season items than last year. The increase in inventory impacted free cash flow from operations which at HK\$237 million (HK\$353 million in 2012), a decrease of 33% from the first half of 2012.

“In the first half of 2013, we continued to see challenging market conditions across our global operations.” remarked Dr. Peter Lau Kwok Kuen, Chairman and Chief Executive of Giordano. “Volatility in consumer demand has been significant in Mainland China, Taiwan and Singapore and this has impacted our sales. Competition continues to be intense as international brands enter our major markets, putting pressure on costs. At the same time, local competitors are continuing to hold high inventory levels and cut prices. Against this background, Giordano has achieved a strong set of results, protecting profitability through improved product mix, localized marketing and strong cost management. Profits across the Group are broadly comparable to those in the first half of last year; however, the successful integration of the Middle East businesses we acquired last year has driven a ten per cent growth in underlying profit. As a result, the Board has recommended an interim dividend of 16.0 HK cents per share, a 7% increase on the interim dividend paid in 2012.”

“Mainland China markets remain challenging. International brands are steadily increasing their presence and local brands are proliferating as retail space continues to grow faster than consumer demand. Against this background, Giordano has made some progress in developing its organizational capability, bringing in key new recruits and focusing newly established regional teams on local execution and profit delivery. This new Giordano organization is starting to deliver local marketing campaigns and is engaged in a number of programs to strengthen the brand in Mainland China. New store refurbishments have been completed as part of a program to significantly upgrade store ambience and this investment program will continue. We are setting a truly international benchmark of store quality in China based on the Group’s best practices in other markets. Additionally, we are introducing fresh merchandise for women in Mainland China, distinct from our *Giordano Ladies* brand, with a new line of stylish in-trend apparel to be sold primarily through standalone department store counters. We continue to manage costs well and have maintained our profitability in the first half of the year at broadly the same level as last year. This is a solid achievement but it is still necessary to step these initiatives up, particularly in support of our franchisee partners. We are looking to develop fewer but stronger partnerships with our authorized dealers. Going forward, our cooperation will be based on supporting key franchisees with marketing support and store refurbishment, in contrast to the past practice of subsidizing product costs or underperforming shops. This will provide us with a strong basis for renewing a growth strategy in 2014” continued Dr Lau.

“Mainland China remains a key market for the Group’s growth strategy. However, our operations are now growing globally with strong sales growth in South East Asia in particular. Our operations in Thailand, Malaysia and Indonesia continue with fast growth which in some cases exceeds twenty per cent annually. These markets bring their own

challenges, and often face strong cost pressures, particularly regarding rentals and wages. Giordano's philosophy favours strong local teams, operating autonomously, and so our front line managers are well positioned to implement local solutions depending on prevailing market characteristics. Our new acquisition in Saudi Arabia is a prime example of this and our management team has responded to difficult trading conditions in the first half of the year by stepping up local marketing programs within the kingdom" he added. "This is also very much the case in more developed markets such as Hong Kong, Taiwan, the United Arab Emirates (UAE) and Singapore. In Hong Kong, where we have pioneered local marketing and have built an ever strengthening brand, we face strong rental pressures which require us to innovate and renew our merchandise and branding to the next level. In Taiwan, the downturn in the economy in general, which has negatively impacted our sales, has been met by a renewal in our marketing activity which is now helping to drive modest sales growth. Singapore on the other hand has seen recent pressure on sales following pollution in the city state, a fall in visitors and intensified competition. The response, amongst other things, has been to significantly upgrade our store image. To this end we have just opened a brand new large store in Suntec City in Singapore which will enhance the Company's image in South East Asian markets. In the UAE, our teams are also embarking on store upgrades and local marketing programs, in response to intense competition in that market."

Dr. Lau concluded, "Giordano people across the world will continue to engage with new challenges through innovation and a diligent approach to the business. In Mainland China, we will continue to develop our people, merchandise and brand position so that we can return to growth in 2014. Similarly to protect long term growth and profitability in South East Asia we will start to widen our influence in new emerging markets. Our newly acquired Middle East business now offers exciting prospect for long term growth outside East Asia. In mature markets such as Hong Kong and Taiwan we will build ever stronger branding through innovative and fresh "fast marketing" programs that will take the business to the next level."

*(Attachment: Unaudited consolidated results for the six months ended June 30, 2013)*

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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.

**For further information, please contact:**

Dominic Irwin

E-mail: [dominiciirwin@giordano.com](mailto:dominiciirwin@giordano.com)

Agnes Chan

E-mail: [agneschan@giordano.com](mailto:agneschan@giordano.com)

Telephone: +852.2746.4771

**Attachment:**

Condensed Consolidated Income Statement for the six months ended June 30, 2013

| <i>(In HK\$ millions, except earnings per share)</i>                      | <b>Six months ended June 30</b> |         |
|---|---------------------------------|---------|
|   | <b>2013</b>                     | 2012    |
| Sales   | <b>2,841</b>                    | 2,698   |
| Cost of sales   | <b>(1,076)</b>                  | (1,132) |
| Gross profit  | <b>1,765</b>                    | 1,566   |
| Other income and other gains  | <b>53</b>                       | 125     |
| Distribution, administrative and other operating expenses                 | <b>(1,392)</b>                  | (1,241) |
| Operating profit  | <b>426</b>                      | 450     |
| Finance expense   | <b>(2)</b>                      | –       |
| Share of profit of jointly controlled companies                           | <b>34</b>                       | 29      |
| Share of profit of an associate   | <b>1</b>                        | 17      |
| Profit before taxation  | <b>459</b>                      | 496     |
| Taxation  | <b>(83)</b>                     | (120)   |
| <b>Profit for the period</b>  | <b>376</b>                      | 376     |
| Profit attributable to:   |                                 |         |
| Shareholders of the Company   | <b>340</b>                      | 352     |
| Non-controlling interests   | <b>36</b>                       | 24      |
|   | <b>376</b>                      | 376     |
| Earnings per share for profit attributable to shareholders of the Company |                                 |         |
| Basic <i>(HK cents)</i>   | <b>21.9</b>                     | 23.0    |
| Diluted <i>(HK cents)</i>   | <b>21.6</b>                     | 22.7    |
| Dividends   | <b>249</b>                      | 231     |